Mercer Superannuation (Australia) Limited

ABN 79 004 717 533

FINANCIAL REPORT
for the financial year ended 31 December 2017

Mercer Superannuation (Australia) Limited

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Mercer Superannuation (Australia) Limited

Directors' report

The directors of Mercer Superannuation (Australia) Limited ("the Company") submit herewith the financial report of the Company for the financial year ended 31 December 2017. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names and particulars of the directors of the Company during or since the end of the financial year are:

Brian Benger
Sue O'Connor
Jan Swinhoe
Benjamin Walsh
Darren Wickham (appointed 1 May 2017)
Pauline Vamos (appointed 1 July 2017)

The above named directors held office during and since the end of the financial year unless otherwise stated.

Principal activities

The Company's principal activity in the course of the financial year was to act as the trustee of a number of superannuation trusts. The Company is the trustee of a master trust, the Mercer Super Trust ('MST'), the Mercer Portfolio Service Superannuation Plan ('MPSSP') and the Newcastle Permanent Superannuation Plan ('NPSP'). On 1 May 2017, the Company became the trustee of Mercer Super Investment Trust ('MSIT'). The Company holds an Australian Prudential Regulation Authority (APRA) RSE license and an Australian Financial Services License (AFSL) with limited authorisation.

Review of operations

During the financial year, the Company reported a profit of $4,579,000 (2016: $3,494,000), with revenue of $236,636,000 (2016: $223,041,000).

Changes in the state of affairs

On 1 May 2017, Mercer Investments (Australia) Limited transferred the trusteeship of Mercer Super Investment Trust ("MSIT") to the Company. There was no other significant change in the state of affairs of the Company that occurred during the financial year.

Subsequent events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

Dividends

In respect of the financial year ended 31 December 2017, no dividends were declared (2016: nil).

Mercer Superannuation (Australia) Limited

Directors' report (cont)

Share options

Details of share options granted to directors during the year are:

Issuing Entity	Number of options granted	Grant date of options	Expiry date of options
Marsh & McLennan Companies, Inc.	4,498	22/02/2017	21/02/2027

Twenty five percent of the options are vested one year after they are granted. The remainder of the grant will vest in twenty five percent increments each year thereafter. Share options carry no rights to dividends and no voting rights. The share options are paid and expensed in the accounts of the parent company, Mercer (Australia) Pty Ltd.

Indemnification of officers and auditors

During the financial year, Mercer (Australia) Pty Ltd, the parent company of the Company, paid a premium in respect of a contract insuring the directors of the Company (as named previously), the company secretaries and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. In addition, the directors and company secretaries have each received an indemnity for the Company in respect of their role as an officer of the Company.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as an officer or auditor.

Auditor's independence declaration

The auditor's independence declaration is included on page 4 of the financial report.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporate Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

BENJAMIN WALSH

Director
26 March 2018

Deloitte.

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Independent Auditor's Report to the Members of Mercer Superannuation (Australia) Limited

Opinion

We have audited the financial report of Mercer Superannuation (Australia) Limited (the "Entity") which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Entity is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Entity's financial position as at 31 December 2017 and of its financial performance for the year ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Directors' are responsible for the other information. The other information comprises the Directors' report for the year ended 31 December 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

Deloitte.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

F O'Keefe

Fiona O'Keefe
Partner
Chartered Accountants

26 March 2018

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26 March 2018

The Board of Directors
Mercer Superannuation (Australia) Limited
727 Collins Street
Docklands, VIC 3008

Dear Board Members

Mercer Superannuation (Australia) Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Mercer Superannuation (Australia) Limited.

As lead audit partner for the audit of the financial statements of Mercer Superannuation (Australia) Limited for the financial year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

F O'Keefe

Fiona O'Keefe
Partner
Chartered Accountants

Mercer Superannuation (Australia) Limited

Directors' declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company; and

(c) in the directors' opinion, the financial statements and notes thereto are in compliance with International Financial Reporting Standards issued by the International Accounting Standards Board as stated in note 2 to the financial statements.

Signed in accordance with a resolution of directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Director BENJAMIN WALSH
26 March 2018

Mercer Superannuation (Australia) Limited

Statement of Profit or Loss and Other Comprehensive Income
for the financial year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Revenue from services	3	232,229	218,299
Other income	3	4,407	4,742
Total Revenue		236,636	223,041
External custody administration and investment management fees		(12,112)	(9,967)
Administrative services provided by related entities	12	(211,407)	(203,482)
Administrative services provided by other entities		(3,911)	(3,687)
Management fees charged by parent entity	12	(729)	(738)
Other operating costs		(1,935)	(176)
Profit before income tax expense		6,542	4,991
Income tax expense	4 (a)	(1,963)	(1,497)
Profit for the year		**4,579**	**3,494**
Other comprehensive income (net of tax)		-	-
Total comprehensive income for the year attributable to owner of the Company		**4,579**	**3,494**

Notes to the financial statements are included on pages 13 to 31.

Mercer Superannuation (Australia) Limited

Statement of Financial Position
as at 31 December 2017

	Notes	2017 $'000	2016 $'000
Current Assets			
Cash and cash equivalents	13	36,062	31,985
Trade and other receivables	7	19,281	14,792
Inter-company tax receivable	4 (b)	9,622	4,966
Total Current Assets		**64,965**	**51,743**
Non-Current Assets			
Deferred Tax Asset	4 (c)	93	-
Total Non-Current Assets		93	-
Total Assets		**65,058**	**51,743**
Current Liabilities			
Trade and other payables	8	20,557	13,141
Total Current Liabilities		**20,557**	**18,668**
Total Liabilities		**20,557**	**13,141**
Net Assets		**44,501**	**38,602**
Equity			
Issued capital	9	18,504	18,504
Retained profits		25,997	20,098
Total Equity		**44,501**	**38,602**

Notes to the financial statements are included on pages 13 to 31.

Mercer Superannuation (Australia) Limited

Statement of Changes in Equity
for the financial year ended 31 December 2017

	Notes	Share Capital $ '000	Retained Profits $ '000	Total $ '000
Balance at 1 January 2016		**18,504**	**16,604**	**35,108**
Profit for the year		-	3,494	**3,494**
Other comprehensive income		-	-	**-**
Total comprehensive income		-	3,494	**3,494**
Balance at 31 December 2016	9 & 10	**18,504**	**20,098**	**38,602**
Balance at 1 January 2017		**18,504**	**20,098**	**38,602**
Profit for the year		-	4,579	**4,579**
Other comprehensive income		-	-	**-**
Total comprehensive income		-	4,579	**4,579**
Reserve Transfers	10		1,320	**1,320**
Balance at 31 December 2017	9 & 10	**18,504**	**25,997**	**44,501**

Notes to the financial statements are included on pages 13 to 31.

Mercer Superannuation (Australia) Limited

Statement of Cash Flows
for the financial year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Cash Flows From Operating Activities			
Interest received		4,407	4,742
Receipts from customers		255,549	219,525
Payments to related entities		(236,549)	(210,811)
Payments to suppliers and employees		(13,937)	(10,058)
Income tax paid		(6,713)	(7,114)
Net cash generated/(used in) from operating activities	13	2,757	(3,715)
Cash Flows From Financing Activities			
Reserve Transfers		1,320	-
Net cash generated from financing activities		1,320	-
Net increase/(decrease) in cash and cash equivalents		4,077	(3,715)
Cash and cash equivalents at the beginning of the financial year		31,985	35,700
Cash and cash equivalents at the end of the financial year	13	**36,062**	**31,985**

Notes to the financial statements are included on pages 13 to 31.

Mercer Superannuation (Australia) Limited

Notes to the financial statements
for the financial year ended 31 December 2017

1. **General information**

Mercer Superannuation (Australia) Limited is a limited public company, incorporated and operating in Australia. The registered office and principal place of business of the Company is Level 15, 727 Collins Street, Melbourne, Victoria 3008.

2. **Summary of accounting policies**

Application of new and revised Accounting Standards

In the current year, the Company has applied the following amendment to AASBs issued by the Australian Accounting Standards Board ("AASB") that is mandatorily effective for an accounting period that begins on or after 1 January 2017, and therefore relevant for the current year end.

• *AASB 2015 - 8 Amendments to Australian Accounting Standards - Effective Date of AASB15*

AASB 2015-8 Amendments to Australian Accounting Standards - Effective Date of AASB15 to amend the mandatory effective date of AASB 15 Revenue from Contracts with Customers so that AASB 15 is required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2017.

Standards and interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standards/Interpretations	Application date of Standards/ Interpretations	Application date for Company
AASB 9 'Financial Instruments' and the relevant amending standards'	*1 January 2018*	*1 January 2018*
AASB 15 'Revenue from Contracts with Customers'	*1 January 2018*	*1 January 2018*

AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The directors anticipate that the adoption of the Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company, but will change the disclosures presently made. The Company does not intend to adopt any of these pronouncements before their effective date.

2. **Summary of accounting policies (cont)**

Standards and interpretations in issue not yet adopted (cont)

AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards - Effective Date of AASB 15)

AASB 15 will supersede the current revenue recognition guidance including AASB 118 Revenue, when it becomes effective. The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To achieve this objective, AASB 15 provides the following five-step process:

1. identify the contracts(s) with a customer;
2. identify the performance obligations in the contract(s);
3. determine the transaction price;
4. allocate the transactions price to the perfomance obligations in the contract(s); and
5. recognise revenue when (or as) the performance obligations are satisfied.

Entities are permitted to adopt the guidance under one of the following methods: the "full retrospective" method, which applies the guidance to each period presented (prior years restated) or the "modified retrospective" method in which the guidance is only applied to the year of adoption, with the cumulative effect of initially applying the guidance recognized as an adjustment to retained earnings.The Company will adopt the new guidance effective 1 January 2018, using the modified retrospective method. Under this method, the Company could elect to apply the cumulative effect approach to all contracts or only open contracts as of the initial date of adoption.

The company's main sources of revenue arise through the provision of financial services to clients. These sources of revenue include:

1. Asset based fee
2. Activity fee
3. Trustee fee
4. Fiduciary interest

In accordance with the revenue recognition policies described in these financial statements, revenue is typically recognised as these services are delivered. Accordingly, the Directors' preliminary view is that the application of AASB 15 will have limited impact on the timing of revenue recognition and therefore the amounts recognised in the financial statements.

2. Summary of accounting policies (cont)

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

For the purpose of preparing the financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 26 March 2018.

Basis of preparation

The financial statements have been prepared on the basis of historical cost. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporate Instrument amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Significant accounting policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

2. Summary of accounting policies (cont)

(a) Goods and Service Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
(ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(b) Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding tax or duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the services provided as set out in the contract. Revenue is recognised at the rates in accordance to the services agreements and participation agreements up to the contracted amount.

Interest Income

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(c) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

2. Summary of accounting policies (cont)

(c) Income tax (cont)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the period

Current and deferred tax are recognised in the profit or loss, except when it relates to items credited or debited directly to equity or in other comprehensive income, in which case the current and deferred tax are also recognised directly to equity or in other comprehensive income. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation

The Company is part of a tax-consolidated group under Australian taxation law. Marsh Mercer Holdings (Australia) Pty Ltd ("MMHAPL") is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by MMHAPL (as head entity in the tax-consolidated group).

2. Summary of accounting policies (cont)

(c) Income tax (cont)

Tax consolidation (cont)

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the tax-consolidated group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 4 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(d) Cash and cash equivalents

Cash comprises cash on hand. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(e) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

2. Summary of accounting policies (cont)

(e) Financial assets (cont)

Receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

2. Summary of accounting policies (cont)

(f) Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Other financial liabilities, including borrowings, trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(g) Trade and other payables

Trade and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

(h) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described throughout note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue recognition

As outlined in note 2(b) revenue is recognised by reference to the services provided as set out in the contract. The directors will consider the the period of the service contract and completed works to the client to determine whether the revenue to be recognised is appropriate in the current period. The directors will consider the detailed criteria for the recognition of revenue as set out in Company policy and reference to AASB 118 'Revenue'.

Notes to the financial statements
for the financial year ended 31 December 2017

3. Revenue

An analysis of the Company's revenue for the year, from continuing operations, is as follows:	2017 $'000	2016 $'000
Revenue from services		
Rendering of services	232,229	218,299
Other income:		
Receipts under Trust Deed	3,902	4,200
Bank deposits	505	542
Total other income	4,407	4,742
Total Revenue	236,636	223,041

4. Income Tax

(a) Income tax recognised in profit or loss	2017 $'000	2016 $'000
Tax expense comprises:		
Current tax expense	2,056	1,497
Overprovision of tax in prior year	-	-
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences	(93)	-
Total tax expense attributable to continuing operations	1,963	1,497
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit from continuing operations	6,542	4,991
Income tax expense calculated at 30%	1,963	1,497
Overprovision of tax in prior year	-	-
Income tax expense attributable to ordinary activities	1,963	1,497
(b) Current income tax assets - receivable from related party		
Income tax receivable attributable to an entity within a tax-consolidation group	9,622	4,966
(c) Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences	93	-
Deferred tax liabilities comprise:		
Temporary differences	-	-
Net balances	93	-

Notes to the financial statements
for the financial year ended 31 December 2017

4. Income Tax (cont)

Taxable and deductible temporary differences arise from the following:

	Opening Balance	Charged to income	Closing Balance
	$'000	$'000	$'000
2017			
Gross deferred tax liabilities:			
Provisions	-	93	93
Other	-	-	-
Attributable to continuing operations	-	93	93
2016			
Gross deferred tax liabilities:			
Provisions	-	-	-
Other	-	-	-
Attributable to continuing operations	-	-	-

The Company is part of a tax-consolidated group and accordingly, does not pay tax or have franking credits in its own right.

Relevance of tax consolidation to the Company

The Company is part of a tax-consolidated group with effect from 1 January 2003 and has been therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is MMHAPL.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group, with effect from 1 January 2003, have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, MMHAPL and each of the entities in the tax-consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

5. Key Management Personnel Compensation

The directors of Mercer Superannuation (Australia) Limited during the financial year were:

Brian Benger
Sue O'Connor
Jan Swinhoe
Benjamin Walsh
Darren Wickham (appointed 1 May 2017)
Pauline Vamos (appointed 1 July 2017)

The aggregate compensation made to key management personnel of the Company which is paid and expensed in the accounts of the parent entity, Mercer (Australia) Pty Ltd, is set out below:

	2017 $	2016 $
Short-term employee benefits	1,243,348	1,240,290
Long-term employee benefits	7,863	12,398
Mandatory superannuation guarantee payments	19,832	19,462
Share-based payments *	248,259	111,147
	1,519,302	1,383,297

*Compensation includes the market value of options issued under the Marsh & McLennan Companies, Inc option plan in each year spread over a four year vesting period. The above compensation is paid and expensed in the accounts of the parent entity, Mercer (Australia) Pty Ltd, and full details of the option based compensation paid are included in the accounts of Mercer (Australia) Pty Ltd.

6. Remuneration of Auditors

The audit expense for the Company for the financial year is $58,040 (2016: $69,840). It is paid by the parent entity, and is not recorded as an expense in the Statement of Profit or Loss and Other Comprehensive Income. The auditor of the Company is Deloitte Touche Tohmatsu.

7. Trade and Other Receivables

	2017 $'000	2016 $'000
Current		
Trustee fee receivable	6,340	6,444
Sundry receivable	2,789	2,782
Receivables from related parties [a]	10,152	5,566
	19,281	14,792

[a] There are no fixed terms of repayment and all balances are interest free.

Notes to the financial statements
for the financial year ended 31 December 2017

8. Trade and Other Payables

	2017 $'000	2016 $'000
Current		
Accrued investment manager fees [a]	208	99
Payables to related parties [b]	19,973	12,372
Goods and Services Tax (GST) payable	376	670
	20,557	13,141

[a] Accrued investment manager fees operate on a variety of credit arrangements, the most common being settlement within 30 days from date of invoice. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

[b] There are no fixed terms of repayment and all balances are interest free.

9. Issued Capital

	2017 $'000	2016 $'000
18,503,823 fully paid ordinary shares (2016: 18,503,823)	18,504	18,504
	18,504	18,504

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

There was no issuance of ordinary shares for the financial year presented (2016: nil).

10. Operational Risk Reserve

	2017 $'000	2016 $'000
Operational Risk Reserve	29,900	27,900

The Operational Risk Reserve represents the financial resources required to meet the Company's Operational Risk Financial Requirement ("ORFR") to provide protection to members of the superannuation funds for which the Company is the Trustee. The Company may only use the reserve to rectify a loss to members, or the deprivation of a gain caused by an operational risk event. This does not include the costs associated with correcting the causes of an event.

The reserve amount is determined and approved by the Board in accordance with the ORFR Strategy document in May 2017. The reserve is held as cash term deposits and is accessible immediately should an operational risk event occur. During the year, no payments were made from the reserve. No operation risk event has occurred during the current and prior financial years.

On 1 May 2017, Mercer Investments (Australia) Limited transferred the trusteeship of MSIT to the Company. The Operational Risk Reserve of $1,320,000 was transferred to the Company as a distribution.

11. Contingent Liabilities

There may be outstanding Error and Omission claims and possible claims against the Company as at 31 December 2017, the aggregate amount of which cannot be readily quantified. Appropriate advice is obtained from management and, where applicable, legal advice may also be obtained. In light of such advice, provision is made for any such claims as may be deemed necessary in accordance with applicable accounting standards. When considering what provision is required, the Company's professional indemnity insurance is taken into account as the majority of claims are covered by this policy. Should there be any claims being presented against the Company, these claims will be managed by the parent entity, Mercer (Australia) Pty Ltd on the Company's behalf.

As at 31 December 2017, the directors are not aware of any claims not covered by the Company's professional indemnity insurance (2016: nil).

12. Related Party Disclosures

(a) Key Management Personnel Compensation and Retirement Benefits

Details of key management personnel compensation and retirement benefits are disclosed in note 5 to the financial statements.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

12. Related Party Disclosures (cont)

(b) Parent Entities

The parent entity of the Company is Mercer (Australia) Pty Ltd.
The ultimate Australian parent entity is MMC Holdings (Australia) Pty Ltd.
The ultimate parent entity in the wholly-owned group is Marsh & McLennan Companies Inc. which is incorporated in Delaware, United States of America.

(c) Transactions within the Wholly-Owned Group

The wholly-owned group includes:
- the ultimate parent entity in the wholly-owned group;
- the parent entity;
- wholly-owned controlled entities; and
- other entities in the wholly-owned group.

Amounts receivable from and payable to entities within the wholly-owned group are disclosed in notes 7 and 8 to the financial statements.

The parent entity, Mercer (Australia) Pty Ltd provided resources and performed certain administrative services for the Company under the Master Resource agreement, for which $728,633 (2016: $738,207) was charged, being an appropriate allocation of costs incurred by relevant administrative departments.

Income tax paid and receivable by Mercer (Australia) Pty Ltd on behalf of the Company was a total of $2,909,000 (2016: $2,148,000).

The Company paid a fee of $89,932,542 (2016: $80,667,293) to Mercer Investments (Australia) Limited, a related party within the wholly-owned group for investment management services provided to the Mercer Super Trust.

The Company paid a fee of $103,609,417 (2016: $105,707,020) to Mercer Outsourcing (Australia) Pty Ltd and $800,004 (2016: $800,004) to Mercer Financial Advice (Australia) Pty Ltd, both of which are related parties within the wholly-owned group for administration services provided to the Mercer Super Trust.

The Company paid a fee of $17,064,843 (2016: $16,308,115) to Mercer Financial Advice (Australia) Pty Ltd, a related party within the wholly-owned group for distribution fee for Mercer Portfolio Service Superannuation Plan.

On 1 May 2017, On 1 May 2017, Mercer Investments (Australia) Limited transferred the trusteeship of MSIT to the Company. The Operational Risk Reserve of $1,320,000 was also transferred as a distribution.

During the year, the Company paid no dividend income (2016: nil) to its parent entity, Mercer (Australia) Pty Ltd.

13. Notes to the Statement of Cash Flows

	2017 $'000	2016 $'000
Reconciliation of profit for the year to net cash flows from operating activities		
Profit from ordinary activities after related income tax	4,579	3,494
Decrease in tax related balances	(4,749)	(299)
(Increase)/decrease in assets:		
Trade and other receivables	97	1,225
Related parties receivables	(4,586)	(2,608)
Increase/(decrease) in liabilities		
Trade and other payables	(185)	107
Related parties payables	7,601	(5,634)
Net cash generated/(used) by operating activities	2,757	(3,715)
Reconciliation of cash and cash equivalents		
Cash at bank	6,162	4,085
Operational risk reserve cash account (Note 10)	29,900	27,900
	36,062	31,985

14. Trusts for which the Company is a Trustee

During the year ended 31 December 2017, the Company was the trustee for the following superannuation trusts:

- Mercer Super Trust;
- Mercer Portfolio Service Superannuation Plan;
- Newcastle Permanent Superannuation Plan; and
- Mercer Super Investment Trust. (effective on 1 May 2017)

In relation to the trusts for which the Board was responsible at year end:

- for the Mercer Portfolio Service Superannuation Plan, Newcastle Permanent Superannuation Plan, and the Mercer Super Investment Trust, the directors are satisfied that there are sufficient assets in each of these trusts to cover their respective liabilities; and

- for the Mercer Super Trust, this trust comprises four divisions - the Corporate Superannuation Division, the Personal Superannuation Division, the Allocated Pension Division and the Retail Division. Further, the Corporate Superannuation Division comprises both Defined Benefit plans and Accumulation plans.

  For the Corporate Superannuation Division Accumulation plans, the Personal Superannuation Division, the Allocated Pension Division and the Retail Division, the directors are satisfied that there are sufficient assets attributable to each of these divisions, or sub-divisions, to cover their respective liabilities.

Notes to the financial statements
for the financial year ended 31 December 2017

14. Trusts for which the Company is a Trustee (cont)

In relation to the Corporate Superannuation Division Defined Benefits plans generally, the financial status of defined benefit funds can vary from year to year according to investment performance, membership movements, salary increases, changes in actuarial expectations and other factors. As a result of their specific experiences, the net assets of a number of Defined Benefit plans within the Corporate Superannuation Division of the Mercer Super Trust were less than the defined benefit liabilities at 30 June 2017. The Mercer Super Trust had 76 Defined Benefit plans as at 30 June 2017, with coverage of defined benefit member liabilities by plan assets above 100% for approximately 93% of plans, and below 100% for the remainder with the exception of one, defined benefit plans are closed to new entrants. The participating employers of each plan contribute at rates determined by the Trustee, after consulting the employer, on advice of the plan actuary.

The financial position of plans in an unsatisfactory position (where vested benefits exceed the value of the assets) is monitored on a quarterly basis by plan actuaries, as required by the Trustee. Further, the Trustee requires that the relevant plan actuary review the current company contribution program and recommend a revised program if considered appropriate. Where appropriate on advice of the plan actuary, the Trustee will seek the employer sponsor's agreement to make additional contributions, which are intended to return the plan to a satisfactory financial position within a reasonable period of time. The Trustee continues to monitor the financial position of all Defined Benefit plans on a quarterly basis, including testing coverage against each plan's Shortfall Limits, in accordance with APRA's Prudential Standard SPS 160 relating to these plans. Remedition programs, where required, have been implemented in accordance with SPS 160 and the Trustee's policy for such programs.

15. Financial Instruments

(a) Capital Risk Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders of the parent entity, comprising issued capital and retained earnings as disclosed in the statement of changes in equity. The Company's dividend levels are driven by the cash flow requirements of the ultimate parent, but take into account directors considerations regarding cash flow requirements of the Company at the time.

The Company's overall strategy remains unchanged from 2016.

15. Financial Instruments (cont)

(b) Operational Risk Financial Requirement

The Operational Risk Financial Requirement ("ORFR") is the target amount of financial resource that the Trustee has determined is necessary to respond to any losses arising from operational risks.

The purpose of the ORFR is to provide protection to members in the event of an operational risk event occuring.

The Company, as Trustees to the superannuation trusts listed in Note 14, has determined that the ORFR (whether via capital or via an Operational Risk Reserve which is levied from member's funds) will be separately identifiable within an account and invested in a risk-free asset class, namely 100% in cash investments or local cash equivalents. The overall strategy is set out in the Company's Operational Risk Financial Requirement Strategy approved by the Board in May 2017.

(c) Financial Risk Management Objectives

The Corporate Treasury function of Mercer (Australia) Pty Ltd, the direct parent entity, provides services to the business, co-ordinates access to domestic financial markets, and manages the financial risks relating to the operations of the Company.

The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by Mercer's policies as approved by its board of directors, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

The Company's activities expose it to minor financial risks of changes in foreign currency exchange rates. The Company has elected not to manage its exposure to this foreign currency risk.

(d) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

(e) Fair Value of Financial Instruments

The fair value of financial assets and financial liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Cash, receivables, payables and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

Notes to the financial statements
for the financial year ended 31 December 2017

15. Financial Instruments (cont)

(f) Liquidity and Interest Risk Tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

	Notes	Weighted average effective rate %	Less than 1 month $'000	1 – 3 months $'000	Total $'000
2017					
Financial assets					
Cash and cash equivalents	13	1.30	36,062	-	36,062
Trustee fee and sundry receivables	7		9,129	-	9,129
Related parties receivables	7		10,152	-	10,152
			55,343	-	55,343
Financial liabilities					
Accrued investment manager fees and other payables	8		584	-	584
Related parties payables	8		19,973	-	19,973
			20,557	-	20,557
2016					
Financial assets					
Cash and cash equivalents	13	1.55	31,985	-	31,985
Trustee fee and sundry receivables	7		9,226	-	9,226
Related parties receivables	7		5,566	-	5,566
			46,777	-	46,777
Financial liabilities					
Accrued investment manager fees and other payables	8		769	-	769
Related parties payables	8		12,372	-	12,372
			13,141	-	13,141

All amounts are current assets/liabilities and relate to continuing operations.

Notes to the financial statements
for the financial year ended 31 December 2017

15. Financial Instruments (cont)

(g) Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(h) Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for the Company's cash assets at the end of the reporting period. If interest rates had been 50 basis points higher/lower and all other variables held constant, the impact on interest income would be:

	2017 $'000	2016 $'000
Profit	± 180	± 160

(i) Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

The Company manages liquidity risk by maintaining adequate funding level in banking facilities by continuously monitoring forecast, actual cash flows and matching the maturity profiles of financial assets and liabilities.

16. Events after the Reporting Period

There are no matters arising subsequent to the reporting date which may materially affect the financial performance or state of affairs of the Company.