2017 Annual Report

Part B – Financial Statements

For the year ended 30 June 2017
Issued: September 2017

QSuper

Contents

Important information

This Report is made up of two parts – Part A and Part B that together form the *2017 Annual Report*. The *2017 Annual Report* forms part of what is officially known as your annual statement, and must be read in conjunction with your 2017 Member Benefit Statement which consists of *Your 2017 Super Statement*, *Your 2017 Super Transactions* and *Your 2017 Super Notes*.

This report and the QSuper products held by you are issued by the QSuper Board (ABN 32 125 059 006, AFSL 489650) as trustee for QSuper (ABN 60 905 115 063).

When we say 'we' or 'us' or 'our' and 'the QSuper Group' we're referring to the QSuper Board, QInvest Limited (QInvest) (ABN 35 063 511 580, AFSL 238274), QInsure Limited (QInsure) (ABN 79 607 345 853, AFSL 483057) and QSuper Limited (ABN 50 125 248 286, AFSL 334546).

Key highlights

Operating and financial review for the year

Principal activities

QSuper (formerly known as the State Public Sector Superannuation Scheme) was established by the *Superannuation (State Public Sector) Act 1990* to provide benefits for current and former Queensland public sector employees and employees of Queensland Government entities, such as departments, statutory bodies and government-owned enterprises. QSuper consists of Defined Benefit, Accumulation and Income accounts.

$5.17 billion in revenue – $0.3 billion in expenses = $4.87 billion net profit

A total of $5.17 billion was earned from investments during the year, with a total of $299 million in expenses recognised.

This contributed to a net investment profit before income tax of $4.87 billion for the year from superannuation activities.

$95.24 billion in total assets

Total assets of $95.24 billion were offset by total liabilities of $1.24 billion to arrive at net assets available for member benefits of $93.99 billion at 30 June 2017.

Total assets were predominantly made up of unlisted unit trusts of $34.27 billion, Australian and international equities of $21.76 billion and employer-sponsor receivables of $21.77 billion.

Total equity of $1.24 billion

Total equity comprises General Reserve $894 million, Operational Risk Financial Requirement Reserve $181 million, Unallocated Contributions Reserve $16 million and Insurance Reserve $153 million.

Welcoming new members

For over 100 years, Queensland Government employees have enjoyed the benefits of QSuper membership. Following changes to constituent legislation, the QSuper Deed and licensing being granted by the Australian Prudential Regulation Authority (APRA), QSuper became a public offer fund on 1 July 2017. QSuper is now welcoming new members to join QSuper and Queensland Government employees are able to exercise choice in selecting a superannuation fund.

Statement of financial position

As at 30 June 2017

Assets	Note	2017 $m	2016 $m
Cash and cash equivalents	2	3,449	4,615
Equities	2	21,756	17,477
Listed trusts	2	1,044	1,122
Derivative assets	2	422	565
Other interest bearing securities	2	12,021	11,955
Unlisted unit trusts	2	34,270	28,961
Receivables		196	1,311
Investments in service providers		306	102
Employer-sponsor receivables	10	21,774	22,937
Total assets		**95,238**	**89,045**

Liabilities			
Payables		(157)	(173)
Derivative liabilities	2	(314)	(102)
Current tax liabilities		(134)	(215)
Deferred tax liabilities	3	(494)	(538)
Insurance liabilities		(145)	(304)
Total liabilities excluding member benefits		**(1,244)**	**(1,332)**
Net assets available for member benefits		**93,994**	**87,713**
Defined contribution member liabilities	10, 11	(65,243)	(58,545)
Defined benefit member liabilities	10, 11	(27,507)	(28,173)
Total member liabilities		**(92,750)**	**(86,718)**
Net assets		**1,244**	**995**

Equity			
Reserves	4	1,244	995
Total equity		**1,244**	**995**

The above Statement of financial position should be read in conjunction with the accompanying notes.

Income statement

For the year ended 30 June 2017

Superannuation activities	Note	2017 $m	2016 $m
Dividends and distributions		2,760	3,420
Changes in fair value of investments		2,251	1,141
Interest income		161	105
Total net income		**5,172**	**4,666**
Direct investment expenses		(114)	(79)
Administration fee		(159)	(147)
Financial planning fee		(17)	(18)
Other expenses		(9)	(8)
Total expenses		**(299)**	**(252)**
Net result from insurance activities	6	(7)	37
Results from superannuation activities before income tax expense		**4,866**	**4,451**
Income tax expense	3	(22)	(182)
Results from superannuation activities after income tax expense		**4,844**	**4,269**
Net benefits allocated to defined contribution members		(3,896)	(3,937)
Net change in defined benefit member benefits		(814)	(369)
Operating result after income tax		**134**	**(37)**

The above Income statement should be read in conjunction with the accompanying notes.

Statement of changes in member benefits

For the year ended 30 June 2017

	Note	Defined Contribution (DC) (i.e. Accumulation) member benefits $m	Defined Benefit (DB) member benefits $m	Total $m
Opening balance as at 1 July 2016		**58,545**	**28,173**	**86,718**
Employer contributions		2,981	1,970	4,951
Member contributions		1,564	124	1,688
Transfers from other superannuation entities		1,316	19	1,335
Income tax on contributions		(370)	(300)	(670)
Net after tax contributions		**5,491**	**1,813**	**7,304**
Benefits to members		(4,015)	(299)	(4,314)
Insurance premiums charged to members' accounts		(437)	(4)	(441)
Internal transfers	10	1,766	(1,766)	-
Superannuation contributions surcharge		(2)	1	(1)
Transfer to/(from) reserves:				
Net administration fees		(106)	(62)	(168)
Other		1	-	1
Death & disability amounts received for members		104	-	104
Net benefits allocated to DC member accounts		3,896	-	3,896
Net change in member benefits to be funded by employer		-	(1,163)	(1,163)
Net change in DB member benefits		-	814	814
Closing balance as at 30 June 2017		**65,243**	**27,507**	**92,750**
Opening balance as at 1 July 2015		**52,458**	**30,649**	**83,107**
Employer contributions		2,575	1,928	4,503
Member contributions		993	121	1,114
Transfers from other superannuation entities		1,121	18	1,139
Income tax on contributions		(382)	(286)	(668)
Net after tax contributions		**4,307**	**1,781**	**6,088**
Benefits to members		(3,303)	(307)	(3,610)
Insurance premiums charged to members' accounts		(401)	(6)	(407)
Internal transfers	10	1,615	(1,615)	-
Superannuation contributions surcharge		(2)	1	(1)
Transfer (to)/from reserves:				
Net administration fees		(89)	(57)	(146)
Death & disability amounts received for members		23	-	23
Net benefits allocated to DC members accounts		3,937	-	3,937
Net change in member benefits to be funded by employer		-	(2,642)	(2,642)
Net change in DB member benefits		-	369	369
Closing balance as at 30 June 2016		**58,545**	**28,173**	**86,718**

The above Statement of changes in member benefits should be read in conjunction with the accompanying notes.

Statement of changes in reserves

For the year ended 30 June 2017

	Note	General Reserve $m	Unallocated Contribution Reserve $m	Insurance Reserve $m	Operational Risk Financial Requirement Reserve $m	Total Reserves $m
Opening balance as at 1 July 2016		**619**	**16**	**196**	**164**	**995**
Transfer from DC member accounts		106	(1)	-	-	105
Transfer from DB member accounts		62	-	-	-	62
Reserves transfer		90	-	(96)	6	-
Insurance premium margin	6	(106)	-	-	-	(106)
Operating result		123	1	(1)	11	134
Rebate receivable		-	-	54	-	54
Closing balance as at 30 June 2017		**894**	**16**	**153**	**181**	**1,244**
Opening balance as at 1 July 2015		**624**	**13**	**99**	**150**	**886**
Transfer from DC member accounts		89	-	-	-	**89**
Transfer from DB member accounts		57	-	-	-	**57**
Reserves transfer		(1)	-	(1)	2	**-**
Operating result		(150)	3	98	12	**(37)**
Closing balance as at 30 June 2016		**619**	**16**	**196**	**164**	**995**

The above Statement of changes in reserves should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2017

Cash flows from operating activities	Note	2017 $m	2016 $m
Interest received		135	86
Insurance claims received		105	23
Dividends and trust distributions received		3,791	3,407
Other revenue		187	43
Insurance premiums paid		(528)	(104)
Other general administration expenses		(319)	(333)
Income tax paid		(816)	(710)
Net inflow of cash from operating activities	**5**	**2,555**	**2,412**

Cash flows from investing activities		
Purchase of investments	(18,505)	(15,669)
Proceeds from sale of investments	11,296	2,498
Net outflow of cash from investing activities	**(7,209)**	**(13,171)**

Cash flows from financing activities		
Employer contributions received	4,951	4,579
Member contributions received	1,688	1,123
Transfers from other superannuation funds	1,335	1,139
Benefits paid	(4,487)	(3,817)
Net inflow of cash from financing activities	**3,487**	**3,024**

Net decrease in cash held	(1,167)	(7,735)
Cash at the beginning of the financial year	**4,615**	**12,359**
Effects of FX rate changes on cash and cash equivalents	1	(9)
Cash at the end of the financial year	**3,449**	**4,615**

The above Statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2017

Note 1 General information

This section outlines the basis on which the financial statements have been prepared and provides assessment on new accounting standards that impact the financial statement disclosure. This section also outlines significant events and transactions that occurred during and subsequent to the year end.

Operation of QSuper

QSuper (previously known as the State Public Sector Superannuation Scheme) was established by the *Superannuation (State Public Sector) Act 1990* to provide benefits for current and former employees of Queensland Government entities, such as departments, statutory bodies and government owned enterprises and their spouses. QSuper consists of Defined Benefit, Accumulation and Income accounts.

The Defined Benefit account was closed to new members from 12 November 2008. Current members with a Defined Benefit account are able to maintain their existing benefits until they decide to retire, transfer to an Accumulation account or leave their current employment. Defined Benefit account members who transfer between eligible QSuper employers and have a break in service of less than one month are permitted to continue contributing to their Defined Benefit account.

During the financial year, superannuation administration was undertaken by QSuper using services from QSuper Limited (QSL), QInvest Limited (QIL), One QSuper Pty Ltd (OneQ), QSuper Asset Management Pty Ltd (QAM), QInsure Limited (QInsure).

The registered office of QSuper is 70 Eagle Street, Brisbane QLD 4000.

Statement of compliance

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

The financial report of QSuper for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Trustees on the same date as the signing of the Trustees' Report.

The financial statements have been prepared on the basis required by AASB 1056 *Superannuation Entities*, which provides specific measurement requirements for assets and liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The financial statements have been prepared on an accrual and going concern basis. Valuations of investments are measured in accordance with AASB 1056 at fair value.

The financial statements are presented in Australian dollars, which is the functional currency of QSuper.

New accounting standards and interpretations

New standards and interpretations adopted during the year

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

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

Standards and interpretations in issue not yet adopted

AASB 9 *Financial Instruments*

AASB 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published. This supersedes AASB 9 (issued in December 2009 – as amended) and AASB 9 (issued in December 2010).

AASB 9 is not expected to have a material impact on the financial statements of QSuper given the current classification of financial instruments will not materially differ as a result of the application of the new standard.

AASB 15 *Revenue from Contracts with Customers*

This standard is not expected to significantly impact the financial statements of QSuper, however management will continue to assess any potential impact in the future.

AASB 16 *Leases*

This standard is not expected to impact the financial statements as QSuper has not directly entered into any lease arrangements as either lessor or lessee.

Adoption of AASB 1056 *Superannuation Entities* (AASB 1056)

The Australian Accounting Standards Board issued AASB 1056 in June 2014. The new standard replaces AAS 25 *Financial Reporting by Superannuation Plans* (AAS 25) and is applicable retrospectively from financial periods beginning on or after 1 July 2016.

The purpose of this new standard is to align accounting and financial reporting requirements for superannuation entities with current requirements of Australian Accounting Standards. QSuper has applied the requirements of AASB 1056 for the first time in the current year which has resulted in the following changes:

- the presentation format of the financial statements changed from two primary financial statements to five as follows:
  - Statement of financial position
  - Income statement
  - Statement of changes in member benefits
  - Statement of changes in reserves
  - Statement of cash flows.
- the measurement of financial assets and liabilities changed from 'net market value' to 'fair value'. This change in measurement did not materially impact the carrying value of financial assets and liabilities reported by QSuper
- member benefits are recognised as liabilities rather than equity in the Statement of financial position, resulting in the recognition of a corresponding employer-sponsor receivable for the unfunded portion of Defined Benefit liabilities
- disclosure of specific insurance related metrics including profit and loss
- contributions, rollovers and other inward transfers and benefits paid to members are not income or expenses but are instead presented in the Statement of changes in member benefits.

In accordance with the transitional provisions of AASB 1056, QSuper has not presented a Statement of financial position as at the beginning of comparative period (1 July 2015).

Adoption of AASB 1056 *Superannuation Entities* (AASB 1056) (continued)

(i) Statement of financial position

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

Statement of financial position	30 June 2016 balance previously reported $m	Transition adjustment $m	Restated 30 June 2016 $m
Assets			
Cash and cash equivalents	3,641	974	4,615
Equities	17,415	62	17,477
Listed trusts	1,118	4	1,122
Derivative assets	565	-	565
Margin accounts	844	(844)	-
Other interest bearing securities	11,955	-	11,955
Unlisted unit trusts	28,961	-	28,961
Investments in service providers	102	-	102
Cash	130	(130)	-
Contributions receivable	84	(84)	-
Receivables	1,311	-	1,311
Employer-sponsor receivable	-	22,937	22,937
Liabilities			
Payables	(185)	12	(173)
Derivative liabilities	(102)	-	(102)
Current tax liabilities	(215)	-	(215)
Deferred tax liabilities	(549)	11	(538)
Self-Insurance tail liabilities	-	(304)	(304)
Defined contribution member liabilities	-	(58,545)	(58,545)
Defined benefit member liabilities	-	(28,173)	(28,173)
Equity			
Reserves	1,299	(304)	995
Accumulated member funds	63,777	(63,777)	-

(ii) Income statement

The adoption of AASB 1056 requires contributions, rollovers and other inward transfers and benefits paid to members to be recognised separately in the Statement of changes in member benefits. This includes income tax relating to contributions which are now presented separately in the Statement of changes in member benefits. The net changes in member benefits are recognised in the Income statement. Insurance premiums paid by QSuper are no longer recognised in the Income statement, and are instead recognised in the Statement of changes in member benefits.

Income statement	30 June 2016 balance previously reported $m	Transition adjustment $m	Restated 30 June 2016 $m
Dividends and distributions	3,443	(23)	3,420
Changes in fair value of investments	1,075	66	1,141
Interest revenue	105	-	105
Employer contributions	4,575	(4,575)	-
Member contributions	1,125	(1,125)	-
Transfers from other funds	1,139	(1,139)	-
Benefits paid	(3,819)	3,819	-
Administration fee	(179)	32	(147)
Direct investment expenses	(79)	-	(79)
Insurance premiums	(104)	104	-
Financial planning fee	(18)	-	(18)
Other expenses	(10)	2	(8)
Income tax expenses	(860)	678	(182)
Net benefits allocated to defined contribution members	-	(3,937)	(3,937)
Net change in defined benefit member benefits	-	(369)	(369)

(iii) Statement of cash flows

The adoption of AASB 1056 has required QSuper to prepare a Statement of cash flows for the first time. Contributions received and benefits paid are treated as financing activities.

(iv) Other disclosures

Apart from the above, AASB 1056 also introduces the following changes, where no financial impact has been identified for the financial period presented:

- requirement to re-measure Defined Benefit liabilities at each period end
- additional disclosure requirements in relation to Defined Benefit liabilities valuations
- consideration to recognise employer-sponsor receivable where appropriate
- requirement to disaggregate financial information presentation where members from different categories are exposed to different risks and benefits.

Significant accounting policies

The significant accounting policies have been set out within the relevant note in these financial statements. Other than the impacts of AASB1056 above, the policies have been consistently applied to all periods presented in these financial statements.

Rounding

QSuper is of a kind referred to in *Australian Securities and Investment Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* dated 24 March 2016. As a result, all financial information presented has been rounded to the nearest one million dollars unless otherwise stated.

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on experience and other factors believed to be reasonable in the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the Notes to the financial statements.

Comparatives

Where required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. For the impact of AASB 1056 on comparatives, refer to disclosures under New standards and interpretations adopted during the year.

Consolidation

Entities that meet the definition of an investment entity within AASB 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. QSuper meets the definition of an investment entity and accordingly accounts for controlled entities in this way.

An exception to this treatment is where the main purpose and activities of the subsidiary are to provide investment-related services or activities that relate to the investment entity's investment activities. These types of service include investment advisory services, investment management, investment support and administrative services.

Given that the main purpose of QSL and its subsidiaries are to deliver member retirement outcomes through the provision of administration, financial planning, investment management and insurance services, QSL is required to be consolidated.

However, the net assets of QSL are not material to the users of QSuper financial statements as a whole, and as a result the net assets have been recognised in one line (investment in service providers) within the financial statements.

Auditor's remuneration

Queensland Audit Office	2017 $'000	2016 $'000
Other regulatory and assurance services	392	350
Total auditor remuneration	**392**	**350**

Actuarial remuneration

Queensland State Actuary	2017 $'000	2016 $'000
Actuarial services	378	370
Total Actuarial remuneration	**378**	**370**

Commitments, contingent assets and contingent liabilities

QSuper has unfunded commitments with investment managers to the value of $2,524m as at 30 June 2017 (2016: $2,383m). QSuper has no other material commitments, contingent assets or contingent liabilities as at 30 June 2017.

Significant events

On 16 June 2016, the Queensland Government introduced legislation into Parliament to amend the *Superannuation (State Public Sector) Act 1990* to allow Queensland's public servants to choose their superannuation fund. This legislation was passed by Parliament on 1 December 2016. QSuper subsequently applied for a public offer licence from APRA which was approved on 13 April 2017 with an effective date of 1 July 2017. From this date, the 'State Public Sector Superannuation Scheme' changed its name to become 'QSuper' in line with the new legislation.

Subsequent events

Other than the matter described above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Trustees of QSuper, to affect significantly the operations of QSuper, the results of those operations, or the state of affairs of QSuper in future years.

Note 2 Investments and derivatives

QSuper maintains investments for the long term purpose of providing benefits for members upon their retirement, reaching a specified age, death, or termination of employment.

Investments of QSuper, including derivatives, are managed by selected investment managers, QSL and QAM's investment team on behalf of the Board. The Board determines the overall investment objectives and strategy of QSuper.

QSuper contracts investment managers in various asset classes, sectors, management styles, strategies, and geographies under investment mandates (hereafter referred to as mandates). QSuper's expectations of its managers are documented in the mandates agreed between the parties. Specific reporting and valuation requirements are included within the contracts to ensure sufficient information and transparency is provided for ongoing monitoring.

Initial recognition

Subsequent measurement of investments

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

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

Fair value hierarchy

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or broker quotations. For all other financial instruments, the Trustee determines the fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- **Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3** – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments for which the valuation technique includes inputs not based on observable data and whose unobservable inputs have a significant effect on the instrument's valuation.

The table below analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised.

30 June 2017	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Listed equity securities	21,522	2	3	21,527
Unlisted equity securities	-	-	144	144
Preference shares redeemable	85	-	-	85
Listed unit trusts	-	231	-	231
Listed property trusts	813	-	-	813
Derivative assets/liabilities				
Futures	(27)	-	-	(27)
Swaps	-	37	-	37
Forward foreign exchange contracts	-	99	-	99
Fixed interest bonds	-	4,980	-	4,980
Discount securities	-	7,041	-	7,041
Units in unlisted unit trusts				
Unlisted unit trusts - infrastructure	-	271	7,883	8,154
Unlisted unit trusts - equity & futures	-	2,005	1,860	3,865
Unlisted unit trusts - private equity & alternatives	-	-	3,163	3,163
Unlisted unit trusts - property	-	151	5,141	5,292
Unlisted unit trusts - cash and fixed interest	-	13,796	-	13,796
Total	**22,393**	**28,613**	**18,194**	**69,200**

30 June 2016	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Listed equity securities	17,333	6	3	17,342
Unlisted equity securities	-	1	134	135
Listed unit trusts	-	207	-	207
Listed property trusts	915	-	-	915
Derivative assets/liabilities				
Futures	33	-	-	33
Swaps	-	160	-	160
Forward foreign exchange contracts	-	262	-	262
Fixed interest bonds	-	4,066	-	4,066
Warrants and options	7	-	-	7
Discount securities	-	7,889	-	7,889
Units in unlisted unit trusts				
Unlisted unit trusts - infrastructure	-	140	5,934	6,074
Unlisted unit trusts - equity & futures	-	3,006	-	3,006
Unlisted unit trusts - private equity & alternatives	-	-	3,290	3,290
Unlisted unit trusts - property	-	129	4,914	5,043
Unlisted unit trusts - cash and fixed interest	-	11,548	-	11,548
Total	**18,288**	**27,414**	**14,275**	**59,977**

Investments not included in the above tables are cash, short term deposits and margin accounts totalling $3,449m (2016: $4,615m). These investments and the investments illustrated in the fair value hierarchy table equates to the total investments as at 30 June 2017 of $72,649m (2016: $64,592m) reduced by derivative liabilities of $314m (2016: $102m) and excluding the investments in service providers.

Key estimates

Listed equities

When fair values of public traded equity securities are based on quoted market prices, or binding dealer price quotations, in an active market for identical assets without any adjustments, the instruments are included within Level 1 of the hierarchy. QSuper values these investments at bid price for long positions and ask price for short positions.

Units in unlisted unit trusts

Units in unlisted unit trusts are valued at the redemption price at reporting date quoted by the investment managers which are based on the net asset value (NAV) of the underlying investments. This is considered to approximate fair value. Underlying investments includes infrastructure and private equity investments which are valued externally. Unit values denominated in foreign currency are translated to Australian dollars at the current exchange rates.

Derivative assets and liabilities

QSuper uses widely recognised valuation models for determining fair values of over-the-counter interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including both credit and debit valuation adjustments for counterparty and own credit risk, foreign exchange spot and forward rates and interest rate curves. For these financial instruments, significant inputs into models are market observable and are included within Level 2.

Reconciliation of Level 3 fair value measurements of financial assets

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

	2017 $m	2016 $m
Opening balance	14,275	13,164
Total gains or losses		
In Income statement	89	279
Purchases	5,872	1,579
Redemptions/disposal	(4,151)	(756)
Transfers into Level 3	2,109	9
Closing balance	**18,194**	**14,275**

Of the total gains or losses for the period included in the Income statement, gains of $60m (2016: $241m) relates to unlisted unit trusts held at the end of the reporting period. Fair value gains or losses on investment properties are included in 'Changes in fair value of investments'.

The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type	Fair value $m	Valuation approach	Key unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Unlisted unit trusts	18,047	Investment manager – estimated valuation	Valuation of underlying investments of the unit trusts	An increase in the value of the underlying investments of the unit trusts will result in higher fair values. Reductions would result in lower fair values.
Unlisted equity	144	Last traded price less impairment	Last traded price less impairment	An increase in the impairment of the unlisted equities will result in lower fair values. Reductions would result in higher fair values.

Due to the immaterial nature (by value) of the unlisted equities classified as Level 3, a discounted cashflow valuation approach is not used.

Recognition and measurement

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

Changes in fair value of investments

Changes in fair value of investments are recognised as revenue and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period). Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the Income statement.

Other significant revenue streams

Interest revenue

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

Dividend revenue

Revenue from dividends is recognised on the date the shares are quoted ex-dividend and if not received at balance sheet date, the balance is reflected in the Statement of financial position as receivables.

Distributions from unit trusts

Distributions from unit trusts are recognised as investment income on the date when it is deemed that QSuper is presently entitled to the trust income.

Note 3 Income tax

(a) Major components of income tax

Current income tax	2017 $m	2016 $m
Current income tax expense	70	52
Adjustments in respect of current income tax of previous years	(4)	12
Deferred income tax		
Relating to origination and reversal of temporary differences in deferred tax liability	(44)	118
Income tax expense reported in Income statement	**22**	**182**

A reconciliation between prima facie income tax expense and income tax expense as reported in the Income statement before income tax, including a summary of deferred income tax is as follows:

	2017 $m	2016 $m
Results from superannuation activities	4,866	4,450
Prima facie income tax expense at the rate of 15%	(730)	(668)
Tax effect of non-deductible expenses and non-assessable income in calculating the taxable amount:		
Differences between tax and accounting net investment income	259	63
Notional premium for death or disability cover	16	62
Net imputation and foreign tax credits	193	150
Exempt current pension income	268	191
Other	(28)	20
Income tax expense reported in Income statement	**(22)**	**(182)**

(b) Deferred income tax

Movements in deferred tax asset	2017 $m	2016 $m
Opening balance	57	78
Change to Income statement	(10)	(21)
Closing balance at 30 June	**47**	**57**
Movements in deferred income tax liability		
Opening balance	(595)	(498)
Change to Income statement	54	(97)
Closing balance at 30 June	**(541)**	**(595)**
Deferred tax asset comprises		
Quarantined capital losses	22	29
Investments	25	28
Total deferred tax asset	**47**	**57**
Deferred tax liability comprises		
Contributions receivable	-	
Unrealised gains in investments	(541)	(595)
Total deferred tax liability	**(541)**	**(595)**
Net deferred tax asset/(liability)	**(494)**	**(538)**

Recognition and measurement

QSuper is taxed as a complying superannuation fund in accordance with the provisions of the *Income Tax Assessment Act 1936 (Cth)* and *Income Tax Assessment Act 1997 (Cth)*.

Current tax

Income tax on the change in net assets as a result of operations for the year comprises current and deferred tax. Income tax is recognised as an expense in the Income statement.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the Statement of financial position date and any adjustment to tax payable in respect of previous years. Current tax includes any amounts relating to penalty and interest charges that may be imposed by tax authorities.

Deferred tax

Deferred tax is determined using the comprehensive balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and QSuper intends to settle its current tax assets and liabilities on a net basis.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Key estimates

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

Note 4 Reserves

The Statement of changes in reserves outlines the detailed movements in each reserve for the year.

Recognition and measurement

(a) General Reserve

QSuper maintains a General Reserve to ensure that it can meet both current and future liabilities, including those associated with administration, strategic initiatives and operational risks pertaining to costs associated with the non-member component of operational risk events. The reserve provides the Trustee with access to funds to protect members' interests and mitigate the impact of an adverse event. Transfers in and out of the reserve are made only at the authorisation of the Trustee and in accordance with the QSuper Board-approved reserve policy.

(b) Unallocated Contributions Reserve

This reserve is held to absorb investment variations which may be caused by the delay between when member funds are receipted and when the transaction is processed and allocated to the member's selected investment option.

(c) Insurance Reserve

QSuper ceased self-insurance with effect from 30 June 2016 with insurance provided by QInsure from this time. Prior to this, death, total and permanent disablement (TPD) and income protection insurance benefit premiums were collected and invested in the Insurance Reserve.

Tail claims (i.e. those claims relating to events occurring before 1 July 2016) continue to be paid by QSuper and is recognised as a reduction in the insurance claims liability in the Statement of financial position. The balance of the reserve represents the solvency margin on claim liabilities as determined by management. The solvency margin will solely be in respect of covering adverse run off of claim liabilities incurred prior to 1 July 2016.

(d) Operational Risk Financial Requirement Reserve

QSuper maintains an Operational Risk Financial Requirement (ORFR) Reserve for costs pertaining to the member component of operational risk events. The ORFR ensures QSuper has adequate financial resources to address losses arising from operational risks within its business operations, where such costs are not met by third parties, or are recoverable from third parties or insurance only at a later stage. The Board maintains a target tolerance of 25 basis points of funds under management.

The ORFR is implemented, managed and maintained in accordance with the *Superannuation Industry (Supervision) Act 1993* and the requirements of APRA Prudential Standard SPS 114 – *Operational Risk Financial Requirement* (SPS 114). APRA has defined 'operational risk' as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Note 5 Reconciliation of operating cash flows

Reconciliation of net change in cash from operating activities to operating result after income tax.

	2017 $m	2016 $m
Result after income tax	134	(37)
Adjustments for:		
Net change in assets measured in fair value	(1,040)	(1,220)
Net change in receivables	(9)	(8)
Net change in payables	(16)	51
Net change in insurance liabilities	(159)	35
Net change in income tax payable	(794)	(527)
Self-insurance claims included in benefits	171	198
Net change in reserves	(105)	-
Net change in member benefits	4,373	3,920
Net inflow of cash from operating activities	**2,555**	**2,412**

Cash comprises cash on hand and deposits at call. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. Cash equivalents must be readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at face value or the gross value of the outstanding balance.

Note 6 Insurance arrangements

(a) Establishment of QInsure Limited

On 1 July 2016, QSuper established a wholly-owned subsidiary, QInsure, for the provision of group lump sum (death and total and permanent disability) and group disability (income protection) to members of QSuper. QInsure is a life insurer registered by APRA and holds an Australian Financial Services Licence (licence number 483057). Insurance premiums are deducted from member accounts and paid to QInsure.

QSuper holds a participating policy with QInsure and pays a premium margin to share in operating profits. Under this policy, the operating profit arising from participating business is allocated between shareholders and the participating policyholder and is governed by the Life Act, the Company's constitution, the in force Insurance Policy and the Company's Participating Business Management Framework. The principles of allocation arising from QInsure profits are as follows:

i) Investment income on retained earnings in respect of participating business is allocated 80% to the policyholder and 20% to shareholders.

ii) Other profits arising from participating business are allocated 80% to the policyholder and 20% to shareholders.

iii) All investment income on shareholder capital and retained earnings (excluding those dealt with in (i) above) are fully allocated to shareholders.

A summary of key operating results and balances from QInsure for the year ended 30 June 2017 are as follows:

	2017 $m
Premium revenue	518
Claims expense	(95)
Outwards reinsurance expense	(62)
Reinsurance recoveries	15
Net result from insurance activities after-tax	9
Total policy liabilities (net of reinsurance)	(312)

Actuarial assumptions, judgements and estimates used in calculating policy liabilities of QInsure:

Key assumption	Details and process used to select assumption	Range of values
Discount rates	Discount rates are based on a risk free yield curve derived from the Australian Commonwealth Government bond market yields as at the valuation date.	The average effective discount rates adopted were 1.48% to 4.53%
Incurred but not reported (IBNR) assumptions	Allowance was made for inherent delays in reporting claims based on investigations into the historic QSuper experience (as self-insurer) and QInsure results since commencement of operations. The IBNR is determined using the Bornhuetter-Ferguson method.	The overall loss ratios were between 39% and 88%. The average claims reporting delays were between 1.6 months and 16.6 months.
Claim termination	Relates to the duration of income protection claims. Rates are based on FSC-KPMG 2007 – 2011 industry standard tables. Claim termination rates are adjusted to reflect historic QSuper experience (as self-insurer) and QInsure's experience since the commencement of operations.	Refer to the FSC-KPMG 2007 – 2011 industry standard tables for values adopted. The range of factors extend from 95% to 344%
Claims expense	Claims expense assumptions for outstanding claims are set based on the expected cost of administering claims over the next year.	Death 2% TPD 2% IP 12.2%
Inflation	The outstanding income protection claims are assumed to increase each year in line with inflation. The inflation is based on the Reserve Bank of Australia's targeted inflation ranges.	The inflation rate assumed was 1.5%.

(b) Self-insurance

Prior to the commencement of QInsure, QSuper had self-insurance arrangements in place for government employees for the provision of life, total and permanent disability (TPD) and income protection insurance where premiums were collected and invested in an Insurance Reserve under a 'principal' arrangement. Non-government employees were covered by an external insurer under an agency arrangement.

The liability for self-insurance claims incurred before 1 July 2016 was not transferred to QInsure. Tail claims (i.e. those claims relating to events occurring before 1 July 2016) continue to be paid by QSuper and is recognised as a reduction in the insurance claims liability recognised on the Statement of financial position.

A summary of net results from self-insurance activities is as follows:

	2017 $m	2016 $m
Insurance contract revenue	19	304
Net premium revenue	**19**	**304**
Claims expense	(171)	(198)
Movement in insurance liabilities	159	(36)
Net incurred claims	**(12)**	**(234)**
Insurance result	**7**	**70**
Policy maintenance expense	(14)	(32)
Outwards reinsurance premium	-	(1)
Net loss/(gain) from insurance activities	**(7)**	**37**

Note 7 Key management personnel

Trustees and key management personnel

Members of the QSuper Board at any time during or since the end of the financial year are:

Name	Date commenced/(ceased) as Trustee
Mr Karl Douglas Morris (Chairman)	December 2013
Mr Jeffrey John Backen	December 2013
Mr Michael Ian Barnes	June 2009
Mr Walter Ivessa	June 2009
Mr Bede Farrell King	February 2013
Mr Terence Mackenroth	April 2016
Ms Ruth Ethel Elizabeth McFarlane	December 2013
Ms Elizabeth Ruth Mohle	December 2013
Dr Stephen Paul Christie	December 2014

QSuper has a 100% ownership interest in QSL which provides member support and advice, procurement, staffing and investment services to QSuper through its controlled entities. The following persons had authority for planning, directing and controlling the activities of QSuper Group entities:

Name	Role	Date commenced or (ceased) in Chief role
Mr Michael Pennisi	Chief Executive Officer	23 October 2015
Mr Kulwant Singh-Pangly	Chief Financial Officer	1 October 2014
Mr Andrew Baker	Chief of Member Experience	11 July 2016 / (10 February 2017)
Ms Anne Finney	Chief Risk Officer	24 February 2016
Mr Matthew Halpin	Chief of Member Support & Advice	12 October 2010
Mr Brad Holzberger	Chief Investment Officer	11 March 2009
Mr Paul Landy	Chief of People & Transformation	15 December 2010
Ms Karin Muller	Chief of Information Technology	26 April 2016
Mr Jason Murray	Chief of Member Experience	10 April 2017

Key management personnel compensation

QSuper is committed to putting members at the centre of everything we do. QSuper's key priority is to provide stable long-term returns and value for our members. High quality leadership and management are integral to this.

QSuper aims to ensure that our employee remuneration principles enable QSuper to:

- attract and retain people with the highest quality skills, to optimise the management of operations and growth of QSuper for the benefit of members
- link employee rewards to the creation of value for members.

Remuneration principles

QSuper's Employee Remuneration Strategy is designed to attract and retain the best people and is based on the key principles of Performance, Integrity, Affordability and Sustainability. The Remuneration Policy is reviewed at least every three years to ensure QSuper remains true to these principles.

Remuneration governance

The Remuneration Committee of the Board is responsible for governance of remuneration practices and arrangements, with the Board maintaining absolute responsibility and decision making for remuneration matters.

The Remuneration Committee receives industry benchmarking and external advice independent from management. This includes annual benchmarking against the Financial Industry Remuneration Group (FIRG) database, according to relevant competitive markets and organisations of similar financial and asset size. QSuper aims to target remuneration at the FIRG median salary and up to the 75th percentile for Total Remuneration for outperformance.

Trustee remuneration

The QSuper Board is comprised of nine Trustees, including equal employer and member representation, as well as one additional independent Board member.

The Board is remunerated in accordance with rates approved by the Treasurer, as Minister, in consultation with the Board. This remuneration represents an all-inclusive fee encompassing all QSuper Board related activities (including Committee memberships and QSuper and QIL Directorship). Board members who are also employees of the Government are not remunerated for their trustee duties.

Executive remuneration

Executives are employed under individual employment contracts, which are structured for either a fixed term period or contracted on an ongoing basis. Executives are required to provide between two and six months' notice of their intention to terminate their QSuper employment contract.

Executive remuneration is market competitive and paid under salary package arrangements which include an appropriate mix of fixed and variable performance payments.

Performance linkages

Both fixed and variable remuneration are market competitive and are explicitly linked to performance. All QSuper executive remuneration outcomes appropriately reflect Group, Division and Individual performance outcomes and behaviours:

- Fixed remuneration is reviewed on an annual basis taking into account the size, complexity and responsibilities of the role, individual performance, skills, and experience.
- Short-term incentives (STI) are based on annual performance against a balanced scorecard of appropriate performance measures and individual performance measures.
- Long-term incentives (LTI) are based on the longer-term performance measures. Effective 1 July 2016 no new LTI grants commenced.

Fixed remuneration

Fixed remuneration is calculated on a total cost basis, including the cost of employee benefits, superannuation, vehicles and car parking, plus any applicable fringe benefits tax. External benchmarking is undertaken to provide employees with fixed remuneration which targets the market median +/- 15% (and up to the 75th percentile for outperformance for Total Remuneration) within the financial services sector in which the Group operates.

Variable remuneration

Specific variable remuneration performance payments are focused on senior employees who are critical to the continuing success of QSuper.

The Board retains absolute discretion to reduce all variable payments downwards to zero at any time prior to payment.

Short-term incentives (STI)

QSuper has two short-term cash incentive schemes relevant to Executives who have been employed by QSuper for more than three months of the financial year; one for investment staff and the other applicable to corporate employees.

Investment STI (Chief Investment Officer (CIO) only)

The performance conditions in the investment scheme are designed to reward investment performance against long-term absolute investment return targets and thresholds which are set by the Board within approved risk tolerances.

Corporate STI (All executives excluding the CIO)

The Corporate STI scheme is based on a balanced scorecard across four categories, including:

- customer perspective
- internal business perspective
- financial perspective
- people perspective.

Specific performance measures and stretch targets aligned to QSuper's strategic goals, personalised retirement adequacy and truly being a member-for-life fund, are set by the Board at the commencement of each financial year.

Each of the performance measures within the balanced scorecard categories operate within defined risk management parameters to align with members' interests and the overall balanced scorecard performance directly influences STI payments.

Performance measures are reviewed on an annual basis and can change year to year to support the achievement of QSuper's strategic goals. Examples of specific performance measures include retirement adequacy, investment performance, managing operating costs and funds under management, business growth, stakeholder satisfaction, and the engagement of the QSuper workforce.

STI deferral commenced in FY16/17 for the Chief Executive Officer and all Chief Officers (excluding CIO) and replaces the LTI scheme as the method of aligning executive reward with the interest of members, managing retention and continuing to encourage a long-term focus and appropriate risk management. As the time horizons of performance measured within the Investments STI plan already reflect the long-term focus, the CIO is not eligible.

Payment outcomes

In addition to the balanced scorecard performance outcomes of the scheme, potential STI payments to participants of both the Investment and Corporate STI schemes are determined by the Board based on an individual's achievement of minimum threshold performance criteria, relative to role, and agreed standards of behaviour. The QSuper Group Values set the behavioural expectation that the Board believes form a foundation for successful performance.

Long-term incentives

Effective 1 July 2016, no new LTI grants will commence and existing LTI grants will continue in accordance with the set schedule and LTI rules.

Performance conditions in the current LTI scheme are designed to ensure consistency and alignment with QSuper's strategic plan and the achievement of its longer-term strategic goals. The LTI scheme has three financial/strategic measures and an additional assessment by the Board of the Executive Committee's overall long term performance.

Annual cash grants are determined by the Board and remain at risk during the three year deferral period. Payment of the grant at the end of the three years is subject to an individual's ongoing service and the achievement of the LTI performance conditions under which the grant was made.

The Group's results in the 2017 financial year reflect the continued progress against the Group's strategic plan.

Dual-hatting

Key management personnel (KMP) compensation is provided to QSL and QInsure by the labour hire subsidiary OneQ.

The ultimate parent entity has determined the compensation of KMP in accordance with their roles within the QSuper Group. Employees are designated as "dual-hatted" where their role requires focus on QInsure specifically. The proportion allocated to QInsure is set out within a formal letter advising of percentage of remuneration to be borne by QInsure. The following key personnel have been designated as key management personnel of QInsure.

Role	Allocation to QInsure
Chief Executive Officer	25%
Chief Financial Officer	25%
Chief Risk Officer	25%
Chief of People & Transformation	25%
Chief of Member Support & Advice	50%

Basis for preparation

QSuper remuneration disclosures have been prepared in accordance with Section 29QB (1) of the *Superannuation Industry Supervision Act 1993* and Division 2.6 Regulation 2.37 of the *Superannuation Industry (Supervisor) Regulations 1994* which includes the proportion of compensation allocated to QInsure.

Remuneration disclosures for QSuper Executive Committee members who were in role, for the whole of or part of 2017, are detailed in the following table. Current year annual leave provisions are included in the Cash fixed column.

Executive remuneration

	Short term employee benefits $			Post-employment benefit $	Long term benefits $		
Chief Officer	**Cash fixed[2]**	**Non-monetary fixed**	**Cash STI payment[3]**	**Pension and super-annuation**	**Long term incentive (LTI)[4]**	**Long service leave[5]**	**Termination benefits**
Year ended 30 June 2017							
Michael Pennisi	519,565	10,499	332,598	76,728	28,410	17,473	-
Kulwant Singh-Pangly	427,208	-	176,400	41,447	25,153	15,707	-
Andrew Baker	247,681	-	-	25,891	-	2,879	-
Anne Finney	279,723	-	111,836	46,134	-	6,622	-
Matthew Halpin	355,745	-	139,841	32,276	9,940	13,088	-
Brad Holzberger	504,141	-	442,068	32,096	-	16,154	-
Paul Landy	326,441	10,499	145,182	30,000	7,721	14,385	-
Karin Muller	295,888	-	154,140	30,650	-	3,024	-
Jason Murray[6]	84,743	-	-	11,753	-	678	-
Year ended 30 June 2016							
Michael Pennisi	487,014	11,157	200,000	98,650	47,108	18,981	-
Kulwant Singh-Pangly	353,899	-	129,417	39,554	13,492	10,922	-
Anne Finney	102,430	-	32,423	19,157	-	4,647	-
Matthew Halpin	401,748	-	74,545	32,383	28,520	11,681	-
Brad Holzberger	640,943	-	485,453	35,000	-	23,964	-
Paul Landy	294,853	11,157	112,698	29,939	25,948	12,554	-
Karin Muller	51,934	-	17,112	5,680	-	956	-

1 Reporting is in line with accounting standards. **2** Cash fixed remuneration is the total cost of salary, including annual leave, allowances and any salary sacrificed benefits (excluding superannuation which is included in Pension and superannuation amounts). **3** Accrued during the reporting period (refer to table in STI criteria section for further detail). **4** Accrued during the reporting period (refer to table in LTI criteria section for further details). Includes one-off LTI/STI deferral transition accrual. **5** No long service leave movement recorded for terminated executives during the year. **6** Received a sign-on bonus of $35,000 on 10 May 2017 which is in addition to the amounts reported above.

Board remuneration

Remuneration disclosures for Trustees who were in the role for the whole or part of the 2017 financial year are detailed in the table below.

	Short term employee benefits $			Post-employment benefit $	Long term benefits $		
Trustee	Cash fixed[2]	Non-monetary fixed	Cash STI payment[3]	Pension and super-annuation	Long term incentive (LTI)[3]	Other e.g. long service leave	Termination benefits
Year ended 30 June 2017							
Karl Morris (Chairman)	102,904	-	-	-	-	-	-
Michael Barnes[5]	51,452	-	-	2,444	-	-	-
Jeffrey Backen[5]	51,452	-	-	2,037	-	-	-
Stephen Christie	51,452	-	-	4,888	-	-	-
Walter Ivessa	51,452	-	-	4,888	-	-	-
Bede King	25,472	-	-	30,868	-	-	-
Terry Mackenroth	51,452	-	-	4,888	-	-	-
Ruth McFarlane[4]	-	-	-	-	-	-	-
Elizabeth Mohle[5]	51,452	-	-	-	-	-	-
Year ended 30 June 2016							
Karl Morris (Chairman)	101,383	-	-	-	-	-	-
Michael Barnes[5]	50,497	-	-	2,389	-	-	-
Jeffrey Backen[5]	50,692	-	-	-	-	-	-
Stephen Christie	50,302	-	-	4,779	-	-	-
Walter Ivessa	49,890	-	-	4,740	-	-	-
Bede King	22,911	-	-	31,719	-	-	-
Terry Mackenroth	8,969	-	-	852	-	-	-
Ruth McFarlane[4]	-	-	-	-	-	-	-
Elizabeth Mohle[5]	50,692	-	-	-	-	-	-

1 Reporting is in line with accounting standards. **2** Cash fixed remuneration includes Trustee fees (exclusive of GST if applicable) and any salary sacrificed benefits other than superannuation (which is included in Pension and superannuation amounts). **3** Trustees do not participate in a Short Term Incentive (STI) scheme or Long Term Incentive (LTI) scheme. **4** In accordance with QSuper policy, Trustees who are active Queensland Public Sector employees are not entitled to be remunerated for their QSuper Board activities. **5** All Trustees are remunerated personally except Michael Barnes (50/50 Individual and Qld Police Union), Jeffrey Backen (Qld Teachers Union, up until January 2017), and Elizabeth Mohle (Qld Nurses Union).

No termination or sign on payments were made to Trustees during the financial year. Appointment terms, including remuneration rates, are in accordance with the QSuper Act and approved by the Treasurer.

Short-term incentive deferral scheme

The following table sets out information about the performance related short-term incentive deferral scheme granted to Executive Committee members.

Chief Officer	Financial year the incentive relates to	Grant Date	STI Incentive Amount[2] $	STI Deferral Amount[3] $	Financial year of STI Incentive Payment	Paid	% of potential incentive that was paid	% of potential incentive that was forfeited
Michael Pennisi	2017	Sept 2016	265,973	-	2017/2018	27 Sept 2017	71.07%	28.93%
			-	66,625	2019/2020	-	-	-
Kulwant Singh-Pangly	2017	Sept 2016	134,821	-	2017/2018	27 Sept 2017	74.48%	25.52%
			-	41,579	2019/2020	-	-	-
Anne Finney	2017	Sept 2016	83,877	-	2017/2018	27 Sept 2017	68.19%	31.81%
			-	27,959	2019/2020	-	-	-
Matthew Halpin	2017	Sept 2016	107,120	-	2017/2018	27 Sept 2017	63.75%	36.25%
			-	32,721	2019/2020	-	-	-
Brad Holzberger[1]	2017	Sept 2016	442,068	-	2017/2018	27 Sept 2017	72.12%	27.88%
			-	-	2019/2020	-	-	-
Paul Landy	2017	Sept 2016	111,085	-	2017/2018	27 Sept 2017	68.78%	31.22%
			-	34,097	2019/2020	-	-	-
Karin Muller	2017	Sept 2016	115,605	-	2017/2018	27 Sept 2017	93.42%	6.58%
			-	38,535	2019/2020	-	-	-

Short-term incentive schemes (prior year)

The following table sets out prior year information about the performance related short-term incentive scheme granted to Executive Committee members.

Chief Officer	Grant date	Incentive amount $	Date the incentive was paid	% of potential incentive that was paid	% of potential incentive that was forfeited
Year ended 30 June 2016					
Michael Pennisi	September 2015	200,000	28 Sept 2016	66.67%	33.33%
Kulwant Singh-Pangly	September 2015	129,417	28 Sept 2016	74.38%	25.62%
Anne Finney	September 2015	32,423	28 Sept 2016	71.85%	28.15%
Matthew Halpin	September 2015	74,545	28 Sept 2016	44.38%	55.62%
Brad Holzberger	September 2015	485,453	28 Sept 2016	80.39%	19.61%
Paul Landy	September 2015	112,698	28 Sept 2016	75.50%	24.50%
Karin Muller	September 2015	17,112	28 Sept 2016	70.29%	29.71%

1 As the time horizons of performance measured within the Investments STI plan already reflect the long-term focus, the CIO is not eligible for a deferral amount. **2** Includes any amounts relating to one-off payments for LTI/STI deferral transition. **3** Payment is held at risk until the end of the 2 year deferral period. The Deferral Amount will be converted into a notional number of units whose performance over the STI Deferral period will reflect the performance of the QSuper GAP Fund.

Long-term incentive scheme

The following table sets out information about the performance related long-term incentive scheme granted to Executive Committee members.

Chief Officer	Financial year the incentive relates to	Amount granted[1] in financial year $	Date granted	Financial year of potential payment[2]	Amount paid in financial year[2] $	% of potential incentive that was paid	% of potential incentive that was forfeited
Michael	2016	75,000	September 2015	2018/2019	-	-	-
Pennisi	2015	45,235	September 2014	2017/2018	38,299	84.67%	15.33%
	2014	44,348	September 2013	2016/2017	30,378	68.50%	31.50%
Kulwant Singh-Pangly	2016	38,655	September 2015	2018/2019	-	-	-
Matthew	2016	37,330	September 2015	2018/2019	-	-	-
Halpin	2015	33,419	September 2014	2017/2018	28,295	84.67%	15.33%
	2014	32,604	September 2013	2016/2017	22,334	68.50%	31.50%
Paul Landy	2016	32,434	September 2015	2018/2019	-	-	-
	2015	31,643	September 2014	2017/2018	26,791	84.67%	15.33%
	2014	30,722	September 2013	2016/2017	21,044	68.50%	31.50%

Note 8 Related parties

Transactions with key management personnel

Key management personnel, who are members of QSuper, contribute to QSuper on the same terms and conditions, and are entitled to the same benefits, as other members of QSuper.

There are no other transactions between QSuper and key management personnel other than the compensation transactions disclosed above.

Transactions between QSuper and service providers

QSuper has a 100% ownership interest in QSL. QSL provides superannuation administration, procurement and investment services to QSuper and is paid an administration fee. The administration fee incorporates all administration costs including superannuation administration, cost of running self-insurance, medical costs, strategic and change initiatives, and investment services.

During the financial year, fees paid/payable to QSL and its wholly-owned entities aggregated $223m (2016: $215m).

QSL owns 100% of the ordinary shares of QInsure, QIL, OneQ and QAM. QIL provides financial planning services and is paid a financial planning fee by QSuper. OneQ provides a labour hire service and is paid labour hire fees by QSuper. QAM provides investment services to QSuper. QInsure provides group lump sum (death and total and permanent disability) and group disability (income protection) insurance to members of QSuper.

During the financial year, fees paid/payable to QIL aggregated $4m (2016: $7m), fees paid/payable to OneQ aggregated $77m (2016: $89m), fees paid/payable to QAM aggregated $22m (2016: $5m) and fees paid/payable to QInsure (excluding premiums) aggregated $0.4m (2016: $0).

Advertising and sponsorship paid by related parties during the financial year was $3m (2016: $2m).

1 This is the maximum possible payment amount and is subject to service and performance criteria being met over 3 years from the beginning of the financial year it is granted. Payment is held at risk until the end of the 3 year performance period. The minimum possible total value of each incentive is zero. The maximum possible total value of each incentive is the amount granted. **2** Payment is held at risk until the end of the 3 year performance period.

No alterations have been applied to any of the terms or conditions in the current financial year.

Investments in associated entities

QSL, QSuper Investment Company Pty Ltd, QSuper RE (a Luxembourg company), St Nicholas Car Park Company Ltd and The Bridges Car Park Company Ltd are wholly owned by the QSuper Board as the Trustee for QSuper. The carrying amount of the investments in these entities approximates fair value and is recorded as an asset on the Statement of financial position.

A number of subsidiaries of QSL are also the trustee for the following investment trusts where QSuper is the ultimate beneficiary.

QS International Strategy Trust	QSuper Diversified Alternatives Trust
QS US Strategy Trust	QSuper Diversified Alternatives Trust No.2
QSuper Global Private Equity Trust	QS Diversified Alternatives Trust No.3
QS High Duration Bonds Trust	QSuper Long Term Risk Hedging 10 Trust
QSuper Term Deposit Trust	QSuper Long Term Risk Hedging 20 Trust
QSuper Global Real Estate Trust	QSuper US RE Trust No. 1
QSuper Global Real Estate Debt Trust	QS US Real Estate Trust No.2
QSuper Investment Company Pty Ltd	QS Global Real Estate Trust No.2
QSuper Global Infrastructure Trust	QS Diversified Infrastructure Fund No.1
QSuper Global Infrastructure Debt Trust	QSuper Australian Infrastructure Equity Trust
QSuper European Infrastructure Trust	QSuper Australian Infrastructure Equity Trust No. 2
QSuper US Infrastructure Trust	QSuper Australian Infrastructure Equity Trust No. 3
QSuper US Infrastructure Trust No.2 (Open)	QSuper Investments Trust
QSuper US Infrastructure Trust No.3	QSuper Investments Trust No.2
QS US Infrastructure Trust No.4	QSuper NZ Infrastructure Equity Trust
QS Ports Trust No.1A	QS Infrastructure Mandate No.2 Trust
QS Ports Trust No.1B	QS Infrastructure Mandate No.2A Trust
QS NZ Power Trust No.2	QS Infrastructure Mandate No.1B Trust
QS Infrastructure Mandate No.2B Trust	QSuper UK Infrastructure Trust No.1

Note 9 Financial instruments

Overview

The investments of QSuper are managed on behalf of the Board by appointed managers. Each investment manager is required to invest the assets managed by it in accordance with the terms of a mandate. The Board or its delegate has determined that the appointment of these managers is appropriate for QSuper and is in accordance with QSuper's Investment Strategy.

The majority of investments of QSuper are held in custody on behalf of the Board by State Street Australia Limited (SSAL) who acts as the custodian.

QSuper has investments in a variety of financial instruments, including derivatives, which expose QSuper to market risk, credit risk, and liquidity risk. The main purpose of these financial instruments is to obtain exposure to specific asset classes in accordance with investment strategies. QSuper also has various other financial instruments such as sundry receivables and payables, which arise directly from its operations; these are current in nature. Risks arising from holding financial instruments are inherent in QSuper's activities.

The Board is responsible for identifying and controlling the risks that arise from these financial instruments. The Board reviews and agrees on policies for managing each of these risks and may establish committees as it considers necessary or appropriate to assist it in carrying out its responsibilities.

The Board recognises that sound and prudent risk management is an integral part of its good governance practice. Risk management policies are established to identify and analyse the risks faced by QSuper, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and QSuper's activities.

The Audit & Risk Committee (ARC) assists the Board in discharging its governance and administrative responsibilities. The ARC's role encompasses reviewing the management of risk, including overseeing the material risks and ensuring appropriate internal controls are in place to address those risks; monitoring the compliance of QSuper with legislative requirements; reviewing internal and external audit findings and monitoring the implementation of audit recommendations; and reviewing financial statements.

The Investment Committee provides assistance to the Board in discharging its investment oversight in relation to QSuper. The principal duties and responsibilities of the Committee include recommending to the Board the investment objectives for QSuper and its various member investment choice options; recommending to the Board the investment policy for QSuper; monitoring investment performance, including the performance of investment managers; and discussing investment issues with the Board, QSuper management, and independent advisers, if and when the need arises.

The Board also seeks information and advice from the Investment Committee on the performance of the individual asset classes of QSuper's investments (and may also seek independent advice from other qualified persons) so as to form an opinion on the nature and extent of any risks, and the expected returns, associated with each investment prior to determining its suitability as an investment for QSuper.

A sensitivity analysis has been prepared for different market factors using reasonably possible changes in risk variables.

These variables are based on the various indices applicable to the underlying assets of the unit trusts, which have been determined by QSuper's custodian, SSAL. QSuper has reviewed these variables and considers them appropriate for use in the sensitivity analyses, which have been performed on a before tax basis and are individually examined in the risk factors below.

Market risk

Market risk is the risk that the fair value of financial instruments will fluctuate due to changes in market variables such as equity prices, foreign exchange rates and interest rates. Market risk is managed through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies. Controls for managing market risk of derivatives are embedded within QSuper's Capital Markets process as defined within its policies, guidelines and procedures.

Price risk

Price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual instrument, its issuer or factors affecting all instruments in the market. QSuper is exposed to price risk through listed and unlisted investments, including equity, infrastructure and property investments. As QSuper's financial instruments are valued at fair value, with changes in fair value recognised in the Income statement, all changes in market conditions can directly affect investment revenue.

QSuper's exposure to price risk is determined by the fair value of the financial instruments. Price risk is mitigated by QSuper's diversified portfolio of investments in accordance with the investment strategy approved by the Board. The Board monitors QSuper's performance on an ongoing basis to ensure that the investment strategy is not breached.

Sensitivity analysis

In accordance with AASB 7 *Financial Instruments: Disclosure,* the sensitivity analysis is based on historical data over the past five (5) years and reasonably possible investment return movements by asset class during the financial year.

Sensitivities used	2017	2016
Equities	13%	10%
Real estate	12%	12%
Infrastructure	19%	18%
Diversified alternatives	7%	11%

The increase/(decrease) in the market price against the investments of QSuper at 30 June would have increased/(decreased) the amount in operating result from superannuation activities by the amounts shown below. This analysis assumes that all other variables in particular, interest rates and foreign exchange rates remain constant. The analysis is performed on the same basis for 2017 whereby the assets which are applied are the non-interest bearing instruments and are not guaranteed. Asset classes are consistent with information provided internally to key management personnel.

Sensitivity of price risk and changes on net assets	%	(Decrease) $m	Increase $m
30 June 2017			
Equities	13	(2,468)	2,468
Real estate	12	(489)	489
Infrastructure	19	(1,572)	1,572
Diversified alternatives	7	(310)	310
30 June 2016			
Equities	10	(2,049)	2,049
Real estate	12	(495)	495
Infrastructure	18	(1,097)	1,097
Diversified alternatives	11	(763)	763

Foreign exchange risk

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

QSuper holds assets denominated in currencies other than the Australian Dollar (AUD), QSuper's functional and presentation currency. QSuper is therefore exposed to foreign exchange risk, as the value of the securities and future cash flows of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis.

As part of QSuper's risk management strategy, QSuper uses derivative contracts such as forward foreign exchange contracts to convert some or all of QSuper's currency exposures back into Australian dollars in line with QSuper's Investment Policy Statement (IPS), to reduce foreign exchange risk. In certain instances, foreign currency exposures are obtained for member options which are based on established investment objectives. QSuper's overall exposure to foreign exchange risk is however, less significant, after taking into account forward currency contracts. The currency hedges in place to mitigate foreign exchange risk are independently monitored daily to ensure they are in line with QSuper's IPS.

Net foreign currency exposure at 30 June 2017 was $4,136m (2016: $3,761m) with the largest exposure being to the US dollar.

The foreign exchange risk disclosures have been prepared on the basis of QSuper's direct investment and on a look through basis for the investments held indirectly through unit trusts.

Consequently the disclosure of foreign exchange risk in the note represents the total net foreign exchange exposure.

Sensitivity analysis

A 10% increase or decrease in possible foreign currency exchange rates will not have a material impact on the net assets of QSuper.

Interest rate risk

Interest rate risk refers to the effect on the market value of or the cash flows generated from QSuper's assets and liabilities due to fluctuations in interest rates. The value of QSuper's assets is affected by short term changes in nominal and real interest rates.

QSuper has set investment allocation ranges to meet its objectives of holding a balanced portfolio, including limits on investments in interest bearing assets, which are monitored regularly. QSuper may use derivatives to hedge against unexpected increases in interest rates.

Interest rate risk disclosures have been prepared on a basis of QSuper's direct investment and on a look through basis for the investments held indirectly through unit trusts. This includes Fixed Income and Cash asset classes.

Sensitivity analysis

A 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates. As at 30 June 2017 a 100 basis point movement would have a $3,166m (30 June 2016: $2,079m) impact on the net assets of QSuper.

Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause QSuper to incur a financial loss.

QSuper is exposed to credit risk primarily through its investments in debt securities, trading derivative products, deposits held with banks, and receivables. With respect to credit risk arising from the financial assets of QSuper, other than derivatives, QSuper's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of investments as disclosed in the Statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from investments is moderated through prudential controls imposed on all Investment Managers under the terms of their mandates. QSuper uses a number of risk mitigation tools, including, Credit Support Annexures (CSA), imposing counterparty credit limits, and International Swaps and Derivatives Association (ISDA) agreements to mitigate counterparty risk for over-the-counter derivative instruments. These are reviewed by the Board on a regular basis as deemed appropriate. In addition to this an initial and ongoing due diligence of each counterparty's organisational integrity, systems capability, operational performance, and competence is undertaken.

QSuper may use derivative contracts to manage its exposure to credit risk in accordance with approved investment strategies. The fair value of credit related derivatives held at 30 June 2017 was immaterial.

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

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

The carrying amount, as shown on the Statement of financial position, of QSuper's financial assets best represents the maximum credit risk exposure at the reporting date.

Concentrations of risk

Concentrations of risk arise when a number of financial instruments are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities. These similarities could cause the counterparties' capabilities to meet the contractual obligations to be similarly affected by certain changes in the risk variables.

The concentrations of risk are managed by the investment team within prescribed limits and monitored by the Investment Committee to ensure they are within acceptable limits by reducing the exposures or by other means as deemed appropriate.

Counterparty limits are imposed to manage and control associated exposures to individual counterparties. Concentrations of risk at asset class level are managed by a number of different controls, which include exposure limits placed at security type, issuer, industry and geographical levels. Additional controls are in place for derivatives and QSuper's exposure is monitored daily with the unrealised profit and losses aggregated by counterparty.

Liquidity risk

Liquidity risk is the risk that QSuper may not be able to generate sufficient cash resources to settle its obligations in full as and when they fall due or can only do so on terms that are materially disadvantageous. QSuper is therefore exposed to the liquidity risk of meeting members' withdrawals at any time and switching of member's balances to a different investment choice option.

The following are the contractual maturities of financial liabilities. The contractual maturity of QSuper's derivatives are based on undiscounted cashflows:

30 June 2017	Less than 1 month $m	1-3 months $m	3-12 months $m	1-5 years $m	5+ years $m	Fair value $m
Financial liabilities						
Vested benefits	92,968	-	-	-	-	92,968
Trade and other payables	157	-	-	-	-	157
Payables for investments purchased	44	-	-	-	-	44
Total undiscounted financial liabilities (excluding derivatives)	**93,169**	**-**	**-**	**-**	**-**	**93,169**
Net settled derivatives						
Fixed interest futures	(15)	(12)	-	-	-	(27)
Forward foreign exchange contracts	(29)	4	124	-	-	99
Swaps & warrants	-	-	17	-	20	37
Options	-	-	-	-	-	-
Total undiscounted derivatives inflow/(outflow)	**(44)**	**(8)**	**141**	**-**	**20**	**109**

30 June 2016	Less than 1 month $m	1-3 months $m	3-12 months $m	12-60 months $m	60+ months $m	Fair value $m
Financial liabilities						
Vested benefits	86,405	-	-	-	-	86,405
Trade and other payables	174	-	-	-	-	174
Payables for investments purchased	97	-	-	-	-	97
Total undiscounted financial liabilities (excluding derivatives)	**86,676**	**-**	**-**	**-**	**-**	**86,676**
Net settled derivatives						
Fixed interest futures	43	(10)	-	-	-	33
Forward foreign exchange contracts	94	43	125	-	-	262
Swaps & warrants	46	-	-	-	114	160
Options	-	6	1	-	-	7
Total undiscounted derivatives inflow/(outflow)	**183**	**39**	**126**	**-**	**114**	**462**

QSuper's financial instruments include unlisted investments that are not traded in organised public markets and may be illiquid. As a result, QSuper may not be able to liquidate quickly some of its investments at an amount close to fair value in order to meet its liquidity requirements. As the value of these investments is monitored to comply with the asset allocation stipulated in QSuper's Investment Strategy, this risk is considered minimal. QSuper's listed securities are considered to be readily realisable as they are all listed on recognised stock exchanges around the world.

In addition, QSuper maintains sufficient cash and short-term deposits to meet normal operating requirements. Derivatives are only used if there is sufficient cash and short term deposits in QSuper to back the derivative exposure at all times by ensuring asset allocations are within the Product Disclosure Statement (PDS) and operational ranges.

Securities lending

QSuper entered into a securities lending arrangement with State Street Bank and Trust Company on 2 July 2013, under which legal title to some of QSuper's assets (principally Australian and international equities) may be transferred to another entity. The securities are loaned by State Street Bank and Trust Company, as agent of QSuper, to certain brokers and other financial institutions (the 'Borrowers'). The Borrowers provide cash or securities as collateral against loans in an amount between 100.1% to 110.0% of the fair value of the loaned securities (2016: 100.1% to 110.0%).

The total net fair value of assets subject to securities lending arrangements at the end of the year amounts to $16,075m (2016: $13,723m). The total value of securities on loan at 30 June 2017 which are recognised as an asset in the Statement of financial position, amounted to $353m (2016: $214m). During the year ended 30 June 2017, the gross earnings on securities lending collateral were $5m (2016: $6m). These amounts were received and paid on behalf of QSuper and have been recognised in the Income statement.

During the year ended 30 June 2017, QSuper paid fees to the State Street Bank and Trust Company in the amount of $1.1m (2016: $1.2m) for acting as lending agent. The risks and benefits of ownership of the loaned assets remain with QSuper.

State Street Bank and Trust Company, as lending agent, indemnifies QSuper for replacement of any loaned securities (or, in certain circumstances, return of equivalent cash value) due to a borrower default on a security loan. The value of the collateral held as at 30 June 2017 is $378m (2016: $224m).

Note 10 Member liabilities and funding arrangements

Defined Benefit arrangements

Standard members' contributions are made to QSuper at a rate ranging from 2% to 11.5% (2016: 2% to 11.5%) of members' salaries. Employing authorities are required to remit Defined Benefit employer contributions (excluding salary sacrifice contributions) to Queensland Treasury. These contributions are accumulated in a reserve, managed by the QIC on behalf of the Queensland Government ('Employer Fund'), which is maintained to finance the State's future liability for the employer component of all Defined Benefits. The Queensland Treasurer, on advice from the Queensland State Actuary, determines the rate of employer contributions.

Funding from the Employer Fund may be in the form of last minute funding received at the time the benefit is paid (as described in the *Superannuation (State Public Sector) Act 1990* and in various sections of the *Superannuation (State Public Sector) Deed 1990*. Alternatively, the *Superannuation (State Public Sector) Act 1990* allows the transfer of amounts from the Employer Fund to QSuper in circumstances and at times other than funding the immediate payment of benefits. Transfers occurred monthly and amounted to $1,668m for 2017 (2016: $1,579m). The QSuper Defined Benefit account has been underwritten to provide the members of the closed Voluntary Preservation Plan (VPP), a capital guarantee that the earning rate for a full financial year will not be negative. In return for this capital guarantee, VPP members are levied a premium on 30 June each year. The accumulated premiums levied to 30 June 2017 (net of reimbursements) are $9m (2016: $9m). On 12 November 2008, the QSuper Defined Benefit account was closed to new members.

Employer-sponsor receivable

As defined benefits become payable, the full cost is met by QSuper, with the Employer Fund contributing the employers' share of these benefits. Under AASB 1056, the difference between the value of the accrued benefits at 30 June 2017 and net assets held by QSuper is recognised as an employer-sponsor receivable. A summary of the employer-sponsor receivable is as follows:

	2017 $m	2016 $m
Value of defined benefit liability (net of contributions tax)	27,507	28,173
Less defined benefit assets held by QSuper	(5,733)	(5,236)
Net receivable from Queensland Government	**21,774**	**22,937**

The difference between the net receivable of $21,774m (2016: $22,937m) as recorded on the Statement of financial position and the gross value of the defined benefit liability of $25,318m (2016: $26,671m) as reported by the employer sponsor represents the value of accrued contributions tax.

The entitlements of members to benefit payments are recognised as liabilities. They are measured at the amount of the accrued benefits as at the reporting date, being the benefits that QSuper is presently obliged to transfer to members or their beneficiaries in the future as a result of membership up to the end of the reporting period.

Defined Contribution member liabilities

Defined Contribution member account balances are measured using unit prices determined by the QSuper Board based on the underlying investment option values selected by members.

Defined Benefit member liabilities

Defined Benefit member liabilities are measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash flows that would be sufficient to meet accrued benefits as at the date when they are expected to fall due. The amount reported has been determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions.

Internal transfers

Internal transfers disclosed on the Statement of changes in member benefits represent transfers out of member balances from Defined Benefits to Defined Contribution accounts for individuals who no longer qualify for inclusion in a Defined Benefits scheme.

The last actuarial review of QSuper was conducted as at 30 June 2017 by the State Actuary, Mr W H Cannon BSc(Hons) GradDipAppFin FIAA GAICD. The value of accrued benefits excluding accrued contributions tax as at that date was $27,507m (2016: $28,173m).

Key estimates

QSuper uses sensitivity analysis to monitor the potential impact of changes to key assumptions underlying the liability. QSuper has identified three assumptions (gross discount rate, price inflation and the rate of salary adjustment) that would have a material impact on the amount of the Defined Benefit member liabilities.

Discount rate

The assumed gross discount rate has been determined by reference to the annually convertible yield of a notional duration matched government nominal bond at the relevant date. This represents the expected return of an asset pool that would yield the future net cash flows underpinning the liability, recognising that the Defined Benefit assets within QSuper represent a minority portion, with the balance met by the risk-free Government guarantee. The State Actuary has recommended the use of this rate. An alternative position would be to utilise an expected portfolio return rate that the scheme actuary assumes will be generated from the overall investment of assets held to fund the liability. This rate is 5.5% (2016: 5.0%) and the application of this rate would reduce the liability and corresponding receivable from the Queensland Government by $5,341m (2016: $6,087m).

Price inflation

The assumed price inflation adjustment has been determined by reference to the difference between yields on nominal and inflation linked bonds of similar duration to the Defined Benefit liabilities.

Salary inflation

The assumed annual salary adjustment has been determined by reference to estimates of historical and prospective real salary growth.

The other variables about which assumptions have been made in measuring Defined Benefit member liabilities and for which reasonably possible changes would not be expected to have a material effect, include: resignations, retirement and mortality rates.

The following table shows the sensitivity to the material assumptions as at 30 June 2017:

Assumption	Assumed at reporting date	Change	(Increase)/Decrease in DB member benefit liability ($m)
Gross discount rate	2017: 2.7% (2016: 2.0%)	2017: +1.0% (2016: +1.0%)	2017: 2,106 (2016: 2,234)
Price inflation	2017: 2.0% (2016: 1.6%)	2017: +1.0% (2016: +1.0%)	2017: (149) (2016: (203))
Salary inflation	2017: 3.0% (2016: 2.6%)	2017: +1.0% (2016: +1.0%)	2017: (2,235) (2016: (2,322))

Note 11 Vested benefits

Vested benefits are benefits that are not conditional upon continued membership of QSuper (or any factor other than resignation from the scheme) and include benefits which members were entitled to receive had they terminated their QSuper membership as at the reporting date. This amount has been estimated using actuarial assumptions from the most recent actuarial valuation of QSuper as at 30 June 2017.

	2017 $m	2016 $m
Vested benefits (discount rate underlying member liabilities)	92,968	86,405
Vested benefits (discount rate based on expected return for funding purposes)	90,677	83,717

The value of vested benefits as at 30 June 2016 is that reported by the actuarial investigation as at that date and differs from that reported in the financial statements in the prior year. The difference has arisen due to changes in the actuarial assumptions underlying the value of the vested benefits in accordance with the most recent actuarial valuation of QSuper. The value of vested benefits reported as at 30 June 2016 was $86,600m.

Trustees' statement

For the year ended 30 June 2017

In the opinion of the QSuper Board:

1. The accompanying financial statements of QSuper are properly drawn up so as to present a true and fair view of the financial position of QSuper as at 30 June 2017, the Income statement for the year ended 30 June 2017, and the Statements of changes in member benefits, Changes in reserves, Cash flows and Notes to the financial statements for the year ended on that date.
2. The accompanying financial statements have been drawn up in accordance with accounting standards in Australia.

Signed in accordance with a resolution of the QSuper Board (ABN 60 905 115 063).

Karl Morris
Chairman

Michael Pennisi
Chief Executive Officer

Brisbane
29 September 2017

Independent auditor's report

To the Board of Trustees of the State Public Sector Superannuation Scheme

Report on the audit of the financial report

Opinion

I have audited the accompanying financial statements of the State Public Sector Superannuation Scheme (QSuper) (ABN 60 905 115 063).

In my opinion, the financial statements present fairly, in all respects, in accordance with Australian Accounting Standards the operation of the Board of Trustees of the State Public Sector Superannuation Scheme.

The financial statements comprise the Income Statement, Statement of Changes in Member Benefits, Statement of Changes in Reserves and Statement of Cash Flows for the year ended 30 June 2017, the Statement of Financial Position as at 30 June 2017, Summary of Significant Accounting Policies and other explanatory notes.

Basis for opinion

I conducted my audit in accordance with the *Auditor-General of Queensland Auditing Standards, which incorporate the Australian Auditing Standards*. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

I am independent of the entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. I have also fulfilled my other ethical responsibilities in accordance with the Code and the *Auditor-General of Queensland Auditing Standards*.

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

Responsibilities of the trustee for the financial report

The trustees of the State Public Sector Superannuation Scheme are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the requirements of the *Superannuation Industry (Supervision) Act 1993 (SIS Act)* and the *Superannuation Industry (Supervision) Regulations 1994 (SIS Regulations)*. The trustees are also responsible for such internal control as the trustees determine is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the ability of the State Public Sector Superannuation Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the State Public Sector Superannuation Scheme or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

My objectives are to obtain reasonable assurance about whether the financial statements as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the State Public Sector Superannuation Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State Public Sector Superannuation Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. I base my conclusions on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the State Public Sector Superannuation Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- I communicate with the trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Karen Johnson

29 September 2017

K Johnson
Assistant Auditor-General
as delegate of the Auditor General

Queensland Audit Office
Brisbane

Appendix A: Financial glossary

Term	Meaning
AASB	Australian Accounting Standards Board
AASs	Australian Accounting Standards
APRA	Australian Prudential Regulation Authority
ARC	Audit & Risk Committee
ASIC	Australian Securities and Investments Commission
Board	QSuper Board
CEO	Chief Executive Officer
CIO	Chief Investment Officer
CSA	Credit Support Annexures
DB	Defined Benefit
DC	Defined Contribution
FIRG	Financial Industry Remuneration Group
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GST	Goods and Services Tax
IFRS	International Financial Reporting Standards
ISDA	International Swaps and Derivatives Association
KMP	Key Management Personnel
LTI	Long Term Incentive
NCD	Negotiable Certificate of Deposit
OneQ	One QSuper Pty Ltd
ORFR	Operational Risk Financial Requirement
PDS	Product Disclosure Statement
QAM	QSuper Asset Management Pty Ltd
QIL	QInvest Limited
QIN	QInsure Limited
QSL	QSuper Limited
QSuper	Formerly known as State Public Sector Superannuation Scheme
SIS Act	*Superannuation Industry (Supervision) Act 1993*
SSAL	State Street Australia Limited
STI	Short Term Incentive
TPD	Total and Permanent Disablement (includes terminal illness as a subset)

Member Centres

70 Eagle Street Brisbane
63 George Street Brisbane

Ph 1300 360 750

(+617 3239 1004 if overseas)
Fax 1300 241 602
(+617 3239 1111 if overseas)
Monday to Thursday – 8.30am to 5.00pm
Friday – 9.00am to 5.00pm

QSuper

GPO Box 200
Brisbane QLD 4001

qsuper.qld.gov.au

QSuper