

2013/2014

Financial Statements

as at 30 June 2014

**Qantas Superannuation Plan
Financial Report
for the year ended 30 June 2014**

**Issued by Qantas Superannuation Limited (ABN: 47 003 806 960 | AFSL 288330 | RSE L0002257)
as Trustee for the Qantas Superannuation Plan (ABN 41 272 198 829 | RSE R1005486)
Produced by Qantas Superannuation Limited**

Qantas Superannuation Plan
Financial Report – 30 June 2014

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Statement of Net Assets

As at 30 June 2014

	Notes	2014 \$'000	2013 \$'000
ASSETS			
Cash and cash equivalents			
Cash at bank		19,827	21,451
Cash held by investment managers	3	455,935	708,085
Australian short-term deposits	3	358,429	297,690
Global short-term deposits	3	-	75,367
Total cash and cash equivalents		834,191	1,102,593
Receivables			
Contributions receivable		13,705	17,565
Other receivables and prepayments		243	281
Deposits held with broker margin accounts	3	39,212	49,317
Investment income receivable	3	23,513	20,950
Outstanding settlements for securities sold	3	22,157	19,193
Other investment related receivables	3	3,041	2,374
Total receivables		101,871	109,680
Investments			
Australian equities and managed funds	3	2,261,225	1,977,457
Global equities and managed funds	3	2,134,711	1,903,090
Money market securities	3	704,336	605,982
Australian fixed income securities	3	754,993	559,138
Global fixed income securities	3	360,611	349,524
Derivatives	3,9	81,084	53,046
Total investments		6,296,960	5,448,237
Other assets			
Deferred tax assets	4	-	50,474
Total other assets		-	50,474
Total assets		7,233,022	6,710,984
LIABILITIES			
Payables			
Benefits payable		7,768	24,336
Accounts payable		18,708	21,771
Income tax payable		11,525	14,075
Outstanding settlements for securities purchased	3	98,820	42,020
Deposits held with broker margin accounts	3	6,332	12,907
Total payables		143,153	115,109
Financial liabilities			
Derivatives	3,9	54,490	202,332
Repurchase agreements	3	161,897	115,914
Total financial liabilities		216,387	318,246
Other liabilities			
Deferred tax liability	4	23,368	-
Total other liabilities		23,368	-
Total liabilities		382,908	433,355
Net assets available to pay benefits		6,850,114	6,277,629

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

Statement of Changes in Net Assets

For the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Net assets available to pay benefits at the beginning of the financial year		6,277,629	5,752,389
Add:			
Investment revenue			
Interest		71,569	89,886
Dividends and trust distributions		192,182	139,641
Other revenue		673	950
Changes in net market value of investments	5	588,498	577,796
Less: Direct investment expense		(34,981)	(38,270)
Total investment revenue		817,941	770,003
Contribution revenue			
Employer contributions	19	283,294	295,791
Members' contributions		48,145	43,651
Government co-contribution		380	1,175
Low income super contribution		501	-
Transfers from other funds		38,757	28,477
Total contribution revenue		371,077	369,094
Other revenue		1,981	458
Total revenue		1,190,999	1,139,555
Less:			
General and administrative expenses			
Actuarial fees		592	538
Administration expenses	16	9,341	7,894
Regulatory fees		1,455	1,933
Project expenses		701	1,505
Administration implementation fee		500	-
Superannuation contributions surcharge	6	(72)	(54)
Excess contributions taxes		59	145
Total general and administrative expenses		12,576	11,961
Insurance expense			
Insurance premium expense	11	10,817	1,344
Claims management expense		391	160
Total insurance expenses		11,208	1,504
Benefits paid			
Exited Members		473,035	490,944
Disabled Members		4,675	4,610
Total benefits paid		477,710	495,554
Total expenses and benefits paid		501,494	509,019
Total revenue less total expenses and benefits paid before income tax		689,505	630,536
Income tax expense	4	117,020	105,296
Total revenue less total expenses and benefits paid after income tax		572,485	525,240
Net assets available to pay benefits at the end of the financial year		6,850,114	6,277,629

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

Notes to and Forming Part of the Financial Statements

For the year ended 30 June 2014

Note 1 Nature of the Plan and Principal Activities

The Qantas Superannuation Plan (the Plan) (ABN: 41 272 198 829) is a contributory Plan established for the benefit of eligible Australian based employees of Qantas Airways Limited and its controlled entities under a Trust Deed dated 1 June 1939 as subsequently amended.

The financial statements of the Plan as at and for the year ended 30 June 2014 comprise the Plan and its controlled entities. The Plan has both defined benefit and accumulation divisions for the provision of superannuation benefits and arrangements to its Members. The Plan is registered with the Australian Prudential Regulation Authority (registration no: R1005486).

Qantas Superannuation Limited (ABN: 47 003 806 960) (the Trustee) is a not for profit Trustee company for the Plan. The Plan and Trustee are incorporated and domiciled in Australia. The registered address for the Trustee is QCA/4, 10 Bourke Road, Mascot, NSW, 2020, Australia. The financial statements were approved by the Board of the Trustee on 22 October 2014.

Note 2 Summary of Significant Accounting Policies

These general purpose financial statements have been prepared in accordance with applicable Australian Accounting Standards including AAS25 *Financial Reporting by Superannuation Plans* (AAS25) as amended by AASB 2005-13 (*December 2005*), other mandatory professional reporting requirements, the provisions of the Trust Deed dated 1 June 1939 and amendments thereto and relevant legislative requirements. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). As AAS25 is the principal standard that applies to the Financial Statements, other standards, including AIFRS, are applied where AAS25 is silent.

(a) Functional Presentation Currency and Rounding

The financial statements are presented in Australian dollars, which is the functional currency of the Plan. Amounts have been rounded to the nearest thousand dollars except where otherwise noted.

(b) Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. It includes cash held directly by the Plan and cash held on behalf of the Plan by investment managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(c) Investments

Investments are recorded at net market value at year end which is determined as follows:

- (i) Market quoted investments: The net market 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 the reporting date, less the appropriate allowance for costs expected to be incurred in realising investments.
- (ii) Non-market quoted investments: Investments for which market quotations are not readily available are valued at the net fair value determined by the Trustee as follows:
 - Unlisted securities – recorded with reference to recent arms-length transactions, most recent arms-length valuation, current market value of another instrument substantially the same or discounted cash flows, less estimated realisation costs.
 - Where discounted cash flow techniques are used, estimated future cash flows are based on Management's best estimates and the discount rate used is a market rate at the balance date applicable for an instrument with similar terms and conditions.
 - Where other pricing models are used, inputs are based on market data at the balance date.
 - Private equity investments are valued according to the most recent valuation obtained from the underlying manager at net market value adjusted for subsequent new investments, redemptions and significant changes in underlying conditions through to balance date.
- (iii) The Plan invests in assets managed by third parties through wholly-owned sole purpose investment vehicles, which are recorded at net market value. Refer to Note 13(e) for details.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)**(d) Derivative Financial Instruments**

Derivative financial instruments are entered into by some of the investment managers appointed by the Trustee to manage risk and adjust the Plan's exposure to particular investment classes. All derivatives are classified as held for trading within financial assets or financial liabilities and are measured at fair value through the profit or loss.

The detail of derivatives held at balance date is shown in Note 9.

(e) Receivables and Payables

Receivables are settled within 30 days and are recognised at the nominal amount, inclusive of GST where applicable. An allowance for uncollectable amounts is only made where there is objective evidence that the debt will not be collected.

Benefits payable includes benefits in respect of Members who ceased employment with the employer sponsor or associated employer but had not been paid by balance date.

Payables are recognised as goods and services received by the Plan during the year where the invoice has not yet been received or paid by the Plan. Payables are settled within 30 days of receipt of an invoice.

(f) Liability for Accrued Benefits

The liability for accrued benefits is actuarially measured on at least a triennial basis and represents the value of the Plan's present obligations to pay benefits to its Members and other beneficiaries at the date of measurement. It is not included in the Statement of Net Assets. However, the latest measurement date is reported in Note 20.

(g) Goods and Services Tax (GST)

Revenue, expenses and assets (excluding receivables) are recognised net of the amount of GST recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit (RITC). To the extent that GST is not recoverable from the ATO, 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.

(h) Significant Accounting Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The only key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of these assets and liabilities are disclosed in Note 10.

(i) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Plan and revenue can be reliably measured. Specific recognition criteria are detailed in the following paragraphs:

Interest income

Interest income is recognised in the Statement of Changes in Net Assets on an accruals basis, using the effective interest rate of the instrument.

Dividends and trust distributions

Revenue from dividends and trust distributions is recognised on the date the shares or units are quoted ex-dividend and if not received at reporting date, is reflected in the Statement of Net Assets as a receivable at net market value.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)*Changes in net market value of investments*

Changes in the net market value of investments are recognised as income 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 is acquired during the year). Gains or losses on investments and derivatives which are due to changes in foreign exchange rates are included in Statement of Changes in Net Assets.

Contributions and transfers from other funds

Contributions and transfers in are recognised on an accruals basis, when control and the benefit from the revenue has been transferred to the Plan. Employer contributions are recognised gross of tax and are assessable income for tax purposes.

(j) Derecognition of Financial Assets and Financial Liabilities

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Plan transfers substantially all the risks and rewards of ownership of the asset.

A financial asset is not derecognised when a repurchase agreement has been entered into. The repurchase agreement is recognised as a deposit in investment assets and a liability is recognised in respect of the obligation to repurchase.

(k) Income Tax

The Plan is a complying superannuation fund within the provisions of the Income Tax Assessment Act. Accordingly, the concessional tax rate of 15% has been applied.

Deferred Tax Assets (DTA) or Deferred Tax Liabilities (DTL) are recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

Capital assets held for less than 12 months are taxed at the Plan's tax rate of 15%. Where capital assets are held for greater than 12 months, the Plan is entitled to a further discount on the tax rate, leading to an effective tax rate of 10% on gains or losses arising.

The detail of income tax is shown in Note 4.

(l) Foreign Currency

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate at balance date.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition, are recognised as changes in net market value in the Statement of Changes in Net Assets (and disclosed in Note 5) in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)**(m) Superannuation Contributions Surcharge**

Superannuation contributions surcharge is levied on surchargeable contributions on the basis of the individual Member's adjusted taxable income. The liability for the superannuation contribution surcharge is recognised when the assessment is received, as the Trustee considers this is when it can be reliably measured.

The superannuation surcharge liability recognised by the Plan has been charged to the relevant Members' accounts.

The *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005* abolishes both the superannuation contributions surcharge and the termination payments surcharge in respect of superannuation contributions and certain termination payments made or received on or after 1 July 2005. Assessments for surcharge in respect of contributions and payments for the year ended 30 June 2005 and prior years will continue to be issued and remain payable.

Further detail on superannuation contributions surcharge is contained in Note 6.

(n) Comparatives

Various comparative balances have been reclassified to align with current year presentation. These amendments have no material impact on the Financial Statements.

(o) Operational Risk Reserve

Superannuation Prudential Standard 114: *Operational Risk Financial Requirement*, (SPS 114) which became effective 1 July 2013, requires RSE licensees to maintain adequate financial resources to address losses arising from operational risks that may affect such entities within their business operations. The Fund's operational risk reserve has been established for this purpose.

As a minimum the Plan aims to build up the reserve to a target amount of reserves equal to 25 basis points of the Plan's invested assets subject to a predetermined tolerance limit within 3 years from 1 July 2013. The tolerance limit is set by the Trustee to reduce the need for small transfers to or from the operational risk reserve for immaterial fluctuations in the reserve's value.

The operational risk reserve may only be used to make a payment to address an operational risk event as defined by SPS 114. When the amount falls below the tolerance limit additional funds are transferred into the operational risk reserve to replenish it.

Further detail on the operational risk reserve is provided in note 12.

(p) New and amended Accounting Standards adopted by the Plan

The Plan had to change the following accounting policies as the result of new and revised accounting standards which became effective for the annual reporting period commencing on 1 July 2013. The affected policies are:

(i) AASB 13 Fair Value Measurement

AASB 13 *Fair Value Measurement* establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other AASBs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. However, it has no material impact on measurement of fair value of the Plan. AASB 13 also replaces and expands the disclosure requirements about fair value measurements in other AASBs, including AASB 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required in financial statements for financial instruments; accordingly, the Plan has included additional disclosures in this regard.

(ii) AASB 2012-2 Amendments to Australian Accounting Standards Disclosures Offsetting Financial Assets and Financial Liabilities

This standard requires additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights to set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The Plan does not offset financial assets and financial liabilities. Refer to note 9 for additional disclosures in this regard.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 2 Summary of Significant Accounting Policies (continued)**(iii) AASB 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements and AASB 12 Disclosure of Interests in Other Entities**

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. Depending on the Plan's power over the activities of the entity and its exposure to and ability to influence its own returns, it may control the entity. Such entities include holdings of units in unlisted unit trusts. However, the Plan applies the investment entity exemption available under AASB 10 and therefore does not consolidate its controlled entities. The Plan meets the definition of an investment entity due to the following factors:

- The Plan has obtained funds on behalf of Members for the purpose of providing them with investment management services;
- the Plan'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 Plan are measured and evaluated on a fair value basis which the Trustee believes approximates net fair value.

As a consequence, the Plan does not consolidate its controlled entities, but accounts for them through the Statement of Change in Net Assets. These amendments did not have an impact on the Plan's presentation of its financial statements.

The nature and extent of the Plan's interests in structured entities are titled "Other related parties – direct holdings and associates" and are summarised in note 13.

During the year the Plan did not provide financial support to unconsolidated structured entities and has no intention of providing financial or other support.

As at 30 June 2014 there were no capital commitment obligations other than disclosed in note 14.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 3 Managed Investment Portfolios

	2014 \$'000	2013 \$'000
Managed investment portfolios comprise:		
Cash held by investment managers	455,935	708,085
Australian short-term deposits	358,429	297,690
Global short-term deposits	-	75,367
Deposits held with broker margin accounts	39,212	49,317
Investment income receivable	23,513	20,950
Outstanding settlements for securities sold	22,157	19,193
Australian equities and managed funds	2,261,225	1,977,457
Global equities and managed funds	2,134,711	1,903,090
Money market securities	704,336	605,982
Australian fixed income securities	754,993	559,138
Global fixed income securities	360,611	349,524
Derivatives	81,084	53,046
Other investment related receivables	3,041	2,374
Total managed investment assets	7,199,247	6,621,213
Outstanding settlements for securities purchased	98,820	42,020
Deposits held with broker margin accounts	6,332	12,907
Derivatives	54,490	202,332
Repurchase agreements	161,897	115,914
Accounts payable (investment related)	7,006	11,479
Total managed investment liabilities	328,545	384,652
Total managed investment portfolios	6,870,702	6,236,561

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 3 Managed Investment Portfolios (continued)

	2014	2013
	\$'000	\$'000
At the reporting date all investments are managed on behalf of the Trustee by:		
Allan Gray Australia Pty Limited (formerly 'Orbis Investment Management')	221,423	148,009
Ardea Investment Management Pty Limited	222,164	200,215
BlackRock Asset Management Australia Limited	-	196,315
BT Investment Management (RE) Limited	348,808	305,927
Colonial First State Property Limited	17,099	38,201
Ellerston Capital Limited	862	(1,083)
Equis Fund Group Pte Limited (QAIF Limited)	48,392	19,522
Goodman Funds Management Australia Limited	25,696	23,911
GPT Funds Management Limited	131,036	122,586
H2O Asset Management LLP	355,995	291,722
Investa Wholesale Funds Management Limited	-	478
Investec Professional Investment Funds PCC Limited	137,080	136,775
Investment Administration Account	7,544	-
JP Morgan Chase Bank N.A. (custodian cash account)	38,491	16,391
K2 / D&S Management Company LLC	473,433	456,165
Lend Lease Real Estate Investment Limited	136,314	129,345
Macquarie Investment Management Limited (including QPET)	480,661	429,269
Merlon Capital Partners Pty Limited	-	1,349
Oak Hill Advisors LP	136,073	91,556
Palisade Investment Partners Limited (Q Infrastructure Trust)	234,782	203,299
Parametric Portfolio Associates LLC ¹	2,664,083	2,378,960
Queensland Investment Corporation Limited	278,773	215,819
Russell Investment Management Limited	402,617	329,962
Sankaty Advisors LLC	196,031	265,799
SouthPeak Investment Management Pty Limited	193,721	125,087
National Australia Bank (Term Deposits)	1,105	11,156
Transition Portfolio	193	320
Westbourne Credit Management Limited (Q Infrastructure Yield Trust)	118,326	99,506
Total managed investment portfolios	6,870,702	6,236,561

¹The Trustee appointed Parametric Portfolio Associates LLC ("Parametric") as the Plan's Centralised Portfolio Manager for Australian Equities and Global Equities. Parametric has centralised the management of the Plan's Australian equities based on model portfolios provided by the Plan's Australian Equities managers including Ellerston Capital Limited and Independent Asset Management Pty Limited. In addition, Parametric has centralised the management of the Plan's Global Equities based on model portfolios provided by the Plan's Global Equities managers including Black Creek Investment Management Inc, Dundas Partners LLP, Lazard Asset Management Pacific Co, QS Investors LLC, Realindex Investments Pty Limited, and Southeastern Asset Management, Inc.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 4 Income Tax

The Plan has received certification from the Australian Prudential Regulation Authority confirming the Plan's complying status. Income tax is assessable at 15% on net investment earnings, employer contributions and capital gains, with deductions allowable for administrative and operational expenses.

	2014 \$'000	2013 \$'000
Major components of income tax expense for the years ended 30 June 2014 and 2013 are:		
Current income tax		
Current income tax charge	43,617	61,379
(Over)/under provision in prior year	(1,692)	(1,157)
Deferred income tax		
Relating to origination and reversal of temporary differences	75,095	45,074
Income tax expense reported in the Statement of Changes in Net Assets	117,020	105,296

A reconciliation between income tax expense and the accounting profit/(loss) before income tax multiplied by the applicable tax rate is as follows:

	2014 \$'000	2013 \$'000
Total revenue less expenses and benefits paid before income tax	689,505	630,536
At the tax rate of 15%	103,426	94,580
Adjustments:		
Benefits paid	71,656	74,333
Dividend imputation and foreign tax credits	(23,891)	(21,208)
Government co-contributions	(57)	(176)
Gross up of franked dividends and foreign tax credits	3,584	3,181
Member contributions	(7,220)	(6,545)
Non-deductible expenses	18	234
Other non-assessable income	(1,663)	(1,985)
Permanent differences arising on realised / unrealised positions	(9,980)	(12,485)
Transfers in	(5,798)	(4,221)
Over/(under) provision in prior year	(1,692)	(1,157)
Tax rate differential on capital gains / losses (Note 2(k))	(9,414)	(19,255)
Anti-detriment and notional deduction for self-insurance	(1,700)	-
Other	(249)	-
Income tax expense reported in Statement of Changes in Net Assets	117,020	105,296

Deferred tax

Deferred tax at 30 June relates to the following:

Deferred tax liability

Realised and unrealised gain on investments	(23,510)	-
Contributions receivable	(826)	(2,471)
	(24,336)	(2,471)

Deferred tax assets

Realised and unrealised loss on investments	-	52,683
Accounts payable	968	262
	968	52,945

Net deferred tax liability

	(23,368)	50,474
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Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 5 Changes in Net Market Value of Investments

	2014 \$'000	2013 \$'000
Investments held at year end		
Australian equities and managed funds	144,983	111,723
Global equities and managed funds	231,031	405,755
Australian fixed income securities	24,754	(9,752)
Global fixed income securities	10,030	47,080
Derivatives	173,227	(172,531)
Foreign exchange gains/(losses)	(420)	6,314
	583,605	388,589
Investments realised during the year		
Australian equities and managed funds	35,489	46,397
Global equities and managed funds	36,151	45,282
Australian fixed income securities	840	308
Global fixed income securities	10,177	9,737
Derivatives	(76,960)	77,840
Foreign exchange gains/(losses)	(804)	9,643
	4,893	189,207
Changes in net market value of investments	588,498	577,796

Note 6 Superannuation Contributions Surcharge

The superannuation contributions surcharge is levied on notional surchargeable contributions calculated by the Plan actuary in relation to periods from 21 August 1996 until 1 July 2005, when the surcharge was abolished. The ATO assesses the amount of the surcharge based upon each Member's adjusted taxable income and level of surchargeable contributions and periodically sends grouped assessments to the Plan. The liability to pay the surcharge rests with the holder of the surchargeable contributions at the time the surcharge assessment is received from the ATO.

The surcharge net benefit included in the Statement of Changes in Net Assets comprises:

	2014 \$'000	2013 \$'000
Superannuation surcharge instalments paid during the year	7	6
Amounts received from Members	(79)	(60)
Net superannuation contributions surcharge	(72)	(54)

Any surcharge levied against the Plan is charged to the relevant Members' benefits when the assessment is received and agreed. From 1 July 2000 the Plan has accepted payments from Members to reduce their surcharge liability. The Member's benefit is then adjusted for the reduction in their surcharge liability.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 7 Member Numbers

	2014 Number	2013 Number
Members at the beginning of the year	33,425	33,045
Plus Members admitted	2,717	5,037
Less:		
Choice of fund	(366)	(237)
Deaths	(11)	(20)
Ill health/Total and Permanent Disability	(10)	(31)
Exits	(2,261)	(4,369)
Members at the end of the year	<u>33,494</u>	<u>33,425</u>
The membership is split as follows:		
Division 1	452	540
Division 2	5,483	6,049
Division 3	6,196	6,791
Division 3a	398	577
Division 4	30	29
Division 5	622	820
Division 6	4,627	7,208
Division 7	1,213	3,279
Division 8	7,278	6,112
Division 9	468	396
Division 10	1,025	1,281
Division 11	-	128
Division 12	4	4
Division 14	216	211
Gateway	5,482	-
Members at the end of the year	<u>33,494</u>	<u>33,425</u>

Note 8 Auditor's Remuneration

	2014 \$	2013 \$
Audit services – PricewaterhouseCoopers Australia:		
Audit of financial statements and regulatory compliance	192,623	160,400
Other audit related services	33,810	64,337
Other services – PricewaterhouseCoopers Australia:		
Taxation services	257,050	280,630
Other services	8,850	73,672
	<u>492,333</u>	<u>579,039</u>

Note 9 Derivative Financial Instruments

In the normal course of business, a number of the Plan's investment managers enter into transactions in various derivative financial instruments with certain risks. A derivative is a financial instrument or other contract which is settled at a future date where value changes in response to the change in specified interest rate, equity price, commodity price, foreign exchange rate, index or prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 9 Derivative Financial Instruments (continued)

Derivative transactions include a wide assortment of instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process and are an essential part of the Plan's portfolio and risk management. The use of derivatives includes:

- Hedging to protect an asset or liability of the Plan against a fluctuation in market value or to reduce volatility;
- A substitution for exposure to physical securities; and
- Adjusting asset exposures within the parameters set in the investment strategy and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for efficient implementation and risk management, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the market exceeds the underlying value of the investments of the Plan.

The types of derivatives include:

(i) Exchange Traded Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Required margins are settled with the clearing house on a daily basis.

(ii) Exchange Traded Options

Options are contractual arrangements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the obligation to deliver securities or financial instruments under the contract. Options held by the Plan are typically exchange-traded and settled with the clearing house on a daily basis.

(iii) Forward Currency Contracts

Forward currency contracts are primarily used by the Plan to hedge foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Plan agrees to receive or deliver a fixed quantity of foreign currency for an agreed price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the reporting date. The Plan recognises a gain or loss equal to the change in fair value at the reporting date.

(iv) Over the Counter Securities

Over-the-counter securities including options and swaps are contracts that are traded directly between two parties, without going through an exchange or other intermediary. The contracts may be collateralised if arrangements are in place. Parties will be exposed to counter-party credit risk, however this can be minimised if collateral arrangements are in place.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 9 Derivative Financial Instruments (continued)

At 30 June, the notional amount and net market value of derivatives held by the Plan were as follows:

	Notional Principal Amounts \$'000	Net Market Value Assets \$'000	Net Market Value Liabilities \$'000
30 June 2014			
Australian fixed interest futures	418,091	1,236	3,726
Global fixed interest futures	622,001	1,196	744
Money market futures	1,178,163	904	45
Australian share price index futures	6,023	-	10
Global share price index futures	50,015	1,216	84
Swaps	-	50,004	45,863
Currency and equity options	1,816,359	4,895	105
Forward currency contracts	17,719*	21,633	3,913
		81,084	54,490

	Notional Principal Amounts \$'000	Net Market Value Assets \$'000	Net Market Value Liabilities \$'000
30 June 2013			
Australian fixed interest futures	194,672	1,895	490
Global fixed interest futures	299,986	2,647	2,735
Money market futures	1,599,460	360	193
Australian share price index futures	69,151	129	1
Global share price index futures	64,120	867	490
Swaps	-	28,079	32,995
Currency and equity options	647,904	2,203	787
Forward currency contracts	(147,775)*	16,866	164,641
		53,046	202,332

* Forward currency contracts are disclosed at net market value rather than the notional principal amount.

Financial assets and liabilities are offset and the net amount reported in the Statement of Net Assets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Plan has not entered into any offsetting arrangements, or master netting arrangement, so there has been no netting off reported in the Statement of Net Assets. Some derivative instruments settle on a net basis through the Statement of Net Assets in accordance with this convention, rather than through an offsetting arrangement. Under the terms of the derivative contracts where certain credit events occur (such as default), the net position owing/receivable to a single counterparty will be taken as owing and all the relevant arrangements terminated. As the Plan does not presently have a legally enforceable right to off-set, these amounts have been presented on a gross basis in the Statement of Net Assets. However, the impact of presenting them net is shown below:

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management**(a) Objectives, strategies, policies and processes**

The Plan's assets and liabilities principally consist of financial instruments, including shares in listed companies, debt securities, units in collective investment vehicles, derivative instruments and other unlisted investments. The Trustee has determined that these types of investments are appropriate for the Plan and are in accordance with the Plan's published investment strategy.

The Plan's investing activities expose it to the following risks from its use of financial instruments:

- Market risk (including price, currency and interest rate risks);
- Credit risk; and
- Liquidity risk.

This note presents information about the Plan's exposure to each of the above risks together with its objectives and processes for measuring and managing these risks. The Board has overall responsibility for the establishment and oversight of the Plan's Risk Management Framework and risk management controls. The Plan's risk management policies are established to identify and analyse the risks faced by the Plan, including those risks managed by the Chief Investment Officer (CIO), to set appropriate risk limits and controls, and to monitor risks and adhere to limits. Risk management policies and systems are reviewed regularly with support from investment advisers to reflect changes in market conditions and the Plan's activities.

The Plan acknowledges that an integral part of its good governance practice is a sound and prudent Risk Management Framework. The Plan has adopted a Risk Management Framework in accordance with APRA Prudential Standard SPS 220 *Risk Management* that includes a risk management strategy that describes the key elements of the Risk Management Framework and a risk appetite statement that covers the Trustee's business operations and each category of material risk.

The Board has established an Investment Committee, consisting of selected Board Members and the CEO with appropriate investment experience. The Investment Committee is responsible for developing and monitoring the Plan's Risk Management Framework related to investment activities. This includes oversight of investment manager allocations, evaluating their performance and providing reports to the Board. The Board has delegated responsibility to the CIO for the appointment of investment managers within agreed risk and dollar limits, with all decisions reported to the Investment Committee.

The Investment Committee receives performance and risk management reports from the CIO and, in turn, reports to the Board on its activities. Divergence from target asset allocations and the composition of the portfolio are monitored by the CIO on a regular basis. Reports from the CIO include the following:

- Investment performance against benchmarks; and
- Compliance reporting.

Furthermore, the Plan undertakes extensive due diligence to ensure investment managers have appropriate skills and expertise to manage the Plan's investments. The CIO tracks the Plan's investment value through appropriate monitoring of the market conditions and benchmark analysis.

The Plan's Audit & Risk Committee oversees how Management monitors compliance with the Risk Management Framework and its risk management policies and procedures and reviews the adequacy of the Risk Management Framework in relation to the risks faced by the Plan. The Audit & Risk Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit & Risk Committee.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management (continued)**(b) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, foreign currency risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

To mitigate market risk, the Plan diversifies investment exposures. Diversification is achieved through investment in different asset classes, and the selection of investment managers with a range of different investment processes and different investment mandates. In addition, the Plan undertakes extensive due diligence prior to the appointment of investment managers to ensure they have the appropriate expertise and skill to monitor market conditions and conduct benchmark analysis. Market risk is managed and monitored using sensitivity analysis, and minimised by ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The sensitivity of the Plan's net assets available to pay benefits (and Changes in Net Assets for the year) to price risk, currency risk and interest rate risk is measured by the "reasonably possible movements approach". This approach is determined based on Management's best estimate of volatility, having regard to a number of factors, including the standard deviation of returns, historical levels of changes in interest rates and foreign exchange rates and historical correlation of the Plan's investments with the relevant benchmarks. Overall, it is believed that the standard deviation of returns is the most appropriate measure of risk for the purposes of carrying out sensitivity analysis. The actual measure of standard deviation used for the sensitivity analysis is the long-term assumption for the expected standard deviation of an asset class or financial variable, which forms part of the long-term risk and return assumptions used for modelling. The Plan's investment consultant has assisted in developing and updating this framework.

(i) Price risk

The Plan is exposed to price risk in practically all securities, as prices in the future are uncertain. The securities are classified on the Statement of Net Assets at net market value which the Trustee believes approximates net fair value. The maximum risk is determined by the net market value of the financial instruments. Price risk sensitivity analysis is prepared on the basis of the Plan's investments across all asset classes subject to price risk. The disclosure of price risk is considered by the Trustee as a reasonable guide to the sensitivity of investments within the Plan.

The Trustee mitigates this price risk through diversification. Diversification is achieved through investment in different asset classes, geographies, and the selection of investment managers with a range of investment processes and different investment mandates. Risk management controls include valuation policies within the Investment Governance Framework and utilising the custodian to value investments and issue stale pricing reports.

Sensitivity analysis

Analysis incorporates sensitivity factors reasonably considered by the Trustee across price risk variables associated to securities to which the Plan is exposed. An increase of the weighted-average sensitivity factor of 11.9% in 2014 (2013: 15.2%) at the reporting date would increase the Plan's net assets by \$764,065,556 (2013: \$862,348,233). A decrease in the weighted-average sensitivity factor would have the equal but opposite effect assuming that all other variables remain constant.

The impact mainly arises from the reasonably possible change in the net market value of investments which has been determined based on the Trustee's best estimate having regard to a number of sensitivity factors, including the average standard deviation of annual returns on a forward looking basis and interest rate risk. The weighted-average sensitivity factor is the addition of each asset classes' net market value by the asset classes' sensitivity factor divided by the Plan's total investment portfolio, excluding cash securities.

(ii) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management (continued)

The Plan holds monetary assets denominated in currencies other than the Australian dollar, the functional currency. The Plan is exposed to foreign exchange risk, as the value of the securities denominated in non-Australian dollar currencies will fluctuate due to several factors outside the control of the Plan. The risk is measured using sensitivity analysis.

Currency risk disclosures have been prepared on the basis of the Plan's direct investments and not on a look-through basis for investments held indirectly through managed funds. Managed funds are classified according to the domicile of the managed fund, for example, an Australian managed fund would be shown under 'AUD' where a US domiciled managed fund would be classified under 'USD'. Consequently, the disclosure of currency risk in the note may not represent the true currency risk profile of the Plan where the Plan has investments in managed funds, that also have exposure to currency. Risk management controls include engagement of currency hedging managers, hedging procedures and monthly liquidity stress testing.

The table below summarises the Plan's exposure to foreign exchange risk:

30 June 2014	USD A\$'000	EUR A\$'000	GBP A\$'000	JPY A\$'000	Other A\$'000	Total Currency Exposure A\$'000	AUD A\$'000	Total A\$'000
Assets								
Cash and cash equivalents	108,964	1,481	2,080	699	5,992	119,216	714,975	834,191
Receivables	21,040	7,314	1,494	129	2,433	32,410	69,461	101,871
Investments	1,765,222	426,566	109,809	109,219	192,659	2,603,475	3,693,485	6,296,960
Other assets	-	-	-	-	-	-	-	-
Total assets	1,895,226	435,361	113,383	110,047	201,084	2,755,101	4,477,921	7,233,022
Liabilities								
Payables	12,306	4,297	1,715	1,760	2,734	22,812	120,341	143,153
Financial liabilities	8,918	2,297	1,072	589	1,697	14,573	201,814	216,387
Other liabilities	-	-	-	-	-	-	23,368	23,368
Total liabilities	21,224	6,594	2,787	2,349	4,431	37,385	345,523	382,908
Net assets available to pay benefits	1,874,002	428,767	110,596	107,698	196,653	2,717,716	4,132,398	6,850,114
30 June 2013	USD A\$'000	EUR A\$'000	GBP A\$'000	JPY A\$'000	Other A\$'000	Total Currency Exposure A\$'000	AUD A\$'000	Total A\$'000
Assets								
Cash and cash equivalents	112,381	42,525	3,145	1,679	2,641	162,371	940,222	1,102,593
Receivables	39,563	13,355	477	216	3,136	56,747	52,933	109,680
Investments	1,490,455	300,334	74,251	124,607	262,719	2,252,366	3,195,871	5,448,237
Other assets	-	-	-	-	-	-	50,474	50,474
Total assets	1,642,399	356,214	77,873	126,502	268,496	2,471,484	4,239,500	6,710,984
Liabilities								
Payables	19,447	4,092	6,157	385	272	30,353	84,756	115,109
Financial liabilities	2,943	4,071	1,135	1,983	1,998	12,130	306,116	318,246
Total liabilities	22,390	8,163	7,292	2,368	2,270	42,483	390,872	433,355
Net assets available to pay benefits	1,620,009	348,051	70,581	124,134	266,226	2,429,001	3,848,628	6,277,629

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management (continued)*Sensitivity analysis*

A strengthening of the Australian dollar against the following currencies by the factors shown in the following table as at 30 June 2014 would have decreased the net assets available to pay benefits and the net investment revenue by the amounts shown. A weakening of the Australian dollar against the following currencies by the specified percentages as at 30 June

2014 would have the equal but opposite effect by the amounts shown above, assuming that all other variables remain constant.

The analysis assumes that all other variables, in particular interest rates, remain constant. The impact mainly arises from the reasonably possible change in foreign currency rates, which has been determined based on the Trustee's best estimate having regard to a number of factors, including the standard deviation of the exchange rate between the Australian dollar and a range for foreign currencies.

	USD A\$'000	EUR A\$'000	GBP A\$'000	JPY A\$'000
30 June 2014	198,644	36,016	12,055	14,109
Currency rate risk *	10.6%	8.4%	10.9%	13.1%
30 June 2013	184,681	34,109	7,693	17,875
Currency rate risk *	11.4%	9.8%	10.9%	14.4%

* Standard deviation of annual returns, based on the Plan's forward looking, long-term assumption set.

(iii) 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 Plan's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Plan controls its interest rate exposure by using investment managers for these types of investments who diversify exposures and impose duration limits within fixed interest mandates. In accordance with its Charter, the Investment Committee monitors the Plan's overall interest rate sensitivity.

The table below summarises the Plan's exposure to interest rate risks. It includes the Plan's assets and liabilities at net market value, categorised by the maturity dates. Interest rate risk disclosures have been prepared on the basis of the Plan's direct investments and not on a look-through basis for investments held indirectly through managed funds. Managed funds are classified under 'non-interest bearing' in relation to the fixed interest maturing analysis. Consequently, the disclosure of interest rate risk in the note may not represent the true interest rate risk profile of the Plan where the Plan has investments in managed funds, some of which also have exposure to interest rates.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management (continued)

	Floating Interest Rate \$'000	Fixed interest maturing in:			Non- interest Bearing \$'000	Total \$'000
		1 year or less \$'000	Over 1 to 5 years \$'000	Over 5 years \$'000		
30 June 2014						
Assets						
Cash and cash equivalents	833,791	400	-	-	-	834,191
Receivables	41,082	-	-	-	60,789	101,871
Investments	742,772	176,320	231,189	726,556	4,420,123	6,296,960
Other assets	-	-	-	-	-	-
Total assets	1,617,645	176,720	231,189	726,556	4,480,912	7,233,022
Liabilities						
Payables	-	-	-	-	143,153	143,153
Financial liabilities	45	171,352	14,269	26,690	4,031	216,387
Other liabilities	-	-	-	-	23,368	23,368
Total liabilities	45	171,352	14,269	26,690	170,552	382,908
Net assets / (liabilities) available to pay benefits	1,617,600	5,368	216,920	699,866	4,310,360	6,850,114

	Floating Interest Rate \$'000	Fixed interest maturing in:			Non- interest Bearing \$'000	Total \$'000
		1 year or less \$'000	Over 1 to 5 years \$'000	Over 5 years \$'000		
30 June 2013						
Assets						
Cash and cash equivalents	1,102,593	-	-	-	-	1,102,593
Receivables	49,317	-	-	-	60,363	109,680
Investments	944,395	28,876	142,948	432,840	3,899,178	5,448,237
Other assets	-	-	-	-	50,474	50,474
Total assets	2,096,305	28,876	142,948	432,840	4,010,015	6,710,984
Liabilities						
Payables	-	-	-	-	115,109	115,109
Financial liabilities	503	122,732	8,041	21,482	165,488	318,246
Total liabilities	503	122,732	8,041	21,482	280,597	433,355
Net assets / (liabilities) available to pay benefits	2,095,802	(93,856)	134,907	411,358	3,729,418	6,277,629

Sensitivity analysis

To illustrate the sensitivity relating to movements in interest rates, the Trustee has reasonably considered a forward looking increase/(decrease) movement of 100 basis points in interest rates using the net market value of the portfolio. This would increase/(decrease) the net assets available to pay benefits by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management (continued)

30 June 2014	Carrying Amount \$'000	Changes in Net Assets Available to Pay Benefits / Net Assets Available to Pay Benefits	
		-100 bps \$'000	+100 bps \$'000
Cash and cash equivalents	834,191	(8,336)	8,336
Receivables	101,871	(411)	411
Investments*	6,296,960	35,561	(35,561)
Other assets	-	-	-
Total assets	7,233,022	26,814	(26,814)

30 June 2013	Carrying Amount \$'000	Changes in Net Assets Available to Pay Benefits / Net Assets Available to Pay Benefits	
		-100 bps \$'000	+100 bps \$'000
Cash and cash equivalents	1,102,593	(11,026)	11,026
Receivables	109,680	(493)	493
Investments*	5,448,237	15,916	(15,916)
Other assets	50,474	-	-
Total assets	6,710,984	4,397	(4,397)

*Sensitivity analysis is calculated on securities sensitive to interest rate movements only. A portion of total assets are not directly sensitive to interest rate movements.

(c) Credit risk

Exposure to credit risk is inherent when holding credit securities, with a counterparty default being the maximum risk for credit securities. The Plan's exposure to credit securities is predominantly within Australian and Global Fixed Income Securities. Credit risk is minimised through diversification of counterparties, investment managers and fixed income securities. In addition, all Australian and Global Fixed Income investment managers have investment mandate guidelines relating to credit risk, subject to weekly compliance monitoring by the Plan's custodian.

Credit quality by credit grade

The credit quality of securities within Australian and Global Fixed Income Securities have been rated using primarily Standard & Poor's (S&P) rating categories and other agencies where no S&P rating is given. The table below shows the credit quality by credit rating grades. Credit quality disclosures have been prepared on the basis of the Plan's direct investments within Australian and Global Fixed Income Securities and not on a look-through basis for investments held indirectly through managed funds. Consequently, the disclosure of credit quality in the note may not represent the true credit grade profile of all credit securities within the Plan.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management (continued)

Australian Fixed Income Securities	2014	2013
	\$'000	\$'000
Credit Grade		
AAA	564,793	357,595
AA	102,805	133,726
A	58,034	50,397
BBB	29,361	17,420
	<u>754,993</u>	<u>559,138</u>

Global Fixed Income Securities	2014	2013
	\$'000	\$'000
Credit Grade		
AAA	26,506	10,361
AA	8,905	3,520
A	4,452	14,750
BBB	27,567	40,274
BB	62,712	107,001
B	119,574	125,524
CCC	64,629	6,270
CC	4,396	-
D	-	3,400
Not rated	41,870	38,425
	<u>360,611</u>	<u>349,525</u>

(d) Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its financial obligations as they fall due. The Plan'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 Plan's reputation. This risk is controlled through the Plan's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Plan maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Plan limits its allocation to illiquid assets and ensures that the allocation is consistent with the intended term of investment. The Plan's membership profile coupled with the bulk of its assets being invested in highly liquid asset classes allows the Plan to tolerate the lower liquidity of some alternative investments in an expectation of higher long-term gains.

In accordance with the Plan's risk management framework, the Investment Committee monitors the Plan's liquidity position, and regularly reviews it. Compliance with the Plan's policy is reported to the Board and the Audit & Risk Committee.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management (continued)**Maturity analysis for financial liabilities**

The table below analyses the contractual maturities of the Plan's financial liabilities, excluding gross settled derivative liabilities and repurchasing agreements, based on the remaining period to the contractual maturity date at the year end.

30 June 2014	Less than 1 month \$'000	1 to 3 months \$'000	3 to 12 months \$'000	12 to 60 months \$'000	60 + months \$'000
Financial liabilities					
Benefits payable	7,768	-	-	-	-
Accounts payable	18,708	-	-	-	-
Income tax payable	-	6,655	4,870	-	-
Outstanding settlements for securities purchased	98,820	-	-	-	-
Deposits held with broker margin accounts	6,332	-	-	-	-
Repurchase agreements	161,897	-	-	-	-
Total	293,525	6,655	4,870	-	-
30 June 2013	Less than 1 month \$'000	1 to 3 months \$'000	3 to 12 months \$'000	12 to 60 months \$'000	60 + months \$'000
Financial liabilities					
Benefits payable	24,336	-	-	-	-
Accounts payable	21,771	-	-	-	-
Income tax payable	-	12,013	2,062	-	-
Outstanding settlements for securities purchased	42,020	-	-	-	-
Deposits held with broker margin accounts	12,907	-	-	-	-
Repurchase agreements	115,914	-	-	-	-
Total	216,948	12,013	2,062	-	-

Vested benefits of \$6,629,695,325 (2013: \$6,207,104,104) are excluded in the above table.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management (continued)

The following table analyses the Plan's derivative financial instruments allocated into relevant maturity groupings based on the remaining period to the contractual maturity date. The vast majority of the totals disclosed in the table relate to foreign currency forwards.

30 June 2014	Less than 1 month \$'000	1 to 3 months \$'000	3 to 12 months \$'000	12 to 60 months \$'000	60 + months \$'000
Derivatives					
Net settled derivatives	-	-	-	754	-
30 June 2013	Less than 1 month \$'000	1 to 3 months \$'000	3 to 12 months \$'000	12 to 60 months \$'000	60 + months \$'000
Derivatives					
Net settled derivatives	77,521	68,924	-	5,964	-

(e) Net fair values of financial assets and liabilities

The Plan has adopted AASB 13 Fair Value Measurement with effect from 1 July 2013. In accordance with the transitional provisions, AASB 13 has been applied prospectively from that date. As a result, the Plan has adopted a new definition of fair value, as set out below. The change had no material impact on the measurement of the Plan's assets and liabilities. However, the Plan has included new disclosures in the financial statements which are required under AASB 13 for financial reporting.

Fair value reflects the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted prices are used to determine fair value where an active market exists. If the market for a financial asset or liability is not active, fair values are estimated using present value or other valuation techniques, using inputs based on market conditions prevailing on the measurement date.

The Plan's financial assets and liabilities are carried at net market value which the Trustee believes approximates net fair value. Refer to Note 2 for the methods and assumptions adopted in determining the net market values of investments and Note 9 for derivatives.

(i) Fair value hierarchy

Financial assets and liabilities measured at net market value are categorised in accordance with the levels of the fair value hierarchy as outlined below:

- Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), for substantially the full term of the financial instrument.
- Level 3: Inputs to the valuation methodology are valuation techniques using inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table discloses the investments of the Plan according to the fair value hierarchy.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management (continued)**Fair value hierarchy**

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2014				
Investment assets				
Australian short-term deposits	358,429	-	-	358,429
Global short-term deposits	-	-	-	-
Derivative assets	4,552	76,523	9	81,084
Australian and global equities and managed funds	2,799,357	1,586,335	10,244	4,395,936
Australian and global fixed income securities	-	1,114,241	1,363	1,115,604
Money market securities	84,685	392,814	226,837	704,336
Investment income receivable & outstanding settlements for securities sold	45,670	-	-	45,670
Deposits held with brokers margin accounts	39,212	-	-	39,212
Total investment assets	3,331,905	3,169,913	238,453	6,740,271
Investment liabilities				
Derivatives liabilities	4,609	49,881	-	54,490
Outstanding settlements for securities purchased	98,820	-	-	98,820
Deposits held with broker margin accounts	6,332	-	-	6,332
Repurchase agreements	-	161,897	-	161,897
Total investment liabilities	109,761	211,778	-	321,539
Total investments	3,222,144	2,958,135	238,453	6,418,732

Level 3 money market securities are corporate promissory notes and have been classified as level 3 as they do not have market observable prices. The Trustee notes that all of these positions are short-term in nature with the majority maturing before the end of September 2014.

Fair value hierarchy

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
30 June 2013				
Investment assets				
Australian short-term deposits	297,690	-	-	297,690
Global short-term deposits	75,367	-	-	75,367
Derivative assets	5,898	47,105	43	53,046
Australian and global equities and managed funds	2,453,096	1,427,449	2	3,880,547
Australian and global fixed income securities	-	883,425	25,237	908,662
Money market securities	105,621	470,430	29,931	605,982
Investment income receivable & outstanding settlements for securities sold	40,143	-	-	40,143
Deposits held with brokers margin accounts	49,317	-	-	49,317
Total investment assets	3,027,132	2,828,409	55,213	5,910,754
Investment liabilities				
Derivatives liabilities	3,909	198,423	-	202,332
Outstanding settlements for securities purchased	42,020	-	-	42,020
Deposits held with broker margin accounts	12,907	-	-	12,907
Repurchase agreements	-	115,914	-	115,914
Total investment liabilities	58,836	314,337	-	373,173
Total investments	2,968,296	2,514,072	55,213	5,537,581

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 10 Financial Risk Management (continued)**(ii) Reconciliation of balances in the level 3 fair value hierarchy**

The following table reconciles the balances in level 3 of the fair value hierarchy for the year ended 30 June 2014:

Level 3	Derivative assets	Equity and managed funds	Fixed income securities	Money market securities
	\$'000	\$'000	\$'000	\$'000
Opening balance	43	2	25,238	29,931
Purchases	146	2,127	4,636	226,536
Sales	(190)	(42)	(10,572)	(29,931)
Reclassification from level 2 to level 3 hierarchy during the year	-	4,308	-	-
Reclassification from level 3 to level 2 hierarchy during the year	-	-	(17,805)	-
Changes in net market value	10	3,849	(134)	301
Closing balance	9	10,244	1,363	226,837

The following table reconciles the balances in level 3 of the fair value hierarchy for the year ended 30 June 2013:

Level 3	Derivative assets	Equity and managed funds	Fixed income securities	Money market securities
	\$'000	\$'000	\$'000	\$'000
Opening balance	-	4,152	-	-
Purchases	-	85	22,360	29,656
Sales	-	(3,837)	-	-
Reclassification from level 2 to level 3 hierarchy during the year	-	-	-	-
Reclassification from level 3 to level 2 hierarchy during the year	-	(398)	-	-
Changes in net market value	43	-	2,877	275
Closing balance	43	2	25,237	29,931

(iii) Sensitivity analysis of balances in level 3

For the investments assets classified as level 3 securities, the Trustee has reasonably considered sensitivity analysis based on the investments assets. An increase of the weighted-average sensitivity factor of 0.8% in 2014 (2013: 2.9%) at the reporting date would increase the Plan's net assets by \$1,867,267 (2013: \$1,599,774). A decrease in the weighted-average sensitivity factor would have the equal but opposite effect assuming that all other variables remain constant.

The impact mainly arises from the possible change in the net market value of investments which has been determined based on the Trustee's best estimate having regard to a number of sensitivity factors, including the average standard deviation of annual returns on a forward looking basis and interest rate risk. The weighted-average sensitivity factor is the addition of each asset classes' net market value by the asset classes' sensitivity factor divided by the Plan's exposure to level 3 securities.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

11 Insurance

The Plan self-insured death and disability benefits for Members of defined contribution Divisions up to 30 June 2013. These benefits were funded through the allocation of assets to reserves maintained for this purpose. On 1 July 2013 insurance for all defined contribution Divisions transferred to external insurance policies with MLC Limited. As a result the benefits were instead funded by the payment of premiums out of the assets of the Plan to MLC Limited. The current year accounts show a significant year-on-year increase in actual insurance premium expense paid and a significant reduction in the level of reserves held to cover self-insured benefits.

12 Reserves

In line with sound Plan administrative and financial practice and actuarial advice, reserves are maintained to safeguard the Plan against events such as major catastrophes, abnormal mortality experience and to monitor deviations between actual returns and amounts credited to the investment options.

The excess of the Net Assets over the amounts of these reserves represent funds held directly to pay benefits. The following is a summary of the reserves maintained at 30 June:

		2014	2013
		\$'000	\$'000
Investment fluctuation reserve	(i)	-	(7,725)
Operational risk reserve	(ii)	5,510	-
Disability reserve	(iii)	18,447	56,247
Other insurance reserves	(iii)	13,356	-
Foregone benefits reserve	(iv)	-	542
		37,313	49,064

- (i) The investment fluctuation reserve was designed to account for any deviations between the actual returns of the Plan and the amounts credited to the investment options. With the introduction of unit pricing from 1 July 2013 this reserve is no longer considered necessary.
- (ii) The operational risk reserve is designed to maintain adequate financial resources to address losses arising from operational risks that may affect the Plan within its business operations. The current ORFR Strategy was approved by the Board on 13 March 2013. It specifies that the ORFR Target Amount of 0.25% of the Plan's invested assets is to be built up within 3 years from 1 July 2013 and a Tolerance Limit is set at 80% of the ORFR Target Amount. The ORFR currently amounts to approximately \$5.51m or 0.08% of the Plan's invested assets.
- (iii) The disability reserve represented reserves to cover self-insured current and future disablement and initial incapacity claims and has been determined by the Plan actuary based on past and future experience. With the introduction of external insurance for defined contribution Members from 1 July 2013 and in anticipation of external insurance for defined benefit Members to be introduced from 1 August 2014, the requirements in respect of reserves has altered and the Plan actuary has recommended that the following reserves apply from 1 July 2013 with the balance of monies held in the disability reserve at 30 June 2013 being transferred to

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 12 Reserves (continued)

General Plan Assets. The other insurance reserves have been established to provide for self-insured incurred but not reported (IBNR) risks under the Plan and new self-insured claims arising after 1 July 2013.

	2014 \$'000	2013 \$'000
Disability reserve		
Current permanent incapacities	15,200	15,415
Current initial incapacities	3,247	6,026
New disablements	-	8,379
Possible future deterioration	-	26,427
Other insurance reserves	13,356	-
	31,803	56,247

- (iv) Benefits foregone by Division 1 Members on resignation and certain employer contributions in respect of Division 1 Members are credited to the foregone benefits reserve. The balance of the reserve as at 30 June after meeting applicable costs of Disability benefits for Division 1 Members is allocated to all Members of Division 1 as at 30 June. For the year ending 30 June 2014 the balance was nil and hence no distribution to Members has been recommended (2013: net balance as at 30 June 2013 was allocated during the year ended 30 June 2014).

	2014 \$'000	2013 \$'000
Movements in reserves		
Investment fluctuation reserve		
Opening balance	(7,725)	(7,244)
Investment fluctuation reserve allocated to Members	8,120	7,244
Current year movement	(395)	(7,725)
Closing balance	-	(7,725)
Operational risk reserve		
Transfer from General Plan Assets	5,486	-
Investment earnings	24	-
Closing balance	5,510	-
Disability reserves		
Opening balance	56,247	65,722
Transfer to assets of the plan	(35,566)	4,639
Transfer from foregone benefits reserve	467	(96)
Amounts allocated to Members during the year	(2,701)	(14,018)
Closing balance	18,447	56,247
Other insurance reserves		
Opening balance	-	-
Transfer from General Plan Assets	17,238	-
Current year movement	(3,882)	-
Closing balance	13,356	-

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 12 Reserves (continued)**Foregone benefits reserve**

Opening balance	542	546
Transfer to General Plan Assets	(529)	(540)
Plus Foregone Benefits from Division 1 Members in FY 2014	-	-
Plus 1.5% of salaries contributions for Division 1 Members in FY 2013	428	412
Plus interest	26	28
Plus transfer from/(to) disability reserves	(467)	96
Closing balance	-	542

Note 13 Related Parties**(a) Employer company**

Qantas Airways Limited is the employer, and together with the other associated employers, makes employer contributions to the Plan which are disclosed in the Statement of Changes in Net Assets. Contributions are made in accordance with the Trust Deed and Rules, as disclosed in Note 1.

Contributions receivable from the employer sponsor and associated employers as at 30 June 2014 (and received subsequent to that date) amounted to \$13,704,783 (2013: \$17,564,986).

The Plan contracts with Qantas Airways Limited for office accommodation, use of office equipment and certain administrative services, which are provided on an arms-length basis. Cost recoveries paid to the employer sponsor for these services and reimbursement of staff salaries of \$4,713,350 (2013: \$4,357,953) are included in administration expenses in the Statement of Changes in Net Assets.

At 30 June 2014 the Plan held investments in Qantas Airways Limited to the value of \$6,063,351 (2013: \$10,777,336). These investments have been made independent of the Trustee by underlying investment manager(s).

The Plan also paid \$139,067 (2013: \$126,327) for the supply of trustee services on behalf of the Trustee.

(b) Trustee and Key Management Personnel

The Trustee of the Plan is Qantas Superannuation Limited (ABN: 47 003 806 960). The names of the persons who were Directors of the trustee company up to the date of this report are:

Employer appointed:

Cosgrove, P (resigned 28 January 2014)
 Costello, P (appointed 26 May 2014)
 Lonergan, K (appointed 15 July 2014)
 Grantham, N
 Macfarlane, R
 Scriven, J (resigned 15 July 2014)
 Ward, A (Chairman)

Member elected:

Gillies, K
 Manning, G
 Pagden, C
 Sipek, J
 Thorpe, M

The Directors of Qantas Superannuation Limited are Key Management Personnel (KMP) for the purposes of AASB 124 *Related Party Disclosures*. In addition to the Directors, J Perry (Chief Executive Officer) and A Spence (CIO) are also KMPs.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 13 Related Parties (continued)

The Trustee has a licence from the Australian Prudential Regulation Authority. Its RSE licence was granted on 27 April 2006 (licence no L0002257).

(c) Remuneration of Key Management Personnel

The remuneration of KMP paid is set out below:

	2014	2013
	\$'000	\$'000
Short-term benefits	1,282	1,362
Post-employment	33	33
	1,315	1,395

(d) Trustee related transactions

The Trustee Directors, with the exception of A Ward, P Cosgrove and P Costello, receive no remuneration from the Plan or its related parties in connection with the management of the Plan. All Directors of the Trustee except A Ward and P Cosgrove are also Members of the Plan and made contributions to the Plan on an arms-length basis.

The membership terms and conditions, contributions and benefit entitlements for the Directors of the Trustee who are also Members of the Plan are determined in accordance with the Trust Deed and Rules on the same basis available to other Members of the same Divisions of the Plan.

(e) Other related parties – direct holdings and associates

The Plan holds four sole purpose investment vehicles which are recorded at net market value:

	% Interest	2014	% Interest	2013
		\$'000		\$'000
Q Infrastructure Trust	100	227,184	100	203,497
QPET	100	286,433	100	243,589
Q Infrastructure Yield Trust	100	117,431	100	86,938
QAIF Limited	100	47,441	100	18,096
Total direct holdings and associates		678,489		552,120

The above tables list the net fair value and the percentage interest of each investment asset as at 30 June 2014. The maximum exposure to loss is limited to the net fair value of each investment asset. The net fair value will potentially change on a daily basis throughout the period and in subsequent periods and will cease once the investments are disposed. The investments of the Plan are managed in accordance with the investment mandates with the respective underlying investment managers. The investment decisions of the Plan are made by the investment managers based on their analysis and the investment guidelines provided to them by the Plan. The return of the Plan is exposed to the variability of the performance of the underlying investment assets. The underlying investment managers receive a management fee for undertaking the management of these investments.

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 14 Contingent Assets and Liabilities and Commitments

There were no contingent assets and liabilities as at 30 June 2014 (30 June 2013: nil).

The Plan had the following investment commitments:

Undrawn Commitments	2014 \$'000	2013 \$'000
Infrastructure Debt	7,292	39,579
Infrastructure Equity	43,697	81,500
Private Equity	28,020	70,192
Credit	42,111	71,344
	121,120	262,615

Note 15 Guaranteed Benefits

No guarantees have been made in respect of any part of the liability for accrued benefits.

Note 16 Administration expenses

Administration expenses comprise payments of staff, board, finance, operations, Member services, legal, risk & compliance and other operating expenses. The increase in administration expenses is largely attributable to the fee rates agreed with the new Plan administrator. The fee rates that applied to the previous administrator were due for review and the increased administration expenses reflect a shift from the historical fee rates under the previous contract to market based fees, as well as additional expenses incurred to meet the enhanced APRA reporting requirements and other compliance related costs. It is noted that the fees under the new administration arrangements cover additional Member offerings such as general and intra fund financial planning advice.

Note 17 Termination of Plan

Article 4.1 of the Plan's Trust Deed and Rules states:

- 4.1 (a) The Plan shall be wound up as provided in this Rule upon the happening of any of the following events:
- if the Trustee shall consider that the Plan is insolvent or if it shall be advised by the Actuary that the Plan is insolvent and it resolves to terminate the Plan; or
 - if the Principal Company decides that it will permanently cease contributing to the Plan; or
 - if an order is made or an effective resolution is passed for the winding up of the Principal Company other than for the purpose of amalgamation or reconstruction.
- 4.2 (b) In such events the Trustee shall give notice in writing to the Company and the Members that the Plan shall terminate on a specified date, (the "Termination Date"). As from the Termination Date the following shall apply:
- no further contributions shall be made by the Company and the Members other than arrears of contributions due up to the Termination Date, and
 - any arrears of contributions shall be paid forthwith.

Note 18 Vested Benefits and Net Assets

Vested benefits are benefits which are not conditional upon continued membership of the Plan (or any factor other than resignation from the Plan) and include benefits which Members were entitled to receive had they terminated their Plan membership as at the reporting date.

	2014 \$'000	2013 \$'000
Vested Benefits	6,629,695	6,207,104
Net Assets Available to Pay Benefits	6,850,114	6,277,629

Notes to and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2014

Note 19 Funding Arrangements

The funding policy adopted in respect of the Plan is directed at ensuring that benefits accruing to Members and beneficiaries are fully funded as the benefits fall due. As such, in advising the Trustee on employer and Member contribution rates, the actuary has considered the long-term trends in such factors as Plan membership, salary growth and the market value of Plan assets.

The rates of employer and employee contributions vary depending on numerous factors and the nature of the benefits are explained in full in the Plan's Trust Deed and Rules. Employer contributions have been made at the rates recommended by the actuary.

Total employer contributions (including additional funding) for the year ending 30 June 2014 were \$283,394,408 (2013: \$295,790,894). As at 30 June 2014 there was a surplus of net assets compared to vested benefits of the Plan (details of the vested benefits are referred to in Note 18). On 8 May 2013 the Board of the Trustee approved a refreshed Additional Funding Plan (AFP) that addresses the requirements of the new APRA Prudential Standard SPS 160 *Defined Benefit Matters*. The new AFP applies for a period of three years effective from 1 July 2013. It is subject to renewal every three years as part of the triennial actuarial review of the Plan. For the year ending 30 June 2014 Qantas Airways Limited has contributed \$10,600,000 of additional funding which was recognised as employer contribution revenue in Statement of Changes in Net Assets (for the year ending 30 June 2013: \$27,900,000).

The Plan's financial position is monitored by the Trustee each quarter and the actuary determines the amounts of additional contributions to be made each quarter, as required under the funding plan. Confirmation of the AFP was provided to the Australian Prudential Regulation Authority.

Note 20 Actuarial Report and Accrued Benefits

The value of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Plan up to the date of the actuarial review. The value of accrued benefits is calculated by the actuary at least on a triennial basis as part of a comprehensive actuarial review. The present value reported has been determined using the actuarial assumptions derived for the actuarial review.

	2013 \$'000	2010 \$'000
Accrued benefits as at 1 July	5,949,755	5,348,427

Also attached to these financial statements is the report by the Plan actuary summarising the results of that actuarial review of the Plan.

The main assumptions used to determine the actuarial value of accrued benefits at the last review date were:

- The future rate of investment return (net of investment taxes and net of investment management fees) earned on the Plan's assets would be 6.75% p.a.;
- The future rate of salary inflation would be 3.5% p.a.; and
- The long-term rate of consumer price index would be 2.5% p.a..

Note 21 Events Occurring After the Balance Sheet Date

On 1 August 2014 insurance for all defined benefit Divisions transferred from self-insurance cover to external insurance policies with MLC Limited. This change reduces risk for the Plan.

There have been no other significant subsequent events arising in the interval between the end of the financial year and the date of this report. All transactions or events of a material and usual nature likely to affect significantly the operations of the Plan are included in this report.

Trustee's Statement

In the opinion of the Trustee:

- (a) the financial statements set out on schedules 1 to 3 are drawn up so as to present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the Net Assets of Qantas Superannuation Plan (the Plan) as at 30 June 2014 and the Changes in its Net Assets for the year then ended;
- (b) the financial statements are prepared in accordance with the requirements of the Trust Deed dated 1 June 1939, as amended and the Superannuation Industry (Supervision) Act 1993 and Regulations; and
- (c) the Plan has complied in all material aspects, with the requirements of the Trust Deed dated 1 June 1939, as amended, and with the applicable provisions of the Superannuation Industry (Supervision) Act 1993 and Regulations and Corporations Act 2001 and Regulations during the year ended 30 June 2014.

This statement is made in accordance with a resolution of the Directors of the Trustee, Qantas Superannuation Limited (ABN 47 003 806 960).


Director
Director

29 October 2014



Qantas Superannuation Plan (ABN: 41 272 198 829) Report by the RSE Auditor to the trustee and members

Financial statements

I have audited the financial statements of Qantas Superannuation Plan for the year ended 30 June 2014 comprising the Statement of Net Assets, Statement of Changes in Net Assets, summary of significant accounting policies and other explanatory notes.

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 ¹ 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.

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 trustee and members of Qantas Superannuation Plan.

My audit has been conducted in accordance with Australian Auditing Standards ². 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 controls. 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.

¹ The Australian Accounting Standards issued by the Australian Accounting Standards Board

² The Australian Auditing Standards as issued by the Auditing and Assurance Standards Board

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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 Qantas Superannuation Plan as at 30 June 2014 and the changes in net assets for the year ended 30 June 2014

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written over the printed name.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'David Coogan', written over the printed name.

David Coogan
Partner

Sydney
29 October 2014

ACTUARIAL STATEMENT FOR THE PURPOSES OF AUSTRALIAN ACCOUNTING STANDARD AAS 25

QANTAS SUPERANNUATION PLAN (THE PLAN)

REPORTING PERIOD ENDED 30 JUNE 2013

This statement has been prepared at the request of the Trustee of the Plan, Qantas Superannuation Limited and sets out the value of Accrued Benefits and other actuarial information required under AAS 25, for disclosure in the financial statements of the Plan. The method and assumptions used are specifically for determining AAS 25 disclosure information and the results should not be used for any other purpose without the prior consent from the Plan's Actuary.

ACTUARIAL STATEMENT FOR AAS 25 PURPOSES

Assumptions

The assumptions used to calculate Accrued Benefits were the same as for the actuarial investigation of the Plan as at 1 July 2013.

The financial assumptions used are summarised as follows:-

Discount Rate -	6.75% p.a.
Future Salary Increases -	3.50% p.a.

The discount rate of 6.75% pa is considered to be a market determined, risk adjusted rate based on a reasonable expectation of actual future Plan returns over the average expected term of the benefit liabilities, calculated to be about 10 years, in the light of the Plan's present investment strategy and taxation position.

All other assumptions used for the purpose of this investigation are best estimate assumptions, with no allowance for conservatism.

Accrued and Vested Benefits

AAS 25 requires the disclosure of Accrued and Vested Benefits at the reporting date. The table below shows the amounts determined for the purposes of AAS 25, together with the market value of assets:

Reporting Date	Accrued Benefits \$ million	Vested Benefits \$ million	Market Value of Assets \$ million
1 July 2013	5,949.8	6,230.9	6,277.6

"Accrued Benefits" have been determined as the present value of expected future benefit payments which arise from membership of the Plan up to the reporting date.

"Vested Benefits" are benefits which the Plan would be required to pay if all members were to voluntarily leave employment on the reporting date.

The Accrued Benefits were calculated in a manner consistent with Guidance Note 454 and Professional Standard 402 issued by the Institute of Actuaries of Australia.

SUMMARY OF ACTUARIAL REPORT

As the Actuary to the Qantas Superannuation Plan, I conducted the latest actuarial investigation of the Plan as at 1 July 2013. The results of that investigation were presented in my report dated 30 January 2014. The following is a summary of that report.

The next actuarial investigation is scheduled for no later than 1 July 2016.

Membership

At 1 July 2013 there were 33,340 members of the Plan. This compares with 32,730 members as at the previous actuarial investigation date of 1 July 2010.

Assets

The net market value of assets at 30 June 2013 was \$6,277.6 million.

For the purpose of the actuarial investigation, the present value of accrued liabilities was compared to the net market value of assets.

Plan Experience

The main features of the Plan's experience over the three years to 30 June 2013 were:

- The investment performance of the Plan of 7.84% p.a. was higher than the rate of 7.00% p.a. assumed for the three years to 30 June 2013. Considered in isolation, this resulted in a better than expected financial position of the Plan;
- Inflationary salary increases excluding promotional increases averaged around 3.5% per annum for Plan members which was lower than the rate of 4% assumed in the 2010 actuarial investigation and resulted in an improvement in the financial position of the Plan;
- The overall rate of staff turnover prior to age 55 was generally in line with expectations and did not have a material impact on the Plan's financial position. However retirements were less than expected which had a positive effect on the financial condition of the Plan.
- There was a total of 2,530 redundancy payments which were not explicitly anticipated in the 2010 actuarial investigation. However the additional employer contributions required under the Plan's Additional Funding Plan in respect of redundancies meant this did not adversely affect the Plan's financial condition.

Overall, the total effect of the Plan's experience during the period of the investigation was to improve the financial condition of the Plan (measured in the same way as in the 2010 investigation; that is, actuarial value of assets less the present value of accrued benefit liabilities).

Actuarial Funding Method

The Projected Unit Credit (PUC) funding method adopted for the 2010 actuarial investigation of the Plan was again used for the 2013 actuarial investigation.

The PUC funding method is an accrued benefit funding method. Under this method, the surplus or deficit in the Plan is equal to the difference between assets and the present value of future liabilities for benefits accrued to the date of the valuation (the accrued benefit liabilities). The recommended annual contribution rates are then made up of:

- The cost of benefits for the year of service immediately following the valuation date (the Normal Cost); and
- An adjustment to the Normal Cost to take account of any over or under funding of accrued benefits at the investigation date.

Actuarial Assumptions – Defined Benefit (DB) divisions

The key financial assumptions used for the 2013 actuarial investigation were a long-term net investment earnings rate of 6.75% per annum and a long-term inflationary salary increase rate of 3.5% per annum. At the previous investigation these assumptions were 7.0% per annum and 4.0% per annum respectively. Hence the "gap" between the assumed investment earnings rate and the assumed inflationary salary increase rate has increased slightly from 3.0% per annum to 3.25% per annum.

For DB divisions where the Company pays for non-investment expenses, the allowance for non-investment expenses was adjusted from 0.45% of total future salaries of Division 2, 3 and 4 members at the previous actuarial investigation, to 0.50% of total future salaries, to reflect higher costs under the increased regulatory regime now applying to superannuation funds.

The other assumptions required for the valuation (including demographic assumptions and the assumptions regarding promotional salary increases, expenses and the like) were reviewed and remained appropriate with the following exceptions;

- Retirement assumptions were adjusted to more closely reflect the experience of the Plan with more members observed to be retiring at older ages than previously assumed,
- Rates of resignation for Flight Attendants were reduced to reflect the observed experience of this membership group, and
- The allowance in the recommended Division 3 contribution rate for the cost of providing the disability benefit was increased from 0.1% to 0.135% of salaries.

Valuation Results

The actuarial investigation of the Plan at 1 July 2013 revealed total accrued benefit liabilities of \$5,949.8 million. Using this measure, there is an actuarial surplus of \$327.9 million. The actuarial value of Defined Benefit assets represented 105.5% of the accrued benefit liabilities, which indicated that the Plan was in a sound long term financial position on a going concern basis.

At 1 July 2013 the market value of total Plan assets was 100.7% of vested benefits. The corresponding ratio in respect of Defined Benefit liabilities only (the DB VBI) was 102.3%.

Recommendations

The actuarial investigation recommended that Company contributions to the Plan to provide for defined benefits be equal to the Normal Costs determined on a category by category basis, as described in the following table:

Group	Contribution Rate % of salary
Division 2 (Category A)	11.1%
Division 2 (Category B)	12.7%
Division 2 (Category C)	11.9%
Division 3	11.1%
Division 4	6.3%
Division 12	0.0%

In addition the Company contributes such additional amounts as specifically required by the Trust Deed and Rules or as agreed with individual members.

In addition to the position reported above, the Actuary projected the Plan's ongoing ability to meet both Accrued and Vested Benefits over the three years following the date of the investigation. This was undertaken on the basis that:

- the actuarial assumptions as to investment, salary inflation and membership turnover would apply over the next three years;
- the employer(s) will contribute to the Fund at the recommended rate over the next three years.

In the light of the projections, it is anticipated that Vested Benefits and Accrued Benefits will be covered by Plan assets at the end of the three years following the date of the investigation.

Insurance Reserves

The self insurance arrangements of the Plan were also reviewed as part of the actuarial valuation, having regard to the decisions to outsource insurance for defined contribution members from 1 July 2013. As a result of this change the recommended level of insurance reserves of the Plan was reduced by \$18.76m to \$37.49m. It was further recommended that for the purpose of assessing the Plan's DB VBI, an amount of \$27.95m in respect of insurance reserves be recognised as a liability of the Plan.

Additional Funding Plan

The Plan has had an Additional Funding Plan (the AFP) in place since 1 April 2009 which requires additional contributions to be paid by the Company at times when the Plan is in an unsatisfactory financial position or where there is a funding strain in respect of Redundancy payments. During the three years to 30 June 2013 a total of \$77.95m was paid by the Company under the requirements of the AFP. The 2009 AFP was reviewed in 2013 and has three contribution components, and can be summarised as follows:

- (a) Fixed additional contributions depending on the VBI position as measured at the end of each quarter; and
- (b) Variable additional contributions payable quarterly, dependent on the VBI position and the size of benefit payments from the Plan over the previous quarter; and
- (c) Retrenchment additional contributions dependent upon the excess of redundancy benefits above the VBI position measured at the end of the quarter.

An important element of the AFP which is a key element by which the Trustee and the Company meet the APRA requirements of Prudential Standard SPS 160, is the quarterly monitoring program, conducted by the Actuary. The Trustee and the Company are aware that any significant changes to the VBI may require adjustments to the contributions required under the AFP. This monitoring program was incorporated into the existing quarterly "trigger events" monitoring program which had been in place for some time.

Other Matters

During the three years to 30 June 2013, the Plan self-insured the majority of its major risks in regard to benefits in excess of the actuarial reserve payable on death or disability. A catastrophe insurance contract was maintained to limit the overall exposure to severely adverse experience, with the Plan self-insuring the deductible of \$5 million and all disability income risks. As stated in the actuarial valuation report, the self-insured risks are quite acceptable for a plan of the size of the Qantas Superannuation Plan, while the catastrophe insurance provides very cost-effective protection against severely adverse experience.

I further note that the Plan will effectively cease to self-insure new death and disability risk in respect of Defined Contribution members from 1 July 2013 and Defined Benefit members from 1 August 2014.

Yours sincerely,



Tony Miller, FIAA
Director, Russell Actuarial
Actuary to the Qantas Superannuation Plan

30 September 2014