

RETAIL EMPLOYEES SUPERANNUATION TRUST
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

ABN: 62 653 671 394
Fund Registration Number: R1000016

**RETAIL EMPLOYEES SUPERANNUATION TRUST
TABLE OF CONTENTS
FOR THE YEAR ENDED 30 JUNE 2016**

| | Page |
|---|---------------|
| Auditor's Report | 2 - 3 |
| Auditor's Independence Declaration | 4 |
| Trustee Declaration | 5 |
| Statement of Financial Position | 6 |
| Operating Statement | 7 |
| Cash Flow Statement | 8 |
| Notes to the Financial Statements | 9 - 33 |



Independent Auditor's report on financial statements

***Retail Employees Superannuation Trust (ABN :
62653671394)***

Report by the RSE Auditor to the trustee and members

Financial statements

I have audited the financial statements of Retail Employees Superannuation Trust for the year ended 30 June 2016 comprising the Statement of Financial Position, Operating Statement, Statement of Cash Flows, summary of significant accounting policies and other explanatory notes.

Trustee's responsibility for the financial statements

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

Auditor's responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted an independent audit of the financial statements in order to express an opinion on them to the trustee and members of Retail Employees Superannuation Trust.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the trustee's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the trustee's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustee, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards the net assets of Retail Employees Superannuation Trust as at 30 June 2016 and changes in net assets for the year ended 30 June 2016.

A stylized, handwritten signature in black ink that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in black ink that reads "Craig Cummins".

Craig Cummins
Partner

Sydney
22 September 2016



Auditor's Independence Declaration

As lead auditor for the audit of Retail Employees Superannuation Trust (ABN: 65 653671 394) for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *APRA Prudential Standards SPS 510 Governance* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'CJ Cummins'.

CJ Cummins
Partner
PricewaterhouseCoopers

Sydney
22 September 2016

**RETAIL EMPLOYEES SUPERANNUATION TRUST
TRUSTEE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2016**

In the opinion of the Directors of Retail Employees Superannuation Pty Limited, being the Trustee of Retail Employees Superannuation Trust:

- (i) the accompanying financial statements of Retail Employees Superannuation Trust are properly drawn up so as to present fairly the financial position of the Trust as at 30 June 2016 and the results of its operations and cashflows for the year ended on that date in accordance with applicable Accounting Standards and other mandatory professional requirements in Australia; and
- (ii) subject to the matter detailed in Note 21, the Trust has been conducted in accordance with its constituent Trust Deed dated 2 December 1987, as amended and the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and the Corporations Act 2001 and Regulations and Guidelines during the year.

Signed in accordance with a resolution of the Board of Directors of Retail Employees Superannuation Pty Limited (ABN 39 001 987 739).

Signed at Sydney this 22nd day of September 2016



Director



Director

RETAIL EMPLOYEES SUPERANNUATION TRUST
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

| | NOTE | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---|------|---------------------|---------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | | | |
| Cash | 10 | 42,867 | 99,011 |
| Trade and Other Receivables | | | |
| Contributions Receivable | | 107,987 | 77,203 |
| Investment Income Receivable | | 189,588 | 164,587 |
| Sundry Debtors | | 36,024 | 3,411 |
| Net GST Receivable | | 1,528 | 5,103 |
| | | <u>335,127</u> | <u>250,304</u> |
| Investments | | | |
| Financial Assets | | | |
| Unsettled Investment Sales | | 147,895 | 76,881 |
| Managers Liquidity | 15 | 1,268,928 | 1,664,048 |
| Listed Equity Securities | 15 | 20,370,865 | 19,942,820 |
| Fixed Interest Securities | 15 | 3,231,205 | 3,764,237 |
| Discount Securities | | 2,914,722 | 2,396,778 |
| Direct Property | | 856,864 | 855,588 |
| Unlisted Trusts | 15 | 11,782,652 | 9,885,634 |
| Derivatives | 15 | 547,992 | 392,577 |
| | | <u>41,121,123</u> | <u>38,978,564</u> |
| Tax Assets | | | |
| Deferred Tax Asset | 11 | 21,751 | 30,961 |
| Other Assets | | | |
| Fixed Assets | 13 | 38 | 135 |
| TOTAL ASSETS | | <u>41,520,906</u> | <u>39,358,975</u> |
| LIABILITIES | | | |
| Trade and Other Payables | | | |
| Insurance Premiums Payable | | 57,827 | 44,629 |
| Benefits Payable | | 29,162 | 34,802 |
| Administration Expenses Payable | | 7,119 | 6,942 |
| Sundry Creditors | | 10,305 | 4,621 |
| Audit Fees Payable | | 204 | 195 |
| Financial Liabilities | | | |
| Unsettled Investment Purchases | | 232,864 | 99,611 |
| Derivatives | 16 | 353,359 | 418,058 |
| Investment Management Fees Payable | | 54,771 | 60,156 |
| Other Investment Accruals | 16 | 475,518 | 525,172 |
| Tax Liabilities | | | |
| Income Tax Payable | | 31,271 | 100,105 |
| Deferred Tax Liabilities | 11 | 508,708 | 640,160 |
| TOTAL LIABILITIES | | <u>1,761,107</u> | <u>1,934,450</u> |
| NET ASSETS AVAILABLE TO PAY BENEFITS | | <u>39,759,799</u> | <u>37,424,525</u> |
| LIABILITY FOR ACCRUED BENEFITS | | | |
| | 3 | | |
| Allocated to Members' Accounts | | 39,393,921 | 37,116,020 |
| Defined Benefit Plan Account | | 24,443 | 35,499 |
| Not Yet Allocated | 3a | 114,916 | 57,231 |
| Vested Benefits | 3b | 39,533,280 | 37,208,750 |
| Reserves | 4 | 226,519 | 215,775 |
| | | <u>39,759,799</u> | <u>37,424,525</u> |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

**RETAIL EMPLOYEES SUPERANNUATION TRUST
OPERATING STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016**

| | NOTE | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---|------|---------------------|---------------------|
| INVESTMENT REVENUE | | | |
| Dividend Income | | 945,349 | 965,191 |
| Interest - Bank | | 1,312 | 1,768 |
| Interest Income - Investments | | 179,145 | 168,760 |
| Rental Income | | 69,996 | 72,673 |
| Movement in Net Market Value | 8 | (311,627) | 2,294,885 |
| Net Investment Revenue | | <u>884,175</u> | <u>3,503,277</u> |
| CONTRIBUTIONS REVENUE | | | |
| Employer | | 3,414,094 | 3,111,536 |
| Member | | 495,759 | 597,224 |
| Rollovers | | 1,004,874 | 1,164,293 |
| Total Contributions Revenue | | <u>4,914,727</u> | <u>4,873,053</u> |
| OTHER REVENUE | | | |
| Group Life Insurance Proceeds | | 290,138 | 212,745 |
| Group Life Profit Share | | - | 67 |
| Other Income | | 79 | 252 |
| | | <u>290,217</u> | <u>213,064</u> |
| TOTAL REVENUE | | <u>6,089,119</u> | <u>8,589,394</u> |
| INVESTMENT EXPENSES | | | |
| Direct Investment Expenses | | 172,897 | 166,277 |
| Property Expenses | | 18,227 | 18,970 |
| Custodian Fees | | 5,411 | 5,168 |
| GROUP LIFE INSURANCE EXPENSES | | | |
| Insurance Premiums | | 670,456 | 549,961 |
| Group Life Profit Share | | 14,831 | 0 |
| GENERAL ADMINISTRATION EXPENSES | | | |
| Administration Fees | | 90,353 | 87,028 |
| Trust Operating Expenses | | 70,456 | 56,725 |
| Depreciation | | 365 | 317 |
| Auditor's Remuneration | 22 | 894 | 1,278 |
| Superannuation Contributions Surcharge | | 3 | 33 |
| TOTAL EXPENDITURE | | <u>1,043,893</u> | <u>885,757</u> |
| Operating Surplus for the Year Before Tax | | 5,045,226 | 7,703,636 |
| Less: Income Tax Expense | 11 | <u>347,381</u> | <u>544,538</u> |
| BENEFITS ACCRUED AS A RESULT OF OPERATIONS | | <u>4,697,845</u> | <u>7,159,099</u> |

The above Operating Statement should be read in conjunction with the accompanying notes.

**RETAIL EMPLOYEES SUPERANNUATION TRUST
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2016**

| | NOTE | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---|------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash Inflows: | | | |
| Dividends | | 921,865 | 899,101 |
| Rental Income | | 69,996 | 72,673 |
| Interest | | 169,394 | 183,357 |
| Contributions | | 4,883,943 | 4,854,854 |
| Group Life Insurance Proceeds | | 244,307 | 240,312 |
| Other Revenue | | 6,313 | 9,050 |
| Cash Outflows: | | | |
| Administration Expenses | | (90,176) | (86,566) |
| Insurance Premiums | | (657,258) | (546,658) |
| Operating Expenses | | (65,772) | (66,261) |
| Income Tax Paid | | (538,458) | (415,300) |
| Surcharge Tax Paid | | 182 | 26 |
| Members' Benefits | | (2,368,210) | (2,106,015) |
| NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES | 9 | 2,576,126 | 3,038,573 |
| CASH FLOWS FROM INVESTING AND OTHER ACTIVITIES | | | |
| Net Cash Flow from Purchase and Sale of Investments | | (2,437,862) | (2,841,966) |
| Direct Investment Expenses | | (194,181) | (190,162) |
| Purchase of Fixed Assets | | (227) | (267) |
| NET CASH FLOW USED IN INVESTING AND OTHER ACTIVITIES | | (2,632,270) | (3,032,395) |
| NET INCREASE / (DECREASE) IN CASH HELD | | (56,144) | 6,178 |
| CASH AT THE BEGINNING OF THE PERIOD | | 99,011 | 92,833 |
| CASH AT THE END OF THE PERIOD | 10 | 42,867 | 99,011 |

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

**RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 1. GENERAL INFORMATION

Retail Employees Superannuation Trust ("The Trust") operates as a superannuation fund domiciled in Australia. The head office is located at 50 Carrington Street, Sydney, NSW 2000. The Trust was registered with the Australian Prudential Regulation Authority on the 30th of September 2004. The licence number (RSE) is R1000016. The Trust is a public offer fund. It provides superannuation products predominantly to members in the retail sector. The types of superannuation products provided are both Defined benefit and Accumulation.

The Directors of The Trustee authorised the issue of the Financial Statements on the 22 September 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The Financial Statements are general purpose statements which have been drawn up in accordance with Australian Accounting Standards including AAS 25 : "Financial Reporting by Superannuation Plans (AAS25)", as amended by AASB 2005-13 "Amendments to Australian Accounting Standards (AAS25)", the Superannuation Industry (Supervision) Act 1993 and Regulations and the provisions of the Trust Deed.

The Financial Statements have been prepared in accordance with the historical cost convention, except for the valuation of investments which are measured at net market value.

(b) Statement of Compliance

The Financial Statements are prepared on the basis of the revised Australian Accounting Standards, which include Australian equivalents of International Financial Reporting Standards ("AIFRS"). Since AAS25 is the principal standard that applies to the financial statements, other standards, including AIFRS, are also applied where necessary except to the extent that they differ from AAS25.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods. The Trustee's assessment of the impact of these new standards (to the extent relevant to the Trust) and interpretations is set out below:

(i) AASB 9 Financial Instruments (and applicable amendments), (effective from 1 January 2018)

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

(ii) AASB 1056 replaces AAS 25 Financial Reporting by Superannuation Plans and is first applicable to the Trust for the year ended 30 June 2017. The Trust has decided not to early adopt the new standard.

AASB 1056 will have a number of impacts on the financial statements of the Trust. The key changes will include:

- The Trust will prepare five statements under the new standard rather than the three currently:
 - Statement of financial position;
 - Income statement;
 - Statement of changes in equity/reserves;
 - Statement of cash flows; and
 - Statement of changes in member benefits.
- The Trust must recognise member benefits as a liability on the face of the statement of financial position.
- The statement of financial position will need to disclose the surplus or deficit of the Trust.
- Net assets will reflect the Trust's reserves, including the Operational Risk Reserve.
- Additional disclosures are required, including the main features of the specific contractual or statutory arrangement in place between the superannuation entity and the relevant employer sponsors.
- There may be increased disclosure in relation to insurance arrangements.
- The concept of Net Market Value (NMV) is replaced with Fair Value (FV) for the measurement of financial assets and liabilities.

(iii) AASB 15 Revenue from Contracts with Customers, (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue which will replace AASB 118 and covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Trust's main sources of income are interest, dividends and gains on financial instruments held at fair value. As these sources of revenue are outside the scope of the new revenue standard, the Trustee does not expect the adoption of the new revenue recognition rules to have a significant impact on the Trust's accounting policies or the amounts recognised in the financial statements.

**RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

There are no other standards that are not yet effective and that are expected to have a material impact on the Trust in the current or future reporting periods and on foreseeable future transactions.

(c) Valuation of Investments and Derivatives

Investments and derivatives of the Trust are recorded at net market value and changes in the net market value of assets are recognised in the Operating Statement in the periods in which they occur. Net market value has been determined as follows:

- (i) Shares in listed companies, units in listed trusts, government securities and other fixed interest securities by reference to market quotations at the reporting date.
- (ii) Unlisted unit trusts by reference to the Net Asset Value per unit at the reporting date.
- (iii) Property is revalued at least annually by reference to an independent valuation, in accordance with the Trustee's policy on revaluations.
- (iv) The Trust has exposure in the normal course of business arising from transactions in interest rate, share indices and currency futures. The Trust also has exposure arising from transactions in share options, interest rate, equity and cross-currency swaps.
- (v) Derivative financial instruments including forward exchange contracts and fixed interest rate futures are recorded at market rates at close of business on the balance date.

Estimated costs of realisation have been deducted in determining net market value. Net market value is considered a reasonable approximation of fair value.

(d) Cash and Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Revenue Recognition

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

Changes in Net Market Values

Changes in the net market value of investments are calculated as the difference between the net market value at sale, or at balance date, and the net market value at the previous valuation point and recognised in the Operating Statement.

Contributions and Transfers In

Contributions and transfers in are recognised when control of the asset has been attained and are recorded, gross of any tax, in the period to which they relate.

Interest

Revenue is recognised as interest accrues using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividends and Distributions

Revenue is recognised when the right to receive payment is established.

Rental Income and Expense Rental income

Rental income is the gross rent earned on direct property investments, and property expenses are shown separately as part of investment expenses.

(f) Income Tax

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

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial purposes.

Deferred income tax liabilities are recognised for all assessable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax

**RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

(g) Contributions Received and Benefits Paid

The accrual for contributions has been determined on the basis of cash received subsequent to the year end. The liability for outstanding claims has been determined on the basis of claims paid subsequently to year end.

(h) Death and Disablement Insurance

Insurance claims received have been classed as "Other Revenue - Group Life Insurance Proceeds". The corresponding benefit paid/payable to members has been included in Benefits Paid, or included in Amounts Allocated to Members' Accounts where unpaid.

(i) Fixed Assets

Motor vehicles, office equipment and furniture are depreciated over their estimated useful life. The cost of office refurbishment has been capitalised and is being amortised over the life of the lease, as shown in Note 13.

(j) Employee Entitlements

The Trust has calculated annual and long service leave entitlements on a present value basis of employees' entitlements not settled as at the end of the reporting period. Expenses which are consequential to the employment of the employees but which are not employee entitlements, for example, on-costs associated with annual and long service leave liability, have also been recognised as liabilities where the entitlements to which they relate have been recognised as liabilities and expenses in accordance with AASB 119 - Employee Benefits.

(k) Superannuation Contribution Surcharge

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

The superannuation surcharge liability recognised by the Trust has been charged to the relevant members' accounts.

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

(l) Consolidation

The Financial Statements include consolidation of the accounts of the subsidiary Super Investment Management Pty Limited ABN 86 079 706 657 .

(m) Investment Entity

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

- (a) the Trust has obtained funds from members for the purpose of providing them with superannuation services.
- (b) the Trust's business purpose, which is communicated directly to members, is investing solely for returns from capital appreciation and investment income; and
- (c) the performance of investments made by the Trust are measured and evaluated on a net market value basis.

The Trust also meets all of the typical characteristics of an investment entity. As a consequence, the Trust does not consolidate these investments, but accounts for them at net market value with movements in net market value being recognised in the Operating Statement.

**RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Goods and Services Tax

Revenues, expenses and assets, with the exception of receivables and payables, are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable, it is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable. Receivables and payables are stated inclusive of GST. The net amount of GST receivable from the taxation authority is included as part of receivables in the Statement of Financial Position. Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing activities, which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(o) Derecognition of Financial Assets and Financial Liabilities

A financial asset is derecognised when:

- (a) the rights to receive cash flows from the asset have expired; or
- (b) the Trust transfers substantially all the risks and rewards of ownership of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(p) Significant Accounting Judgements, Estimates and Assumptions

The Trust makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(q) Valuation of Accrued Benefits

The amount of accrued benefits has been actuarially determined. The key assumptions are discussed in note 5.

(r) Receivables and Other Payables

Receivables are carried at nominal amounts due which approximate net market value. Receivables are normally settled within 30 days. An allowance for uncollectible amounts is only made where there is objective evidence that the debt will not be collected.

Other payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Trust and are carried at nominal amounts which approximate net market value. Payables are normally settled on 30 day terms.

(s) Accrued Benefits

The liability for accrued benefits is the Trust's present obligation to pay benefits to members and beneficiaries. This has been calculated as the difference between the carrying amount of the assets and the carrying amounts of the sundry liabilities and income tax liabilities as at balance date.

(t) Foreign Currency

Both the functional and presentation currency of the Trust is Australian dollars (\$). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in a previous financial report, are recognised in the operating result in the period in which they arise. Non-monetary items that are measured in terms of historical cost measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined.

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 3. LIABILITY FOR ACCRUED BENEFITS

Accrued benefits represents the Trust's present obligation to pay benefits to members and beneficiaries and has been calculated as the difference between the carrying amounts of the assets and the carrying amounts of the sundry liabilities and income tax liabilities as at balance date.

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---|--------------------------|--------------------------|
| Liability for accrued benefits at the beginning of the period | 37,424,525 | 32,381,965 |
| Plus: Benefits Accrued as a Result of Operations | 4,697,845 | 7,159,099 |
| Less: Gross Benefits Paid and Payable | | |
| Withdrawals | (237,043) | (258,934) |
| Rollovers | (1,431,644) | (1,329,184) |
| Retirements | (163,623) | (153,346) |
| Deaths | (226,566) | (133,627) |
| Permanent Disablements | (62,387) | (53,677) |
| Pensions | (241,308) | (187,771) |
| Total Gross Benefits Paid and Payable | <u>(2,362,571)</u> | <u>(2,116,539)</u> |
| Liability for accrued benefits at the end of the period | <u><u>39,759,799</u></u> | <u><u>37,424,525</u></u> |

NOTE 3a. NOT YET ALLOCATED

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|-----------------------|----------------------|
| Amounts not yet allocated to member's accounts consist of: | | |
| Contributions not yet allocated | 76,611 | 46,796 |
| Investment earnings not yet allocated | 38,305 | 10,435 |
| | <u><u>114,916</u></u> | <u><u>57,231</u></u> |

Investment earnings are allocated to members accounts via the unit pricing process as soon as the valuation information is available. However due to the time lag in receiving certain valuations, there will always be a timing difference between the valuations used for allocation to member accounts and that reflected in the financial statements. This difference is the 'Investment earnings not yet allocated' and can be positive or negative.

NOTE 3b. VESTED BENEFITS

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

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|--------------------------|--------------------------|
| Vested Benefits at the End of the Period - Accumulation Members | <u>39,508,837</u> | <u>37,173,251</u> |
| Vested Benefits at the End of the Period - Defined Benefit Members | <u>24,443</u> | <u>35,499</u> |
| Total Vested Benefits at the End of the Period | <u><u>39,533,280</u></u> | <u><u>37,208,750</u></u> |

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 4. RESERVES

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---|---------------------|---------------------|
| Reserves are split into the following components: | | |
| Operational Risk Financial Requirement Reserve | 99,155 | 97,136 |
| Capital Reserve | 20,698 | 29,904 |
| Group Life Insurance Reserve | 31,810 | 45,314 |
| Administration Reserve | 43,174 | 43,421 |
| PDF Reserve | 31,682 | - |
| | <u>226,519</u> | <u>215,775</u> |

The PDF Reserve was recognised during the year where funds are to be used by REST on insurance related initiatives that have a direct benefit to members. The PDF is funded by REST's insurer, AIA Australia Limited.

NOTE 5. DEFINED BENEFIT PLAN ACCOUNT

The amount of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Trust up to 30 June 2016. The figure 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.

Accrued benefits have been previously valued as part of comprehensive actuarial reviews undertaken at the following dates:

| | | Accrued benefit | Next Actuarial Review |
|-------------------------------|--------------|-----------------|-----------------------|
| Accrued benefits - SDA | 1 July 2015 | 9,658,557 | 1 July 2018 |
| Accrued benefits - RIDBC | 1 July 2015 | 528,817 | 1 July 2018 |
| Accrued benefits - Akzo Nobel | 30 June 2014 | 12,602,000 | 30 June 2017 |

The Tetra Pak Staff Benefit Fund a sub-plan of Acumen was closed on 29 September 2015.

NOTE 6. GUARANTEED BENEFITS

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

NOTE 7. FUNDING ARRANGEMENTS

The Trust is predominantly a defined contribution plan providing superannuation benefits for the members of the Retail Employees Superannuation Trust. The Trust's primary purpose is to provide benefits for its members.

The funding policy adopted in respect of the Defined Benefit Plan component is directed at ensuring that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. As such, in framing employer contribution rates, the Actuary has considered long-term trends in such factors as Trust membership, salary growth and average market value of Trust assets.

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 8. MOVEMENT IN NET MARKET VALUES

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---|---------------------|---------------------|
| Investments Held at End of Year | | |
| Cash & Short Term Deposits | 6,829 | 1,041 |
| Other Interest Bearing Securities | (75,307) | 228,460 |
| Australian Equities | 324,930 | 80,582 |
| International Equities | (658,364) | 1,375,069 |
| Direct Property | 64,893 | 39,642 |
| Other (Unlisted Trusts, Derivatives) | 246,782 | 220,925 |
| | <u>(90,237)</u> | <u>1,945,719</u> |
| Investments Realised During the Year | | |
| Cash & Short Term Deposits | 61,482 | 68,965 |
| Other Interest Bearing Securities | 49,485 | 87,475 |
| Australian Equities | (88,493) | 186,221 |
| International Equities | (39,418) | 530,059 |
| Direct Property | 26,219 | - |
| Other (Unlisted Trusts, Derivatives) | (230,665) | (523,554) |
| | <u>(221,390)</u> | <u>349,166</u> |
| | <u>(311,627)</u> | <u>2,294,885</u> |

NOTE 9. NOTE TO CASH FLOW STATEMENT

**RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES
TO BENEFITS ACCRUED AS A RESULT OF OPERATIONS.**

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|---------------------|---------------------|
| Benefits Accrued as a Result of Operations | 4,697,845 | 7,159,099 |
| Cash Flows in Operating Profit Attributable to Non Operating Activities | | |
| Movement in Net Market Value-(Gain)/Loss | 311,627 | (2,294,885) |
| Direct Investment Charges | 186,874 | 203,244 |
| Non Cash Flows in Operating Profit | | |
| Depreciation of Fixed Assets | 324 | 282 |
| Changes in Assets and Liabilities | | |
| (Increase)/Decrease in Contributions Receivable | (30,784) | (18,196) |
| (Increase)/Decrease in Group Life Insurance Proceeds Receivable | - | 27,500 |
| (Increase)/Decrease in Accrued Investment Income | (16,538) | (56,315) |
| (Increase)/Decrease in Sundry Debtors | (34,676) | (6,074) |
| Increase/(Decrease) in Insurance Premiums Payable | 13,198 | 3,303 |
| Increase/(Decrease) in Administration Expenses Payable | 177 | 743 |
| Increase/(Decrease) in Sundry Creditors | 6,775 | (14,545) |
| Increase/(Decrease) in Benefits Payable | (5,639) | 10,527 |
| Increase/(Decrease) in Income Tax Payable | (68,245) | 40,232 |
| Increase/(Decrease) in Deferred Tax Assets/Liabilities | (122,242) | 100,199 |
| Cash Items Not Included in Result of Operations | | |
| Benefits Paid | (2,362,571) | (2,116,541) |
| Net Cash Flows from Operating Activities | <u>2,576,126</u> | <u>3,038,573</u> |

NOTE 10. CASH

For the purpose of the cash flow statement, cash includes cash on hand and in banks other than that held by the investment custodian. Cash at the end of the year as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

| | | |
|--------------|---------------|---------------|
| Cash at Bank | <u>42,867</u> | <u>99,011</u> |
|--------------|---------------|---------------|

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 11. INCOME TAX**Income Tax Expense**

Major components of income tax expense are:

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|---------------------|---------------------|
| Operating Statement | | |
| <i>Current income tax charge</i> | | |
| Current income tax charge | 469,313 | 441,095 |
| Adjustments in respect of current income tax of previous years | 310 | 3,243 |
| <i>Deferred income tax</i> | | |
| Relating to origination and reversal of temporary differences | (122,242) | 100,200 |
| Income tax expense reported in operating statement | <u>347,381</u> | <u>544,538</u> |

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

| | | |
|--|------------------|------------------|
| Benefits accrued as a result of operations before income tax | <u>5,045,226</u> | <u>7,703,636</u> |
| Income Tax at 15% | 756,784 | 1,155,545 |
| Imputation and Foreign Tax Credits | 25,232 | 24,022 |
| Decrease in Income Tax Expense due to Permanent Differences | | |
| Non-Assessable Group Life Proceeds | (38,798) | (31,912) |
| Non-Assessable Member Contributions | (70,508) | (86,216) |
| Non-Assessable Transfers from Other Funds | (149,215) | (173,013) |
| Non-Deductible Superannuation Contribution Surcharge | - | 5 |
| Non-Deductible No TFN Contributions Tax | (590) | (7,739) |
| Non-Deductible Expenses | 72 | 110 |
| Anti-Detriment Provision | (4,497) | (3,592) |
| Imputation and Foreign Tax Credits | (168,215) | (160,148) |
| Non-Assessable Investment Income | 11,619 | (145,614) |
| Exempt Pension Income | (10,091) | (30,154) |
| Non Assessable - PDF Reserve | (4,722) | - |
| Tax Expense for Current Year | <u>347,071</u> | <u>541,295</u> |
| Under/(over) provision for prior years | 310 | 3,243 |
| Total Income Tax Expense | <u>347,381</u> | <u>544,538</u> |

Deferred income tax

Deferred income at 30 June 2016 relates to the following:

Deferred income tax liabilities

| | | |
|---|----------------|----------------|
| Net Capital Gains on investments subject to CGT | 490,387 | 625,043 |
| Contributions Receivable | 16,081 | 11,474 |
| Investment Income Receivable | 27 | 80 |
| Unrealised Revenue Gains | 2,213 | 3,563 |
| Gross deferred income tax liabilities | <u>508,708</u> | <u>640,160</u> |

Deferred income tax assets

| | | |
|--|---------------|---------------|
| Accrued expenses | 10,523 | 7,315 |
| Investment Income Receivable (incl deferred tax credits) | 11,228 | 23,646 |
| Gross deferred income tax assets | <u>21,751</u> | <u>30,961</u> |

The effective rate of income tax paid by the Trust for 2016 was 6.9% (2015: 7.1%).

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 12. MEMBERSHIP AND PARTICIPATING EMPLOYERS

| | 30-Jun-16 No. | 30-Jun-15 No. |
|-------------------------|------------------|------------------|
| Active Members | 1,260,436 | 1,337,151 |
| Inactive Members | 625,599 | 731,377 |
| Total Membership | <u>1,886,035</u> | <u>2,068,528</u> |
| Participating Employers | <u>164,603</u> | <u>170,892</u> |

Active members are those in receipt of regular contributions from their participating employers. Inactive members no longer receive a contribution from their participating employers.

NOTE 13. FIXED ASSETS

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---------------------------------------|---------------------|---------------------|
| Motor Vehicles | | |
| Cost | 1,471 | 1,172 |
| Accumulated Depreciation | <u>(1,471)</u> | <u>(1,172)</u> |
| | - | - |
| Office Equipment and Furniture | | |
| Cost | 1,160 | 1,160 |
| Accumulated Depreciation | <u>(1,160)</u> | <u>(1,160)</u> |
| | - | - |
| Capitalisation - Refurbishment | | |
| Cost | 434 | 434 |
| Accumulated Amortisation | <u>(396)</u> | <u>(299)</u> |
| | 38 | 135 |
| Net Written Down Value | <u>38</u> | <u>135</u> |

NOTE 14. COMMITMENTS AND CONTINGENT LIABILITIES

The Trust has outstanding capital commitments in respect of investments in unlisted securities that have not been called upon. The amount of commitments contracted for at the reporting date but not recognised as liabilities is \$1,067,429,000 (2015: \$1,310,937,000)

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 15. FINANCIAL ASSETS HELD AT NET MARKET VALUE

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|---------------------|---------------------|
| Managers Liquidity | | |
| Cash | 961,897 | 1,137,673 |
| Margin Accounts | 70,442 | 130,323 |
| Term Deposits | 236,589 | 396,052 |
| | <u>1,268,928</u> | <u>1,664,048</u> |
| Listed Equity Securities | | |
| Australian Equity Securities | 8,609,746 | 8,339,892 |
| International Equity Securities | 11,761,119 | 11,602,928 |
| | <u>20,370,865</u> | <u>19,942,820</u> |
| Fixed Interest Securities | | |
| Australian Fixed Interest Securities | 1,432,324 | 1,526,568 |
| International Fixed Interest Securities | 1,798,881 | 2,237,669 |
| | <u>3,231,205</u> | <u>3,764,237</u> |
| Unlisted Trusts | | |
| Unlisted Trusts - Equities | 50,092 | 37,338 |
| Unlisted Trusts - Equity Strategies | 737,142 | 813,400 |
| Unlisted Trusts - Fixed Interest | 2,977,030 | 2,330,002 |
| Unlisted Trusts - Property | 2,949,986 | 2,462,070 |
| Unlisted Trusts - Infrastructure | 1,871,412 | 1,657,284 |
| Unlisted Trusts - Absolute Return Strategies | 2,945,982 | 2,353,516 |
| Unlisted Trusts - Other | 251,008 | 232,024 |
| | <u>11,782,652</u> | <u>9,885,634</u> |
| Derivatives | | |
| Fixed Interest Futures | 307 | 376 |
| Share Price Index Futures | 1,769 | 38,353 |
| Bank Bill Futures | 4 | 3 |
| Low Exercise Price Option | 270,173 | 260,681 |
| Forward Foreign Exchange | 252,425 | 65,044 |
| Warrants | 23,314 | 28,120 |
| | <u>547,992</u> | <u>392,577</u> |

NOTE 16. FINANCIAL LIABILITIES HELD AT NET MARKET VALUE

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|---------------------|---------------------|
| Derivatives | | |
| Fixed Interest Futures | 1,228 | 759 |
| Share Price Index Futures | 10,050 | 2,133 |
| Low Exercise Price Option | 234,201 | 209,485 |
| Forward Foreign Exchange | 107,880 | 205,681 |
| | <u>353,359</u> | <u>418,058</u> |
| Other Investment Accruals | | |
| At the end of the year the Trust had unsettled purchase transactions that were entered into by its wholly owned subsidiary - Super Investment Management Pty Limited as follows: | | |
| Repurchase Agreements | 475,503 | 525,172 |
| Income received in advance | 15 | - |
| | <u>475,518</u> | <u>525,172</u> |

**RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 17. FINANCIAL RISK MANAGEMENT

The investments of the Trust (other than cash held for liquidity purposes), comprising discretely managed portfolios and units in collective investment vehicles such as various unit trusts and other managed investments, are held on behalf of the Trustee by its global custodian. Each investment manager is required to invest the assets managed by it in accordance with the terms of a written mandate. The Trustee has determined that appointment of these managers is appropriate for the Trust and is in accordance with the Trust's investment strategy.

For the Core Option, the Trustee determines the asset allocation to different asset classes within specific ranges. The Trustee receives advice from its investment adviser in making its assessment. The asset allocation is reviewed monthly. The other investment options have set asset allocations which are reviewed annually.

The Trust's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Trust manages this investment risk as part of its overall risk management framework. The Trust's investment managers may use derivative financial instruments to reduce risks in the share, bond and currency markets and to increase or decrease the Trust's exposure to particular investment classes or markets within pre-determined ranges. Derivative financial instruments are included in the relevant asset category in the Statement of Financial Position.

Financial risk management is carried out by the Trustee through the Investment Committee with advice from an external investment adviser and internal management. The Trustee obtains regular reports from each investment manager on the nature of the investments made on its behalf and the associated risks.

The Trust uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ratings analysis for credit risk. The Trust's investment adviser uses a range of qualitative and quantitative measures when assessing the individual managers' and overall Trust's investment arrangements.

(a) Market Risk**(i) Price Risk**

The Trust is exposed to equity securities and derivative securities price risk. This arises from investments held by the Trust for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. The securities are classified on the Statement of Financial Position at net market value. All securities investments present a risk of loss of capital. The maximum risk is determined by the net market value of the financial instruments.

The Trustee mitigates this price risk through diversification. Diversification is achieved through investment manager selection with a range of investment styles and different investment mandates. The majority of the Trust's equity investments are publicly traded and included in the major ASX indices or the MSCI World Index.

Market risk is minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies. Investment manager mandate compliance and performance reports against benchmark are reported on a regular basis to the Investment Committee.

Sensitivity analysis

The percentage increases in the relevant asset classes as set out in the table below at the reporting date would have increased the net assets available to pay benefits by \$4,641,968,000 (2015: an increase of \$4,997,086,000). An equal change in the opposite direction would have decreased the net assets available to pay benefits by \$4,641,968,000 (2015: a decrease of \$4,997,086,000). The impact on the net investment revenue would have been an increase or decrease of \$4,641,968,000 (2015: \$4,997,086,000). The impact mainly arises from the reasonably possible change in the net market value of listed equities, direct property, unlisted trusts and equity derivatives. The reasonably possible movements in the risk variables have been determined based on the Trustee's best estimate, in consultation with its investment adviser, having regard to the average absolute annual returns of the relevant index in local terms over a 10 year period.

| Asset Class | Percentage | |
|------------------------|------------|------|
| | 2016 | 2015 |
| Australian Equities | 17% | 19% |
| International Equities | 18% | 21% |
| Direct Property | 10% | 11% |
| Infrastructure | 10% | 9% |
| Equity Strategies | 10% | 11% |
| Absolute Return | 7% | 8% |

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 17. FINANCIAL RISK MANAGEMENT (Continued)**(a) Market Risk (Continued)****(ii) Foreign Exchange Risk**

The Trust holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis. The Trust's investment policy states that the benchmark allocation for foreign currency exposure is 15%. The minimum of the allowable range is 10%. The maximum of the allowable range is equal to the top of the range for the overseas asset class. However, the actual level of foreign currency exposure within the Core Strategy will not be greater than the Target Asset Allocation to that asset class at any particular point in time. This is implemented via a currency overlay manager, who monitors the foreign currency exposure on a weekly basis, and takes out forward foreign exchange contracts as appropriate. For accounting purposes the Trust does not designate any derivatives as hedges in a hedging relationship, and hence these derivative financial instruments are classified on the Statement of Financial Position at net market value. Compliance with the Trust's policy is reported to the Investment Committee on a regular basis.

The table below summarises the Trust's assets and liabilities that are denominated in a currency other than the Australian dollar

| 30-Jun-16 | US Dollar A\$'000 | Japanese Yen A\$'000 | GB Pound A\$'000 | Euro A\$'000 | HK Dollar A\$'000 | Other A\$'000 | Total \$'000 |
|-------------------------------|--------------------------|-----------------------------|-------------------------|---------------------|--------------------------|----------------------|---------------------|
| Assets | 9,859,703 | 550,547 | 1,159,542 | 1,604,029 | 663,873 | 2,435,493 | 16,273,187 |
| Liabilities | (188,649) | (20,314) | (5,326) | (19,134) | (2,623) | (6,041) | (242,088) |
| Foreign Exchange Contracts ** | (6,658,969) | (474,149) | (286,860) | (912,815) | (239,910) | (616,720) | (9,189,424) |
| Net Exposure | 3,012,085 | 56,083 | 867,356 | 672,079 | 421,340 | 1,812,732 | 6,841,675 |

| 30-Jun-15 | US Dollar A\$'000 | Japanese Yen A\$'000 | GB Pound A\$'000 | Euro A\$'000 | HK Dollar A\$'000 | Other A\$'000 | Total \$'000 |
|-------------------------------|--------------------------|-----------------------------|-------------------------|---------------------|--------------------------|----------------------|---------------------|
| Assets | 9,565,934 | 561,010 | 1,175,732 | 1,815,653 | 716,182 | 2,319,097 | 16,153,608 |
| Liabilities | (47,051) | (11,563) | (7,568) | (22,412) | (7,908) | (12,832) | (109,334) |
| Foreign Exchange Contracts ** | (5,964,569) | (510,675) | (404,605) | (673,518) | (175,430) | (359,851) | (8,088,648) |
| Net Exposure | 3,554,314 | 38,772 | 763,559 | 1,119,723 | 532,844 | 1,946,414 | 7,955,626 |

** Foreign Exchange Contracts are the value of the exchange exposure (rather than the market value of the hedged instrument).

Sensitivity analysis

An 11% strengthening (2015: 12%) of the Australian dollar against the following currencies at the reporting date would have increased/(decreased) the net assets available to pay benefits and the net investment revenue by the amounts shown in the table below. The analysis assumes that all other variables, in particular interest rates, remain constant. The impact mainly arises from the reasonably possible change in foreign currency rates. The reasonably possible movements in the risk variables have been determined based on the Trustee's best estimate, in consultation with its investment adviser, having regard to the average absolute divergence between the unhedged and hedged MSCI World Index ex Australia annual returns over a 10 year period. The amounts include both monetary and non monetary items because it is not feasible to allocate the FFX hedging against specific assets.

| | US Dollar A\$'000 | Japanese Yen A\$'000 | GB Pound A\$'000 | Euro A\$'000 | HK Dollar A\$'000 |
|------------------|--------------------------|-----------------------------|-------------------------|---------------------|--------------------------|
| 30-Jun-16 | (298,495) | (5,558) | (85,954) | (66,602) | (41,754) |
| 30-Jun-15 | (380,819) | (4,154) | (81,810) | (119,970) | (57,090) |

An 11% weakening (2015: 12%) of the Australian dollar against the above currencies at the reporting date would have the equal but opposite effect to the amounts shown above on the basis that all other variables remain constant.

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 17. FINANCIAL RISK MANAGEMENT (Continued)**(a) Market Risk (Continued)****(iii) Interest Rate Risk**

The Trust's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cashflows. The risk is measured using sensitivity analysis.

As at 30 June 2016, the Trust's investment strategy is to hold approximately 15% invested in fixed interest securities, either via mandates or through unlisted trusts. The Trustee monitors its fixed interest exposure on a monthly basis. The Trust may also enter into derivative financial instruments to mitigate the risk of future interest rate changes.

The Trust's exposure to interest rate movements on those investments at 30 June 2016 was as follows:

| | Floating Interest rate \$'000 | Fixed Interest Rate \$'000 | Non Interest Bearing \$'000 | Total \$'000 |
|--|-------------------------------------|----------------------------------|--------------------------------------|-------------------|
| 30-Jun-16 | | | | |
| Financial Assets | | | | |
| Unsettled Investment Sales | - | - | 147,895 | 147,895 |
| Managers Liquidity | 1,032,339 | 236,589 | - | 1,268,928 |
| Equity Securities | - | - | 20,370,865 | 20,370,865 |
| Fixed Interest Securities | 1,538,081 | 1,693,125 | - | 3,231,206 |
| Discount Securities | 2,914,722 | - | - | 2,914,722 |
| Direct Property | - | - | 856,864 | 856,864 |
| Unlisted Trusts | - | - | 11,782,652 | 11,782,652 |
| Derivatives | - | - | 547,992 | 547,992 |
| Financial Liabilities | | | | |
| Unsettled Investment Purchases | - | - | (232,864) | (232,864) |
| Derivatives | - | - | (353,359) | (353,359) |
| Investment Management Fees Payable | - | - | (54,771) | (54,771) |
| Other Investment Accruals | - | - | (475,518) | (475,518) |
| Total | 5,485,142 | 1,929,714 | 32,589,756 | 40,004,612 |
| Net increase/decrease in exposure from interest rate futures (notional principal) | 51,035 | (51,035) | - | - |
| Net exposure | 5,536,177 | 1,878,679 | 32,589,756 | 40,004,612 |

| | Floating Interest rate \$'000 | Fixed Interest Rate \$'000 | Non Interest Bearing \$'000 | Total \$'000 |
|--|-------------------------------------|----------------------------------|--------------------------------------|-------------------|
| 30-Jun-15 | | | | |
| Financial Assets | | | | |
| Unsettled Investment Sales | - | - | 76,881 | 76,881 |
| Managers Liquidity | 1,267,996 | 396,052 | - | 1,664,048 |
| Equity Securities | - | - | 19,942,820 | 19,942,820 |
| Fixed Interest Securities | 1,622,800 | 2,141,437 | - | 3,764,237 |
| Discount Securities | 2,396,778 | - | - | 2,396,778 |
| Direct Property | - | - | 855,588 | 855,588 |
| Unlisted Trusts | - | - | 9,885,634 | 9,885,634 |
| Derivatives | - | - | 392,577 | 392,577 |
| Financial Liabilities | | | | |
| Unsettled Investment Purchases | - | - | (99,611) | (99,611) |
| Derivatives | - | - | (418,058) | (418,058) |
| Investment Management Fees Payable | - | - | (60,156) | (60,156) |
| Other Investment Accruals | - | - | (525,172) | (525,172) |
| Total | 5,287,574 | 2,537,489 | 30,050,503 | 37,875,566 |
| Net increase/decrease in exposure from interest rate futures (notional principal) | (50,925) | 50,925 | - | - |
| Net exposure | 5,236,649 | 2,588,414 | 30,050,503 | 37,875,566 |

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 17. FINANCIAL RISK MANAGEMENT (Continued)**(a) Market Risk (Continued)****(iii) Interest Rate Risk (Continued)***Sensitivity analysis*

An increase of 78 basis points (2015: 80 basis points) in interest rates would have decreased the net assets available to pay benefits and the net investment revenue by \$56,452,000 (2015: a decrease of \$78,466,000). A move by the same amount in the opposite direction would have increased the net assets available to pay benefits and the net investment revenue by \$56,452,000 (2015: an increase of \$78,466,000).

The impact mainly arises from the reasonably possible change in interest rates on the net market value of fixed interest securities. The reasonably possible movements in the risk variables have been determined based on the Trustee's best estimate, in consultation with its investment adviser, having regard to the average annual absolute movement in the yields of 10 year Australian and US Government bonds over a 10 year period.

(b) Credit Risk

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, and amounts due from brokers. None of these assets are impaired nor past due but not impaired.

The Trust primarily invests in debt securities which are rated by a well known rating agency. The Trust manages its exposure to credit risk by setting minimum grade ratings by investment type and a minimum overall weighted average credit rating in its investment mandates. Compliance with mandates is reported to the Investment Committee on a monthly basis.

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The risk associated with these contracts is minimised by undertaking transactions predominantly with counterparties on recognised exchanges, and ensuring that transactions are undertaken with a range of counterparties.

The Trust does not have any significant exposure to any individual counterparty or industry. Its assets are invested by individual investment managers and in specific investment trusts and investment linked insurance policies.

The net market value of financial assets included in the Statement of Financial Position represent the Trust's exposure to credit risk in relation to those assets. An analysis of debt securities by rating is set out in the table below.

Australian Fixed Interest Securities

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---------------|---------------------|---------------------|
| Rating | | |
| AAA | 969,645 | 994,988 |
| AA | 366,341 | 456,550 |
| A | 36,235 | 18,155 |
| Below BBB | 60,103 | 56,874 |
| Total | <u>1,432,324</u> | <u>1,526,567</u> |

International Fixed Interest Securities

| | | |
|---------------|------------------|------------------|
| Rating | | |
| AAA | 103,430 | 86,357 |
| AA | 361,922 | 511,190 |
| A | 191,801 | 356,315 |
| BBB | 336,993 | 291,043 |
| Below BBB | 804,735 | 992,764 |
| Total | <u>1,798,881</u> | <u>2,237,669</u> |

(c) Liquidity Risk

Liquidity risk is the risk that the Trust will encounter difficulty in raising cash to meet commitments associated with member benefits. Cash flow interest rate risk is the risk that future cash flows on a financial instrument will fluctuate because of changes in market interest rates.

To control liquidity and cash flow interest rate risk, the Trust invests the large majority of its assets in financial instruments, which under normal market conditions are readily convertible to cash.

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 17. FINANCIAL RISK MANAGEMENT (Continued)**(c) Liquidity Risk (Continued)**

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

| | Contract / Notional \$'000 | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | >12 months \$'000 |
|--|----------------------------------|--------------------------------|----------------------|-----------------------|----------------------|
| 30-Jun-16 | | | | | |
| Financial Liabilities | | | | | |
| Unsettled Investment Purchases | 232,864 | 232,864 | - | - | - |
| Net Settled Derivatives | 245,479 | 408 | 245,071 | - | - |
| Investment Management Fees Payable | 54,771 | 54,771 | - | - | - |
| Other Investment Accruals | 475,518 | 475,518 | - | - | - |
| Total Net Settled Financial Liabilities | 1,008,633 | 763,562 | 245,071 | - | - |

| | Contract / Notional \$'000 | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | >12 months \$'000 |
|--|----------------------------------|--------------------------------|----------------------|-----------------------|----------------------|
| 30-Jun-15 | | | | | |
| Financial Liabilities | | | | | |
| Unsettled Investment Purchases | 99,611 | 99,611 | - | - | - |
| Net Settled Derivatives | 212,377 | 789 | 211,588 | - | - |
| Investment Management Fees Payable | 60,156 | 60,156 | - | - | - |
| Other Investment Accruals | 525,172 | 525,172 | - | - | - |
| Total Net Settled Financial Liabilities | 897,316 | 685,728 | 211,588 | - | - |

In addition, the total liability for accrued benefits of \$39,759,799,000 (2015 \$37,424,525,000) has a contractual maturity of less than 1 month.

The table below analyses the contractual maturities of the Trust's derivative financial instruments that will be settled on a gross basis, based on the remaining period to the contractual maturity date at the year end.

| | Contract / Notional \$'000 | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | >12 months \$'000 |
|------------------------------------|----------------------------------|--------------------------------|----------------------|-----------------------|----------------------|
| 30-Jun-16 | | | | | |
| Foreign currency forward contracts | | | | | |
| Inflows | 14,660,124 | 4,097,187 | 8,992,879 | 1,570,057 | - |
| (Outflows) | (14,512,519) | (4,062,159) | (8,891,660) | (1,558,700) | - |

| | Contract / Notional \$'000 | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | >12 months \$'000 |
|------------------------------------|----------------------------------|--------------------------------|----------------------|-----------------------|----------------------|
| 30-Jun-15 | | | | | |
| Foreign currency forward contracts | | | | | |
| Inflows | 13,399,273 | 4,024,876 | 8,273,919 | 1,100,478 | - |
| (Outflows) | (13,554,571) | (4,042,994) | (8,403,025) | (1,108,552) | - |

(d) Net Fair Values of Financial Assets and Liabilities

The Trust's financial assets, liabilities and derivative instruments are included in the Statement of Financial Position at amounts that approximate the net fair value.

Refer to Note 2 for the methods and assumptions adopted in determining the net market values of derivatives and investments.

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 17. FINANCIAL RISK MANAGEMENT (Continued)

(e) Offsetting financial assets and financial liabilities

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

| 30-Jun-16 | Amount per financial statements \$'000 | Related amount not offset \$'000 | Net amount \$'000 |
|--------------------------|---|---|----------------------|
| Financial assets | | | |
| Forward Foreign Exchange | 252,425 | (75,000) | 177,425 |
| Financial liabilities | | | |
| Forward Foreign Exchange | 107,880 | (75,000) | 32,880 |

| 30-Jun-15 | Amount per financial statements \$'000 | Related amount not offset \$'000 | Net amount \$'000 |
|--------------------------|---|---|----------------------|
| Financial assets | | | |
| Forward Foreign Exchange | 65,044 | (32,182) | 32,863 |
| Financial liabilities | | | |
| Forward Foreign Exchange | 205,681 | (32,182) | 173,499 |

(f) Fair value hierarchy

The Trust classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels: Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1). Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2). Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by The Trust. The Trust considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The tables below set out the Trust's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2016 and 30 June 2015

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, low exercise price derivatives, government and semi government bonds. Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include, corporate bonds and certain unlisted unit trusts, forward foreign exchange contracts and swaps. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include direct property, Australian and International mortgage backed securities, and unlisted investments in infrastructure and property unit trusts. As observable prices are not available for these securities, the Trust has used valuation techniques to derive fair value.

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 17. FINANCIAL RISK MANAGEMENT (Continued)**(f) Fair value hierarchy (Continued)****Fair Value Hierarchy**

| 30-Jun-16 | Total \$'000 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
|--------------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|
| - Unsettled Investment Sales | 147,895 | 147,895 | - | - |
| - Managers Liquidity | 1,268,928 | 1,268,928 | - | - |
| - Listed Equity Securities | 20,370,865 | 20,370,865 | - | - |
| - Fixed Interest Securities | 3,231,205 | 1,253,878 | 461,292 | 1,516,035 |
| - Discount Securities | 2,914,722 | 2,914,722 | - | - |
| - Direct Property | 856,864 | - | - | 856,864 |
| - Unlisted Trusts | 11,782,652 | - | 6,710,246 | 5,072,406 |
| - Derivatives | 547,992 | 295,567 | 252,425 | - |
| Total Financial Asset | 41,121,123 | 26,251,855 | 7,423,962 | 7,445,305 |
| - Unsettled Investment Purchases | 232,864 | 232,864 | - | - |
| - Derivatives | 353,359 | 245,479 | 107,880 | - |
| - Investment Management Fees Payable | 54,771 | 54,771 | - | - |
| - Other Investment Accruals | 475,518 | 475,518 | - | - |
| Total Financial Liability | 1,116,512 | 1,008,632 | 107,880 | - |
| | | | | |
| Net Financial Fair Value | 40,004,611 | 25,243,223 | 7,316,082 | 7,445,305 |

| 30-Jun-15 | Total \$'000 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 |
|--------------------------------------|-------------------------|---------------------------|---------------------------|---------------------------|
| - Unsettled Investment Sales | 76,881 | 76,881 | - | - |
| - Managers Liquidity | 1,664,048 | 1,664,048 | - | - |
| - Listed Equity Securities | 19,942,820 | 19,942,820 | - | - |
| - Fixed Interest Securities | 3,764,237 | 1,721,241 | 427,141 | 1,615,854 |
| - Discount Securities | 2,396,778 | 2,396,778 | - | - |
| - Direct Property | 855,588 | - | - | 855,588 |
| - Unlisted Trusts | 9,885,634 | - | 5,534,256 | 4,351,378 |
| - Derivatives | 392,577 | 327,533 | 65,044 | - |
| Total Financial Asset | 38,978,563 | 26,129,301 | 6,026,441 | 6,822,820 |
| - Unsettled Investment Purchases | 99,611 | 99,611 | - | - |
| - Derivatives | 418,058 | 212,377 | 205,681 | - |
| - Investment Management Fees Payable | 60,156 | 60,156 | - | - |
| - Other Investment Accruals | 525,172 | 525,172 | - | - |
| Total Financial Liability | 1,102,997 | 897,316 | 205,681 | - |
| | | | | |
| Net Financial Fair Value | 37,875,566 | 25,231,985 | 5,820,760 | 6,822,820 |

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 17. FINANCIAL RISK MANAGEMENT (Continued)**(f) Fair value hierarchy (Continued)**

The table below sets out the movement in level 3 instruments by class of financial instrument:

| 30-Jun-16 | Total \$'000 | Fixed Interest Securities \$'000 | Direct Property \$'000 | Unlisted Trust \$'000 |
|--|------------------|--|---------------------------|--------------------------|
| Opening Net Market Value | 6,822,821 | 1,615,854 | 855,588 | 4,351,379 |
| Gains/(Losses) recognised in profit/loss | 445,492 | (75,233) | 91,112 | 429,613 |
| Add: Purchases in current year | 1,300,956 | 628,961 | 6,921 | 665,074 |
| Less: Sale Proceeds in Current year | (1,123,964) | (653,547) | (96,757) | (373,660) |
| Closing Net Market Value | 7,445,305 | 1,516,035 | 856,864 | 5,072,406 |

| 30-Jun-15 | Total \$'000 | Fixed Interest Securities \$'000 | Direct Property \$'000 | Unlisted Trust \$'000 |
|--|------------------|--|---------------------------|--------------------------|
| Opening Net Market Value | 5,502,684 | 1,316,725 | 811,976 | 3,373,983 |
| Gains/(Losses) recognised in profit/loss | 427,671 | 200,024 | 39,642 | 188,004 |
| Add: Purchases in current year | 1,761,813 | 583,629 | 3,970 | 1,174,213 |
| Less: Sale Proceeds in Current year | (869,347) | (484,525) | - | (384,822) |
| Closing Net Market Value | 6,822,821 | 1,615,854 | 855,588 | 4,351,379 |

(g) Valuation inputs and relationship to net market value

Direct properties are revalued at least annually by an independent valuer. Both the capitalisation method and discounted cash flow method is used to value the properties. Key assumptions include the capitalisation rate and the discount rate. Infrastructure assets held directly by REST or through related entities are revalued at least annually by an independent valuer using the discounted cash flow method as the primary valuation method. Key assumptions include the discount rate. Mortgaged backed fixed interest securities are valued using broker quotes, and other unlisted unit trusts are valued at the redemption price calculated by the responsible entity of the trust.

The following tables summarise the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 17. FINANCIAL RISK MANAGEMENT (Continued)**(g) Valuation inputs and relationship to net market value (Continued)**

| 30-Jun-16 Description | Net Market Value \$'000 | Unobservable Inputs | Range of Inputs - (weighted average) | Relationship to Net Market Value |
|------------------------------|----------------------------|------------------------|---|---|
| Direct Property | 856,864 | Cap rate | 5.63% - 6.75% (6.1%) | a change in the cap rate by +/- 25 basis points would change the value by \$40 million |
| | | Discount rate | 7.13% - 7.50% (7.3%) | a change in the disc rate by +/- 25 basis points would change the value by \$17 million |
| Directly Held Infrastructure | 861,921 | Discount rate | 7.6% - 11.0% (9.4%) | a change in the disc rate by +/- 47 basis points would change the value by \$46 million |

| 30-Jun-15 Description | Net Market Value \$'000 | Unobservable Inputs | Range of Inputs - (weighted average) | Relationship to Net Market Value |
|------------------------------|----------------------------|------------------------|---|---|
| Direct Property | 855,588 | Cap rate | 6.5% - 6.88% (6.7%) | a change in the cap rate by +/- 25 basis points would change the value by \$32 million |
| | | Discount rate | 8% - 8.5% (8.2%) | a change in the disc rate by +/- 25 basis points would change the value by \$16 million |
| Directly Held Infrastructure | 762,025 | Discount rate | 8.1% - 10.4% (9.5%) | a change in the disc rate by +/- 28 basis points would change the value by \$25 million |

(h) Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. Depending on the Trust's power over the activities of the entity and its exposure to and ability to influence its own returns, it may control the entity. However, the Trust applies the Investment Entity Exemption available under AASB 10 and therefore does not consolidate its controlled entities. In other cases it may have exposure to such an entity but not control it.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Trust. Such interests include holdings of units in unlisted trusts. The nature and extent of the Trust's interests in structured entities are titled "unlisted unit trusts" and are summarised in note 15.

The Trust has exposure to unconsolidated structured entities through its investments. The Trust typically has no other involvement with the structured entity other than the securities it holds as part of its investments and its maximum exposure to loss is restricted to the carrying value of the investment.

The Trust's risk management policies focus on ensuring compliance with its governing documents and seeks to maximise the returns derived for the level of risk to which the Trust is exposed. The financial risks associated with the investments are referred to throughout note 17.

During the year the Trust did not provide any financial support to unconsolidated structured entities and has no intention of providing financial or other support. The Trust's investment strategy entails investments in other funds on a regular basis and the Trust intends to continue investments in other funds.

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business the Trust enters into transactions in various derivative financial instruments with certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument type, foreign exchange rate, or other variable. The use of derivatives is an essential part of the Trust's investment management. Derivatives are not managed in isolation. They are used for a number of purposes including adjusting asset exposures within the parameters set in the investment strategy and adjusting the duration of fixed interest portfolios. An overview of the risk exposures relating to derivatives is included in note 17.

| | Contract/ Notional \$'000 | Net Market Value | |
|---------------------------|---------------------------------|------------------|-----------------------|
| | | Assets \$'000 | Liabilities \$'000 |
| 30-Jun-16 | | | |
| Fixed Interest Futures | 117,921 | 307 | 1,228 |
| Share Price Index Futures | 1,128,231 | 1,769 | 10,050 |
| Bank Bill Futures | 58,872 | 4 | - |
| Low Exercise Price Option | 639 | 270,173 | 234,201 |
| Forward Foreign Exchange | 12,742,975 | 252,425 | 107,880 |
| Warrants | 12 | 23,314 | - |
| | 14,048,651 | 547,992 | 353,359 |

| | Contract/ Notional \$'000 | Net Market Value | |
|---------------------------|---------------------------------|------------------|-----------------------|
| | | Assets \$'000 | Liabilities \$'000 |
| 30-Jun-15 | | | |
| Fixed Interest Futures | 416,934 | 376 | 759 |
| Share Price Index Futures | 1,963,517 | 38,353 | 2,133 |
| Bank Bill Futures | 298,565 | 3 | - |
| Low Exercise Price Option | 577 | 260,681 | 209,485 |
| Forward Foreign Exchange | 10,962,969 | 65,044 | 205,681 |
| Warrants | 7 | 28,120 | - |
| | 13,642,568 | 392,577 | 418,058 |

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 19. SEGMENT INFORMATION

The Trust operates solely in one reportable business segment, being the provision of benefits to members. The Trust also operates from one reportable geographic segment, being Australia, from where its activities are managed. Whilst the Trust operates from Australia only, the Trust has investment exposures in different countries and across different industries. Revenue is derived from interest, dividends, property rentals, gains on sales of investments, unrealised changes in value of investments, and contributions revenue.

NOTE 20. STOCK LENDING

The Trust has entered into stock lending arrangements with its global custodian, under which legal title to some of the Trust's assets may be transferred to another entity. The risks and benefits of ownership of the assets remain with the Trust. The Trust maintains collateral of at least 102% of the value of any scrip lent. The net market value of assets subject to stock lending arrangements at the reporting date, and which are included in the Statement of Financial Position, amounts to \$863,317,000 (2015: \$797,528,000).

NOTE 21. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

During the year there was some uncertainty about the validity of certain historical amendments made to the terms of the trust deed for the Trust including amendments related to the determination of member's interests in the Trust. The Trustee sought to confirm the terms of the trust deed in the Supreme Court of South Australia. On 8 August 2016 the judgement was handed down which confirmed the terms of the trust deed prospectively. The Trustee does not believe that the changes have any material effect on how the Trustee has been determining members' interests, on the Trust as a whole, or on the Trustee's administration of the Trust.

NOTE 22. AUDITOR'S REMUNERATION

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---|---------------------|---------------------|
| Amounts received or due and receivable by the external auditor: | | |
| - an audit of the financial statements of the entity | 216 | 225 |
| - other professional services | 588 | 1,027 |
| - under/(over) accrual of Audit fee payable from prior year | 89 | 26 |
| | <u>894</u> | <u>1,278</u> |

NOTE 23. RELATED PARTIES**Retail Employees Superannuation Pty Limited**

The following persons held the position of Director of Retail Employees Superannuation Pty Limited during part or all of the year.

Employer Representatives

Mr John Vincent Edstein
 Mr Rohan Kenneth Stretton Jeffs
 Mr Steven John Priestley
 Mr Duncan Ewan Shaw

Employee Representatives

Mr Ian John Blandthorn
 Mr Joseph de Bruyn
 Ms Sue-Anne Combe Burnley
 Mr Geoffrey John Williams

Independent Director

Mr Kenneth Marshman

The amount payable to the Trustee Company in respect of compensation to Directors is set out in the table below:

| | 2016 \$'000 | 2015 \$'000 |
|--------------------------|----------------|----------------|
| Short-Term Benefits | 923 | 784 |
| Post Employment | 88 | 75 |
| Other Long Term Benefits | - | - |
| Termination Benefits | - | - |
| Share Based Payment | - | - |
| | <u>1,011</u> | <u>859</u> |

Mr John Edstein received payments totalling \$96,250 (2015: \$215,765) for consulting services provided to the Trustee Company during the period he was a Director of the Trustee Company.

**RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

NOTE 23. RELATED PARTIES (Continued)

The Trustee has an Australian Financial Services Licence with the AFSL Number being 240003 issued 2 February 2004. The Trustee has Registrable Superannuation Entity Trustee Licence Number L0000055 issued 1 October 2004.

Retail Employees Superannuation Pty Limited (the Company) paid premiums in respect of a contract to indemnify the Directors and Officers of the Company, of Retail Employees Superannuation Trust and its subsidiaries against claims for which they may be liable. The total amount of insurance premiums paid for the year ended 30 June 2016 was \$469,450 (2015: \$520,842).

Compensation of key REST Management Personnel

Key management personnel include the Directors, and the following Responsible Persons and Officers:

| 2016 | 2015 |
|--|---|
| Mr Damian Hill | Mr Damian Hill |
| Mr Ashley Boland (resigned 11 April 2016) | Mr Paul Sayer (resigned 24 October 2014) |
| Mr Chris Stevens | Mr Ashley Boland |
| Ms Mary Atley | Mr Chris Stevens |
| Mr Paul Howard | Ms Mary Atley |
| Ms Sandra Coleman | Ms Joanne Townsend (resigned 10 April 2015) |
| Mr Trevor Evans | Mr Paul Howard |
| Mr Andrew Howard | Ms Sandra Coleman |
| Mr Philip Budge | Mr Trevor Evans (appointed 5 August 2014) |
| Ms Elizabeth Parkin (appointed 2 November 2015) | Mr Andrew Howard (appointed 14 April 2015) |
| Mr Ronan Walsh (appointed 7 December 2015 and resigned 25 May 2016) | Mr Philip Budge (appointed 1 June 2015) |

The Directors are compensated by the Trustee Company as detailed above. The compensation payable to key management personnel of the Trust is set out in the table below:

| | 2016 \$'000 | 2015 \$'000 |
|--------------------------|----------------|----------------|
| Short-Term Benefits | 3,285 | 2,736 |
| Post Employment | 250 | 199 |
| Other Long Term Benefits | 35 | (22) |
| Termination Benefits | 161 | - |
| Share Based Payment | - | - |
| | <u>3,731</u> | <u>2,913</u> |

Super Investment Management Pty Limited (SIM)

SIM is a wholly owned subsidiary of Retail Employees Superannuation Trust. The following persons held the position of Director of SIM during part or all of the year.

| | |
|---------------------------|--|
| Mr Joseph de Bruyn | Mr Rohan Kenneth Stretton Jeffs |
| Mr Geoffrey John Williams | Mr Duncan Ewan Shaw (resigned 6/11/2015) |
| Mr Kenneth Marshman | Mr Steven John Priestley (appointed 6/11/2015) |

Retail Employees Superannuation Trust pays all the operating expenses of SIM. These expenses amounted to \$11,433,000 (2015: \$11,785,000).

The Directors did not receive any compensation in relation to their duties as Directors of SIM.

REST Infrastructure Pty Ltd

REST Infrastructure Pty Ltd is a wholly owned subsidiary of Retail Employees Superannuation Trust.

The following persons held the position of Director of REST Infrastructure Pty Ltd during part or all of the year.

| |
|---|
| Mr George Zielinski |
| Mr Richard Alexander Roberts (resigned 1/10/2015) |
| Mr William Crawford Grant (appointed 1/10/2015) |

During the year the following related party transactions occurred between REST and REST Infrastructure Pty Ltd:

- (i) REST Infrastructure Pty Ltd paid a fully franked dividend of \$13,228,308 (2015: \$25,646,522) to REST
- (ii) REST Infrastructure Pty Ltd repaid an interest free loan of \$19,636,650 (2015: \$28,393,095) to REST.
- (iii) REST made an interest free loan of \$13,228,308 (2015: \$29,584,259) to REST Infrastructure Pty Ltd

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 23. RELATED PARTIES (Continued)

The impact on the Trust's operating statement in relation to its investment in REST Infrastructure Pty Ltd was an increase in net market value of \$34,681,000 (2015: increase of \$20,909,000)

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---|---------------------|---------------------|
| The Trust's investment in REST Infrastructure Pty Ltd is structured as follows: | | |
| Equity | 99,250 | 99,250 |
| Interest free loan | 117,007 | 123,488 |
| | <u>216,257</u> | <u>222,738</u> |
| Revaluation | 231,943 | 197,262 |
| Net market value | <u>448,200</u> | <u>420,000</u> |

REST AMPCI Equity Holdings Pty Ltd (formerly REST Equity Holdings Pty Ltd)

REST AMPCI Equity Holdings Pty Ltd is a wholly owned subsidiary of Retail Employees Superannuation Trust.

The following persons held the position of Director of REST AMPCI Equity Holdings Pty Ltd during part or all of the year:

Mr Christopher Stevens
Mr Paul Howard
Mr Damian Hill

During the year the following related party transactions occurred between REST and REST AMPCI Equity Holdings Pty Ltd:
(i) REST invested \$0 (2015: \$138,705,707) as equity in REST AMPCI Equity Holdings Pty Ltd.

The impact on the Trust's operating statement in relation to its investment in REST AMPCI Equity Holdings Pty Ltd was a movement in net market value of \$41,112,000 (2015: \$5,718,000).

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|---------------------|---------------------|
| The Trust's investment in REST AMPCI Equity Holdings Pty Ltd is structured as follows: | | |
| Equity | 138,706 | 138,706 |
| Revaluation | 46,830 | 5,718 |
| Net market value | <u>185,536</u> | <u>144,424</u> |

REST AMPCI Debt Holding Trust (formerly REST Debt Holdings Trust)

REST Nominees No.1 Pty Ltd as Trustee for REST AMPCI Debt Holding Trust is a wholly owned subsidiary of Retail Employees Superannuation Trust. The following persons held the position of Director of REST Nominees No.1 Pty Ltd during part or all of the year:

Mr Christopher Stevens
Mr Paul Howard
Mr Damian Hill

During the year the following related party transactions occurred between REST and REST AMPCI Debt Holding Trust:

- (i) REST invested \$8,544,275 (2015: \$6,936,098) as units in REST AMPCI Debt Holding Trust.
(ii) Distributions paid and payable by REST AMPCI Debt Holding Trust to REST of \$21,623,425 (2015: \$20,564,212)

The impact on the Trust's operating statement in relation to its investment in REST AMPCI Debt Holding Trust was a increase in net market value of \$16,202,000 (2015: decrease \$9,875,000).

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---|---------------------|---------------------|
| The Trust's investment in REST AMPCI Debt Holding Trust is structured as follows: | | |
| Cost of units | 184,497 | 175,952 |
| Revaluation | 12,320 | (3,882) |
| Net market value | <u>196,817</u> | <u>172,070</u> |

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 23. RELATED PARTIES (Continued)**REST US Infrastructure Investments Holding Trust**

REST Nominees No.1 Pty Ltd as Trustee for REST US Infrastructure Investments Holding Trust is a wholly owned subsidiary of Retail Employees Superannuation Trust. The following persons held the position of Director of REST Nominees No.1 Pty Ltd during part or all of the year:

Mr Christopher Stevens
 Mr Paul Howard
 Mr Damian Hill

During the year the following related party transactions occurred between REST and REST US Infrastructure Investments Holding Trust:

(i) REST invested \$77,992,736 (2015: \$9,650,419) as units in REST US Infrastructure Investments Holding Trust.

The impact on the Trust's operating statement in relation to its investment in REST US Infrastructure Investments Holding Trust was an decrease in net market value of \$6,306,830 (2015: \$144,371)

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|---------------------|---------------------|
| The Trust's investment in REST US Infrastructure Investments Holding Trust is structured as follows: | | |
| Units | 87,643 | 9,650 |
| Revaluation | (6,162) | 144 |
| Net market value | <u>81,481</u> | <u>9,794</u> |

REST Direct Property Holding Trust

REST Nominees No.1 Pty Ltd as Trustee for REST Direct Property Holding Trust is a wholly owned subsidiary of Retail Employees Superannuation Trust. The following persons held the position of Director of REST Nominees No.1 Pty Ltd during part or all of the year:

Mr Christopher Stevens
 Mr Paul Howard
 Mr Damian Hill

During the year the following related party transactions occurred between REST and REST Direct Property Holding Trust:

(i) REST invested \$532,048 (2015: \$353,329,930) as units in REST Direct Property Holding Trust.

(ii) Distributions paid and payable by REST Direct Property Holding Trust to REST of \$24,040,432 (2015: \$21,513,855).

The impact on the Trust's operating statement in relation to its investment in REST Direct Property Holding Trust was an increase in net market value of \$49,800,000 (2015: \$10,253,000 decrease)

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|---------------------|---------------------|
| The Trust's investment in REST Direct Property Holding Trust is structured as follows: | | |
| Units | 353,862 | 353,330 |
| Revaluation | 39,547 | (10,253) |
| Net market value | <u>393,409</u> | <u>343,077</u> |

REST US Property Investments Holding Trust

REST Nominees No.1 Pty Ltd as Trustee for REST US Property Investments Holding Trust is a wholly owned subsidiary of Retail Employees Superannuation Trust. The following persons held the position of Director of REST Nominees No.1 Pty Ltd during part or all of the year:

Mr Christopher Stevens
 Mr Paul Howard
 Mr Damian Hill

During the year the following related party transactions occurred between REST and REST US Property Investments Holding Trust:

(i) REST invested \$220,782,340 (2015: \$47,569,374) as units in REST US Property Investments Holding Trust.

(ii) Distributions paid and payable by REST US Property Investments Holding Trust to REST of \$3,233,488 (2015: \$1,130,838).

RETAIL EMPLOYEES SUPERANNUATION TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 23. RELATED PARTIES (Continued)

The impact on the Trust's operating statement in relation to its investment in REST US Property Investments Holding Trust was a decrease in net market value of \$1,369,160 (2015: \$3,383,000)

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|---------------------|---------------------|
| The Trust's investment in REST US Property Investments Holding Trust. is structured as follows: | | |
| Units | 268,352 | 47,569 |
| Revaluation | 2,014 | 3,383 |
| Net market value | <u>270,366</u> | <u>50,952</u> |

REST Finance Trust

REST Nominees No.1 Pty Ltd as Trustee for REST Finance Trust is a wholly owned subsidiary of Retail Employees Superannuation Trust. The following persons held the position of Director of REST Nominees No.1 Pty Ltd during part or all of the year:

Mr Christopher Stevens
Mr Paul Howard
Mr Damian Hill

During the year the following related party transactions occurred between REST and REST Finance Trust:

- (i) REST invested \$96,391,976 (2015: \$200,000,100) as units in REST Finance Trust.
- (ii) Distributions paid and payable by REST Finance Trust to REST of \$13,264,961 (2015: \$1,958,466)

The impact on the Trust's operating statement in relation to its investment in REST Finance Trust was an decrease in net market value of \$1,003,000 (2015: \$0)

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|--|---------------------|---------------------|
| The Trust's investment in REST Finance Trust. is structured as follows: | | |
| Units | 296,392 | 200,000 |
| Revaluation | (1,003) | - |
| Net market value | <u>295,389</u> | <u>200,000</u> |

REST Hayfin Holding Trust

REST Nominees No.1 Pty Ltd as Trustee for REST Hayfin Holding Trust is a wholly owned subsidiary of Retail Employees Superannuation Trust. The following persons held the position of Director of REST Nominees No.1 Pty Ltd during part or all of the year:

Mr Christopher Stevens
Mr Paul Howard
Mr Damian Hill

During the year the following related party transactions occurred between REST and REST Hayfin Holding Trust:

- (i) REST invested \$161,330,350 (2015: \$Nil) as units in REST Hayfin Holding Trust.
- (ii) Distributions paid and payable by REST Hayfin Holding Trust to REST of \$781,682 (2015: \$Nil)

The impact on the Trust's operating statement in relation to its investment in REST Hayfin Holding Trust was a decrease in net market value of \$3,617,902 (2015: \$Nil)

| | 30-Jun-16 \$'000 | 30-Jun-15 \$'000 |
|---|---------------------|---------------------|
| The Trust's investment in REST Hayfin Holding Trust is structured as follows: | | |
| Units | 161,330 | - |
| Revaluation | (3,618) | - |
| Net market value | <u>157,712</u> | <u>-</u> |

NOTE 24. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is set out on page 4.