

Vanguard® Wholesale Funds

Domestic funds

Annual Report
30th June 2011



Vanguard®



Vanguard® Cash Reserve Fund	ARSN 127 015 301	ABN 62 738 136 510
Vanguard® Cash Plus Index Fund	ARSN 090 940 060	ABN 19 638 293 529
Vanguard® Australian Government Bond Index Fund	ARSN 134 177 807	ABN 23 499 844 319
Vanguard® Australian Fixed Interest Index Fund	ARSN 090 939 941	ABN 52 931 145 473
Vanguard® Australian Property Securities Index Fund	ARSN 090 939 549	ABN 27 186 332 271
Vanguard® Australian Shares Index Fund	ARSN 090 939 718	ABN 65 759 271 740
Vanguard® Australian Shares High Yield Fund	ARSN 091 751 807	ABN 61 324 061 551

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About Vanguard

Since launching the first index mutual fund for individual investors in 1976, Vanguard has strived to be the world's highest value provider of investment products and services.

We have an unwavering focus on our clients and a commitment to champion what is best for investors by keeping costs as low as possible.



Our investment philosophy

Underlying Vanguard's investment approach is an enduring philosophy based on four key beliefs:

1. Minimise costs

All else being equal, investments with consistently low management fees and transaction costs can give investors a head start in achieving competitive returns*. Management fees create a drag on returns that make it difficult for a fund manager to add value. High fund turnover can drive up transaction costs and lower a fund's tax efficiency. To keep portfolio costs down, Vanguard adopts a buy-and-hold investment approach to minimise transaction costs and taxes.

2. Focus on strategic asset allocation

Research suggests that asset allocation is the most important investment decision investors will make, that is their mix of equities, fixed interest, property and cash within a portfolio. Historically asset allocation has accounted for more than 80 per cent of the variation in long term investment performance.

3. Invest for the long term

A sound investment approach starts with asset allocation with consideration to the time horizon of the investment objective.

4. Maintain diversification in portfolios

Being broadly diversified, with exposure to all parts of the share, fixed interest and property markets reduces the amount of risk a portfolio is exposed to.

Vanguard Investments Australia Ltd is a wholly owned subsidiary of The Vanguard Group, Inc. which is based in the US and currently manages nearly US\$ 1.9[†] trillion for nearly 25 million individual and institutional accounts.

In Australia, Vanguard has been helping investors meet their long-term financial goals with low cost indexing solutions for nearly 15 years.

*Past performance is not an indicator of future performance. Our products are designed to closely track market returns before fees, expenses and taxes. Investments are not guaranteed and may rise or fall.

[†]As at 30 June 2011

Directors' Report

The directors of Vanguard Investments Australia Ltd, the Responsible Entity of the Vanguard Index Funds, present their report together with the financial report of the following Vanguard Wholesale Index Funds (the Funds) for the year ended 30 June 2011:

- Vanguard Cash Reserve Fund
- Vanguard Cash Plus Index Fund
- Vanguard Australian Government Bond Index Fund
- Vanguard Australian Fixed Interest Index Fund
- Vanguard Australian Property Securities Index Fund
- Vanguard Australian Shares Index Fund
- Vanguard Australian Shares High Yield Fund

Principal activities

The Funds invest in accordance with the investment policy of the Funds as set out in the current Product Disclosure Statement (PDS) and in accordance with the Constitutions of the Funds. The Funds seek to closely track the total returns of the Funds' respective indexes, before taking into account Fund fees and expenses.

The Funds did not have any employees during the year.

There were no significant changes in the nature of the activities of the Funds during the year.

Directors

The following persons held office as directors of Vanguard Investments Australia Ltd during the year or since the end of the year and up to the date of this report:

J G Duffield – resigned 31 December 2010
 J H Wily – resigned 31 December 2010
 J M Norris
 G W Reed
 J P Brennan
 K A Watt
 J M James

Review and results of operations

During the year, the investment policy of the Funds continues to be that detailed in the current PDS and in accordance with the provisions of the Constitutions of the Funds. There have been no changes to the operations of the funds since last year.

Directors' Report *(continued)*

Review and results of operations *(continued)*

Results

The results of the operations of the Funds were as follows:

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	For the year ended 30 June		For the year ended 30 June		For the year ended 30 June		For the year ended 30 June	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating profit/(loss) before financing costs attributable to unitholders	81,774	55,497	22,296	17,672	2,948	3,242	158,181	190,019
<i>Distributions</i>								
Distribution paid and payable	90,793	50,970	24,728	21,426	2,623	2,002	172,102	151,704
Distribution (cents per unit)	5.2410	3.3524	5.5536	4.7914	4.0572	4.2183	5.9609	6.2068

	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
	For the year ended 30 June		For the year ended 30 June		For the year ended 30 June	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating profit/(loss) before financing costs attributable to unitholders	118,944	323,079	618,187	447,626	45,106	38,549
<i>Distributions</i>						
Distribution paid and payable	128,690	136,375	226,809	198,007	16,713	14,340
Distribution (cents per unit)	*	3.8772	*	*	*	5.1685

* The distribution for Vanguard Australian Shares Index Fund was 6.7748(2010: 6.4152) cents per unit for the Ordinary Class and 241.0858(2010: 231.7402) cents per unit for the ETF Class.

* The distribution for Vanguard Australian Property Securities Index Fund was 3.1347(2010: 3.8772) cents per unit for the Ordinary Class and 216.0710(2010: NIL) cents per unit for the ETF Class. Vanguard Australian Property Securities Index Fund (ETF class)'s inception date was 11 October 2010.

* The distribution for Vanguard Australian Shares High Yield Fund was 5.9417(2010: 5.1685) cents per unit for the Ordinary Class and 13.5517(2010: NIL) cents per unit for the ETF Class. Vanguard Australian Shares High Yield Fund (ETF class)'s inception date was 26 May 2011.

Directors' Report *(continued)*

Review and results of operations *(continued)*

Performance

The table below details the performance of the Funds as represented by the total return, net of fees, which is calculated as the aggregation of the percentage capital growth and percentage distribution of income. The total return is shown for the past five years to 30 June 2011 and assumes that all distributions were re-invested during

that period. These are calculated in accordance with FSC Standard 6.0 Product Performance – calculation and presentation of returns. The directors assess the performance of the Funds by comparing each Fund's total return with the corresponding Index (the Benchmark) gross of fees.

	2011	2010	2009	2008	2007
	%	%	%	%	%
Vanguard Cash Reserve Fund					
Capital growth	(0.51)	0.33	(0.37)	1.00	n/a
Distribution of income	5.31	3.39	5.66	3.91	n/a
Total return	4.80	3.72	5.29	4.91	n/a
Benchmark return					
<i>UBS Australia Bank Bill Index</i>	4.98	3.89	5.48	5.01	n/a
Vanguard Cash Plus Index Fund					
Capital growth	(0.53)	(0.90)	0.21	0.36	(0.74)
Distribution of income	5.58	4.74	6.75	6.28	6.69
Total return	5.05	3.84	6.96	6.64	5.95
Benchmark return					
<i>Tailored Index</i>	4.91	3.89	7.58	6.95	6.21
Vanguard Australian Government Bond Index Fund					
Capital growth	0.58	2.80	(3.45)	n/a	n/a
Distribution of income	4.20	4.49	1.75	n/a	n/a
Total return	4.78	7.29	(1.70)	n/a	n/a
Benchmark return					
<i>UBS Australian Government Bond Index</i>	5.02	7.58	(1.62)	n/a	n/a
Vanguard Australian Fixed Interest Index Fund					
Capital growth	(0.35)	1.70	4.41	(0.05)	(1.48)
Distribution of income	5.65	6.02	6.60	4.10	5.26
Total return	5.30	7.72	11.01	4.05	3.78
Benchmark return					
<i>UBS Australian Composite Bond Index</i>	5.55	7.86	10.82	4.44	3.97

Directors' Report *(continued)*

Review and results of operations *(continued)*

Performance *(continued)*

	2011	2010	2009	2008	2007
	%	%	%	%	%
Vanguard Australian Property Securities Index Fund					
Capital growth	0.10	12.81	(45.09)	(41.54)	10.92
Distribution of income	5.38	7.28	4.60	3.72	15.05
Total return	5.48	20.09	(40.49)	(37.82)	25.97
Benchmark return					
<i>S&P/ASX 300 Property Accumulation Index</i>	5.86	20.34	(42.11)	(37.74)	26.32
Vanguard Australian Shares Index Fund					
Capital growth	7.36	8.70	(23.98)	(18.38)	22.61
Distribution of income	4.23	4.08	3.76	4.42	6.18
Total return	11.59	12.78	(20.22)	(13.96)	28.79
Benchmark return					
<i>S&P/ASX 300 Accumulation Index</i>	11.90	13.05	(20.34)	(13.67)	29.21
Vanguard Australian Shares High Yield Fund					
Capital growth	8.57	8.64	(26.24)	(17.44)	21.56
Distribution of income	5.04	4.36	4.11	3.41	8.36
Total return	13.61	13.00	(22.13)	(14.03)	29.92
Benchmark return					
<i>FTSE Australia High Dividend Yield Index</i>	13.66	12.67	(18.56)	(11.14)	28.96

Investors should be aware that past performance is not an indication of future performance.

Directors' Report *(continued)*

Review and results of operations *(continued)*

Unit redemption prices

Unit redemption prices (quoted including distribution) are shown as follows:

	At 30 June		Period high Period to 30 June		Period low Period to 30 June	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
Vanguard Cash Reserve Fund	1.0084	1.0130	1.0162	1.0131	1.0042	1.0063
Vanguard Cash Plus Index Fund	1.0191	1.0234	1.0281	1.0333	1.0136	1.0138
Vanguard Australian Government Bond Index Fund	1.0054	1.0095	1.0143	1.0095	0.9744	0.9608
Vanguard Australian Fixed Interest Index Fund	1.0955	1.1000	1.1069	1.1000	1.0616	1.0586
Vanguard Australian Property Securities Index Fund	0.5939	0.5962	0.6355	0.6768	0.5767	0.4955
Vanguard Australian Property Securities Index Fund (ETF class) (1)	49.0196	–	51.9726	–	47.6637	–
Vanguard Australian Shares Index Fund	1.7202	1.6112	1.8473	1.8621	1.5641	1.3861
Vanguard Australian Shares Index Fund (ETF class)	59.7301	55.9717	64.1302	64.6860	54.3193	48.1888
Vanguard Australian Shares High Yield Fund	1.3088	1.2067	1.3793	1.3979	1.1797	1.0492
Vanguard Australian Shares High Yield Fund (ETF class) (2)	50.0282	–	50.3789	–	48.6664	–

(1) Vanguard Australian Property Securities Index Fund (ETF class) inception date was 11 October 2010.

(2) Vanguard Australian Shares High Yield Fund (ETF class) inception date was 26 May 2011.

Directors' Report *(continued)*

Significant changes in state of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the Funds that occurred during the financial year under review.

Matters subsequent to the end of the financial year

Except as disclosed in the financial report, no other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- (i) the operations of the Funds in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Funds in future financial years.

Likely developments and expected results of operations

The Funds will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Funds and in accordance with the provisions of the Constitutions of the Funds.

The results of the Funds' operations will be affected by a number of factors, including the performance of investment markets in which each Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Funds in regards to insurance cover provided to either Vanguard Investments Australia Ltd or the auditors of the Funds. So long as the officers of Vanguard Investments Australia Ltd act in accordance with the Constitutions of the Funds and the Law, the officers remain indemnified out of the assets of the Funds against losses incurred while acting on behalf of the Funds.

Fees paid to and interests held in the Funds by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Funds' property during the year are disclosed in Note 14 to the financial statements.

No fees were paid out of Funds' property to the directors of the Responsible Entity during the year.

The number of interests in the Funds held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 14 to the financial statements.

Interests in the Funds

The movement in units on issue in the Funds during the year is set out in Note 9 to the financial statements.

The value of each Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 2 to the financial statements.

Directors' Report *(continued)*

Environmental regulation

The operations of the Funds are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Rounding of amounts to the nearest thousand dollars

The Funds are registered schemes of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Auditors' independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

This report is made in accordance with a resolution of the directors.



J M James
Managing Director
Melbourne
31 August 2011

Auditor's Independence Declaration

As lead auditor for the audit of Vanguard Index Funds (Domestic Funds) for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the following Vanguard Index Funds (Domestic Funds) during the year.

- Vanguard Cash Reserve Fund
- Vanguard Cash Plus Index Fund
- Vanguard Australian Government Bond Index Fund
- Vanguard Australian Fixed Interest Index Fund
- Vanguard Australian Property Securities Index Fund
- Vanguard Australian Shares Index Fund
- Vanguard Australian Shares High Yield Fund



George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
31 August 2011

Statement of comprehensive income

For the year ended 30 June 2011

	Notes	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
		2011	2010	2011	2010	2011	2010	2011	2010
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Investment income									
Interest Income		571	410	–	–	–	–	–	–
Dividends		–	–	–	–	–	–	–	–
Trust distributions		–	–	–	–	–	–	–	–
Net gain/(loss) on financial instruments held at fair value through profit or loss	5	83,813	57,328	23,609	19,094	3,129	3,378	166,974	197,445
Other investment income		–	–	–	–	–	–	99	–
Total investment income/(loss)		84,384	57,738	23,609	19,094	3,129	3,378	167,073	197,445
Expenses									
Responsible Entity's fees	7	2,604	2,232	1,307	1,414	177	131	8,883	7,353
Transaction costs		–	–	–	–	–	–	–	–
Other expenses		6	9	6	8	4	5	9	73
Total operating expenses		2,610	2,241	1,313	1,422	181	136	8,892	7,426
Operating profit/(loss)		81,774	55,497	22,296	17,672	2,948	3,242	158,181	190,019
Financing costs attributable to unitholders									
Distributions to unitholders	8	(90,793)	(50,970)	(24,728)	(21,426)	(2,623)	(2,002)	(172,102)	(151,704)
(Increase)/decrease in net assets attributable to unitholders	9(b)	9,019	(4,527)	2,432	3,754	(325)	(1,240)	13,921	(38,315)
Profit/(loss) for the year		–	–	–	–	–	–	–	–
Other comprehensive income		–	–	–	–	–	–	–	–
Total comprehensive income		–	–	–	–	–	–	–	–

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of comprehensive income (continued)

For the year ended 30 June 2011

	Notes	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
		2011	2010	2011	2010	2011	2010
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Investment income							
Interest Income		367	311	3,766	3,017	58	99
Dividends		–	–	217,924	167,211	18,283	14,888
Trust distributions		138,420	135,315	30,234	29,414	462	744
Net gain/(loss) on financial instruments held at fair value through profit or loss	5	(11,476)	195,008	386,174	266,048	27,766	24,371
Other investment income		2	–	307	69	36	–
Total investment income/(loss)		127,313	330,634	638,405	465,759	46,605	40,102
Expenses							
Responsible Entity's fees	7	8,082	7,001	19,737	17,411	1,459	1,430
Transaction costs		271	474	441	576	33	85
Other expenses		16	80	40	146	7	38
Total operating expenses		8,369	7,555	20,218	18,133	1,499	1,553
Operating profit/(loss)		118,944	323,079	618,187	447,626	45,106	38,549
Financing costs attributable to unitholders							
Distributions to unitholders	8	(128,690)	(136,375)	(226,809)	(198,007)	(16,713)	(14,340)
(Increase)/decrease in net assets attributable to unitholders	9(b)	9,746	(186,704)	(391,378)	(249,619)	(28,393)	(24,209)
Profit/(loss) for the year		–	–	–	–	–	–
Other comprehensive income		–	–	–	–	–	–
Total comprehensive income		–	–	–	–	–	–

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet

As at 30 June 2011

	Notes	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Assets									
Cash & cash equivalents	10	5,953	9,405	11,581	474	753	407	75,116	18,090
Futures margin deposit		219	102	66	104	10	30	689	488
Receivables		91	94	85	30	7	4	654	409
Due from Brokers – receivable for securities sold		–	–	–	–	–	406	–	14,798
Financial assets held at fair value through profit or loss		1,720,372	1,683,536	506,499	401,880	68,592	50,482	3,065,834	2,847,148
Other assets		410	55,151	1,086	308	1,052	513	2,637	2,469
Total assets		1,727,045	1,748,288	519,317	402,796	70,414	51,842	3,144,930	2,883,402
Liabilities									
Payables	14(b)	213	226	120	102	17	13	743	727
Distribution payable	8	6,721	5,820	1,618	838	582	924	45,050	46,732
Due to brokers – payables for securities purchased		–	–	7,306	–	–	105	–	5,380
Financial liabilities held at fair value through profit or loss		38	–	20	4	2	–	123	103
Other liabilities		–	301	443	176	30	46	1,374	6,888
Total liabilities (excluding net assets attributable to unitholders)		6,972	6,347	9,507	1,120	631	1,088	47,290	59,830
Net assets attributable to unitholders (liability)	9(b)	1,720,073	1,741,941	509,810	401,676	69,783	50,754	3,097,640	2,823,572

The above balance sheet should be read in conjunction with the accompanying notes.

Balance sheet (continued)

As at 30 June 2011

	Notes	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
		2011	2010	2011	2010	2011	2010
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets							
Cash & cash equivalents	10	5,304	9,292	44,266	35,953	(152)	474
Futures margin deposit		2,632	3,678	8,084	10,875	217	342
Receivables		37,846	31,649	43,754	35,882	3,764	2,603
Due from Brokers – receivable for securities sold		–	–	13,989	–	–	–
Financial assets held at fair value through profit or loss		2,440,810	2,123,500	6,062,296	5,206,982	363,785	329,293
Other assets		3,820	2,002	33,266	14,273	32	135
Total assets		2,490,412	2,170,121	6,205,655	5,303,965	367,646	332,847
Liabilities							
Accounts payable	14(b)	687	680	1,657	1,621	129	121
Distribution payable	8	37,263	42,786	35,779	59,642	699	959
Due to brokers – payables for securities purchased		–	–	23,880	–	–	–
Financial liabilities held at fair value through profit or loss		205	372	–	3,563	–	131
Other liabilities		825	528	1,220	1,335	163	12
Total liabilities (excluding net assets attributable to unitholders)		38,980	44,366	62,536	66,161	991	1,223
Net assets attributable to unitholders (liability)	9(b)	2,451,432	2,125,755	6,143,119	5,237,804	366,655	331,624

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2011

Notes	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total equity at the beginning of the financial year	-	-	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-	-
Transactions with owners in their capacity as owners	-	-	-	-	-	-	-	-
Total equity at the end of the financial year	-	-	-	-	-	-	-	-

Notes	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total equity at the beginning of the financial year	-	-	-	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-
Transactions with owners in their capacity as owners	-	-	-	-	-	-
Total equity at the end of the financial year	-	-	-	-	-	-

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result, there was no equity at the start or end of the year.

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2011

	Notes	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cash flows from operating activities									
Proceeds from sale of financial assets held and designated at fair value through profit or loss		7,647,429	6,133,966	1,587,944	2,279,322	25,949	21,043	1,101,203	7,835,709
Purchases of financial assets held and designated at fair value through profit or loss		(7,600,531)	(6,613,828)	(1,661,642)	(1,917,235)	(40,607)	(24,990)	(1,143,899)	(8,417,298)
Transaction costs on purchases of financial assets designated at fair value through profit or loss		–	–	–	–	–	–	–	–
Interest received		575	418	–	–	(3)	–	–	–
Dividends		–	–	–	–	–	–	–	–
Trust distributions		–	–	–	–	–	–	–	–
Responsible Entity's fees paid		(2,615)	(2,180)	(1,295)	(1,028)	(174)	(129)	(8,890)	(4,870)
Other expenses paid		(9)	(9)	(6)	(483)	(5)	(5)	(9)	(2,362)
Other income received		–	–	–	24	–	1	99	–
Net cash inflow/(outflow) from operating activities	15(a)	44,849	(481,633)	(74,999)	360,600	(14,840)	(4,080)	(51,496)	(588,821)
Cash flows from financing activities									
Proceeds from applications by unitholders		365,590	655,532	235,411	243,709	28,409	19,507	883,488	1,027,901
Payments for redemptions by unitholders		(408,950)	(169,774)	(142,745)	(602,305)	(10,660)	(15,301)	(697,158)	(387,808)
Distributions paid		(4,941)	(3,073)	(6,560)	(4,430)	(2,563)	(1,278)	(77,808)	(60,881)
Net cash inflow/(outflow) from financing activities		(48,301)	482,685	86,106	(363,026)	15,186	2,928	108,522	579,212
Net increase/(decrease) in cash and cash equivalents		(3,452)	1,052	11,107	(2,426)	346	(1,152)	57,026	(9,609)
Cash and cash equivalents at the beginning of the year		9,405	8,353	474	2,900	407	1,559	18,090	27,699
Cash and cash equivalents at the end of the year	10	5,953	9,405	11,581	474	753	407	75,116	18,090

Non-cash financing activities 15(b)

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

Statement of cash flows (continued)

For the year ended 30 June 2011

	Notes	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
		2011	2010	2011	2010	2011	2010
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities							
Proceeds from sale of financial assets held and designated at fair value through profit or loss		280,388	443,460	696,981	106,194	224,928	113,407
Purchases of financial assets held and designated at fair value through profit or loss		(609,544)	(865,605)	(1,157,004)	(1,443,568)	(231,660)	(145,251)
Transaction costs on purchases of financial assets designated at fair value through profit or loss		(271)	(474)	(441)	(576)	(33)	(85)
Interest received		395	311	3,616	2,988	78	106
Dividends		–	–	211,454	157,183	17,003	14,227
Trust distributions		132,239	132,018	29,045	28,819	584	788
Responsible Entity's fees paid		(8,120)	(5,036)	(19,765)	(12,557)	(1,472)	(1,453)
Other expenses paid		(14)	(1,903)	(40)	(4,628)	(7)	–
Other income received		2	–	308	69	36	–
Net cash inflow/(outflow) from operating activities	15(a)	(204,925)	(297,229)	(235,846)	(1,166,076)	9,457	(18,261)
Cash flows from financing activities							
Proceeds from applications by unitholders		692,335	924,182	1,371,451	1,731,713	51,660	93,187
Payments for redemptions by unitholders		(437,228)	(606,651)	(1,047,663)	(578,188)	(52,007)	(71,824)
Distributions paid		(54,170)	(39,623)	(79,629)	(44,834)	(9,736)	(7,865)
Net cash inflow/(outflow) from financing activities		200,937	277,908	244,159	1,108,691	(10,083)	13,498
Net increase/(decrease) in cash and cash equivalents		(3,988)	(19,321)	8,313	(57,385)	(626)	(4,763)
Cash and cash equivalents at the beginning of the year		9,292	28,613	35,953	93,338	474	5,237
Cash and cash equivalents at the end of the year	10	5,304	9,292	44,266	35,953	(152)	474

Non-cash financing activities 15(b)

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

Notes to the financial statements

For the year ended 30 June 2011

1. General information

The Responsible Entity of the Vanguard Index Funds is Vanguard Investments Australia Ltd. (the 'Responsible Entity'). The Responsible Entity's registered office is Level 34, Freshwater Place, 2 Southbank Boulevard, Southbank Vic 3006.

The Funds were constituted between 16 June 1998 and 14 November 2008 and will terminate between 15 June 2078 and 14 November 2088 unless terminated earlier in accordance with the provisions of the Constitutions of the Funds.

The Funds invest in accordance with the investment policy of the Funds as set out in the current Product Disclosure Statement (PDS) and in accordance with the Constitutions of the Funds. The Funds seek to match the total returns of the Funds' respective indexes, before taking into account Fund fees and expenses.

The financial statements were authorised for issue by the directors on 31 August 2011. The directors of the Responsible Entity have the power to amend and reissue the financial report.

The financial report is presented in the Australian currency.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated in the following text.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

This financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The balance sheet is presented on a liquidity basis.

Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled in relation to these balances cannot be reliably determined.

Compliance with International Financial Reporting Standards

The financial report of the Funds also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Financial statement presentation

The Funds have applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Fund had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Financial instruments

(i) Classification

The Funds' investments are categorised as at fair value through profit or loss. They comprise:

- **Financial instruments held for trading**

These include derivative financial instruments including futures, forward contracts, options and interest rate swaps. All derivatives in a net receivable or payable position are shown gross and reported as either derivative financial assets or derivative financial liabilities. The Funds do not designate any derivatives as hedges in a hedging relationship.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

2. Summary of significant accounting policies *(continued)*

(b) Financial instruments *(continued)*

(i) Classification *(continued)*

- **Financial instruments designated at fair value through profit or loss upon initial recognition**

These include financial assets that are not held for trading purposes and which may be sold. These are investments in traded debt, unlisted trusts, unlisted equity instruments, commercial paper and exchange traded equity instruments.

Financial assets and financial liabilities designated at fair value through profit and loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Funds' documented investment strategy. The Funds' policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

(ii) Recognition/derecognition

The Funds recognise financial assets and financial liabilities on the date they become party to the contractual agreement (trade date) and recognise changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cashflows from the investments have expired or the Funds have transferred substantially all risks and rewards of ownership.

(iii) Measurement

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Funds is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Funds recognise the difference in profit or loss to reflect a change in factors, including time, that market participants would consider in setting a price.

Details on how the fair value of the financial instruments is determined are disclosed in Note 3(b).

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Funds at any time for cash equal to a proportionate share of the Funds' net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the balance sheet date if unitholders exercised their right to put the units back to the Funds. Because the Funds' redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the income statement as they arise.

(d) Cash and cash equivalents

For cash flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings on the balance sheet. Futures margin deposit accounts are restricted cash balances and accordingly are not included in cash and cash equivalents.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Funds' main income generating activity.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

2. Summary of significant accounting policies *(continued)*

(e) Investment income

Interest income and expenses are recognised in the income statement for all financial assets that are not held at fair value through profit and loss using the effective interest method. Interest on assets held at fair value through profit and loss is included in the net gains/(losses) on financial assets. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b).

Dividend income is recognised on the ex-dividend date net of any related foreign withholding tax, but inclusive of reclaims that are yet to be received.

Trust distributions are recognised on an entitlements basis.

(f) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in the income statement on an accruals basis.

(g) Income tax

Under current legislation, the Funds are not subject to income tax provided the taxable income of the Funds are fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Funds).

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, the portion of the gain that is subject to capital gains tax will be distributed so that the Funds are not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Funds to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefits of imputation credits and foreign tax paid are passed on to unitholders.

The Funds currently incur withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the income statement.

(h) Distributions

In accordance with the Constitutions of the Funds, the Funds fully distribute their distributable income to unitholders by cash or reinvestment. Distributions payable are the amounts that the unitholders are presently entitled to as at 30 June 2011, but have not yet received. The distributions are payable at the end of September, December, March and June each year for all Funds except for Vanguard Cash Reserve Fund and Vanguard Cash Plus Index Fund which are payable at the end of each month. Distributions are recognised in the income statement as finance costs attributable to unitholders.

(i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the income statement as finance costs.

(j) Functional and presentation currency

Items included in the Funds' financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Funds compete for funds and are regulated. The Australian dollar is also the Funds' presentation currency.

(k) Due from/to brokers

Amounts due from/to brokers represent payables for securities purchased and receivables for securities sold that have been contracted for but not yet delivered by the end of the year. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers is impaired.

(l) Futures margin deposits

Deposits held with brokers for margin, represent restricted margin deposits for derivative financial instruments.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

2. Summary of significant accounting policies *(continued)*

(m) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment using the effective interest rate method. Amounts are generally received within 30 days of being recorded as receivables.

(n) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at balance date.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the balance sheet as unitholders are presently entitled to the distributable income as at 30 June 2010 under the Constitutions of the Funds.

(o) Applications and redemptions

Applications received for units in the Funds are recorded net of any entry fees payable prior to the issue of units in the Funds. Redemptions from the Funds are recorded gross of any exit fees payable after the cancellation of units redeemed. There are currently no entry or exit fees charged for the Funds.

(p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Responsible Entity by third parties, have been passed onto the Funds. The Funds qualify for Input Tax Credit recovery at a rate of 75%, hence Responsible Entity fees, custodial fees and other expenses have been recognised in the income statement net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.

(q) Use of estimates

The Funds make 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.

For the majority of the Funds' financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables and the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

(r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The directors' assessment of the impact of these new standards (to the extent relevant to the Funds) and interpretation is set below:

- (i) AASB 9 *Financial Instruments* and AASB 2009–11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and deregulation of financial assets. This standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Funds have not yet decided when to adopt AASB 9. However, management does not expect this will have a significant impact in the Funds' financial statements as the Funds do not hold any available-for-sale investments.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

2. Summary of significant accounting policies *(continued)*

(r) New accounting standards and interpretations *(continued)*

- (ii) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Funds will apply the amended standard from 1 July 2011. The amendments will not have any effect on the Funds' financial statements.

- (iii) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB issued AASB 2010-6 Disclosures on Transfers of Financial Assets which amends AASB 1 First-time Adoption on Australian Accounting and AASB 7 Financial Instruments: Disclosures to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendments will not have any impact on the Funds' disclosures. The funds intend to apply the amendments from 1 July 2011.

- (iv) Amendments to AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Projects* (effective for annual reporting periods beginning on or after 1 July 2010 / 1 July 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Funds do not expect that any adjustments will be necessary as the result of applying the revised rules.

(s) Rounding of amounts

The Funds are registered schemes of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order, unless otherwise indicated.

3. Financial risk management

The Funds' activities expose them to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Funds' overall risk management programme focuses on ensuring compliance with the Funds' Product Disclosure Statement and seeks to deliver investment returns which closely match the total returns of selected indexes. The Funds use derivative financial instruments to alter certain risk exposures. Financial risk management is carried out by the investment management department under the policies approved by the Board of Directors of the Responsible Entity.

(a) Market risk

(i) Price risk

The Funds are exposed to price risk whereby the future prices of the Funds securities are uncertain.

In any asset sector the returns of individual securities are a combination of the market return and returns specific to each security. By diversifying their holdings across the market, index funds are generally well protected from the specific risk of individual securities. Their specific returns tend to cancel each other out leaving the index funds with the market returns and their associated risk. Vanguard employs an indexing investment strategy in all asset classes in which the Funds invest.

(ii) Foreign exchange risk

The Funds' assets are denominated in Australian dollar. There is no foreign exchange risk to any of the Funds presented in this financial report.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(a) Market risk *(continued)*

(iii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The interest rate risk disclosures have been prepared on the basis of the Funds direct investment and not on a look-through basis for investments held indirectly through

unit trusts. Consequently, the disclosure of interest rate risk in the above note may not represent the true interest rate risk profile of the Funds where the Funds have significant investments in unit trusts which also have exposure to the interest rate markets.

Those Funds whose exposure to interest rate risk is significant are set out in the following table:

	Vanguard Cash Reserve Fund				Vanguard Cash Plus Index Fund			
	Floating interest rate	Fixed interest rate	Non- interest bearing	Total	Floating interest rate	Fixed interest rate	Non- interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2011								
Assets								
Cash and cash equivalents	5,953	–	–	5,953	11,581	–	–	11,581
Futures margin deposit	219	–	–	219	66	–	–	66
Financial assets held at fair value through profit and loss	1,720,372	–	–	1,720,372	274,635	231,864	–	506,499
Other assets & receivables	–	–	501	501	–	–	1,171	1,171
Total assets	1,726,544	–	501	1,727,045	286,282	231,864	1,171	519,317
Liabilities								
Other liabilities	38	–	6,934	6,972	–	20	9,487	9,507
Total liabilities (excluding net assets attributable to unitholders)	38	–	6,934	6,972	–	20	9,487	9,507
Net assets attributable to unitholders – liability	1,726,506	–	(6,433)	1,720,073	286,282	231,844	(8,316)	509,810
30 June 2010								
Assets								
Cash and cash equivalents	9,405	–	–	9,405	474	–	–	474
Futures margin deposit	102	–	–	102	104	–	–	104
Financial assets held at fair value through profit and loss	1,683,536	–	–	1,683,536	316,135	85,745	–	401,880
Other assets & receivables	–	–	55,245	55,245	–	–	338	338
Total assets	1,693,043	–	55,245	1,748,288	316,713	85,745	338	402,796
Liabilities								
Other liabilities	–	–	6,347	6,347	4	–	1,116	1,120
Total liabilities (excluding net assets attributable to unitholders)	–	–	6,347	6,347	4	–	1,116	1,120
Net assets attributable to unitholders – liability	1,693,043	–	48,898	1,741,941	316,709	85,745	(778)	401,676

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(a) Market risk *(continued)*

(iii) Interest rate risk *(continued)*

	Vanguard Australian Government Bond Index Fund				Vanguard Australian Fixed Interest Index Fund			
	Floating interest rate	Fixed interest rate	Non-interest bearing	Total	Floating interest rate	Fixed interest rate	Non-interest bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2011								
Assets								
Cash and cash equivalents	753	–	–	753	75,116	–	–	75,116
Futures margin deposit	10	–	–	10	689	–	–	689
Financial assets held at fair value through profit and loss	–	68,592	–	68,592	–	3,065,834	–	3,065,834
Other assets & receivables	–	–	1,059	1,059	–	–	3,291	3,291
Total assets	763	68,592	1,059	70,414	75,805	3,065,834	3,291	3,144,930
Liabilities								
Other liabilities	–	2	629	631	123	–	47,167	47,290
Total liabilities (excluding net assets attributable to unitholders)	–	2	629	631	123	–	47,167	47,290
Net assets attributable to unitholders – liability	763	68,590	430	69,783	75,682	3,065,834	(43,876)	3,097,640
30 June 2010								
Assets								
Cash and cash equivalents	407	–	–	407	18,090	–	–	18,090
Futures margin deposit	30	–	–	30	488	–	–	488
Financial assets held at fair value through profit and loss	–	50,482	–	50,482	–	2,847,148	–	2,847,148
Other assets & receivables	–	–	923	923	–	–	17,676	17,676
Total assets	437	50,482	923	51,842	18,578	2,847,148	17,676	2,883,402
Liabilities								
Other liabilities	–	–	1,088	1,088	103	–	59,727	59,830
Total liabilities (excluding net assets attributable to unitholders)	–	–	1,088	1,088	103	–	59,727	59,830
Net assets attributable to unitholders – liability	437	50,482	(165)	50,754	18,475	2,847,148	(42,051)	2,823,572

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(b) Fair value estimation

The carrying amounts of the Funds' assets and liabilities at the balance sheet date approximate their fair values.

Financial assets and liabilities held at fair value through profit and loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit and loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the income statement.

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Funds would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black-Scholes option valuation model.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the managers of such funds.

(c) Credit risk

Credit risk is the risk that the Funds' trading counterparties become insolvent or cannot otherwise meet their obligations to the Funds in full when they fall due.

Funds which invest in fixed interest and debt securities are exposed to credit risk. This is the risk that an issuer of a fixed interest or debt security may not meet its payment obligations to the Funds. The Responsible Entity seeks to minimise this risk by diversifying a Fund's holdings across issuers. At 30 June 2011 there are no financial assets that are past due or impaired (2010: \$nil).

Any securities lending in the fixed interest Funds is with a selected group of counterparties, all of which have AA or better long-term and A1+ short-term Standard & Poor's credit ratings (or Moody's equivalent).

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(c) Credit risk *(continued)*

(i) Debt securities

There is credit risk associated with debt securities. Vanguard seeks to reduce this risk by selecting only debt securities with a sufficiently high credit rating and by diversifying the fund's holding across issuers.

Vanguard will try to minimise the credit risk associated with holding bonds by primarily holding non-domestic government and supranational (issued by government-owned or government-guaranteed entities) bonds or other investment-grade entities.

Investment-grade issuers are defined as those rated BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's.

(ii) Derivative financial instruments

The responsible entity has established counterparty limits such that, at any time, exposure to derivative financial instruments equivalent to less than 5% of the value of a Fund are with any individual counterparty, and all contracts are with counterparties included in the Board's Approved Counterparties list.

The Vanguard Cash Reserve Fund, Vanguard Cash Plus Index Fund and Vanguard Australian Fixed Interest Index Fund also restrict their exposure to credit losses on derivative instruments they hold by entering into master netting arrangements with counterparties with whom they undertake a significant volume of transactions. Master netting arrangements do not result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by master netting arrangements to the extent that if an event of default occurs, all amounts with the counterparty are closed and settled on a net basis. The Funds overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangements. As at 30 June 2011, the Funds had no master netting arrangements outstanding (2010: \$nil).

(iii) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has made payment. Payment is made on purchase once the securities have been received by the Fund. The trade will fail if either party fails to meet its obligations.

(iv) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A1+ short-term Standard & Poor's credit ratings (or Moody's equivalent).

In accordance with the responsible entity's derivatives policy, the responsible entity monitors the Funds' exposures on a daily basis, which the Board of Directors reviews quarterly. The derivatives policy is subject to annual review.

The Funds are not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the financial assets.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(d) Liquidity risk

The Funds' approach to managing liquidity is to ensure that they will always have sufficient liquidity to meet their liabilities when due. Unitholders are able to withdraw their units at any time, and the Funds are therefore exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Funds' financial instruments include investments in equity investments, fixed interest securities and derivative contracts traded over-the-counter. The Funds' listed securities are considered to be readily realisable

as they are all listed on major stock exchanges. The Funds may use futures to gain market exposure without investing directly in the securities. This allows the Funds to maintain liquidity without being under-invested in their respective investment policies. The derivatives are not used to leverage the Funds' portfolio.

The following tables summarise the maturity profile of the Funds' financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Funds can be required to pay.

	Vanguard Cash Reserve Fund									
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Payables	213	–	–	–	213	527	–	–	–	527
Distribution payable	6,721	–	–	–	6,721	5,820	–	–	–	5,820
Due to brokers – payables for securities purchased	–	–	–	–	–	–	–	–	–	–
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	38	–	–	38	–	–	–	–	–
Other liabilities	–	–	–	–	–	–	–	–	–	–
Net assets attributable to unitholders	1,720,073	–	–	–	1,720,073	1,741,941	–	–	–	1,741,941
Total financial liabilities (excluding gross settled derivatives)	1,727,007	38	–	–	1,727,045	1,748,288	–	–	–	1,748,288
Gross settled derivatives										
Derivative type 1										
Inflows	–	–	–	–	–	–	–	–	–	–
(Outflows)	–	–	–	–	–	–	–	–	–	–
Total gross settled derivatives inflow (outflow)	–	–	–	–	–	–	–	–	–	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(d) Liquidity risk *(continued)*

Vanguard Cash Plus Index Fund										
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	563	–	–	–	563	278	–	–	–	278
Distribution payable	1,618	–	–	–	1,618	838	–	–	–	838
Due to brokers – payables for securities purchased	7,306	–	–	–	7,306	–	–	–	–	–
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	20	–	–	20	–	4	–	–	4
Other liabilities	–	–	–	–	–	–	–	–	–	–
Net assets attributable to unitholders	509,810	–	–	–	509,810	401,676	–	–	–	401,676
Total financial liabilities (excluding gross settled derivatives)	519,297	20	–	–	519,317	402,792	4	–	–	402,796
Gross settled derivatives										
Derivative type 1										
Inflows	–	–	–	–	–	–	–	–	–	–
(Outflows)	–	–	–	–	–	–	–	–	–	–
Total gross settled derivatives inflow (outflow)	–	–	–	–	–	–	–	–	–	–

Vanguard Australian Government Bond Index Fund										
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	47	–	–	–	47	59	–	–	–	59
Distribution payable	582	–	–	–	582	924	–	–	–	924
Due to brokers – payables for securities purchased	–	–	–	–	–	105	–	–	–	105
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	2	–	–	2	–	–	–	–	–
Other liabilities	–	–	–	–	–	–	–	–	–	–
Net assets attributable to unitholders	69,783	–	–	–	69,783	50,754	–	–	–	50,754
Total financial liabilities (excluding gross settled derivatives)	70,412	2	–	–	70,414	51,842	–	–	–	51,842
Gross settled derivatives										
Derivative type 1										
Inflows	–	–	–	–	–	–	–	–	–	–
(Outflows)	–	–	–	–	–	–	–	–	–	–
Total gross settled derivatives inflow (outflow)	–	–	–	–	–	–	–	–	–	–

Notes to the financial statements (continued)

For the year ended 30 June 2011

3. Financial risk management (continued)

(d) Liquidity risk (continued)

Vanguard Australian Fixed Interest Index Fund										
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	2,117	–	–	–	2,117	7,615	–	–	–	7,615
Distribution payable	45,050	–	–	–	45,050	46,732	–	–	–	46,732
Due to brokers – payables for securities purchased	–	–	–	–	–	5,380	–	–	–	5,380
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	123	–	–	123	–	103	–	–	103
Other liabilities	–	–	–	–	–	–	–	–	–	–
Net assets attributable to unitholders	3,097,640	–	–	–	3,097,640	2,823,572	–	–	–	2,823,572
Total financial liabilities (excluding gross settled derivatives)	3,144,807	123	–	–	3,144,930	2,883,299	103	–	–	2,883,402
Gross settled derivatives										
Derivative type 1										
Inflows	–	–	–	–	–	–	–	–	–	–
(Outflows)	–	–	–	–	–	–	–	–	–	–
Total gross settled derivatives inflow (outflow)	–	–	–	–	–	–	–	–	–	–

Vanguard Australian Property Securities Index Fund										
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	37,263	–	–	–	37,263	1,208	–	–	–	1,208
Distribution payable	–	–	–	–	–	42,786	–	–	–	42,786
Due to brokers – payables for securities purchased	1,512	–	–	–	1,512	–	–	–	–	–
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	205	–	–	205	–	372	–	–	372
Other liabilities	–	–	–	–	–	–	–	–	–	–
Net assets attributable to unitholders	2,451,432	–	–	–	2,451,432	2,125,755	–	–	–	2,125,755
Total financial liabilities (excluding gross settled derivatives)	2,490,207	205	–	–	2,490,412	2,169,749	372	–	–	2,170,121
Gross settled derivatives										
Derivative type 1										
Inflows	–	–	–	–	–	–	–	–	–	–
(Outflows)	–	–	–	–	–	–	–	–	–	–
Total gross settled derivatives inflow (outflow)	–	–	–	–	–	–	–	–	–	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(d) Liquidity risk *(continued)*

Vanguard Australian Shares Index Fund										
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	2,877	–	–	–	2,877	2,956	–	–	–	2,956
Distribution payable	35,779	–	–	–	35,779	59,642	–	–	–	59,642
Due to brokers – payables for securities purchased	23,880	–	–	–	23,880	–	–	–	–	–
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	–	–	–	–	–	3,563	–	–	3,563
Other liabilities	–	–	–	–	–	–	–	–	–	–
Net assets attributable to unitholders	6,143,119	–	–	–	6,143,119	5,237,804	–	–	–	5,237,804
Total financial liabilities (excluding gross settled derivatives)	6,205,655	–	–	–	6,205,655	5,300,402	3,563	–	–	5,303,965
Gross settled derivatives										
Derivative type 1										
Inflows	–	–	–	–	–	–	–	–	–	–
(Outflows)	–	–	–	–	–	–	–	–	–	–
Total gross settled derivatives inflow (outflow)	–	–	–	–	–	–	–	–	–	–

Vanguard Australian Shares High Yield Fund										
	As at 30 June 2011					As at 30 June 2010				
	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL	Less than 1 month	1 to 6 months	6 to 12 months	1 to 2 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	292	–	–	–	292	133	–	–	–	133
Distribution payable	699	–	–	–	699	959	–	–	–	959
Due to brokers – payables for securities purchased	–	–	–	–	–	–	–	–	–	–
Financial liabilities held at fair value through profit or loss (excluding gross settled derivatives)	–	–	–	–	–	–	131	–	–	131
Other liabilities	–	–	–	–	–	–	–	–	–	–
Net assets attributable to unitholders	366,655	–	–	–	366,655	331,624	–	–	–	331,624
Total financial liabilities (excluding gross settled derivatives)	367,646	–	–	–	367,646	332,716	131	–	–	332,847
Gross settled derivatives										
Derivative type 1										
Inflows	–	–	–	–	–	–	–	–	–	–
(Outflows)	–	–	–	–	–	–	–	–	–	–
Total gross settled derivatives inflow (outflow)	–	–	–	–	–	–	–	–	–	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(e) Summarised sensitivity analysis

The following tables summarise the sensitivity of the Funds' operating profit to interest rate risk and price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates, historical correction of the Funds' investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies,

markets and securities in which the Funds invest. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

Price risk movement represents the range of historical returns from the average return minus one standard deviation to the average return plus one standard deviation. For a normal distribution approximately two-thirds of the outcomes are expected to fall within plus or minus one standard deviation of the mean. Outcomes are expected to occur outside these ranges, approximately one-third of the time.

	Vanguard Cash Reserve Fund Impact on operating profit/(loss) and net assets attributable to unitholders				Vanguard Cash Plus Index Fund Impact on operating profit/(loss) and net assets attributable to unitholders			
	Price risk		Interest rate risk		Price risk		Interest rate risk	
	0%	+ 7 %	- 25 bps	+ 50 bps	0%	+ 7 %	- 25 bps	+ 50 bps
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2011	-	120,424	(4,316)	8,633	-	35,453	(136)	272
	+ 0 %	+ 7 %	- 150 bps	+ 150 bps	+ 0 %	+ 7 %	- 150 bps	+ 150 bps
30 June 2010	-	117,811	(25,396)	25,396	-	28,131	1,680	(1,680)

	Vanguard Australian Government Bond Index Fund Impact on operating profit/(loss) and net assets attributable to unitholders				Vanguard Australian Fixed Interest Index Fund Impact on operating profit/(loss) and net assets attributable to unitholders			
	Price risk		Interest rate risk		Price risk		Interest rate risk	
	-2%	+ 11 %	- 25 bps	+ 50 bps	-2%	+ 11 %	- 25 bps	+ 50 bps
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2011	(1,372)	7,545	828	(1,656)	(61,314)	337,228	36,906	(73,811)
	- 1 %	+ 10 %	- 150 bps	+ 150 bps	- 1 %	+ 10 %	- 150 bps	+ 150 bps
30 June 2010	(504)	5,042	3,780	(3,780)	(28,470)	284,705	213,250	(213,250)

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(e) Summarised sensitivity analysis *(continued)*

	Vanguard Australian Property Securities Index Fund Impact on operating profit/(loss) and net assets attributable to unitholders				Vanguard Australian Shares Index Fund Impact on operating profit/(loss) and net assets attributable to unitholders			
	Price risk		Interest rate risk		Price risk		Interest rate risk	
	- 18%	+ 26%	- 25 bps	+ 50 bps	- 10%	+ 23%	- 25 bps	+ 50 bps
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2011	(439,346)	634,557	(20)	40	(606,230)	1,394,328	(131)	262
	- 28 %	+ 25 %	- 150 bps	+ 150 bps	- 11 %	+ 24 %	- 150 bps	+ 150 bps
30 June 2010	(594,476)	530,782	(195)	195	(572,376)	1,248,821	702	(702)

	Vanguard Australian Shares High Yield Fund Impact on operating profit/(loss) and net assets attributable to unitholders			
	Price risk		Interest rate risk	
	- 10%	+ 23%	- 25 bps	+ 50 bps
	\$'000	\$'000	\$'000	\$'000
30 June 2011	(36,378)	83,661	-	-
	- 11 %	+ 24 %	- 150 bps	+ 150 bps
30 June 2010	(36,208)	78,999	(12)	12

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(f) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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 determination of what constitutes 'observable' requires significant judgement by the responsible entity. The responsible entity 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.

	Vanguard Cash Reserve Fund				Vanguard Cash Plus Index Fund			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2011								
Financial assets								
Financial assets held for trading								
Derivatives	–	–	–	–	4	–	–	4
Financial assets designated at fair value through profit or loss:								
Equity securities	–	–	–	–	–	–	–	–
Debt securities	1,505,315	215,057	–	1,720,372	–	506,495	–	506,495
Total	1,505,315	215,057	–	1,720,372	4	506,495	–	506,499
Financial liabilities								
Financial liabilities held for trading								
Derivatives	38	–	–	38	20	–	–	20
Total	38	–	–	38	20	–	–	20
30 June 2010								
Financial assets								
Financial assets held for trading								
Derivatives	–	–	–	–	28	–	–	28
Financial assets designated at fair value through profit or loss:								
Equity securities	–	–	–	–	–	–	–	–
Debt securities	1,612,496	71,040	–	1,683,536	–	401,852	–	401,852
Total	1,612,496	71,040	–	1,683,536	28	401,852	–	401,880
Financial liabilities								
Financial liabilities held for trading								
Derivatives	–	–	–	–	4	–	–	4
Total	–	–	–	–	4	–	–	4

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(f) Fair value hierarchy *(continued)*

	Vanguard Australian Government Bond Index Fund				Vanguard Australian Fixed Interest Index Fund			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
30 June 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Financial assets held for trading								
Derivatives	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss:								
Equity securities	-	-	-	-	-	-	-	-
Debt securities	-	68,592	-	68,592	-	3,065,834	-	3,065,834
Total	-	68,592	-	68,592	-	3,065,834	-	3,065,834
Financial liabilities								
Financial liabilities held for trading								
Derivatives	2	-	-	2	123	-	-	123
Total	2	-	-	2	123	-	-	123
30 June 2010								
Financial assets								
Financial assets held for trading								
Derivatives	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss:								
Equity securities	-	-	-	-	-	-	-	-
Debt securities	-	50,482	-	50,482	-	2,847,148	-	2,847,148
Total	-	50,482	-	50,482	-	2,847,148	-	2,847,148
Financial liabilities								
Financial liabilities held for trading								
Derivatives	-	-	-	-	103	-	-	103
Total	-	-	-	-	103	-	-	103

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(f) Fair value hierarchy *(continued)*

	Vanguard Australian Property Securities Index Fund				Vanguard Australian Shares Index Fund			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
30 June 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Financial assets held for trading								
Derivatives	–	–	–	–	986	–	–	986
Financial assets designated at fair value through profit or loss:								
Equity securities	2,440,810	–	–	2,440,810	6,061,189	121	–	6,061,310
Debt securities	–	–	–	–	–	–	–	–
Total	2,440,810	–	–	2,440,810	6,062,175	121	–	6,062,296
Financial liabilities								
Financial liabilities held for trading								
Derivatives	205	–	–	205	–	–	–	–
Total	205	–	–	205	–	–	–	–
30 June 2010								
Financial assets								
Financial assets held for trading								
Derivatives	–	–	–	–	–	4	–	4
Financial assets designated at fair value through profit or loss:								
Equity securities	2,105,728	17,772	–	2,123,500	5,200,527	6,451	–	5,206,978
Debt securities	–	–	–	–	–	–	–	–
Total	2,105,728	17,772	–	2,123,500	5,200,527	6,455	–	5,206,982
Financial liabilities								
Financial liabilities held for trading								
Derivatives	372	–	–	372	3,563	–	–	3,563
Total	372	–	–	372	3,563	–	–	3,563

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

3. Financial risk management *(continued)*

(f) Fair value hierarchy *(continued)*

	Vanguard Australian Shares High Yield Fund			
	Level 1	Level 2	Level 3	Total
30 June 2011	\$'000	\$'000	\$'000	\$'000
Financial assets				
Financial assets held for trading				
Derivatives	70	–	–	70
Financial assets designated at fair value through profit or loss:				
Domestic equity securities	363,715	–	–	363,715
International equity securities	–	–	–	–
Listed unit trust securities	–	–	–	–
Total	363,785	–	–	363,785
Financial liabilities				
Financial liabilities held for trading				
Derivatives	–	–	–	–
Total	–	–	–	–
30 June 2010				
Financial assets				
Financial assets held for trading				
Derivatives	–	–	–	–
Financial assets designated at fair value through profit or loss:				
Domestic equity securities	323,492	201	–	323,693
International equity securities	4,046	–	–	4,046
Listed unit trust securities	1,554	–	–	1,554
Total	329,092	201	–	329,293
Financial liabilities				
Financial liabilities held for trading				
Derivatives	131	–	–	131
Total	131	–	–	131

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities, certain unlisted unit trusts, exchange traded derivatives, US government treasury bills and certain non-US sovereign obligations.

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, investment-grade corporate bonds and certain non-US sovereign obligations, certain listed equities, certain unlisted unit trusts, and over-the-counter derivatives. 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.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

4. Interest income

	Average Balance \$'000	2011 Interest \$'000	Average rate %	Average Balance \$'000	2010 Interest \$'000	Average rate %
Vanguard Cash Plus Index Fund						
Fixed interest securities – domestic	131,443	7,589	5.77%	110,535	7,671	6.94%
Vanguard Australian Government Bond Index Fund						
Fixed interest securities – domestic	61,530	3,482	5.66%	45,549	2,604	5.72%
Vanguard Australian Fixed Interest Index Fund						
Fixed interest securities – domestic	3,097,526	180,060	5.81%	2,536,094	142,995	5.64%

This table shows the average balance for the major categories of interest-bearing assets, the amount of interest revenue and the average interest rate.

Interest revenue is recognised on an entitlements basis, and is shown in the income statement as part of net gains/losses on financial instruments designated at fair value. This is due to the discount securities and fixed interest securities being classified as financial instruments designated at fair value through profit or loss upon initial recognition, as detailed in Note 2(b).

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

5. Net gains/(losses) on financial assets

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Financial assets								
Net gain/(loss) on financial assets held for trading	(105)	(26)	(116)	2	7	1	(507)	554
Net gain/(loss) on financial assets designated at fair value through profit or loss	83,956	57,354	23,745	19,100	3,124	3,377	167,604	196,994
	83,851	57,328	23,629	19,102	3,131	3,378	167,097	197,548
Net realised gain/(loss) on financial assets held at fair value through profit or loss	81,392	52,776	24,731	22,515	3,026	2,187	176,067	146,154
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	2,459	4,552	(1,102)	(3,417)	105	1,191	(8,970)	51,394
	83,851	57,328	23,629	19,098	3,131	3,378	167,097	197,548
Financial liabilities								
Net gain/(loss) on financial liabilities held for trading	(38)	–	(20)	(4)	(2)	–	(123)	(103)
Net gain/(loss) on financial liabilities designated at fair value through profit or loss	–	–	–	–	–	–	–	–
	(38)	–	(20)	(4)	(2)	–	(123)	(103)
Net realised gain/(loss) on financial liabilities held at fair value through profit or loss	–	–	–	–	–	–	–	–
Net unrealised gain/(loss) on financial liabilities held at fair value through profit or loss	(38)	–	(20)	(4)	(2)	–	(123)	(103)
	(38)	–	(20)	(4)	(2)	–	(123)	(103)
Total net gains/(losses) on financial instruments held at fair value through profit or loss	83,813	57,328	23,609	19,094	3,129	3,378	166,974	197,445

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

5. Net gains/(losses) on financial assets *(continued)*

	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Net gain/(loss) on financial assets held for trading	2,168	4,301	6,929	24,108	147	611
Net gain/(loss) on financial assets designated at fair value through profit or loss	(13,644)	191,079	379,245	245,503	27,619	23,891
	(11,476)	195,380	386,174	269,611	27,766	24,502
Net realised gain/(loss) on financial assets held at fair value through profit or loss	(117,246)	(220,319)	59,381	(3,735)	29,268	3,462
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	105,565	415,699	326,793	273,346	(1,502)	21,040
	(11,681)	195,380	386,174	269,611	27,766	24,502
Financial liabilities						
Net gain/(loss) on financial liabilities held for trading	(205)	(372)	–	(3,563)	–	(131)
Net gain/(loss) on financial liabilities designated at fair value through profit or loss	–	–	–	–	–	–
	(205)	(372)	–	(3,563)	–	(131)
Net realised gain/(loss) on financial liabilities held at fair value through profit or loss	–	–	–	–	–	–
Net unrealised gain/(loss) on financial liabilities held at fair value through profit or loss	(205)	(372)	–	(3,563)	–	(131)
	(205)	(372)	–	(3,563)	–	(131)
Total net gains/(losses) on financial instruments held at fair value through profit or loss	(11,476)	195,008	386,174	266,048	27,766	24,371

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

6. Auditor's remuneration

The auditor's remuneration is borne by the Responsible Entity. Other services include the audit of the Compliance Plans and Internal Controls Report (GS 007).

During the year, the following fees were paid and payable for services provided by the auditor of the Funds.

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$	\$	\$
Auditor's remuneration								
– for auditing the financial statements	10,142	10,500	10,625	11,000	10,142	10,500	16,445	17,022
– other services	20,889	17,725	20,889	17,725	20,889	17,725	20,889	17,725

	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
	2011	2010	2011	2010	2011	2010
	\$	\$	\$	\$	\$	\$
Auditor's remuneration						
– for auditing the financial statements	23,860	19,522	23,689	24,522	19,996	15,522
– other services	20,889	17,725	20,889	17,725	20,889	17,725

7. Responsible Entity's fees

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Responsible Entity's fees incurred by the Funds	2,604	2,232	1,307	1,414	177	131	8,883	7,353
Management costs per annum	0.15%	0.15%	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%

	Vanguard Australian Shares Index Fund (Ordinary Unit Class)		Vanguard Australian Property Securities Index Fund (1) (ETF Unit Class)		Vanguard Australian Shares Index Fund (Ordinary Unit Class)		Vanguard Australian Shares Index Fund (ETF Unit Class)	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Responsible Entity's fees incurred by the Funds	8,054	7,001	28	–	19,206	17,220	531	191
Management costs per annum	0.34%	0.34%	0.25%	–	0.34%	0.34%	0.15%	0.27%

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

7. Responsible Entity's fees *(continued)*

	Vanguard Australian Shares High Yield Fund (Ordinary Unit Class)		Vanguard Australian Shares High Yield Fund (2) (ETF Unit Class)	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Responsible Entity's fees incurred by the Funds	1,459	1,430	–	–
Management costs per annum	0.40%	0.40%	0.25%	–

(1) Vanguard Australian Property Securities Index Fund (ETF class) inception date was 11 October 2010.

(2) Vanguard Australian Shares High Yield Fund (ETF class)'s inception date was 26 May 2011.

8. Distributions paid and payable

	Vanguard Cash Reserve Fund				Vanguard Cash Plus Index Fund			
	2011		2010		2011		2010	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Interim distributions paid	84,072	4.8485	45,150	3.0151	23,110	5.2313	20,588	4.5782
Distribution payable – 30 June	6,721	0.3925	5,820	0.3373	1,618	0.3223	838	0.2132
	90,793	5.2410	50,970	3.3524	24,728	5.5536	21,426	4.7914

	Vanguard Australian Government Bond Index Fund				Vanguard Australian Fixed Interest Index Fund			
	2011		2010		2011		2010	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Interim distributions paid	2,041	3.2252	1,078	2.4121	127,052	4.3921	104,972	4.4151
Distribution payable – 30 June	582	0.8320	924	1.8062	45,050	1.5688	46,732	1.7917
	2,623	4.0572	2,002	4.2183	172,102	5.9609	151,704	6.2068

	Vanguard Australian Property Securities Index Fund (Ordinary Class Unit)				Vanguard Australian Property Securities Index Fund (ETF Class Unit) (1)			
	2011		2010		2011		2010	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Interim distributions paid	91,062	2.2475	93,589	2.7018	365	140.3969	–	–
Distribution payable – 30 June	36,975	0.8872	42,786	1.1754	288	75.6741	–	–
	128,037	3.1347	136,375	3.8772	653	216.0710	–	–

	Vanguard Australian Shares High Yield Fund (Ordinary Class Unit)				Vanguard Australian Shares High Yield Fund (ETF Class Unit) (2)			
	2011		2010		2011		2010	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Interim distributions paid	16,014	5.6931	13,381	4.8203	–	–	–	–
Distribution payable – 30 June	694	0.2486	959	0.3482	5	13.5517	–	–
	16,708	5.9417	14,340	5.1685	5	13.5517	–	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

8. Distributions paid and payable *(continued)*

	Vanguard Australian Shares Index Fund (Ordinary Class Unit)				Vanguard Australian Shares Index Fund (ETF Class Unit)			
	2011		2010		2011		2010	
	\$'000	CPU	\$'000	CPU	\$'000	CPU	\$'000	CPU
Interim distributions paid	183,917	5.7824	136,391	4.6038	7,113	204.4886	1,974	167.7649
Distribution payable – 30 June	34,358	0.9924	58,130	1.8114	1,421	36.5972	1,512	63.9753
	218,275	6.7748	194,521	6.4152	8,534	241.0858	3,486	231.7402

(1) Vanguard Australian Property Securities Index Fund (ETF class) inception date was 11 October 2010.

(2) Vanguard Australian Shares High Yield Fund (ETF class) inception date was 26 May 2011.

9. Net assets attributable to unitholders

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010
	'000	'000	'000	'000	'000	'000	'000	'000
(a) Units on issue								
Opening balance	1,725,196	1,144,993	393,353	723,021	51,166	46,426	2,608,276	1,962,265
Applications	307,782	704,146	231,568	237,500	29,133	20,409	813,826	949,163
Distributions reinvested	84,435	44,235	17,119	17,701	409	52	89,347	62,566
Redemptions	(405,046)	(168,178)	(140,118)	(584,869)	(10,742)	(15,721)	(639,763)	(365,718)
Closing balance	1,712,367	1,725,196	501,922	393,353	69,966	51,166	2,871,686	2,608,276
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(b) Net assets attributable to unitholders								
Opening balance	1,741,941	1,152,207	401,676	744,890	50,754	44,807	2,823,572	2,089,271
Applications	310,849	710,541	236,189	243,551	28,946	20,004	883,656	1,023,274
Distributions reinvested	84,951	44,592	17,388	18,132	403	50	95,975	66,668
Redemptions	(408,649)	(169,926)	(143,011)	(601,143)	(10,645)	(15,347)	(691,642)	(393,956)
Increase/(decrease) in net assets attributable to unitholders	(9,019)	4,527	(2,432)	(3,754)	325	1,240	(13,921)	38,315
Closing balance	1,720,073	1,741,941	509,810	401,676	69,783	50,754	3,097,640	2,823,572

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

9. Net assets attributable to unitholders *(continued)*

Vanguard Australian Property Securities Index Fund						
	2011			2010		
	Ordinary Units	ETF Class Units	Total	Ordinary Units	ETF Class Units	Total
	'000	'000	'000	'000	'000	'000
(a) Units on issue						
Opening balance	3,640,044	–		3,006,313	–	
Applications	1,122,225	379		1,526,133	–	
Distributions reinvested	134,942	1		110,347	–	
Redemptions	(729,426)	–		(1,002,749)	–	
Closing balance	4,167,785	380		3,640,044	–	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(b) Net assets attributable to unitholders						
Opening balance			2,125,755			1,552,453
Applications	675,168	18,979	694,147	924,324	–	924,324
Distributions reinvested	80,043	6	80,049	67,274	–	67,274
Redemptions	(438,773)	–	(438,773)	(605,000)	–	(605,000)
Increase/(decrease) in net assets attributable to unitholders			(9,746)			186,704
Closing balance			2,451,432			2,125,755
Vanguard Australian Shares Index Fund						
	2011			2010		
	Ordinary Units	ETF Class Units	Total	Ordinary Units	ETF Class Units	Total
	'000	'000	'000	'000	'000	'000
(a) Units on issue						
Opening balance	3,209,045	2,364		2,525,098	320	
Applications	721,651	2,400		955,024	2,040	
Distributions reinvested	100,255	25		67,704	4	
Redemptions	(568,726)	(920)		(338,781)	–	
Closing balance	3,462,225	3,869		3,209,045	2,364	
(b) Net assets attributable to unitholders						
Opening balance			5,237,804			3,706,240
Applications	1,248,694	140,238	1,388,932	1,619,418	120,195	1,739,613
Distributions reinvested	171,044	1,511	172,555	117,574	251	117,825
Redemptions	(993,154)	(54,396)	(1,047,550)	(575,493)	–	(575,493)
Increase/(decrease) in net assets attributable to unitholders			391,378			249,619
Closing balance			6,143,119			5,237,804

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

9. Net assets attributable to unitholders *(continued)*

	Vanguard Australian Shares High Yield Fund					
	2011			2010		
	Ordinary Units	ETF Class Units	Total	Ordinary Units	ETF Class Units	Total
	'000	'000	'000	'000	'000	'000
(a) Units on issue						
Opening balance	275,529	–		253,702	–	
Applications	38,069	40		72,507	–	
Distributions reinvested	5,574	–		4,368	–	
Redemptions	(39,990)	–		(55,048)	–	
Closing balance	279,182	40		275,529	–	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(b) Net assets attributable to unitholders						
Opening balance			331,624			280,425
Applications	49,573	1,985	51,558	93,073	–	93,073
Distributions reinvested	7,237	–	7,237	5,748	–	5,748
Redemptions	(52,157)	–	(52,157)	(71,831)	–	(71,831)
Increase/(decrease) in net assets attributable to unitholders			28,393			24,209
Closing balance			366,655			331,624

(a) Each unit represents a right to an individual share in the Funds and does not extend to a right to the underlying assets of the Funds. The Vanguard Cash Reserve Fund, Vanguard Cash Plus Index Fund, Vanguard Australian Government Bond Index Fund and Vanguard Australian Fixed Interest Index Fund have no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

The Vanguard Australian Shares Index Fund ("VASIF") offers two classes of units, Ordinary Units and ETF Class Units. The ETF Class Units are traded on the Australian Stock Exchange. Each unit has the same rights attaching to it as all other units of the relevant class.

The Vanguard Australian Property Securities Index Fund ("VAPSIF") offers two classes of units, Ordinary Units and ETF Class Units. The ETF Class Units commenced on 11 October 2010 and are traded on the Australian Stock Exchange. Each unit has the same rights attaching to it as all other units of the relevant class.

The Vanguard Australian Shares High Yield Fund ("VASHYF") offers two classes of units, Ordinary Units and ETF Class Units. The ETF Class Units commenced on 26 May 2011 and are traded on the Australian Stock Exchange. Each unit has the same rights attaching to it as all other units of the relevant class.

(b) Movements in the number of units and net assets attributable to unitholders are governed by the Constitutions of the Funds.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

9. Net assets attributable to unitholders *(continued)*

Capital risk management

The Funds manage their net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Funds are subject to daily applications and redemptions at the discretion of the unitholders.

The Funds monitor the level of daily applications and redemptions relative to the net liquid assets in the Funds. The net liquid assets include cash and cash equivalents, financial assets designated at fair value through profit and loss, receivables and payables with a maturity of less than 30 days.

The ratio of net liquid assets to net applications/ (redemptions) at end of reporting periods are as follows:

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Average daily net applications/(redemptions)	(390)	2,154	371	(1,425)	73	19	765	2,507
Net Liquid assets of the fund	1,720,073	1,741,941	509,810	401,676	69,783	50,754	3,097,640	2,823,572
Net assets attributable to unitholders (NAATU)	1,720,073	1,741,941	509,810	401,676	69,783	50,754	3,097,640	2,823,572
Ratio of net liquid assets to NAATU	100%	100%	100%	100%	100%	100%	100%	100%

	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Average daily net applications/(redemptions)	1,017	1,272	1,360	4,638	(2)	85
Net Liquid assets of the fund	2,451,432	2,125,755	6,143,119	5,237,804	366,655	331,624
Net assets attributable to unitholders (NAATU)	2,451,432	2,125,755	6,143,119	5,237,804	366,655	331,624
Ratio of net liquid assets to NAATU	100%	100%	100%	100%	100%	100%

10. Cash and cash equivalents

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash at bank	5,953	9,405	11,581	474	753	407	75,116	18,090

	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash at bank	5,304	9,292	44,266	35,953	(152)	474

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

11. Financial assets held at fair value through profit or loss

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011 Fair Value \$'000	2010 Fair Value \$'000	2011 Fair Value \$'000	2010 Fair Value \$'000	2011 Fair Value \$'000	2010 Fair Value \$'000	2011 Fair Value \$'000	2010 Fair Value \$'000
Held for trading								
Derivatives	–	–	4	28	–	–	–	–
Total held for trading	–	–	4	28	–	–	–	–
Designated at fair value through profit or loss								
Equity securities	–	–	–	–	–	–	–	–
Fixed interest securities	1,720,372	1,683,536	506,495	401,852	68,592	50,482	3,065,834	2,847,148
Total designated at fair value through profit or loss	1,720,372	1,683,536	506,495	401,852	68,592	50,482	3,065,834	2,847,148
Total financial assets held at fair value through profit or loss	1,720,372	1,683,536	506,499	401,880	68,592	50,482	3,065,834	2,847,148
Comprising:								
Derivatives								
Australian share price futures	–	–	–	–	–	–	–	–
Australian interest rate futures	–	–	4	28	–	–	–	–
Total derivatives	–	–	4	28	–	–	–	–
Equity securities								
Australian equity securities	–	–	–	–	–	–	–	–
Total equity securities	–	–	–	–	–	–	–	–
Fixed interest securities								
Australian fixed interest securities	1,720,372	1,683,536	506,495	401,852	68,592	50,482	3,065,834	2,847,148
Total fixed interest securities	1,720,372	1,683,536	506,495	401,852	68,592	50,482	3,065,834	2,847,148
Total financial assets held at fair value through profit or loss	1,720,372	1,683,536	506,499	401,880	68,592	50,482	3,065,834	2,847,148

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 3.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

11. Financial assets held at fair value through profit or loss *(continued)*

	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
	2011	2010	2011	2010	2011	2010
	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000	Fair Value \$'000
Held for trading						
Derivatives	–	–	986	–	70	–
Total held for trading	–	–	986	–	70	–
Designated at fair value through profit or loss						
Equity securities	2,440,810	2,123,500	6,061,310	5,206,982	363,715	329,293
Fixed interest securities	–	–	–	–	–	–
Total designated at fair value through profit or loss	2,440,810	2,123,500	6,061,310	5,206,982	363,715	329,293
Total financial assets held at fair value through profit or loss	2,440,810	2,123,500	6,062,296	5,206,982	363,785	329,293
Comprising:						
Derivatives						
Australian share price futures	–	–	986	–	70	–
Australian interest rate futures	–	–	–	–	–	–
Total derivatives	–	–	986	–	70	–
Equity securities						
Australian equity securities	2,440,810	2,123,500	5,971,089	5,034,143	363,715	325,246
International equity securities	–	–	90,221	172,839	–	4,047
Total equity securities	2,440,810	2,123,500	6,061,310	5,206,982	363,715	329,293
Fixed interest securities						
Australian fixed interest securities	–	–	–	–	–	–
Total fixed interest securities	–	–	–	–	–	–
Total financial assets held at fair value through profit or loss	2,440,810	2,123,500	6,062,296	5,206,982	363,785	329,293

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 3.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

12. Financial liabilities held at fair value through profit or loss

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011 Fair Value \$'000	2010 Fair Value \$'000	2011 Fair Value \$'000	2010 Fair Value \$'000	2011 Fair Value \$'000	2010 Fair Value \$'000	2011 Fair Value \$'000	2010 Fair Value \$'000
Held for trading								
Derivatives	38	–	20	4	2	–	123	103
Total held for trading	38	–	20	4	2	–	123	103
Total financial liabilities held at fair value through profit or loss	38	–	20	4	2	–	123	103
Comprising:								
Derivatives								
Australian share price futures	–	–	–	–	–	–	–	–
Australian interest rate futures	38	–	20	4	2	–	123	103
Total derivatives	38	–	20	4	2	–	123	103
Total financial liabilities held at fair value through profit or loss	38	–	20	4	2	–	123	103

	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
	2011 Fair Value \$'000	2010 Fair Value \$'000	2011 Fair Value \$'000	2010 Fair Value \$'000	2011 Fair Value \$'000	2010 Fair Value \$'000
Held for trading						
Derivatives	205	372	–	3,563	–	131
Total held for trading	205	372	–	3,563	–	131
Total financial liabilities held at fair value through profit or loss	205	372	–	3,563	–	131
Comprising:						
Derivatives						
Australian share price futures	205	372	–	3,563	–	131
Australian interest rate futures	–	–	–	–	–	–
Total derivatives	205	372	–	3,563	–	131
Total financial liabilities held at fair value through profit or loss	205	372	–	3,563	–	131

An overview of the risk exposures relating to financial liabilities at fair value through profit or loss is included in note 3.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

13. Derivative financial instruments

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

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

Derivative transactions include a wide assortment of instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Funds' portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of a Fund against a fluctuation in market values or to reduce volatility

- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Funds.

The Funds hold the following derivative instrument:

Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are settled daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

Futures contracts entered into by the Funds typically mature within 3 months from the date of acquisition.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

13. Derivative financial instruments *(continued)*

	Vanguard Cash Reserve Fund					
	Contract/ Notional	2011		Contract/ Notional	2010	
		Fair Value Assets	Fair Value Liabilities		Fair Value Assets	Fair Value Liabilities
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Buy						
Australian fixed interest futures	127,501	–	38	–	–	–
International fixed interest futures	–	–	–	–	–	–
Total buys	127,501	–	38	–	–	–
Sell						
Australian fixed interest futures	–	–	–	–	–	–
International fixed interest futures	–	–	–	–	–	–
Total sells	–	–	–	–	–	–
	127,501	–	38	–	–	–

	Vanguard Cash Plus Index Fund					
	Contract/ Notional	2011		Contract/ Notional	2010	
		Fair Value Assets	Fair Value Liabilities		Fair Value Assets	Fair Value Liabilities
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Buy						
Australian fixed interest futures	2,571	–	20	71,398	28	4
International fixed interest futures	–	–	–	–	–	–
Total buys	2,571	–	20	71,398	28	4
Sell						
Australian fixed interest futures	40,906	4	–	–	–	–
International fixed interest futures	–	–	–	–	–	–
Total sells	40,906	4	–	–	–	–
	43,477	4	20	71,398	28	4

	Vanguard Australian Government Bond Index Fund					
	Contract/ Notional	2011		Contract/ Notional	2010	
		Fair Value Assets	Fair Value Liabilities		Fair Value Assets	Fair Value Liabilities
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Buy						
Australian fixed interest futures	476	–	2	–	–	–
Total buys	476	–	2	–	–	–
Sell						
Australian fixed interest futures	–	–	–	–	–	–
Total sells	–	–	–	–	–	–
	476	–	2	–	–	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

13. Derivative financial instruments *(continued)*

	Vanguard Australian Fixed Interest Index Fund					
	Contract/ Notional	2011		Contract/ Notional	2010	
		Fair Value Assets	Fair Value Liabilities		Fair Value Assets	Fair Value Liabilities
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Buy						
Australian fixed interest futures	76,090	–	123	–	–	–
Total buys	76,090	–	123	–	–	–
Sell						
Australian fixed interest futures	–	–	–	(6,949)	–	103
Total sells	–	–	–	(6,949)	–	103
	76,090	–	123	(6,949)	–	103

	Vanguard Australian Property Securities Index Fund					
	Contract/ Notional	2011		Contract/ Notional	2010	
		Fair Value Assets	Fair Value Liabilities		Fair Value Assets	Fair Value Liabilities
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Buy						
Australian share price index futures	26,560	–	205	24,228	–	372
Total buys	26,560	–	205	24,228	–	372
Sell						
Australian share price index futures	–	–	–	–	–	–
Total sells	–	–	–	–	–	–
	26,560	–	205	24,228	–	372

	Vanguard Australian Shares Index Fund					
	Contract/ Notional	2011		Contract/ Notional	2010	
		Fair Value Assets	Fair Value Liabilities		Fair Value Assets	Fair Value Liabilities
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Buy						
Australian share price index futures	97,773	986	–	69,364	–	3,563
Total buys	97,773	986	–	69,364	–	3,563
Sell						
Australian share price index futures	–	–	–	–	–	–
Total sells	–	–	–	–	–	–
	97,773	986	–	69,364	–	3,563

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

13. Derivative financial instruments *(continued)*

	Vanguard Australian Shares High Yield Fund					
	Contract/ Notional	2011		Contract/ Notional	2010	
		Fair Value Assets	Fair Value Liabilities		Fair Value Assets	Fair Value Liabilities
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Buy						
Australian share price index futures	2,531	70	–	–	–	–
Total buys	2,531	70	–	–	–	–
Sell						
Australian share price index futures	–	–	–	2,238	–	131
Total sells	–	–	–	2,238	–	131
	2,531	70	–	2,238	–	131

14. Related parties

Responsible Entity

The Responsible Entity of the Vanguard Index Funds is Vanguard Investments Australia Ltd (ABN 72 072 881 086 AFSL 227263), which is a wholly owned subsidiary of The Vanguard Group, Inc.

(a) Key management personnel

The Funds do not employ personnel in their own right. However the Funds are required to have an incorporated Responsible Entity to manage the activities of the Funds and this is considered the Key Management Personnel.

(i) Directors

The directors of the Responsible Entity are key management personnel of that entity and their names are as follows:

J G Duffield – resigned 31 December 2010
 J H Wily – resigned 31 December 2010
 J M Norris
 G W Reed
 J P Brennan
 K A Watt
 J M James

(ii) Key management personnel compensation

The Responsible Entity is entitled to receive a management fee as detailed in Note 14(b) below. Payments made from the Funds to the Responsible Entity do not include any amounts directly attributable to the compensation of the directors of the Responsible Entity.

No compensation is paid directly by the Funds to directors or to any of the key management personnel of the Responsible Entity.

(iii) Key management personnel loan disclosures

The Funds have not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(iv) Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time Vanguard Investments Australia Ltd or its director related entities may invest in or withdraw from the Funds. These investments or withdrawals are on the same terms and conditions as those entered into by other Funds' investors and are trivial and domestic in nature.

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

14. Related parties *(continued)*

(b) Responsible entity's fees and other transactions

Under the Constitution for each Fund, the Responsible Entity is entitled to receive management fees up to the following limits:

- up to 0.2% per annum of the net asset value for the Vanguard Cash Plus Index Fund and Vanguard Australian Fixed Interest Index Fund.
- up to 0.25% per annum of the net asset value for the Vanguard Australian Property Securities Index Fund and Vanguard Australian Shares Index Fund;
- up to 0.5% per annum of the net asset value for the Vanguard Australian Shares High Yield Fund;
- up to 1.5% per annum of the net asset value for the Vanguard Cash reserve Fund and Vanguard Australian Government Bond Index Fund.

The above limits do not take into account Goods and Services Tax (GST).

In the current PDS for the Funds, the Responsible Entity has undertaken to limit the amount of its fees and certain expense recoveries to a 'management cost' specified for each Fund.

The following table sets out the total Responsible Entity fee and recoverable expenses deducted in respect of each Fund. The amounts shown take into account GST and expected input tax credits.

Note that the table does not take into account rebates paid by the Responsible Entity (out of the Responsible Entity's own assets) to particular investors in accordance with the Corporations Act, relevant ASIC class orders and policy and the PDS for the Funds.

	Management costs	
	2011	2010
	% per annum	% per annum
Vanguard Cash Reserve Fund	0.15	0.15
Vanguard Cash Plus Index Fund	0.29	0.29
Vanguard Australian Government Bond Index Fund	0.29	0.29
Vanguard Australian Fixed Interest Index Fund	0.29	0.29
Vanguard Australian Property Securities Index Fund (Ordinary Units)	0.34	0.34
Vanguard Australian Property Securities Index Fund (ETF Unit class)	0.25	–
Vanguard Australian Shares Index Fund (Ordinary Units)	0.34	0.34
Vanguard Australian Shares Index Fund (ETF Unit class)	0.15	0.27
Vanguard Australian Shares High Yield Fund (Ordinary Units)	0.40	0.40
Vanguard Australian Shares High Yield Fund (ETF Unit class)	0.25	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

14. Related parties *(continued)*

(b) Responsible entity's fees and other transactions *(continued)*

The transactions during the year and amounts payable at year end between the Funds and the Responsible Entity were as follows:

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Fees paid and payable for the year by the Funds to the Responsible Entity	2,604	2,232	1,307	1,414	177	131	8,883	7,353
Aggregate amounts payable to the Responsible Entity at the reporting date	213	226	120	102	17	13	743	727

	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Fees paid and payable for the year by the Funds to the Responsible Entity	8,082	7,001	19,737	17,411	1,459	1,430
Aggregate amounts payable to the Responsible Entity at the reporting date	687	680	1,657	1,621	129	121

(c) Related party schemes' unitholdings

Vanguard Investments Australia Ltd held units in the Funds as follows:

	Number of units held		Interest held at 30 June		Number of units acquired		Number of units disposed		Distributions paid/payable by the Funds	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
			%	%					\$	\$
Vanguard Cash Plus Index Fund	26,800,769	16,964,519	5.34	4.31	9,836,250	7,338,027	–	–	1,200,427	613,474
Vanguard Cash Reserve Fund	27,279,310	17,353,254	1.59	1.01	9,926,056	17,353,254	–	–	1,170,193	440,152

(d) Key management personnel unitholdings

The key management personnel of Vanguard Investments Australia Ltd held units in the Funds as follows:

	Number of units held		Interest held at 30 June		Number of units acquired		Number of units disposed		Distributions paid/payable by the Funds	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
			%	%					\$	\$
	–	–	–	–	–	–	–	–	–	–

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

14. Related parties *(continued)*

(e) Related Party investments

The Funds have no investment in Vanguard Investments Australia Ltd during the year.

The Funds did not hold any investments in other Schemes managed by Vanguard Investments Australia Ltd (VIA) during the year.

Other schemes managed by Vanguard Investments Australia Ltd held investments in the Funds during the year as indicated:

Investments in: Vanguard Cash Plus Index Fund	Number of units held		Interest held at 30 June		Number of units acquired		Number of units disposed		Distributions paid/ payable by the Funds	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
			%	%					\$'000	\$'000
By other schemes managed by VIA:										
Vanguard Index Cash Plus Fund	16,315,361	16,833,203	3.25	4.28	6,832,703	18,074,969	7,350,545	15,337,012	869	757
Vanguard LifeStrategy Conservative Fund	3,131,114	2,890,269	0.62	0.74	831,398	853,467	590,553	337,789	174	119
Vanguard LifeStrategy Balanced Fund	5,783,228	5,671,151	1.15	1.44	909,282	1,473,767	797,205	315,543	320	246
Vanguard LifeStrategy Growth Fund	1,681,908	1,622,471	0.34	0.41	453,394	461,193	393,957	130,494	89	76
Vanguard Conservative Index Fund	159,704,995	54,185,226	31.86	13.78	111,389,921	21,785,317	5,870,152	462,056	7,365	2,082
Vanguard Balanced Index Fund	125,092,823	43,278,415	24.95	11.01	82,916,720	25,222,274	1,102,312	1,673,177	4,837	1,551
Vanguard Growth Index Fund	14,955,875	4,914,826	2.98	1.25	13,836,842	3,630,646	3,795,793	1,008,280	664	182
Vanguard Personal Superannuation Plan	3,229,211	4,190,271	0.64	1.07	2,229,062	2,718,329	3,190,122	1,157,739	185	144

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

14. Related parties *(continued)*

(e) Related Party investments *(continued)*

Investments in: Vanguard Australian Fixed Interest Index Fund	Number of units held		Interest held at 30 June		Number of units acquired		Number of units disposed		Distributions paid/ payable by the Funds	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
			%	%					\$'000	\$'000
By other schemes managed by VIA:										
Vanguard Index Diversified Bond Fund	20,072,835	56,658,254	0.70	2.17	29,527,020	32,887,038	66,112,439	4,843,631	3,547	2,960
Vanguard LifeStrategy Conservative Fund	701,999	729,073	0.02	0.03	108,913	327,400	135,987	187,980	44	41
Vanguard LifeStrategy Balanced Fund	2,683,073	2,678,493	0.09	0.10	549,432	683,384	544,852	193,400	162	155
Vanguard LifeStrategy Growth Fund	8,295,907	8,374,824	0.29	0.32	857,611	2,550,959	936,528	917,405	514	515
Vanguard LifeStrategy High Growth Fund	2,627,212	2,892,548	0.09	0.11	1,512,384	1,757,845	1,777,720	1,361,479	176	179
Vanguard Conservative Index Fund	39,036,919	13,289,943	1.36	0.51	27,849,721	5,037,606	2,102,745	102,971	2,156	715
Vanguard Balanced Index Fund	59,707,116	20,147,225	2.08	0.77	42,487,390	11,136,662	2,927,499	666,719	2,796	1,029
Vanguard Growth Index Fund	77,419,541	25,200,034	2.70	0.96	54,210,354	14,698,143	1,990,847	2,084,209	4,200	1,340
Vanguard High Growth Index Fund	20,433,415	4,672,829	0.71	0.18	20,857,057	3,182,317	5,096,471	1,095,612	1,130	264
Vanguard Diversified Bond Index Fund	62,681,419	–	2.18	–	63,176,572	–	495,153	–	983	–
Vanguard Personal Superannuation Plan	1,191,260	1,676,380	0.04	0.06	956,402	1,018,372	1,441,522	60,167	109	77

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

14. Related parties *(continued)*

(e) Related Party investments *(continued)*

Investments in: Vanguard Australian Property Securities Index Fund	Number of units held		Interest held at 30 June		Number of units acquired		Number of units disposed		Distributions paid/ payable by the Funds	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
			%	%					\$'000	\$'000
By other schemes managed by VIA:										
Vanguard Index Australian Property Securities Fund	123,872,849	127,600,037	2.98	3.51	15,436,900	26,795,184	19,164,088	11,670,620	3,950	4,781
Vanguard LifeStrategy Conservative Fund	258,551	228,099	0.01	0.01	30,452	93,871	–	104,236	8	8
Vanguard LifeStrategy Balanced Fund	1,382,032	1,229,833	0.03	0.03	152,199	154,054	–	174,857	42	46
Vanguard LifeStrategy Growth Fund	5,846,339	5,553,347	0.14	0.15	407,079	524,531	114,087	156,421	179	209
Vanguard LifeStrategy High Growth Fund	6,764,114	6,579,247	0.16	0.18	800,339	941,313	615,472	1,079,460	212	247
Vanguard Conservative Index Fund	12,525,066	4,483,341	0.30	0.12	9,106,572	1,554,171	1,064,847	86,829	369	148
Vanguard Balanced Index Fund	30,995,247	9,368,740	0.74	0.26	21,626,507	3,752,588	–	–	776	308
Vanguard Growth Index Fund	51,044,805	16,217,611	1.23	0.45	34,827,194	8,697,015	–	1,843,063	1,444	551
Vanguard High Growth Index Fund	45,015,984	10,323,231	1.08	0.28	34,864,633	4,216,435	171,880	273,590	1,327	355
Vanguard Personal Superannuation Plan	737,911	540,182	0.02	0.01	251,200	176,781	53,471	100,948	21	23

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

15. Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit/(loss) for the year	–	–	–	–	–	–	–	–
Increase/(decrease) in net assets attributable to unitholders	(9,019)	4,527	(2,432)	(3,754)	325	1,240	(13,921)	38,315
Distributions paid and payable	90,793	50,970	24,728	21,426	2,623	2,002	172,102	151,704
Proceeds from sale of financial assets held and designated at fair value through profit or loss	7,647,429	6,133,966	1,587,944	2,279,322	25,949	21,043	1,101,203	7,835,709
Purchases of financial assets held and designated at fair value through profit or loss	(7,600,531)	(6,613,828)	(1,661,642)	(1,917,235)	(40,607)	(24,990)	(1,143,899)	(8,417,298)
Net (gains)/losses on financial assets held and designated at fair value through profit or loss	(83,813)	(57,328)	(23,609)	(19,094)	(3,129)	(3,378)	(166,974)	(197,445)
Net change in receivables and other assets	3	(10)	(6)	24	(5)	1	(24)	(43)
Net change in other liabilities	(13)	70	18	(89)	4	2	17	237
Non-cash item (reinvestment of distribution income)	–	–	–	–	–	–	–	–
Net cash inflow/(outflow) from operating activities	44,849	(481,633)	(74,999)	360,600	(14,840)	(4,080)	(51,496)	(588,821)

	Vanguard Australian Property Securities Index Fund		Vanguard Australian Shares Index Fund		Vanguard Australian Shares High Yield Fund	
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Profit/(loss) for the year	–	–	–	–	–	–
Increase/(decrease) in net assets attributable to unitholders	(9,746)	186,704	391,378	249,619	28,393	24,209
Distributions paid and payable	128,690	136,375	226,809	198,007	16,713	14,340
Proceeds from sale of financial assets held and designated at fair value through profit or loss	280,388	443,460	696,981	106,194	224,928	113,407
Purchases of financial assets held and designated at fair value through profit or loss	(609,544)	(865,605)	(1,157,004)	(1,443,568)	(231,660)	(145,251)
Net (gains)/losses on financial assets held and designated at fair value through profit or loss	11,476	(195,008)	(386,174)	(266,048)	(27,766)	(24,371)
Net change in receivables and other assets	(6,196)	(3,365)	(7,872)	(10,813)	(1,160)	(621)
Net change in other liabilities	7	210	36	533	9	26
Non-cash item (reinvestment of distribution income)	–	–	–	–	–	–
Net cash inflow/(outflow) from operating activities	(204,925)	(297,229)	(235,846)	(1,166,076)	9,457	(18,261)

Notes to the financial statements *(continued)*

For the year ended 30 June 2011

15. Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities *(continued)*

(b) Non-cash financing activities

	Vanguard Cash Reserve Fund		Vanguard Cash Plus Index Fund		Vanguard Australian Government Bond Index Fund		Vanguard Australian Fixed Interest Index Fund	
	2011	2010	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	84,951	44,592	17,388	18,133	403	50	95,975	66,669

	Vanguard Australian Property Securities Index Fund				Vanguard Australian Shares Index Fund				Vanguard Australian Shares High Yield Fund			
	2011		2010		2011		2010		2011		2010	
	Ordinary Units	ETF Class Units	Ordinary Units	ETF Class Units	Ordinary Units	ETF Class Units	Ordinary Units	ETF Class Units	Ordinary Units	ETF Class Units	Ordinary Units	ETF Class Units
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	80,043	6	67,274	–	171,044	1,511	117,574	251	7,237	–	5,748	–

As described in note 2(h), non-distributable income is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable (i.e. taxable).

16. Segment information

The Funds are organised into one main segment which operates solely in the business of investment management within Australia. Consequently, no segment reporting is provided in the Funds' financial statements.

Geographical exposures

The Funds operate from Australia only (the geographical segment) and have no investment exposures in other countries.

17. Events occurring after the balance sheet date

There are no significant events that have occurred since balance date which would impact on the financial position of the Funds as disclosed in the balance sheet as at 30 June 2011 or on the results and cashflows of the Funds for the year ended on that date.

Investors should be aware that markets and currencies can be volatile, therefore affecting the returns of an investment portfolio. You can obtain up to date fund performance and unit price information by visiting the Vanguard website at www.vanguard.com.au.

18. Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2011 and 30 June 2010 for the Funds.

Directors' Declaration

In the opinions of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 11 to 60 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of each Fund's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

- (b) there are reasonable grounds to believe that each Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



J M James
Managing Director
Melbourne
31 August 2011

Independent auditor's report to the unitholders of the Vanguard Index Funds (Domestic Funds):

- Vanguard Cash Reserve Fund
- Vanguard Cash Plus Index Fund
- Vanguard Australian Government Bond Index Fund
- Vanguard Australian Fixed Interest Index Fund
- Vanguard Australian Property Securities Index Fund
- Vanguard Australian Shares Index Fund
- Vanguard Australian Shares High Yield Fund

Report on the financial report

We have audited the accompanying financial report of Vanguard Index Funds (Domestic Funds) (the 'Funds'), which comprises the balance sheet as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Funds.

Directors' responsibility for the financial report

The directors of the Responsible Entity for the Funds 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 is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

**Independent auditor's report to the unitholders of
the Vanguard Index Funds (Domestic Funds): (continued)**

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Vanguard Index Funds (Domestic Funds) is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Funds' financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of the Funds for the year ended 30 June 2011 included on Vanguard Investments Australia Ltd ('VIA') web site. The VIA directors are responsible for the integrity of the VIA web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.



PricewaterhouseCoopers



George Sagonas
Partner

Melbourne
31 August 2011

Vanguard Investments Australia Ltd is the issuer of this Annual Report and interests in the Funds. We have not taken your circumstances into account when preparing the Annual Report so it may not be applicable to your circumstances. You should consider your circumstances and our Product Disclosure Statement (PDS) before making any investment decision. You can access our PDS at www.vanguard.com.au or by calling 1300 655 102. Past performance is not an indication of future performance. Investments are not guaranteed and may rise or fall in value.

Responsible Entity

Vanguard Investments Australia Ltd

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