

**FIRST STATE SUPERANNUATION SCHEME**

**ABN 53 226 460 365**

**FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED  
30 JUNE 2011**

# FIRST STATE SUPERANNUATION SCHEME

CONTENTS	PAGE
INDEPENDENT REPORT BY THE APPROVED AUDITOR.....	3
TRUSTEE'S STATEMENT.....	5
STATEMENT OF NET ASSETS.....	6
STATEMENT OF CHANGES IN NET ASSETS.....	7
NOTES TO THE FINANCIAL STATEMENTS.....	8
1. DESCRIPTION OF THE FUND.....	8
2. BASIS OF PREPARATION.....	8
3. SIGNIFICANT ACCOUNTING POLICIES.....	10
4. BUSINESS COMBINATIONS.....	15
5. KEY MANAGEMENT PERSONNEL.....	17
6. INVESTMENTS.....	18
7. INCOME TAX.....	19
8. LIABILITY FOR ACCRUED BENEFITS.....	21
9. VESTED BENEFITS.....	21
10. GUARANTEED BENEFITS.....	22
11. RECEIVABLES.....	22
12. PAYABLES.....	22
13. FUNDING ARRANGEMENTS.....	23
14. CHANGES IN NET MARKET VALUE OF INVESTMENTS.....	24
15. INVESTMENT REVENUE.....	25
16. GENERAL ADMINISTRATION EXPENSES.....	26
17. REMUNERATION OF AUDITORS.....	26
18. FINANCIAL INSTRUMENTS.....	27
19. OPERATING LEASES.....	40
20. RELATED PARTIES.....	40
21. SUBSIDIARIES.....	41
22. CONTINGENT LIABILITIES AND ASSETS.....	41
23. CAPITAL COMMITMENTS.....	41
24. SUBSEQUENT EVENTS.....	42

## **Independent Report by the Approved Auditor to the Members of First State Superannuation Scheme (ABN: 53 226 460 365)**

I have audited the financial statements of First State Superannuation Scheme for the year ended 30 June 2011 as set out on pages 6 to 42.

### ***Trustee's responsibility for the financial statements***

The superannuation entity'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 the financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's responsibility***

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the members of First State Superannuation Scheme.

My audit has been conducted in accordance with Australian Auditing Standards. These Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the trustee's preparation and fair presentation of the financial statements 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 trustee's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

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



*Auditor's opinion*

In my opinion the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards, the net assets of First State Superannuation Scheme as at 30 June 2011 and the changes in net assets for the year ended 30 June 2011.

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to be "Sarah Woodhouse".

Sarah Woodhouse  
Partner  
Chartered Accountants  
Sydney, 26 October 2011

# FIRST STATE SUPERANNUATION SCHEME

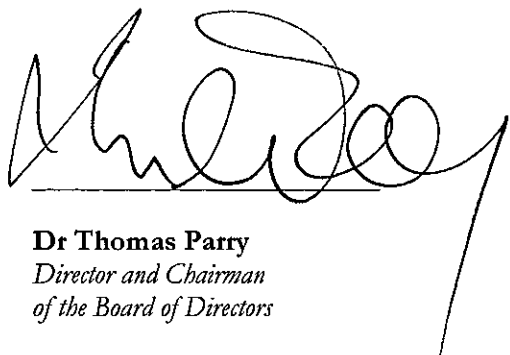
## Trustee's Statement For The Financial Year Ended 30 June 2011

In accordance with a resolution of the Board of the FSS Trustee Corporation, we declare on behalf of the Board that in our opinion:

1. the accompanying financial statements of the First State Superannuation Scheme are properly drawn up so as to present fairly the net assets of the Scheme as at 30 June 2011, the statement of changes in net assets for the year ended 30 June 2011; and
2. the attached financial statements have been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations.

Further, we are not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 26th day of October 2011.



**Dr Thomas Parry**  
*Director and Chairman  
of the Board of Directors*

*FSS Trustee Corporation*



**Patria Mann**  
*Director and Chairman  
of the Audit, Risk and Compliance Committee*

*FSS Trustee Corporation*

# FIRST STATE SUPERANNUATION SCHEME

## Statement of Net Assets as at 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Investments</b>			
Short term securities		6,709,490	4,563,299
Australian fixed interest		4,471,742	2,287,456
Australian equities		8,210,413	5,124,151
International equities		8,427,540	4,343,607
International fixed interest		775,957	975,276
Property trusts		2,051,100	859,560
Alternative investments		595,067	446,481
Total investments	6	31,241,309	18,599,830
 <b>Other assets</b>			
Cash and cash equivalents		103,369	86,955
Receivables	11	149,486	84,690
Other assets		1,541	1,509
Deferred tax assets	7(c)	339,068	338,736
Total other assets		593,464	511,890
<b>Total assets</b>		<b>31,834,773</b>	<b>19,111,720</b>
 <b>Less liabilities</b>			
Payables	12	112,548	94,415
Other provisions		1,300	1,149
Current tax liabilities		265,564	169,324
Deferred tax liabilities	7(c)	169,749	160,769
<b>Total liabilities</b>		<b>549,161</b>	<b>425,657</b>
<b>Net assets available to pay benefits</b>		<b>31,285,612</b>	<b>18,686,063</b>

The above Statement of Net Assets should be read in conjunction with the accompanying notes.

# FIRST STATE SUPERANNUATION SCHEME

## Statement of Changes in Net Assets for the financial year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Investment revenue</b>			
Interest – investments carried at net market value		210,330	136,269
Interest – bank deposits		4,607	4,544
Dividend revenue		448,749	260,741
Trust distributions		105,661	93,799
Securities lending		4,933	3,245
Fund manager fee rebates		3,428	5,510
Underwriting fees and other		2,558	294
	15	780,266	504,402
Increase in net market value of investments	14	796,861	848,400
<b>Total investment gain</b>		<b>1,577,127</b>	<b>1,352,802</b>
Investment expenses		(37,454)	(34,770)
<b>Net investment gain</b>		<b>1,539,673</b>	<b>1,318,032</b>
<b>Contribution revenue</b>			
Employer		2,220,772	2,052,284
Member		214,136	177,434
Transfers from Health Super Fund	4	9,643,500	-
Transfers from other superannuation funds		498,289	533,556
Government co-contributions		13,791	25,170
<b>Total contribution revenue</b>		<b>12,590,488</b>	<b>2,788,444</b>
<b>Total revenue</b>		<b>14,130,161</b>	<b>4,106,476</b>
<b>Benefits paid and expenses</b>			
General administration expenses	16	(36,222)	(31,806)
Insurance premiums		(110,650)	(93,652)
Benefits paid and payable		(976,086)	(715,340)
Superannuation contributions surcharge refunds		11	118
<b>Total benefit paid and expenses</b>		<b>(1,122,947)</b>	<b>(840,680)</b>
<b>Increase in net assets for the year before income tax</b>		<b>13,007,214</b>	<b>3,265,796</b>
Income tax expense	7(a)	(407,665)	(445,637)
<b>Increase in net assets for the year after income tax</b>		<b>12,599,549</b>	<b>2,820,159</b>
<b>Net assets available to pay benefits at the beginning of the financial year</b>		<b>18,686,063</b>	<b>15,865,904</b>
<b>Net assets available to pay benefits at the end of the financial year</b>		<b>31,285,612</b>	<b>18,686,063</b>

The above Statement of Changes in Net Assets should be read in conjunction with the accompanying notes.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 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, originally established under the *First State Superannuation Act 1992*, and as 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.

On 1 May 2006, the Fund became a regulated superannuation fund under the Superannuation Industry (Supervision) Act 1993.

The Fund is a reporting entity for accounting and tax purposes.

Administration of the Fund is conducted by Superannuation Administration Corporation (trading as Pillar Administration).

JP Morgan Chase Bank NA is the Fund's custodian for investments and related cash. Superannuation Administration Corporation (trading as Pillar Administration) is the custodian for the Fund's operational bank accounts.

The principal place of business of the Fund is:

Level 16, 83 Clarence Street,  
Sydney, NSW 2000

### 2. BASIS OF PREPARATION

#### Statement of compliance

The financial report is a general-purpose financial report which has been prepared in accordance with Australian Accounting Standards, Interpretations, the Superannuation Industry (Supervision) Act 1993 and provisions of the Trust Deed. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS') to the extent they are not inconsistent with AAS25 Financial Reporting by Superannuation Plans ('AAS25').

The financial statements were authorised for issue by the directors on 26 October 2011.

The financial statements and notes have been prepared on the basis required by AAS 25, which provides specific measurement requirements for assets, liabilities and for accrued benefits. To the extent that they do not conflict with AAS 25, other Australian Accounting Standards have been applied in the preparation of the financial statements.

The Fund merged with Health Super Fund on 30 June 2011 by means of a Successor Fund Transfer. Health Super Fund provides both accumulation benefits and defined benefits. As provided for in AAS25 Financial Reporting by Superannuation Plans, the Fund financial report for the current reporting period will comprise a Statement of Net Assets, a Statement of Changes in Net Assets and Notes thereto. In the prior period the Fund was a defined contribution fund and the financial report comprised a Statement of Financial Position, an Operating Statement, a Statement of Cash Flows and Notes thereto. Comparative amounts have been reformatted to ensure consistent disclosure with the amounts reported for the current financial period. There have been no changes to the prior period amounts of Net Assets Available to Pay Benefits or the increase in Net Assets for the year after income tax due to changes in the format of the financial report.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 2. BASIS OF PREPARATION (continued)

#### Use of judgments and estimates

In the application of Accounting Standards, management is required to make judgments, estimates and assumptions about carrying 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

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.

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.

#### New and amended standard

AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* has been adopted for the first time in the financial year. The amendments did not have any impact on the current period or any prior period and are not likely to affect future periods.

#### Accounting standards and interpretations issued, but not yet effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Fund were in issue but not yet effective.

The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Fund.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, AASB 2009 – 11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	30 June 2014
AASB 124 Related Party Disclosures (2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on transfers of Financial Assets	1 July 2011	30 June 2012
AASB 2010-4 Further Amendments to Australian Accounting Standard arising from the Annual Improvement Project (AASB 1, AASB 7, AASB 101, AASB 134, INT 13)	1 January 2011	30 June 2012
AASB 2010-8 Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets	1 January 2012	30 June 2013

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES

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 2011 and the comparative information presented in these financial statements for the year ended 30 June 2010.

#### (a) Net market value

Net market value is the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal.

#### (b) Cash and cash equivalents

Cash includes 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.

#### (c) Derivative financial instruments

The Fund enters into a variety of derivative financial instruments to manage its exposure to foreign exchange and interest rate risks arising from its investment activities. Derivatives are measured at net market value in accordance with AAS25. Further details of derivative financial instruments are disclosed in Note 18 to the financial statements.

#### (d) Investments

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within a timeframe established by the market concerned and are initially valued at net market value. Investments are included in the Statement of Net Assets at net market value as at reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the period in which they occur.

Net market values are determined after deducting selling costs, as follows:

- (i) listed securities, foreign securities quoted on a recognised stock exchange and government and other fixed interest securities are stated at market sell price quotations as at the reporting date;
- (ii) unit trust, managed funds and alternative investments are stated at the redemption price quoted by the trust managers as at the reporting date;
- (iii) unlisted securities are stated at the Trustee's valuation based on the advice of the Fund's investment managers as at the reporting date;
- (iv) exchange-traded futures or options are stated at the last quoted bid or sale price relevant to close out the contract as at the close of business on reporting date less any transaction costs;
- (v) forward foreign exchange contracts are stated at the exchange rate current at reporting date less any transaction costs.
- (vi) over-the-counter options are stated using the quotations of an independent broker or where unavailable, by the responsible entity, using an option pricing model using independent market data less any transaction costs; and
- (vii) interest rate swaps are stated at the present value of all future cash flows.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (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 Statement of Changes in Net Assets 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) recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit (RITC). In circumstances where the GST is not recoverable, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Net Assets.

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 are recoverable from, or payable to, the ATO are 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 and the exit from the Fund processed 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. Nominal value is equivalent to net market value.

#### (h) Payables

Accounts payable (at fair value) are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) 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. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the Statement of Net Assets. The tax base of an asset or liability is the amount attributed to that asset for or liability for tax purposes.

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.

##### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or benefit in the Statement of Changes in Net Assets.

##### Taxation of financial arrangements (TOFA)

The impact of Division 230 of the Income Tax Assessment Act 1997 taxation of Financial Arrangements (TOFA) dealing with the taxation of gains and losses arising from 'financial arrangements' has been reviewed. TOFA does not have a material impact.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable to the extent in 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 revenues the Fund receives:

##### **Investment revenue**

###### Interest revenue

Interest received or receivable from money market and fixed interest securities is recognised using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. If interest is not received at reporting date, it is reflected in the Statement of Net Assets as a receivable.

###### Dividend revenue

Dividend revenue is recognised on the date the shares are quoted ex-dividend. If the dividend is not received at reporting date, the balance is reflected in the Statement of Net Assets as a receivable.

###### Distributions from unit trusts

Distributions from unit trusts are recognised as at the date the unit value is quoted ex-distribution and if not received at reporting date, are reflected in the Statement of Net Assets as a receivable at net market value.

###### Other Revenue

Securities lending revenue, fund manager fee rebates and underwriting fee revenue are recognised in arrears on a monthly basis. If these revenues are not received at reporting date, they are reflected in the Statement of Net Assets as a receivable.

###### Changes in net market value of investments

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

##### **Contribution revenue**

###### Employer and member contributions

Contribution revenue is recognised when the control and the benefits from the revenue has transferred to the Fund and is recognised gross of any taxes. Defined benefit contribution revenue is brought to account on an accruals basis.

###### Government co-contributions

Superannuation co-contributions from the Australian Government are recognised on a receipts basis. Amounts are recognised when superannuation co-contribution receipts are received by the Fund.

###### Transfers from other funds

Transfers from other funds are recognised on a receipts basis. Amounts are recognised when transfer receipts are received by the Fund.

##### **Other revenue**

###### Group life insurance claims

Insurance claim amounts are recognised when the insurer has paid the claim lodged.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Superannuation contributions (surcharge) tax

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

#### (l) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration for an acquisition comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The excess of the consideration over the fair value of the net identifiable assets acquired is recorded as goodwill. If the consideration is less than the fair value of the net identifiable assets acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

The merger with Health Super Fund involved the transfer of members and assets by means of a Successor Fund Transfer, including the acquisition of the subsidiary entities set out in Note 21. Consolidated financial statements have not been prepared in accordance with AASB 127 Consolidated and Separate Financial Statements on the grounds that the controlled entities are not material to these financial statements.

#### (m) No-TFN Contribution Tax

Where a member does not provide their tax file number to a fund, the Fund may be required to pay no-TFN contributions tax at a rate of 31.5% which is in addition to the concessional tax rate of 15% which applies to the Fund's taxable income.

The no-TFN contributions tax liability recognised by the Fund will be charged to the relevant members' accounts. Where a tax offset is obtained by the Fund in relation to members' no-TFN contributions tax, the offset will be included in the relevant members' accounts.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 4. BUSINESS COMBINATIONS

#### Summary of Merger

On 30 June 2011, the Fund merged with Health Super Fund. Health Super Fund provides both defined and accumulation benefits with operations in Australia. The merger occurred in order to increase the number of members and assets and to provide economies of scale for future operations of the Fund. The merger was effected by means of a Successor Fund Transfer whereby Health Super Fund transferred all its assets and obligations to the Fund.

The assets and liabilities transferred, described in the Statement of Changes in Net Assets as Transfers from Health Super Fund, are as follows:

	\$'000
Investments	9,646,414
Cash and cash equivalents	15,930
Receivables	61,283
Deferred tax asset	53,532
	<hr/> 9,777,159 <hr/>
Payables	59,872
Current tax liabilities	69,864
Deferred tax liabilities	3,923
	<hr/> 133,659 <hr/>
Net identifiable assets acquired	
Goodwill	—
Net assets acquired	<hr/> 9,643,500 <hr/>
Liability for accrued benefits transferred from Health Super Fund	<hr/> 9,566,400 <hr/>

There were no mergers in the year ended 30 June 2010.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 4. BUSINESS COMBINATIONS (continued)

#### Transferred receivables

The fair value of the transferred receivables is \$61,283,000. The gross contractual amount of receivables due is \$61,283,000, which is expected to be collectable in full.

#### Revenue and contribution to net assets available to pay benefits at the end of the financial year.

Health Super Fund did not contribute to the revenue of First State Superannuation Scheme in the financial year as the merger was effected on 30 June 2011.

The revenue of Health Super Fund for the year ended 30 June 2011 was \$2,071,299,000. If the merger had occurred on 1 July 2010, the revenue of First State Superannuation Scheme for the year ended 30 June 2011 would have been increased by \$2,071,299,000.

As disclosed in the financial statements of Health Super Fund, the contribution to net assets available to pay benefits at the end of the financial year was \$9,643,500,000. This amount is included in the Fund's Statement of Changes in Net Assets. The contribution to net assets available to pay benefits at the end of the financial year remain \$9,643,500,000 if the merger had occurred on 1 July 2010.

#### Purchase consideration - cash outflow

Apart from acquisition related costs noted below, no cash was outlaid by the Fund for the merger. The net assets transferred in from Health Super Fund were equivalent to the obligation for member benefits assumed.

#### Acquisition-related costs

Acquisition-related costs of \$2,166,000 are included in General Administration Expenses in the Statement of Changes in Net Assets.

#### Contingent liabilities

The Fund did not assume any contingent liabilities or assets arising from the merger.

#### Commitments

As a result of the merger the Fund has an obligation for the following capital commitments in relation to property, private equity and infrastructure investment activities. These commitments are included in the amounts disclosed in Note 23.

	<u>2011</u> <u>\$'000</u>
<b>Investment Commitments</b>	
Not longer than 1 year	—
1 – 5 years : property, private equity and infrastructure	308,548
Over 5 years	—
	<u>308,548</u>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 5. KEY MANAGEMENT PERSONNEL

The following were key management personnel of the Fund during or since the end of the financial year. No executive officer is a director of FSS Trustee Corporation, the trustee of the Fund.

#### *Non-executive Directors*

Dr T Parry (Chairman)  
Mr T Carr (appointed on 1 July 2011)  
Ms C Cifuentes  
Mr R Collison  
Mr B. Foy (retired 28 February 2011)  
Mr R Kelly (appointed on 1 March 2011)  
Mr M Lennon  
Mr B Lipscombe (appointed on 10 April 2011)  
Ms P Mann  
Ms S Moait (retired 9 April 2011)  
Ms B Morieson (appointed on 1 July 2011)  
Mr P Mylan (appointed on 1 July 2011)  
Mr G Shotter (appointed on 1 July 2011)  
Ms P Smith  
Mr M Williamson

#### *Executive Officers*

Mr M Dwyer (Chief Executive Officer)  
Mr G Arnott  
Mr C Clausen  
Mr A Johnson  
Mr M Keyte  
Mr M Sainsbury  
Mr S Sefton  
Ms K Volpato  
Ms S Wilson

In addition to their fees or salaries, directors and executive officers are provided with superannuation fund contributions. Certain directors and executive officers are members of the Fund and their membership terms and conditions are the same as those available to other members of the Fund.

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

	<b>2011</b>	2010
	<b>\$'000</b>	\$'000
Short-term employee benefits <sup>1</sup>	<b>2,650,036</b>	2,506,019
Post-employment benefits <sup>2</sup>	<b>307,743</b>	275,936
Other long term employee benefits <sup>3</sup>	<b>100,916</b>	59,864
	<b><u>3,058,695</u></b>	<u>2,841,819</u>

1. Includes non-executive directors' remuneration and executives' salaries
2. Comprises superannuation contributions made on behalf of non-executive directors and executives
3. Comprises long service leave expenses for executives

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 6. INVESTMENTS

#### Investments held

	2011							Total \$'000
	Short term securities \$'000	Australian fixed interest \$'000	Australian equities \$'000	International equities \$'000	International fixed interest \$'000	Property trusts \$'000	Alternative investments \$'000	
Cash and cash equivalents	1,252,075	—	—	—	—	—	—	1,252,075
Equities	—	—	8,070,252	7,302,202	—	662,744	—	16,035,198
Unit trusts	920,563	435,858	103,869	942,093	265,900	1,388,390	587,405	4,644,078
Government bonds	—	2,132,798	—	—	126,395	—	—	2,259,193
Corporate bonds	—	1,775,163	—	—	74,701	—	—	1,849,864
Fixed interest	—	69,443	—	—	36,514	—	—	105,957
Discounted securities	4,536,852	48,091	—	—	269,225	—	—	4,854,168
Options	—	—	33,027	33,534	18	—	—	66,579
Futures	—	(469)	3,265	7,914	(96)	(34)	—	10,580
Foreign exchange	—	—	—	141,797	3,320	—	7,662	152,779
Swaps	—	10,858	—	—	(20)	—	—	10,838
	<b>6,709,490</b>	<b>4,471,742</b>	<b>8,210,413</b>	<b>8,427,540</b>	<b>775,957</b>	<b>2,051,100</b>	<b>595,067</b>	<b>31,241,309</b>

	2010							Total \$'000
	Short term securities \$'000	Australian fixed interest \$'000	Australian equities \$'000	International equities \$'000	International fixed interest \$'000	Property trusts \$'000	Alternative investments \$'000	
Cash & cash equivalents	777,864	—	—	—	—	—	—	777,864
Equities	—	—	5,024,809	4,326,645	—	239,401	—	9,590,855
Unit trusts	—	—	80,068	—	975,276	620,237	446,292	2,121,873
Government bonds	—	—	—	—	—	—	—	973,018
Corporate bonds	—	973,018	—	—	—	—	—	973,018
Fixed interest	—	1,311,077	—	—	—	—	—	1,311,077
Discounted securities	3,785,405	—	—	—	—	—	—	3,785,405
Options	30	—	32,296	19,005	—	—	—	51,331
Futures	—	—	(13,022)	(8,734)	—	(78)	—	(21,833)
Foreign exchange	—	—	—	6,691	—	—	189	6,880
Swaps	—	3,360	—	—	—	—	—	3,360
	<b>4,563,299</b>	<b>2,287,456</b>	<b>5,124,151</b>	<b>4,343,607</b>	<b>975,276</b>	<b>859,560</b>	<b>446,481</b>	<b>18,599,830</b>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 7. INCOME TAX

Income tax in the Statement of Changes in Net Assets represents the tax on the benefits accrued as a result of operations before income tax, adjusted for non-taxable and non-deductible amounts.

The tax effect of temporary differences, which occur where items are allowed for income tax purposes in a period different from that in which they are recognised in the accounts, is included in deferred tax liabilities and deferred tax assets as applicable at current taxation rates.

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>
<b>a) Income tax recognised in profit or loss</b>		
<b>Tax expense comprises:</b>		
Current tax expense	354,714	341,544
Over provision in the previous year	(5,306)	(13,773)
Deferred tax benefit relating to the origination and reversal of temporary differences	58,257	117,866
Total tax expense	<u>407,665</u>	<u>445,637</u>
The prima facie income tax expense on pre-tax changes in net assets reconciles to the income tax expense in the financial statements as follows:		
Increase in net assets for the year before income tax	<u>13,007,214</u>	<u>3,265,796</u>
Income tax expense calculated at 15% (2010: 15%)	1,951,082	489,869
Increase in tax expenses due to:		
Gross-up of franked dividends	20,418	10,333
Capital gains tax concession adjustment on unrealised losses	4,486	29
No TFN contributions tax	4,209	2,445
Effective tax rate adjustment to carried forward losses	390	32,339
Benefit payment	146,413	107,301
Other	1,011	(1,840)
Decrease in tax expense due to:		
Non-assessable contributions	(108,022)	(109,872)
Non-assessable transfer of assets from Health Super Fund	(1,446,525)	—
Anti-detriment deduction	(3,189)	(2,566)
No TFN contributions tax refunds	(1,365)	(1,273)
Imputation and foreign tax credits	(148,812)	(68,666)
Non-deductible superannuation contributions surcharge tax	(2)	(17)
Current pension liability exemption	(7,102)	1,301
Other	(21)	27
Over provision in the previous year	(5,306)	(13,773)
	<u>407,665</u>	<u>445,637</u>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 7. INCOME TAX (continued)

	2011 \$'000	2010 \$'000
<b>b) Current tax liabilities</b>		
Current tax liabilities are attributable to:		
Current tax payable - Income tax payable	265,564	169,324
	265,564	169,324
<b>c) Deferred tax balances</b>		
<b>Recognised deferred tax assets and liabilities</b>		
Deferred tax assets and liabilities are attributable to the following:		
Deferred tax assets:		
Unrealised capital losses	173,703	211,581
Unrealised forward foreign exchange and other losses	6,380	61
Administration expenses accrued but not incurred	2,092	1,475
Realised capital losses	156,893	125,619
	339,068	338,736
Deferred tax liabilities:		
Unrealised capital gains	157,488	150,702
Unrealised forward foreign exchange gains	1,715	2,318
Dividend receivable	9,560	7,441
Interest receivable	693	308
Employer contribution receivable	293	—
	169,749	160,769

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 8. LIABILITY FOR ACCRUED BENEFITS

Accrued benefits, for defined benefits members, at the reporting date, have been determined on the basis of the present value of expected future payments which arise from membership of the Fund up to the date of the latest actuarial review. The amount reported has been determined by reference to expected future salary levels and by application of a discount rate and other relevant actuarial assumptions. The valuation of the accrued benefits was undertaken by the actuary as part of a comprehensive actuarial review which was performed for the year ended 30 June 2011.

The liability for accrued benefits for accumulation members is the Fund's present obligation to pay benefits to members and beneficiaries and is calculated as the difference between the carrying amounts of the assets and the sum of the sundry liabilities, income tax liabilities and reserves as at reporting date.

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>
Liability for accrued benefits at the end of the period – defined benefits	1,099,700	-
Liability for accrued benefits at the end of the period – accumulation benefits	30,091,076	18,633,772
Funds not yet allocated to members' accounts	1,631	28,801
Administration reserve	26,905	23,490
General reserve	4,120	-
Insurance reserve	2,600	-
Liability for accrued benefits at the end of the period	<u>31,226,032</u>	<u>18,686,063</u>

### 9. VESTED BENEFITS

Vested benefits are benefits allocated to members' accounts 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 Fund membership as at the reporting date.

	<u>2011</u> <u>\$'000</u>	<u>2010</u> <u>\$'000</u>
Vested benefits as at 30 June	<u>31,228,676</u>	<u>18,633,772</u>
Net assets available to pay benefits as at 30 June	<u>31,285,612</u>	<u>18,686,063</u>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 10. GUARANTEED BENEFITS

No guarantees have been made in respect of any part of accrued benefits (2010: \$Nil).

### 11. RECEIVABLES

	2011 \$'000	2010 \$'000
Accrued income	98,051	58,016
Proceeds of investment sales	43,793	26,290
Debtors	5,602	384
Contributions receivable	2,040	—
	<u>149,486</u>	<u>84,690</u>

### 12. PAYABLES

	2011 \$'000	2010 \$'000
Benefits payable	16,609	13,992
Insurance premiums payable	6,514	6,209
Fund administration services	7,958	1,838
Audit and legal costs, printing, mail and other expenses	6,172	3,918
Investment related fees payable	18,446	10,233
Investment purchases	56,849	58,225
	<u>112,548</u>	<u>94,415</u>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 13. FUNDING ARRANGEMENTS

The Funding policy adopted is to ensure that benefits accruing to defined benefits members and beneficiaries are fully funded as the benefits fall due. As such, in determining member and employer contribution rates the actuary has considered long-term trends in such factors as fund membership, salary growth and the average market value of Fund assets.

#### Defined benefits

Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice.

The actuary recommended in the 30 June 2011 review that the following contribution rates be maintained until the next triennial review which is due no later than 30 June 2014.

		% of members' salary		
Employee rate	0%	3%	4%	6%
Employer rate	1%	6%	6%	10%

#### Defined contributions

During the year ended 30 June 2011 employers generally contributed to the Fund at a rate of 9% (2010: 9%) of the notional earnings base of those employees who were members of the Fund. Salary sacrifice contributions were also remitted by employers on behalf of their employees, and additional employer contributions were also received in respect of insurance premium and administration fee liabilities of members of the Fund where applicable. Members of the Fund also made voluntary contributions at their discretion.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 14. CHANGES IN NET MARKET VALUE OF INVESTMENTS

	2011 Increase/ (decrease) \$,000	2010 Increase/ (decrease) \$'000
<b>Investments held at reporting date:</b>		
Short term securities	23,622	22,125
Australian fixed interest	17,703	56,926
Australian equities	187,481	194,171
International equities	53,687	14,096
International fixed interest	(6,973)	26,725
Property trusts	10,421	( 4,983)
Alternative investments	3,939	(65,160)
	289,880	243,900
<b>Investments realised during the reporting period:</b>		
Short term securities	185,951	124,607
Australian fixed interest	(3,891)	1,956
Australian equities	42,050	173,630
International equities	202,651	216,560
International fixed interest	(11,794)	28,121
Property trusts	2,343	2,011
Alternative investments	89,671	57,615
	506,981	604,500
<b>Total increase in net market value of investments</b>	<b>796,861</b>	<b>848,400</b>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 15. INVESTMENT REVENUE

	2011						Total \$'000	
	Short term securities \$'000	Australian fixed interest \$'000	Australian equities \$'000	International equities \$'000	International fixed interest \$'000	Property trust \$'000		Alternative investments \$'000
Interest revenue	2,816	186,775	16,554	4,002	83	70	30	210,330
Interest – bank deposit	4,607	—	—	—	—	—	—	4,607
Dividend revenue	—	—	355,666	93,083	—	—	—	448,749
Trust distribution revenue	—	—	21,214	1,197	29,224	54,026	—	105,661
Security lending revenue	—	3,989	619	305	—	20	—	4,933
Fund manager fee rebates	—	—	139	—	678	—	2,611	3,428
Underwriting offer	—	—	897	485	—	1,091	85	2,558
	<b>7,423</b>	<b>190,764</b>	<b>395,089</b>	<b>99,072</b>	<b>29,985</b>	<b>55,207</b>	<b>2,726</b>	<b>780,266</b>

	2010						Total \$'000	
	Short term securities \$'000	Australian fixed interest \$'000	Australian equities \$'000	International equities \$'000	International fixed interest \$'000	Property trust \$'000		Alternative investments \$'000
Interest revenue	2,155	117,078	9,121	1,835	5,582	306	192	136,269
Interest – bank deposit	4,544	—	—	—	—	—	—	4,544
Dividend revenue	—	—	176,740	83,994	—	7	—	260,741
Trust distribution revenue	—	—	17,704	1,456	26,549	48,090	—	93,799
Security lending revenue	—	1,607	925	643	18	52	—	3,245
Fund manager fee rebates	—	—	712	—	2,232	1,400	1,166	5,510
Underwriting offer	—	—	289	—	5	—	—	294
	<b>6,699</b>	<b>118,685</b>	<b>205,491</b>	<b>87,928</b>	<b>34,386</b>	<b>49,855</b>	<b>1,358</b>	<b>504,402</b>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 16. GENERAL ADMINISTRATION EXPENSES

	2011 \$'000	2010 \$'000
Audit fees - Note 17	455	199
Directors' fees	656	551
Legal fees	1,630	642
Merger costs	2,166	-
Other	1,144	1,138
Trustee, administration and member communication expenses	30,171	29,276
	36,222	31,806

### 17. REMUNERATION OF AUDITORS

	2011 \$'000	2010 \$'000
Audit services		
Unless otherwise stated, audit services for the years ended 30 June 2011 and 2010 were provided by Deloitte Touche Tohmatsu.		
Audit report in relation to:		
FSS Trustee Corporation	16	10
Financial report		
Australian Financial Services Licence		
First State Superannuation Scheme	439	189
Financial report		
APRA Annual return forms		
Risk management plan and risk management strategy		
RSE license conditions		
	455	199
Due Diligence on Health Super Fund merger	1,087	—
Other services	23	—
Capital gains tax review		
Fraud, risk and remuneration review		
Audit by PricewaterhouseCoopers of net assets held by custodian	32	28
	1,597	227

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS

#### (a) Financial instruments management

The investments of the Fund (other than cash held for meeting daily administrative and benefit expenses), are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets allocated for management in accordance with the terms of an investment management agreement or information memorandum. The Trustee has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Trustee's investment strategy.

JP Morgan Chase Bank NA (JP Morgan) is custodian for the Fund's managed investments and associated liquid assets. JP Morgan provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions. Superannuation Administration Services (trading as Pillar Administration) are custodians for the Fund's trading bank accounts and perform transactional and accounting services. Pillar Administration is also the Fund's administrator of member services.

#### (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 and financial liability are disclosed in Note 3 to the financial statements.

#### (c) Capital risk management

The Registrable Superannuation Entity (RSE) Licence of the Trustee of the Fund requires the Trustee to maintain a balance of at least \$100,000 at all times in an Administration Reserve account. This is required to be maintained in cash or cash equivalents. The Trustee of the Fund was in compliance with this requirement throughout the year. The \$100,000 liquidity requirement is held in the Administration Reserve of the Fund.

#### (d) Categories of financial instruments

The financial assets and financial liabilities of the Fund are recognised at net market value as at the reporting date. Net market value approximates fair value less costs of realisation of investments. The cost of realisation of investments is minimal and therefore net market value, that is carrying value, approximates fair value. Changes in net market value are recognised through the Statement of Changes in Net Assets.

#### (e) Financial risk management objectives

The Fund is exposed to a variety of financial risks as a result of its activities.

These risks include:

- (a) credit risk;
- (b) liquidity risk
- (c) market risk (including currency risk, fair value interest rate risk and price risk); and
- (d) cash flow interest rate risk.

The Fund's risk management and investment policies, approved by the Trustee, 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.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (e) Financial risk management objectives (continued)

It is ultimately the responsibility of the Trustee to ensure that there is an effective risk management control framework in place. Consistent with regulatory requirements the Trustee has the responsibility of overseeing the establishment and maintenance of risk based systems and controls for the Fund. The Trustee has developed, implemented and maintains a Risk Management Strategy (RMS) and a Risk Management Plan (RMP).

The RMS and RMP identify 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 Regulation Authority (APRA) that:

- (i) adequate strategies have been put in place to monitor those risks;
- (ii) the Trustee has systems in place to ensure compliance with legislative and prudential requirements; and
- (iii) the Trustee has satisfied itself as to the compliance with the RMS and RMP.

#### (f) Credit risk

Credit risk is the risk that a counter party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund has counterparty credit procedures in place and the exposure to credit risk is monitored on an ongoing basis in accordance with the Trustee's Investment Policy Statement.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. 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 Fund's financial assets exposed to credit risk amounted to the following:

	2011 \$'000	2010 \$'000
Cash and cash equivalents	103,369	86,955
Short term securities	6,709,490	4,563,299
Australian fixed interest	4,471,742	2,287,456
Australian equities	8,210,413	5,124,151
International equities	8,427,540	4,343,607
International fixed interest	775,957	975,276
Property trusts	2,051,100	859,560
Alternative investments	595,067	446,481
Receivables	149,486	84,690
	31,494,164	18,771,475

Substantially all of the cash held by the Fund is held by JP Morgan Chase Bank and Commonwealth Bank. The Fund monitors its credit risk by monitoring the credit quality and financial positions of the banks through regular analysis of their financial reports.

Credit risk arising on investments in listed Australian and International equities and Australian and International fixed interest is mitigated by the due diligence and research undertaken by the appointed investment managers prior to purchasing or selling of investments.

Credit risk arising on other unit trusts is mitigated by the due diligence prior to the appointment of Fund Managers and appropriate monitoring of the market conditions and benchmark analysis.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (f) Credit risk (continued)

Unsettled investment sales are transactions with investment managers that are awaiting settlement 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 Trustee monitors the aging of unsettled trades.

Substantially all of the assets of the Fund are held in custody by JP Morgan Chase Bank NA who is the custodian for the Fund's investment assets. Superannuation Administration Corporation (trading as Pillar Administration) is the custodian for the Fund's Commonwealth Bank bank accounts.

The Fund participates in securities lending via the agency securities lending programme of its custodian JP Morgan Chase Bank NA whereby the Fund has a principal relationship with the borrower. All loans of securities are subject to collateral backing and the full program is indemnified by JP Morgan Chase Bank NA. The market value of securities on loan at 30 June 2011 was \$2,387,000,000 (2010: \$1,879,000,000).

The Trustee monitors its risk by monitoring the credit quality and financial positions of the custodians through regular analysis of their financial reports.

#### (g) 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 as and when they are due. The majority of the Fund's listed securities and unit trust investments are considered to be readily realisable. The Fund's financial instruments include a relatively small proportion of investments in unlisted investments that are not traded in an organised public market and that generally may be illiquid. As a result, there is a risk that, the Fund may not be able to liquidate all of these investments at their net market value.

The Fund's liquidity risk is managed in accordance with the Fund's investment strategy. The Fund has a high level of net inward cash flows (through new contributions) that provide capacity to manage liquidity risk. The Fund also manages liquidity risk through the continuous monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Fund's overall strategy to liquidity risk management was reviewed in light of the risks highlighted by recent market events and they were determined to be appropriate and remain unchanged from the prior year.

The following tables analyse the Fund's financial liabilities into relevant maturity groupings based on their contractual maturities. 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. There are no possible future cash flows attributable to the instruments included in the maturity analyses that are not included in the carrying amount of the liability.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (g) Liquidity risk (continued)

Year ended 30 June 2011	Less than 1 month \$'000	1 to 12 months \$'000	Over 1 year \$'000	Total \$'000
Liability for accrued benefits	31,190,776	—	—	31,190,776
Other				
Benefits payable	16,609	—	—	16,609
Accounts payable	39,091	—	—	39,091
Current tax liabilities	130,727	134,837	—	265,564
Financial liabilities	9,651,516	5,505,123	307,401	15,464,040
Investment purchases	56,848	—	—	56,848
	<u>41,085,567</u>	<u>5,639,960</u>	<u>307,401</u>	<u>47,032,928</u>
Forward currency contracts				
Inflow	9,764,867	5,068,130	5,065	14,838,062
(Outflow)	(9,651,516)	(5,001,466)	(5,039)	(14,658,022)
	<u>113,351</u>	<u>66,664</u>	<u>26</u>	<u>180,040</u>
Futures				
Inflow	—	895,149	—	895,149
(Outflow)	—	(487,933)	—	(487,933)
	<u>—</u>	<u>407,216</u>	<u>—</u>	<u>407,216</u>
Options				
Inflow	—	1,028	2,746	3,774
(Outflow)	—	(12,853)	—	(12,853)
	<u>—</u>	<u>(11,825)</u>	<u>2,746</u>	<u>(9,079)</u>
Swaps				
Inflow	—	2,878	306,835	309,713
(Outflow)	—	(2,871)	(302,362)	(305,233)
	<u>—</u>	<u>7</u>	<u>4,473</u>	<u>4,480</u>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (g) Liquidity risk (continued)

Year ended 30 June 2010	Less than 1 month \$'000	1 to 12 months \$'000	Over 1 year \$'000	Total \$'000
Liability for accrued benefits	18,633,772	—	—	18,633,772
Other				
Benefits payable	13,992	—	—	13,992
Accounts payable	22,198	—	—	22,198
Current tax liabilities	43,626	125,698	—	169,324
Financial liabilities	2,637,763	35,961	85,944	2,759,668
Investment purchases	58,225	—	—	58,225
	<u>21,409,576</u>	<u>161,659</u>	<u>85,944</u>	<u>21,657,179</u>
Forward currency contracts				
Inflow	2,622,335	2,465,434	—	5,087,769
(Outflow)	(2,635,227)	(1,843)	—	(2,637,070)
	<u>(12,892)</u>	<u>2,463,591</u>	<u>—</u>	<u>2,450,699</u>
Futures				
Inflow	4,275	641,763	—	646,038
(Outflow)	(2,536)	(29,110)	—	(31,646)
	<u>1,739</u>	<u>612,653</u>	<u>—</u>	<u>614,392</u>
Options				
Inflow	36,059	22,280	—	58,339
(Outflow)	—	(5,008)	—	(5,008)
	<u>36,059</u>	<u>17,272</u>	<u>—</u>	<u>53,331</u>
Swaps				
Inflow	—	—	88,432	88,432
(Outflow)	—	—	(85,944)	(85,944)
	<u>—</u>	<u>—</u>	<u>2,488</u>	<u>2,488</u>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (h) 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:

1. market interest rates - interest rate risk;
2. foreign exchange - currency risk; and
3. 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 Trustee's investment policies and the Fund's Risk Management Plan. There has been no change to the Fund's level of risk or manner in which it manages and measures those risks.

#### (h) (1) Market interest rates - interest rate risk

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. The Fund's Trustee monitors its exposures to interest rate risk.

The tables below have been drawn up based on the expected maturities of the financial assets including interest that will be earned on those assets except where the Fund anticipates that the cash flow will occur in a different period. There are no possible future cash flows attributable to the instrument included in the maturity analysis that are not included in the carrying amount of the financial asset on the Statement of Net Assets.

Year Ended 30 June 2011	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
<b>Assets</b>				
Cash and cash equivalents	1,355,444	—	—	1,355,444
Receivables	—	—	149,486	149,486
Other assets	—	—	1,541	1,541
Unit trusts	—	—	4,644,078	4,644,078
Fixed interest	218,260	3,949,536	47,218	4,215,014
Equities	—	—	16,035,198	16,035,198
Discounted securities	4,854,168	—	—	4,854,168
<b>Derivative financial instruments</b>				
Futures and options	6	307	84,586	84,899
Swaps	188,844	58,225	41,833	288,902
Foreign exchange	—	—	238,789	238,789
<b>Total financial assets</b>	<b>6,616,722</b>	<b>4,008,068</b>	<b>21,242,729</b>	<b>31,867,519</b>
<b>Liabilities</b>				
Payables	—	—	112,548	112,548
<b>Derivative financial instruments</b>				
Futures and options	281	597	6,862	7,740
Swaps	86,955	130,137	60,972	278,064
Foreign exchange	—	—	86,009	86,009
Current tax liabilities	—	—	265,564	265,564
<b>Total financial liabilities</b>	<b>87,236</b>	<b>130,734</b>	<b>531,955</b>	<b>749,925</b>
<b>Total net financial assets</b>	<b>6,529,486</b>	<b>3,877,334</b>	<b>20,710,774</b>	<b>31,117,594</b>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (h) (1) Market interest rates - interest rate risk (continued)

Year Ended 30 June 2010	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
<b>Assets</b>				
Cash and cash equivalents	864,819	—	—	864,819
Receivables	—	—	84,690	84,690
Other assets	—	—	1,509	1,509
Unit trusts	—	—	2,121,873	2,121,873
Fixed interest	—	2,284,095	—	2,284,095
Equities	—	—	9,590,855	9,590,855
Discounted securities	3,785,405	—	—	3,785,405
<b>Derivative financial instruments</b>				
Futures and options	30	25	54,401	54,456
Swaps	—	3,689	—	3,689
Foreign exchange	—	—	77,761	77,761
<b>Total financial assets</b>	<b>4,650,254</b>	<b>2,287,809</b>	<b>11,931,089</b>	<b>18,869,152</b>
<b>Liabilities</b>				
Payables	—	—	94,415	94,415
<b>Derivative financial instruments</b>				
Futures and options	—	23	24,935	24,958
Swaps	—	329	—	329
Foreign exchange	—	—	70,881	70,881
Current tax liabilities	—	—	169,324	169,324
<b>Total financial liabilities</b>	<b>—</b>	<b>352</b>	<b>359,555</b>	<b>359,907</b>
<b>Total net financial assets</b>	<b>4,650,254</b>	<b>2,287,457</b>	<b>11,571,534</b>	<b>18,509,245</b>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (h) (1) Market interest rates - interest rate risk (continued)

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

The following table illustrates the effect on net assets and changes in net assets available from possible changes in market risk that were reasonably possible based on the risk the Fund was exposed to at reporting date:

	Change in variables		Effect on			
			Changes in net assets		Net assets available to pay benefits	
	2011 + / -	2010 + / -	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Interest rate risk						
Variable interest securities	+ 1%	+ 1%	52,889	50,223	52,889	50,223
			52,889	50,223	52,889	50,223
Interest rate risk						
Variable interest securities	- 1%	- 1%	(52,889)	(50,223)	(52,889)	(50,223)
			(52,889)	(50,223)	(52,889)	(50,223)

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (h) (2) Foreign exchange - currency risk

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 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 Trustee's investment policies and the Fund's RMS and RMP. The Fund's overall strategy in foreign currency risk management remains unchanged from the previous reporting period.

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

	Liabilities		Assets	
	Net Market Value		Net Market Value	
	2011	2010	2011	2010
	A\$'000	A\$'000	A\$'000	A\$'000
United States dollars (USD)	133,470	82,418	4,828,532	2,555,023
Japanese Yen (JPY)	5,291	5,584	551,777	395,432
Euro (EUR)	10,892	6,771	1,272,014	696,879
United Kingdom Pounds (GBP)	15,390	10,399	814,274	407,660
Australian dollars (AUD)	306,071	67,653	22,770,939	13,912,164
Others	12,169	12,563	1,340,832	681,093
<b>Total:</b>	<b>483,283</b>	<b>185,388</b>	<b>31,578,368</b>	<b>18,648,251</b>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (h) (2) Foreign exchange - currency risk (continued)

##### Foreign currency sensitivity

The following table details the Fund's sensitivity to a 31% (2010: 32%) increase and decrease in the Australian Dollar against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 31% (2010: 32%) change in foreign currency rates. A negative number indicates a decrease in net assets available to pay benefits and liability for accrued benefits where the Australian Dollar strengthens against the respective currency.

Foreign exchange rate risk:	Effect on			
	Changes in net assets		Net assets available to pay benefits	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Change in variables	+31 %	+ 32%	+31 %	+ 32%
USD	(105,390)	(51,156)	(105,390)	(51,156)
JPY	(8,203)	(10,486)	(8,203)	(10,486)
EUR	(34,723)	(15,273)	(34,723)	(15,273)
GBP	(24,332)	(12,005)	(24,332)	(12,005)
Others	(13,028)	(5,930)	(13,028)	(5,930)
<b>Total:</b>	<b>(185,676)</b>	<b>(94,850)</b>	<b>(185,676)</b>	<b>(94,850)</b>
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Change in variables	-31 %	- 32%	-31 %	- 32%
USD	105,390	51,156	105,390	51,156
JPY	8,203	10,486	8,203	10,486
EUR	34,723	15,273	34,723	15,273
GBP	24,332	12,005	24,332	12,005
Others	13,028	5,930	13,028	5,930
<b>Total:</b>	<b>185,676</b>	<b>94,850</b>	<b>185,676</b>	<b>94,850</b>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (h) (3) Market prices – price risk

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 net market value with changes in net market value recognised in the Statement of Changes in Net Assets, 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: The % change in investment return (below) is the relative change to investment performance based on the volatility in investment performance for each asset class for the last three financial years.

	% Change in investment return		Changes in net assets		Effect on Net assets available to pay benefits	
	2011	2010	2011	2010	2011	2010
	+/-	+/-	\$'000	\$'000	\$'000	\$'000
Australian fixed interest	+7%	+ 7%	(296,029)	(148,685)	(296,029)	(148,685)
Australian equities	+ 33%	+ 37%	2,742,278	1,895,423	2,742,278	1,895,423
International equities	+ 26%	+ 30%	2,221,500	1,286,576	2,221,500	1,286,576
International fixed interest	+ 7%	+ 6%	(50,748)	(62,515)	(50,748)	(62,515)
Australian property	+ 18%	+ 21%	371,659	180,765	371,659	180,765
Alternative investments	+ 42%	+ 35%	247,905	157,876	247,905	157,876
Australian fixed interest	-7 %	- 7%	296,029	148,685	296,029	148,685
Australian equities	-33 %	- 37%	(2,742,278)	(1,895,423)	(2,742,278)	(1,895,423)
International equities	-26%	- 30%	(2,221,500)	(1,286,576)	(2,221,500)	(1,286,576)
International fixed interest	- 7%	- 6%	50,748	62,515	50,748	62,515
Australian property	- 18%	- 21%	(371,659)	(180,765)	(371,659)	(180,765)
Alternative investments	- 42%	- 35%	(247,905)	(157,876)	(247,905)	(157,876)

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (i) Fair value measurements recognised in the statement of net assets

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

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

Year ended 30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Financial instruments at net market value				
Short term securities	6,709,490	–	–	6,709,490
Australian fixed interest	2,581,551	1,889,597	594	4,471,742
Australian equities	8,145,450	64,583	380	8,210,413
International equities	7,566,436	547,094	314,010	8,427,540
International fixed interest	451,920	321,856	2,181	775,957
Property trusts	754,626	1,087,876	208,598	2,051,100
Alternative investments	–	23,390	571,677	595,067
<b>Total investments</b>	<b>26,209,473</b>	<b>3,934,396</b>	<b>1,097,440</b>	<b>31,241,309</b>

Year ended 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Financial instruments at net market value				
Short term securities	4,563,299	—	—	4,563,299
Australian fixed interest	1,282,557	1,004,899	—	2,287,456
Australian equities	5,089,697	34,406	48	5,124,151
International equities	4,318,064	15,571	9,972	4,343,607
International fixed interest	975,276	—	—	975,276
Property trusts	239,323	610,091	10,146	859,560
Alternative investments	—	189	446,292	446,481
<b>Total investments</b>	<b>16,468,216</b>	<b>1,665,156</b>	<b>466,458</b>	<b>18,599,830</b>

There have been no significant reclassifications between Level 1 and Level 2 of the fair value hierarchy during the year ended 30 June 2011.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 18. FINANCIAL INSTRUMENTS (continued)

#### (i) Fair value measurements recognised in the statement of net assets (continued)

Reconciliation of Level 3 fair value measurements of financial assets

	Australian Equities \$'000	International Equities \$'000	Australian Fixed Interest \$'000	International Fixed Interest \$'000	Unlisted Property Trusts \$'000	Alternative Investments \$'000	Total \$'000
<b>Balance at 1 July 2010</b>	48	9,972	–	–	10,146	446,292	466,458
Purchases during the year	–	1,535	–	–	7,630	–	9,165
Issues during the year	–	–	–	–	1,172	–	1,172
Sales during the year	(20)	(3,918)	–	–	–	–	(3,938)
Settlements during the year	–	–	–	–	–	–	–
Transfers from Health Super Fund	352	307,926	594	2,181	192,611	128,926	632,590
Transfers out of Level 3	–	–	–	–	–	–	–
Total gains/(losses) in Statement of Changes in Net Assets	–	(1,506)	–	–	(2,960)	(3,541)	(8,007)
<b>Balance at 30 June 2011</b>	<b>380</b>	<b>314,009</b>	<b>594</b>	<b>2,181</b>	<b>208,599</b>	<b>571,677</b>	<b>1,097,440</b>
	Australian Equities \$'000	International Equities \$'000	Australian Fixed Interest \$'000	International Fixed Interest \$'000	Unlisted Property Trusts \$'000	Alternative Investments \$'000	Total \$'000
Balance at 1 July 2009	28	–	–	–	2,299	429,625	431,952
Purchases during the year	34	10,541	–	–	8,203	70,448	89,226
Issues during the year	–	–	–	–	–	–	–
Sales during the year	(14)	–	–	–	–	–	(14)
Settlements during the year	–	–	–	–	–	–	–
Transfers into Level 3	–	–	–	–	–	–	–
Transfers out of Level 3	–	–	–	–	–	–	–
Total gains/(losses) in Statement of Changes in Net Assets	–	(569)	–	–	(356)	(53,781)	(54,706)
<b>Balance at 30 June 2010</b>	<b>48</b>	<b>9,972</b>	<b>–</b>	<b>–</b>	<b>10,146</b>	<b>446,292</b>	<b>466,458</b>

Valuation of Level 3 financial instruments:

Unlisted property trusts are carried at the Investment Manager's external independent valuation.

Alternative investments mainly comprise the Fund's investment in the Macquarie – FSS Infrastructure Trust and are carried at the Investment Manager's valuation utilising valuation models and processes subject to external audit.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 19. OPERATING LEASES

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

	2011 \$'000	2010 \$'000
Payable not later than one year	2,700	1,497
Payable later than one year and not later than five years	4,509	3,330
Payable later than five years	—	—
	<u>7,209</u>	<u>4,827</u>

### 20. RELATED PARTIES

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

Interests in subsidiaries are set out in Note 21.

The Directors of the Trustee and their remuneration in respect of services rendered to the Fund are disclosed in Note 5.

Certain Directors of the Trustee and key management personnel paid member contributions into the Fund. These were in accordance with the normal terms and conditions of the Trust Deed.

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 arm's length basis, under normal commercial terms and conditions. At any time the Fund Trustee considers related party matters, the relevant Director absents himself or herself from any discussion and involvement in the decisions made by the Trustee.

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 21. SUBSIDIARIES

The financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the account policy described in Note 3(l).

	Country of incorporation	Class of shares/Units	Equity holding	
			2011	2010
			%	%
Health Super Pty Ltd	Australia	Ordinary	100	-
Health Super Financial Services Pty Ltd	Australia	Ordinary	100	-
Health Super Investments Pty Ltd	Australia	Ordinary	100	-
Health Super Investments Trust	Australia	Ordinary	100	-
Macquarie - FSS Infrastructure Trust	Australia	Ordinary	100	100
St Hilliers Hybrid Property Trust	Australia	Ordinary	98	48
Morgan Stanley Global Infrastructure Fund	Australia	Ordinary	100	-
Quadrant Health Superannuation Trust	Australia	Ordinary	100	-
Franklin Templeton Real Estate Trust	Australia	Ordinary	100	-
Continuity Capital Private Equity Fund No.1	Australia	Ordinary	100	-
Wilshire Australia Private Markets PST – Class C	Australia	Ordinary	100	-
Wilshire Australia Private Markets PST – Class L	Australia	Ordinary	57	-
Perennial Socially Responsive Shares Trust	Australia	Ordinary	53	-

### 22. CONTINGENT LIABILITIES AND ASSETS

There are no contingent liabilities or assets at 30 June 2011. (2010: Nil)

### 23. CAPITAL COMMITMENTS

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:

	2011 \$'000	2010 \$'000
<b>Investment Commitments</b>		
Not longer than 1 year	—	—
1 – 5 years : property, private equity and infrastructure	466,688	90,200
Over 5 years	—	—
	<b>466,688</b>	<b>90,200</b>

# FIRST STATE SUPERANNUATION SCHEME

## Notes to the Financial Statements for the financial year ended 30 June 2011

### 24. SUBSEQUENT EVENTS

Since 30 June 2011, share markets have experienced a period of significant volatility, impacting on the valuations of the Fund's investment portfolio. As the investments shown in these financial statements are measured at their 30 June 2011 fair values, this volatility in value is not reflected in the Statement of Net Assets or the Statement of Changes in Net Assets. For accumulation members the Fund allocates the relevant investment income to those members, therefore the volatility in the value of investments since 30 June 2011 has been reflected in the unit prices/crediting rate for the Fund's investment options since that date, resulting in a corresponding change in net assets attributable to members. The defined benefit component of members' benefits is not affected by investment market movements.

Other than as 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 2011 or the statement of changes in net assets of the Fund for the year ended on that date.

End of audited financial statements