

**Local Government Superannuation Scheme
Pool B and its Consolidated Entities**

Financial Report

For the Year Ended 30 June 2006

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

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**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**


**TRUSTEE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

In the opinion of the Trustee of the Local Government Superannuation Scheme Pool B:

1. The accompanying financial statements of the Local Government Superannuation Scheme Pool B (the Scheme) and its Consolidated Entities consisting of Local Government Superannuation Scheme Pool B and its subsidiaries Local Investment Fund, Local Government Financial Services Pty Limited, LGFS Facilities Trust, Regional Development Trust, LG Secondaries Trust and Local Government Property Fund (the Consolidated Scheme) are properly drawn up so as to present fairly the Net Assets of the Consolidated Scheme as at 30 June 2006 and the Statement of Changes in Net Assets for the year ended 30 June 2006.
2. The financial statements have been prepared in accordance with the requirements of the Trust Deed;
3. The accompanying financial statements have been drawn up in accordance with accounting Standards and the superannuation Industry (Supervision) Act 1993. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('AIFRS') to the extent they are not inconsistent with AAS 25 Financial Reporting by Superannuation Plans;
4. The Scheme has been conducted in accordance with its constituent Trust Deed dated 30 June 1997 as amended and all legislative requirements at all times during the period; and
5. In the Trustees' opinion there are reasonable grounds to believe that the scheme will be able to pay its debts as and when they fall due.

Signed in accordance with a resolution of the Board of Directors of LGSS Pty Limited (ABN 68 078 003 497).

Signed at Sydney this 25 day of October 2006


Director


Director

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2006**

	Note	Consolidated		Scheme	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
INVESTMENT INCOME					
Interest Income		65,140	60,347	972	1,091
Dividend Income		150,683	79,967	-	-
Trust Distributions		37,835	28,995	351,978	293,753
Rental Income		31,836	30,501	-	-
Changes in Net Market Value	4	482,325	410,386	156,500	109,591
Unlisted Hedge Fund Distribution		11,335	3,679	11,335	3,679
Other Investment Income		8,652	1,557	310	15
		<u>787,806</u>	<u>615,432</u>	<u>521,095</u>	<u>408,129</u>
Investment Expenses		(57,170)	(38,562)	(12,857)	(11,272)
Net Investment Income		<u>730,636</u>	<u>576,870</u>	<u>508,238</u>	<u>396,857</u>
CONTRIBUTIONS INCOME					
Employer Contributions	5	52,706	2,303	52,706	2,303
Member Contributions	5	35,929	38,881	35,929	38,881
Transfers From Other Funds	5	10,203	2,347	10,203	2,347
		<u>98,838</u>	<u>43,531</u>	<u>98,838</u>	<u>43,531</u>
TOTAL INCOME		<u>829,474</u>	<u>620,401</u>	<u>607,076</u>	<u>440,388</u>
Benefits Paid		(184,007)	(159,832)	(184,007)	(159,832)
Superannuation Contributions					
Surcharge		(948)	(1,054)	(948)	(1,054)
Scheme Administration Expenses		(14,867)	(10,771)	(11,925)	(9,743)
TOTAL EXPENSES		<u>(199,822)</u>	<u>(171,657)</u>	<u>(196,880)</u>	<u>(170,629)</u>
NET PROFIT BEFORE TAX AND MINORITY INTEREST		<u>629,652</u>	<u>448,744</u>	<u>410,196</u>	<u>269,759</u>
Income Tax Expense	3	(31,288)	(33,479)	(31,048)	(33,229)
NET PROFIT BEFORE MINORITY INTEREST		<u>598,364</u>	<u>415,313</u>	<u>379,148</u>	<u>236,530</u>
Minority Interest		(219,437)	(177,042)	-	-
NET PROFIT		<u>378,927</u>	<u>238,271</u>	<u>379,148</u>	<u>236,530</u>

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

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**STATEMENT OF NET ASSETS
AS AT 30 JUNE 2006**

	Note	Consolidated		Scheme	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
INVESTMENTS					
Listed Equities and Trusts	10	3,335,739	2,752,486	-	-
Unlisted Equities and Trusts	10	760,862	663,299	3,345,114	2,947,134
Fixed Interest Securities	10	1,062,416	1,050,265	-	-
Direct Property	10	351,481	317,131	-	-
Other Securities	10	1,910	530	-	-
Total Investments		<u>5,512,408</u>	<u>4,783,711</u>	<u>3,345,114</u>	<u>2,947,134</u>
OTHER ASSETS					
Cash and Cash Equivalents		213,850	194,665	13,506	17,284
Interest Receivable		8,856	8,010	-	-
Dividends Receivable		11,325	10,871	-	-
Other Receivables	11	64,001	20,271	306	182
Total Other Assets		<u>298,032</u>	<u>233,817</u>	<u>13,812</u>	<u>17,466</u>
Total Assets		<u>5,810,440</u>	<u>5,017,528</u>	<u>3,358,926</u>	<u>2,964,600</u>
LESS LIABILITIES					
Accounts Payable	12	45,679	12,266	5,365	4,806
Deposits from Clients		562,553	615,531	-	-
Other Financial Liabilities	13	2,984	6,113	-	-
Current Tax Liability	3	19,727	16,813	19,535	16,565
Deferred Tax Liability	3	42,975	31,225	42,920	31,271
Total Liabilities		<u>673,918</u>	<u>681,948</u>	<u>67,820</u>	<u>52,642</u>
NET ASSETS AVAILABLE BEFORE MINORITY INTEREST		<u>5,136,522</u>	<u>4,335,580</u>	<u>3,291,106</u>	<u>2,911,958</u>
Less Net Assets Available – Minority Interest		<u>1,841,364</u>	<u>1,419,349</u>	<u>-</u>	<u>-</u>
NET ASSETS AVAILABLE	7,8	<u><u>3,295,158</u></u>	<u><u>2,916,231</u></u>	<u><u>3,291,106</u></u>	<u><u>2,911,958</u></u>

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

LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS CONSOLIDATED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. STATEMENT OF ACCOUNTING POLICIES

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with accounting Standards, Urgent Issues Group Interpretations, the superannuation Industry (Supervision) Act 1993 and provisions of the Trust Deed. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('AIFRS') to the extent they are not inconsistent with AAS 25 Financial Reporting by Superannuation Plans.

The financial statements were authorised for issue by the Directors on 25 October 2006.

(a) Basis of Preparation

The financial statements have been prepared on a basis required by AAS 25, which provides specific measurements for assets, liabilities and accrued benefits. To the extent that they do not conflict with AAS 25, other Accounting Standards have been applied in the preparation of the financial statements.

In the application of Accounting Standards, including AIFRS, the Directors are required to make judgements, estimates and assumptions about net market values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

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

Judgements made by the Directors in the application of Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

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

The Scheme changed its accounting policies on 1 July 2004 to comply with AIFRS, to the extent they are not inconsistent with AAS 25 Financial Reporting by Superannuation Plans.

The accounting policies set out below have been applied in preparing the financial statements for the year end 30 June 2006 and the comparative information presented in these financial statements for the year ended 30 June 2005.

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

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(b) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all entities that comprise the consolidated entity, being Local Government Superannuation Scheme Pool B (the Scheme) and its subsidiaries Local Investment Fund (LIF), Local Government Financial Services Pty Limited (LGFS), LGFS Facilities Trust (LGFS Trust), Regional Development Trust (RDT), LG Secondaries Trust (LGST) and Local Government Property Fund (LGPF) as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. The consolidated entity will be referred to as the Consolidated Scheme. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

In preparing the consolidated financial statements, all interfund balances and transactions are eliminated in full.

(c) Cash and Cash Equivalents

Cash and cash equivalents includes deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash on hand at the managers' option and are subject to insignificant risk of changes in value.

(d) Investments

Investments are included in the Statement of Net Assets at net market value as at reporting date. Changes in net market values of assets are recognised in the Statement of Changes in Net Assets in the period in which they occur.

Net market values have been determined as follows:

Listed Equities and Trusts

Listed securities quoted on a recognised stock exchange and government and other fixed interest securities are stated at market quotations as at the reporting date

Unlisted Equities and Trusts

Unlisted securities are stated at the Trustee's valuation based on the advice of the Consolidated Scheme's investment managers as at the reporting date

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

Fixed Interest Securities	Fixed interest securities quoted are stated at market quotations as at the reporting date
Other Securities	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.

(e) Income Tax

Current tax – Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted. Current tax for current and prior periods is recognised as a liability or asset to the extent that it is unpaid or refundable.

Deferred tax - Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax assets and liabilities are recognised for all taxable temporary differences and are measured at the tax rates that are expected to apply in the period when the liability giving rise to them are realised or settled, based on tax rates that have been enacted or substantively enacted by reporting date. The measurement of deferred tax assets and liabilities reflect the tax consequences that would follow from the manner in which the Scheme expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Scheme intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period – Current and deferred tax is recognised as an expense in the Statement of Changes in Net Assets.

(f) Benefits Paid and Payable

The Consolidated Scheme recognises benefits on the date that they are paid to the member. Accordingly benefits payable recognised in the Statement of Financial Position represent only those benefits where the payment has been processed by the Consolidated Scheme but has not yet been issued to members.

Furthermore, there has been a change in accounting policy disclosed in note 18.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(g) Foreign Currency

Functional and presentation currency

Items included in the Consolidated Scheme's 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 Consolidated Scheme competes for capital and is regulated. The Australian dollar is also the Consolidated Scheme's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transactions at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Changes in Net Assets.

(h) Expenses

Administrative expenses, other than expenses of administering the death or invalidity insurance provision of the Fund, are charged directly to net assets of the scheme. Death or invalidity insurance expenses are charged directly to the Death or Invalidity Reserve. Investment expenses are charged directly against investment income.

(i) Superannuation Contributions Surcharge

The superannuation contributions surcharge which may be payable by the Consolidated Scheme under the Superannuation Contributions Tax (Assessment and Collection) Act 1997 is brought to account as a liability and an expense in the year when assessments are received from the Australian Taxation Office. As there is insufficient information to provide a reliable indication of any outstanding surcharge liability, the Trustee is unable to determine the amount of the surcharge until assessments are received from the Australian Taxation Office.

The surcharge is no longer levied on surchargeable contributions made after 1 July 2005, however assessments relating to the period prior to this date continue to be received.

As the surcharge is levied based upon individual members taxable income any surcharge for the year ended 30 June 2005 subsequently levied against the Consolidated Scheme will be charged to the relevant members benefits or otherwise dealt with in accordance with the provisions of the Trust Deed and relevant legislation. The benefits of members not subject to the surcharge will be unaffected.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(j) Goods and Services Tax

Where applicable GST incurred by the Consolidated Scheme that is not recoverable from the Australian Taxation Office, has been recognised as part of the expenses to which it applies. Receivables and payables are stated with any applicable GST included in their carrying amounts.

The amount of any GST recoverable from, or payable to, the Australian Taxation Office is included as an asset or liability in the Statement of Net Assets.

(k) Receivables

Receivables may include amounts for deposits, dividends, trust distributions, interest and unsettled investments. 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. Amounts are generally received within 30 days of being recorded as receivables.

(l) Contributions

Member and employer contributions are recorded on a cash basis in relation to Divisions B, C and D members.

This has resulted in contributions outstanding at the reporting date in relation to Divisions B, C and D members for the respective year ended.

Transfers from other funds are recognised on a cash basis. Amounts are recognised where transfer receipts are recovered by the Consolidated Scheme.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(m) Income Recognition

To the extent of which it is probable that the economic benefits will flow to the Consolidated Scheme and the income can be reliably measured, income is recognised. The following recognition criteria relates to the different income streams the Consolidated Scheme has recognised:

Interest

Interest from fixed interest securities is recognised using the effective interest rate method and in accordance with the terms and conditions which apply to the fixed interest securities. Interest on cash deposit is recognised in accordance with the terms and conditions which apply to the deposit.

Dividends

Income from dividends are recognised on the date the shares are quoted ex-dividend.

Trust Distributions

Trust Distributions are recognised on a receivable basis on the date the unit value is quoted ex distribution.

Rental Income

Rental income from property investments is recognised on a straight line basis over the term of the lease.

Changes in Net Market Value

Changes in the net market value of investments are recognised as income and are determined as the difference between the net market value at year end or consideration received (if sold during the year) and the net market value as at the prior year end or cost (if the investment was acquired during the period).

(n) Use of Estimates

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

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(o) New Accounting Standards and UIG Interpretations

Australian Accounting Standards require the financial statements of the Consolidated Scheme to disclose Australian Accounting Standards that have not been applied in regard to standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards. These amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005.

The table below illustrates standards and amendments that will become effective for the Consolidated Scheme in the future. The nature of the impending change within the table has been out of necessity abbreviated and users should consult the full version available on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on the Trustee's initial assessment at this date, but may change. The Trustee intends to adopt all of the standards upon their application date.

Title	Standard affected	Application date	Nature of impending change	Impact Expected on financial report
2005-1	AASB 139	1 Jan 2006	Amends hedging requirements of foreign currency risk of a highly probable intra-group transaction.	No expected impact
2005-4	AASB 139, AASB 132, AASB 1, AASB 1023 AASB 1038	1 Jan 2006	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact
2005-6	AASB 3	1 Jan 2006	Amends the scope to exclude business combinations involving entities or businesses under common control.	No expected impact
2005-9	AASB 4, AASB 1023, AASB 139 AASB 132	1 Jan 2006	Amended standards in regards to financial guarantee contracts.	No expected impact
2005-10	AASB132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139. AASB 1, AASB 4, AASB 1023 AASB 1038	1 Jan 2007	Amended requirements subsequent to the issuing of AASB 7.	No expected impact
	AASB7 Financial Instruments: Disclosures	1 Jan 2007	Revise the disclosure requirements for financial instruments from AASB 132 requirements.	No expected impact, changes disclosure requirements

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(p) Rounding

All values reported in the financial statements have been rounded to the nearest thousand dollars, except where otherwise stated.

2. DESCRIPTION OF THE SCHEME

The Local Government Superannuation Scheme Pool B (the Scheme) consists of Local Government Members and was established in accordance with sections 127 and 128 of the Superannuation Administration Act, 1996 (the Act). LGSS Pty Limited acts as Trustee and holds in trust all assets of the Scheme.

The Scheme's custodial activities are provided by JP Morgan Chase Bank.

The Scheme consists of three Divisions. Division B and Division C comprise both a defined benefit component and a defined contribution component, whilst Division D is a defined benefit scheme. All the divisions are closed to new members, except for members of eligible entities who can transfer their entitlements into the Scheme. The Scheme is a reporting entity for financial reporting purposes.

Administration of the Scheme was conducted by FuturePlus Financial Services Pty Limited and Mercer Benefit Services (formerly Mellon Human Resources and Investor Solutions) during the year.

On the 1st July 2005 Mellon Human Resources and Investor Solutions ceased administration of the Scheme. Since this date the administration of the Scheme has been conducted solely by FuturePlus Financial Services Pty Limited.

FuturePlus Financial Services Pty Limited also provides secretariat services for the Scheme.

3. INCOME TAX

	Consolidated		Scheme	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(a) Income Tax Recognised in Profit and Loss:				
Current Tax Expense	19,538	17,150	19,399	16,902
Deferred Tax Expense	11,750	16,329	11,649	16,327
Total Income Tax Expense	31,288	33,479	31,048	33,229

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

3. INCOME TAX (Continued)

The prima facie income tax expense on pre tax profit reconciles to the income tax expense in the financial statements as follows:

	Consolidated		Scheme	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Net Profit Before Income Tax and Minority Interest	629,652	448,744	410,196	269,759
Income Tax Expense Calculated at 15%	94,448	67,312	61,529	40,464
Difference Not Previously Brought to Account	114	(668)	-	(523)
Discounted Gains	(5,583)	-	(5,583)	-
Deferred Gains	(427)	-	(427)	-
Difference in Tax Rates	122	99	-	-
Non Taxable Income – Controlled Entities (Minority Interest)	(32,915)	(26,556)	-	-
Transfers In	(1,530)	(352)	(1,530)	(352)
Non-assessable Contributions	(5,389)	(5,832)	(5,389)	(5,832)
Benefit Payments	27,601	23,975	27,601	23,975
Tax on Grossed Up Imputation and Foreign Tax Credits Income	5,648	2,856	5,648	2,856
Death and Invalidity Insurance Deductions	(525)	(555)	(525)	(555)
Contributions Surcharge	142	158	142	158
Other Deductible Expenditure	55	18	55	14
Non-assessable Pension Related Investment Income	(744)	(551)	(744)	(551)
Non-assessable/Deductible Investment Revenue/Losses	(11,803)	(7,631)	(11,803)	(7,631)
Under/Over Provision Last Year	(271)	247	(271)	247
Imputation and Foreign Tax Credits	(37,655)	(19,041)	(37,655)	(19,041)
Income Tax Expense	31,288	33,479	31,048	33,229

The tax rate used in the above reconciliation is the superannuation tax rate of 15% payable by Australian superannuation funds on taxable profits under Australian tax law. There has been no change in the superannuation tax rate when compared with the previous reporting period. The tax rate has been used on the assumption that the Scheme will continue to be a complying scheme for the purposes of the Income Tax Assessment Act 1936, as amended. Under current legislation, LIF and LGPF are not subject to income tax provided the taxable income of LIF and LGPF are fully distributed either by way of cash or reinvestment.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

3. INCOME TAX (Continued)

	Consolidated		Scheme	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(b) Current Tax Liability:				
Income Tax Payable	19,727	16,813	19,535	16,565
	19,727	16,813	19,535	16,565

(c) Deferred Tax Balances:

Deferred Tax Liability Comprises:

Temporary Differences	42,975	31,225	42,920	31,271
	42,975	31,225	42,920	31,271

(d) Taxable and Deductible Temporary Differences Arise From the Following:

30 JUNE 2006 CONSOLIDATED	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
Gross Deferred Tax Liabilities:			
Unrealised Taxable Capital Gains	35,524	13,639	49,163
	35,524	13,639	49,163
Gross Deferred Tax Assets:			
Unrealised losses	3,790	1,856	5,646
Provisions	509	33	542
	4,299	1,889	6,188
Deferred Tax Liability	31,225	11,750	42,975

30 JUNE 2005 CONSOLIDATED	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
Gross Deferred Tax Liabilities:			
Unrealised Taxable Capital Gains	14,944	20,580	35,524
	14,944	20,580	35,524
Gross Deferred Tax Assets:			
Unrealised losses	48	3,742	3,790
Provisions	-	509	509
	48	4,251	4,299
Deferred Tax Liability	14,896	16,329	31,225

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

3. INCOME TAX (Continued)

30 JUNE 2006 SCHEME	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
Gross Deferred Tax Liabilities:			
Unrealised Taxable Capital Gains	35,476	13,563	49,039
	<u>35,476</u>	<u>13,563</u>	<u>49,039</u>
Gross Deferred Tax Assets:			
Unrealised losses	3,696	1,949	5,645
Provisions	509	(35)	474
	<u>4,205</u>	<u>1,914</u>	<u>6,119</u>
Deferred Tax Liability	<u>31,271</u>	<u>11,649</u>	<u>42,920</u>
30 JUNE 2005 SCHEME	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
Gross Deferred Tax Liabilities:			
Unrealised Taxable Capital Gains	14,944	20,532	35,476
	<u>14,944</u>	<u>20,532</u>	<u>35,476</u>
Gross Deferred Tax Assets:			
Unrealised losses	-	3,696	3,696
Provisions	-	509	509
	<u>-</u>	<u>4,205</u>	<u>4,205</u>
Deferred Tax Liability	<u>14,944</u>	<u>16,327</u>	<u>31,271</u>

4. CHANGES IN NET MARKET VALUE

30 JUNE 2006 CONSOLIDATED	HELD AT REPORTING DATE GAIN/(LOSS) \$'000	REALISED DURING THE YEAR GAIN/(LOSS) \$'000	TOTAL \$'000
Listed Equities and Trusts	211,267	246,988	458,255
Unlisted Equities and Trusts	(48,121)	38,542	(9,579)
Unlisted Property Trusts	25,930	-	25,930
Fixed Interest Securities	(5,497)	975	(4,522)
Foreign Exchange	5,840	(1,652)	4,188
Unlisted Hedge Fund	2,808	-	2,808
Other	4,354	891	5,245
	<u>196,581</u>	<u>285,744</u>	<u>482,325</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

4. CHANGES IN NET MARKET VALUE (Continued)

30 JUNE 2005

CONSOLIDATED	HELD AT REPORTING DATE GAIN/(LOSS) \$'000	REALISED DURING THE YEAR GAIN/(LOSS) \$'000	TOTAL \$'000
Listed Equities and Trusts	153,123	188,832	341,955
Unlisted Equities and Trusts	(13,493)	150	(13,343)
Unlisted Property Trusts	17,443	(43)	17,400
Fixed Interest Securities	25,675	(1,165)	24,510
Foreign Exchange	45,345	(4,952)	40,393
Unlisted Hedge Fund	(3,563)	-	(3,563)
Other	550	2,484	3,034
	<u>225,080</u>	<u>185,306</u>	<u>410,386</u>

30 JUNE 2006

SCHEME	HELD AT REPORTING DATE GAIN/(LOSS) \$'000	REALISED DURING THE YEAR GAIN/(LOSS) \$'000	TOTAL \$'000
Unit Trust	106,952	38,542	145,494
Australian Equities	(13,175)	-	(13,175)
Unlisted Property Trust	21,373	-	21,373
Unlisted Hedge Fund	2,808	-	2,808
	<u>117,958</u>	<u>38,542</u>	<u>156,500</u>

30 JUNE 2005

SCHEME	HELD AT REPORTING DATE GAIN/(LOSS) \$'000	REALISED DURING THE YEAR GAIN/(LOSS) \$'000	TOTAL \$'000
Unit Trust	59,889	49,930	109,819
Australian Equities	(13,493)	150	(13,343)
Unlisted Property Trust	15,920	-	15,920
International Investments	-	758	758
Unlisted Hedge Fund	(3,563)	-	(3,563)
	<u>58,753</u>	<u>50,838</u>	<u>109,591</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

5. FUNDING ARRANGEMENTS

For years ended 30 June 2006 and 30 June 2005, member and employer contributions for each of the schemes are determined on the basis described below. Employers in Local Government Superannuation Scheme Pool B were on a contribution holiday for the financial year (1 July 2004 – 30 June 2005).

(a) Division B Scheme

Member Contributions: Each member elects to contribute between 1% and 9% of salary (2005: between 1% and 9%).

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. During 2004/2005 all employers were on a contribution holiday. In 2005/06 employers contributed at half the “nominal” contribution rate (0.95 times employee contributions).

(b) Division C Scheme

Member Contributions: In relation to any defined benefit obligations, there are no member contributions. Members may elect to make voluntary contributions to the defined contribution component.

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustees based on actuarial advice. During 2004/2005 all employers were on a contribution holiday. In 2005/06 employers contributed at half the “nominal” contribution rate (1.25% of superable salary).

(c) Division D Scheme

Member Contributions: Each member contributes on a “rate for age” basis to individual pension units which become available with salary increases. Members may elect to abandon units where total contributions payable would exceed 6% of salary (2005: exceed 6%).

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. During 2004/2005 all employers were on a contribution holiday. In 2005/06 employers contributed at half the “nominal” contribution rate (0.82 times employee contributions).

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

**6. REMUNERATION OF
AUDITORS**

	Consolidated		Scheme	
	2006 \$	2005 \$	2006 \$	2005 \$
Auditor of the Parent Entity				
LGSS Pool B Audit	81,452	134,459	81,452	134,459
LIF Audit	47,300	40,700	30,745	27,270
LGPF Audit	16,500	13,200	13,200	13,200
LGFS Audit	64,560	15,000	-	-
	209,812	203,359	125,397	174,929
Other Auditors				
RDT Audit	29,226	-	-	-
LGST Audit	18,500	-	-	-
	47,726	-	-	-

Note: In the current year, the allocation of the audit fee has been charged as 35% for LGSS Pool A and 65% for LGSS Pool B (2005: 33% for LGSS Pool A and 67% for LGSS Pool B).

The LIF audit fees are paid by the LGSS Pool A and LGSS Pool B on behalf of LIF.

The auditors of the Scheme are Deloitte Touche Tohmatsu.

7. LIABILITY FOR ACCRUED BENEFITS

The value of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Scheme at the date of the actuarial review. The value of the accrued benefits was calculated by the actuary as part of the comprehensive actuarial review, which was performed as at 1st July 2003.

The figure reported has been determined using the assumed future salary increases, future Scheme earnings and other relevant actuarial assumptions used in the actuarial review.

	2003 \$'000	2000 \$'000
Accrued Benefits as at 1 st July	2,251,639	2,136,680
Net Assets (excluding minority interest)	2,453,576	2,880,437

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

8. VESTED BENEFITS

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

	2006	2005
	\$'000	\$'000
As at 30 th June	* 2,484,878	* 2,198,544
Net Assets (excluding minority interest)	<u>3,295,158</u>	<u>2,916,231</u>

The consolidated Scheme changed its accounting policy in relation to the recognition of benefits payable (note 18). This change in policy increased vested benefit in 2005 by \$ 18.2 million and reduced the corresponding benefit payable amount accordingly.

* Excludes benefits for pensions where the Actuary has estimated the liability to be \$50.549 million (2005 \$42.299 million)

9. KEY MANAGEMENT REMUNERATION AND RELATED PARTY INFORMATION

(a) Identification of Related Parties and Directors

The Trustee of the Scheme is LGSS Pty Limited (ABN 68 078 003 497). The names of the Directors of LGSS Pty Limited in office during or since the end of the financial year ended 30th June 2006 are as follows:

	Resigned
	Mr B Mason (19 June 2006)
	Mr P Marzato (25 September 2006)
Employer representatives	Employee representatives
Mr P Woods OAM	Mr I Robertson
Mr J Wearne	Mr J Ernst
Ms B Giegerl	Mr P Marzato (appointed 28 June 2006)
Mr L Kelly	Mr M O'Connell
	Mr B Harris (appointed 27 September 2006)

LGSS Pty Limited is also the Trustee for Local Government Superannuation Scheme – Pool A.

The above Directors are also Directors of LIF Pty Limited (ABN 92 099 664 285), a wholly owned subsidiary of the Trustee. LIF Pty Limited is the Trustee of the Local Investment Fund. LIF Pty Limited is also the Trustee of Local Government Property Fund. J Ernst, L Kelly, P Woods, M O'Connell, J Wearne, and B Mason are Directors of Local Government Financial Services Pty Limited.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

**9. KEY MANAGEMENT REMUNERATION AND RELATED PARTY INFORMATION
(Continued)**

(b) Other Key Management Personnel

The Fund Secretary, Mr P Lambert, is considered to be a key manager.

(c) Compensation Received:	Consolidated		Scheme	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short term Benefits	681,697	630,832	550,088	543,092
Post Employment Benefits	34,468	32,555	29,446	29,207
Other Long Term Benefits	-	-	-	-
Termination Benefits	-	-	-	-
Share-based Payment	-	-	-	-
	<u>716,165</u>	<u>663,387</u>	<u>579,534</u>	<u>572,299</u>

Remuneration due and receivable by Directors of LGSS Pty Limited and the Fund Secretary (for both Pool A and Pool B) during the financial year is payable directly or indirectly, by LGSS Pty Limited. A number of Directors have their emoluments paid to their sponsoring shareholder.

The Consolidated Entity also includes the remuneration during the financial year due and receivable by Directors of LGSS Pty Limited, payable directly or indirectly, by Local Government Financial Services Pty Limited.

(d) Transactions Entered into During the Year with Directors and their Related Entities

There have been no transactions between the Directors and their related entities, except for the payment to the Directors for services rendered in relation to their duties as Directors as set out in the note 9 (c), and for the reimbursement of administration costs incurred by the Directors whilst attending to Trustee business.

(e) Other Related Party Transactions

The Scheme holds 50% of the share capital of FuturePlus Financial Services Pty Limited, which provides management, secretariat, administration, compliance, financial planning and post retirement planning services to the Schemes. Superannuation Services Company is a wholly owned subsidiary of FuturePlus Financial Services Pty Limited. Included in investments is the Scheme's investment in FuturePlus Financial Services Pty Limited which has been brought to account at the independent valuation amount of \$9,649,966 (2005 \$9,000,000).

During the period 1 July 2005 to 30 June 2006, FuturePlus Financial Services Pty Limited was paid investment management and administration fees of \$22,991,543 (2005: \$15,879,645), for Local Government Superannuation Scheme Pool A and B.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

**9. KEY MANAGEMENT RENUMERATION AND RELATED PARTY INFORMATION
(Continued)**

During the period 1 July 2005 to 30 June 2006, Superannuation Services Company Pty Limited was paid investment management and administration fees of \$nil (2005: of \$282,133), for Local Government Superannuation Scheme Pool A and B.

These fees are based on the cost to the relevant entity of providing these services.

LGSS holds 33.33% of the share capital of Chifley Financial Services Limited, which provides investment management services to the Scheme. Included in investments is the value of this 33.33% holding of \$7,433,334 (2005: \$6,000,000).

Included within the Scheme are amounts held with Chifley Investment Fund \$165,181,041 (2005: \$146,079,613). Income earned from the Chifley Investment Fund was \$14,566,071 (2005: \$115,458). Chifley Financial Services Limited is the Trustee of the Chifley Investment Fund.

LIF Pty Limited is the Trustee of the Local Government Property Fund, in which the Scheme has an investment of \$318,135,030 (2005: \$277,364,900). Income earned from the Local Government Property Fund was \$40,770,130 (2005: \$33,214,016).

Local Government Superannuation Scheme holds 100% of the share capital of Local Government Financial Services Limited. Included in investments is the value of this 100% holding of \$16,000,000 (2005: \$15,400,000).

As at 30 June 2005 the Scheme invested \$746,000 (representing 18.66% of total capital) in Hawkesbridge Limited. During the year ended 30 June 2006 the Scheme invested a further \$180,839, increasing its stake to 20.30% of the total capital of Hawkesbridge Limited. From 1 July 2005 Hawkesbridge Limited was appointed as manager of the Regional Development Trust and Private Equity for the Scheme. The fee payable to Hawkesbridge Limited is 2% of committed funds (\$ 50 million), plus a performance based fee. The Trustee approved the transfer of directly held listed securities (Market Value of \$6.5m) into a trust managed by Hawkesbridge Limited. The fee payable to Hawkesbridge Limited is 2% of the net assets of that Trust.

Peter Woods a Director of LGSS Pty Limited which is the Trustee of the Scheme, is a Director of Hawkesbridge Limited, appointed on 30 June 2005.

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

10. INVESTMENTS	Consolidated		Scheme	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Listed Equity and Trusts Securities	3,335,739	2,752,486	-	-
Unlisted Equities and Trusts Securities	760,862	663,299	3,345,114	2,947,134
Fixed Interest Securities	1,062,416	1,050,265	-	-
Direct Property	351,481	317,131	-	-
Other Securities	1,910	530	-	-
	<hr/>			
Total Investments Valued at Net Market Value	5,512,408	4,783,711	3,345,114	2,947,134
	<hr/>			
Listed Equity and Trusts Securities				
Australian Equity Securities Listed on a Prescribed Stock Exchange	3,209,794	2,656,224	-	-
Units in Trusts Listed on a Prescribed Stock Exchange	118,226	90,676	-	-
Australian Exchange Traded Equity Options	7,719	5,586	-	-
	<hr/>			
Total Listed Equity and Trusts Securities	3,335,739	2,752,486	-	-
	<hr/>			
Unlisted Equities and Trusts Securities				
Units in Unlisted Australian Fixed Interest Trusts	495,635	266,172	-	-
Units in Unlisted Australian Equity Trusts	54,797	146,080	2,861,798	2,523,689
Units in Unlisted Australian Hedge Fund	165,181	209,036	165,181	146,080
Units in Unlisted Australian Property Fund	45,249	42,011	318,135	277,365
	<hr/>			
Total Unlisted Equities and Trusts Securities	760,862	663,299	3,345,114	2,947,134
	<hr/>			
Fixed Interest Securities				
Australian Fixed Interest Securities Listed on a Prescribed Stock Exchange	1,062,416	1,050,304	-	-
Interest Rate Futures	-	(39)	-	-
	<hr/>			
Total Fixed Interest Securities	1,062,416	1,050,265	-	-
	<hr/>			

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

10. INVESTMENTS (Continued)	Consolidated		Scheme	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Direct Property				
Direct Property	351,481	317,131	-	-
Total Direct Property	<u>351,481</u>	<u>317,131</u>	-	-
Other Securities				
Australian Share Price Index Futures	1,910	-	-	-
Other Securities	-	530	-	-
Total Other Securities	<u>1,910</u>	<u>530</u>	-	-
Total Investments Valued at Net Market Value	<u>5,512,408</u>	<u>4,783,873</u>	<u>3,345,114</u>	<u>2,947,134</u>

11. OTHER RECEIVABLES	Consolidated		Scheme	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Deposits Held with Brokers	11,625	6,508	-	-
Unsettled Sale of Investments	28,657	283	-	-
Trust Distribution Receivable	13,620	6,423	-	-
Other Receivables	10,099	7,057	306	182
	<u>64,001</u>	<u>20,271</u>	<u>306</u>	<u>182</u>

12. ACCOUNTS PAYABLE	Consolidated		Scheme	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Unsettled Purchase of Investments	33,046	-	-	-
Accruals	2,474	2,234	2,474	2,234
Interest	1,219	1,208	-	-
Other	8,940	8,824	2,891	2,572
	<u>45,679</u>	<u>12,266</u>	<u>5,365</u>	<u>4,806</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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13. OTHER FINANCIAL LIABILITIES	Consolidated		Scheme	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Other	190	135	-	-
Derivatives	2,794	5,978	-	-
	2,984	6,113	-	-
Derivatives				
Currency Contracts	50	5,978	-	-
Equity Futures	2,744	-	-	-
Total Derivatives	2,794	5,978	-	-

14. DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial contract whose value depends on, or is derived from, the value of underlying assets, liabilities or indices. Derivatives include an assortment of instruments such as futures and options.

Derivatives are considered to be part of the investment process. The use of derivatives is an essential part of the Consolidated Scheme's 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 the Consolidated Scheme 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

While derivatives are used for trading purposes, they are not used to gear a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceed the underlying value of the Consolidated Scheme.

The Consolidated Scheme holds the following derivative instruments:

(a) 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 a organised financial market.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

(b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. The Consolidated Scheme is exposed to credit risk on purchased options to the extent of the carrying amount (fair value).

(c) Forward Currency Contracts

Forward currency contracts are primarily used by the Consolidated Scheme to hedge against foreign currency rate risk on its non Australian Dollar denominated trading securities. The Consolidated Scheme agrees to receive or deliver a fixed quantity of foreign currency for an agreed price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the reporting date. The Consolidated Scheme recognises gains or losses equal to the change in fair value at the reporting date.

The Consolidated Scheme's derivative instruments at year end are detailed as follows:

	Consolidated		Scheme	
	2006	2005	2006	2005
Contract/notional amounts	\$'000	\$'000	\$'000	\$'000
Buy				
Australian Exchange Traded Options	6,122	-	-	-
International Exchange Traded Options	494	-	-	-
Australian Share Price Index Futures	678	-	-	-
International Share Price Index Futures	61,844	-	-	-
Interest Rate Swaps	1,049	-	-	-
	<u>70,187</u>	<u>-</u>	<u>-</u>	<u>-</u>
Sell				
Australian Exchange Traded Options	(559)	(9,789)	-	-
International Exchange Traded Options	(13,843)	(877)	-	-
Australian Share Price Index Futures	(64,870)	(16,277)	-	-
	<u>79,272</u>	<u>(26,943)</u>	<u>-</u>	<u>-</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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15. FINANCIAL RISK MANAGEMENT

The Consolidated Scheme is exposed to market price risk, interest rate risk, credit risk, liquidity risk and currency risk arising from the financial instruments held. The risk management policies employed by the Consolidated Scheme to manage these risks are discussed in this note.

(a) Credit Risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract. Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limited, are approved
- ensuring that transactions are undertaken with a number of counterparties, and
- ensuring that the majority of transactions are undertaken on recognised exchanges.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. This also relates to financial assets carried at amortised cost as they have a short term to maturity.

The Consolidated Scheme does not have any significant exposure to any individual counter-party or industry. The underlying assets of the Consolidated Scheme are managed by a number of unrelated investment managers.

(b) Foreign Exchange Risk

The Consolidated Scheme is exposed to foreign exchange risk as a result of investments in financial instruments denominated in foreign currencies. The Consolidated Scheme also enters into foreign currency contracts deigned to either hedge some or all of this exposure, or alternatively increase exposure to preferred foreign currencies.

The foreign exchange risk disclosures have been prepared on the basis of the Consolidated Scheme's direct investment and not on a look-through basis for investments held indirectly through unit trusts. Consequently, the disclosure of foreign exchange risk in the note may not represent the true risk profile of the Consolidated Scheme where the Consolidated Scheme has significant investments in feeder trusts which also have exposure to the currency markets.

The following tables summarise the Consolidated Scheme's exposure to foreign exchange risk.

2006	Australian Dollars AS'000	US Dollars AS'000	Euros AS'000	Japanese Yen AS'000	Other AS'000	Total AS'000
Net Assets Available Amount Denominated in Foreign Currency	3,816,862	749,558	194,569	135,260	240,273	5,136,522
Net Exposure	3,816,862	749,558	194,569	135,260	240,273	5,136,522

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
CONSOLIDATED ENTITIES**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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15. FINANCIAL RISK MANAGEMENT (Continued)

2005	Australian Dollars AS'000	US Dollars AS'000	Euros AS'000	Japanese Yen AS'000	Other AS'000	Total AS'000
Net Assets Available Amount Denominated in Foreign Currency	3,646,055	153,227	344,763	76,614	114,921	4,335,580
Net Exposure	<u>3,646,055</u>	<u>153,227</u>	<u>344,763</u>	<u>76,614</u>	<u>114,921</u>	<u>4,335,580</u>

(c) 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 Consolidated Scheme's 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 note may not represent the true risk profile of the Consolidated Scheme where the Consolidated Scheme has significant investments in unit trusts which also have exposure to the interest rate markets.

The following table summarises the Consolidated Scheme's exposure to interest rate risk:

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

15. FINANCIAL RISK MANAGEMENT (Continued)

INTEREST RATE MATURING

2006	FLOATING INTEREST RATE	WITHIN 12 MONTHS	1 – 5 YRS	OVER 5 YRS	NON- INTEREST BEARING	WEIGHTED AVG INTEREST RATE	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	%	\$'000
Assets							
Cash and Cash Equivalents	213,850	-	-	-	-	4.02	213,850
Listed Equities and Trusts	-	-	-	-	3,335,739	-	3,335,739
Unlisted Equities and Trusts	-	-	-	-	1,112,343	-	1,112,343
Fixed Interest Securities	261	364,544	697,611	-	-	2.14	1,062,416
Other Securities	-	-	-	-	1,910	-	1,910
Receivables	-	-	-	-	84,182	-	84,182
Total Financial Assets	214,111	364,544	697,611	-	4,534,174	-	5,810,440
Liabilities							
Payables	-	-	-	-	48,663	-	48,663
Deposit from Clients	55,854	459,224	47,475	-	-	5.70	562,553
Tax Liabilities	-	-	-	-	62,702	-	62,702
Total Financial Liabilities	55,854	459,224	47,475	-	111,365	-	673,918

INTEREST RATE MATURING

2005	FLOATING INTEREST RATE	WITHIN 12 MONTHS	1 – 5 YRS	OVER 5 YRS	NON- INTEREST BEARING	WEIGHTED AVG INTEREST RATE	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	%	\$'000
Assets							
Cash and Cash Equivalents	194,665	-	-	-	-	3.77%	194,665
Listed Equities and Trusts	-	-	-	-	2,752,486	-	2,752,486
Unlisted Equities and Trusts	-	-	-	-	980,430	-	980,430
Fixed Interest Securities	54	433,623	221,948	394,640	-	5.16%	1,050,265
Other Securities	-	-	-	-	530	-	530
Receivables	-	-	-	-	39,152	-	39,152
Total Financial Assets	194,719	433,623	221,948	394,640	3,772,598	-	5,017,528
Liabilities							
Payables	-	-	-	-	18,379	-	18,379
Deposits from Clients and Other	35,087	535,449	44,995	-	-	5.70%	615,531
Tax Liabilities	-	-	-	-	48,038	-	48,038
Total Financial Liabilities	35,087	535,449	44,995	-	66,417	-	681,948

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

15. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market Price Risk

Market price risk is the risk that the value of the Consolidated Scheme's investment portfolio will fluctuate as a result of changes in market prices. This risk is managed by ensuring that all activities are transacted in accordance with mandates, overall investment strategy and within approved limits. Market price risk analysis is conducted regularly on a total portfolio basis which includes the effect of derivatives.

(e) Liquidity and Cash Flow Risk

Liquidity risk is the risk that the Consolidated Scheme will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Cash flow risk is the risk that the future cash flows from holding financial instruments will fluctuate. The risk management guidelines adopted by the Consolidated Scheme are designated to minimise liquidity and cash flow risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

(f) Net Market Value of Financial Assets and Financial Liabilities

All financial assets and financial liabilities included in the Statement of Net Assets are carried at net market value.

16. SEGMENT INFORMATION

(a) Business Exposures

The Consolidated Scheme is organised into one main segment and operates solely in the business of investment management within Australia. Consequently, no segment reporting is provided in the Consolidated Scheme's financial statements.

(a) Geographical Exposures

While the Consolidated Scheme operates from Australia only, the Consolidated Scheme has investment exposures in different countries. The geographical exposures are outlined below:

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16. SEGMENT INFORMATION (Continued)

Country	2006	2006	2005	2005
	\$'000	%	\$'000	%
	Total	Percentage of	Total	Percentage of
	Assets	Total Assets	Assets	Total Assets
		%		%
Australia	4,466,369	77%	4,312,156	86%
Europe	417,342	7%	338,709	7%
United States and Canada	759,079	13%	169,308	3%
Japan	139,978	2%	85,151	2%
Others	27,672	1%	112,204	2%
Total Assets	5,810,440	100%	5,017,528	100%

The above disclosures have been prepared on the basis of the Consolidated Scheme's direct investments and not on a look-through basis for investments held indirectly through unit trusts.

17. ACQUISITIONS

On 13 October 2004 Local Government Financial Services Pty Limited (LGFS) was purchased by LGSS Pty Limited (as Trustee for the Local Government Superannuation Scheme). From this date LGFS directly provided the services previously provided by a joint venture comprising of the Local Government Association of New South Wales and Shires Association of New South Wales entities. The business of the joint venture was wound down and transferred to LGFS over a transition period that concluded on 30 April 2005. As part of the transition, LGFS became the sole unitholder in LGFS Facilities Trust on 1 April 2005.

The following net assets and liabilities were acquired at 13 October 2004 for no consideration:

Cash	\$146,261
Employee benefit liabilities	\$146,261

The transfer of client deposits from the joint venture to LGFS was made with the consent of the clients and at market value with no goodwill attached.

On 1 July 2005, the Scheme acquired a 100% interest in the Regional Development Trust (RDT) with an initial commitment of \$ 50 million. RDT's investment as at 30 June 2006 is approximately \$ 26.5 million and has net assets of approximately \$ 27.5 million.

In September 2005, the Scheme acquired a controlling interest in the LG Secondaries Trust (LGST). As of 30 June 2006, approximately \$15 million has been committed. LG Secondaries Trust's investment as at 30 June 2006 is approximately \$ 17.7 million and has net assets of approximately \$ 17.8 million. The Scheme has a 71% controlling interest as at 30 June 2006. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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18. CHANGES IN ACCOUNTING POLICY

As referred to in Note 1, the accounting policy for the recognition of benefits payable has changed. Members who have ceased employment with their employer before year end and have not instructed the Scheme of their intention to defer or exit the Scheme are no longer included in liabilities. Instead they are included within the vested benefits to more fairly reflect the nature of these member liabilities.

The restatement of comparative information that would have been disclosed in the prior reporting period had the new accounting policy always been applied is as follows:

CONSOLIDATED	Movement in Net assets before change in accounting policy \$'000	Effect of adjustment in accounting policy \$'000	Movement in Net assets after change in accounting policy \$'000
Opening net assets 1 July 2004	2,656,835	10,347	2,667,182
Movement in vested benefit reserves	-	7,866	7,866
Net profit per AGAAP 30 June 2005	236,985	-	236,985
Closing net assets 30 June 2005	<u>2,893,820</u>	<u>18,213</u>	<u>2,912,033</u>
SCHEME ONLY	Movement in Net assets before change in accounting policy \$'000	Effect of adjustment in accounting policy \$'000	Movement in Net assets after change in accounting policy \$'000
Opening net assets 1 July 2004	2,657,215	10,347	2,667,562
Movement in vested benefit reserves	-	7,866	7,866
Net profit per AGAAP 30 June 2005	236,530	-	236,530
Closing net assets 30 June 2005	<u>2,893,745</u>	<u>18,213</u>	<u>2,911,958</u>

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**19. IMPACT OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)**

The Consolidated Scheme has applied AIFRS to the extent they are not inconsistent with AAS 25. In preparing the opening AIFRS Statement of Net Assets, adjustments have been made to the figures previously reported in the 30 June 2004 and 30 June 2005 reports. The impact of the adoption of AIFRS on net assets available brought forward at 1 July 2004, total net assets available at 30 June 2005, and 30 June 2005 profit reported under AGAAP are illustrated below.

Reconciliation of Net Assets Available as Presented Under Previous AGAAP to that Under AIFRS

	Consolidated		Scheme	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Total Net Assets Available Brought Forward Under Previous AGAAP (see note 18)	2,912,033	2,667,182	2,911,958	2,667,562
(a) Accrued Rent	4,199	2,913	-	-
Total Net Assets Available Brought Forward Under AIFRS	<u>2,916,232</u>	<u>2,670,095</u>	<u>2,911,958</u>	<u>2,667,562</u>

- a) In accordance with AASB 117, a lessor should recognise the aggregate costs of increases and lease incentives as an adjustment of rental income over the lease term on a straight line basis.

Reconciliation of Net Profit Under Previous AGAAP to AIFRS

	2005 Consolidated \$'000	2005 Scheme \$'000
Net Profit Under AGAAP (see note 18)	236,985	236,530
(a) Rental Income	<u>1,286</u>	<u>-</u>
Net Profit Under AIFRS	<u>238,271</u>	<u>236,530</u>

20. SUBSEQUENT EVENTS

No significant events have occurred since balance date which would impact on the financial position of the Consolidated Scheme as disclosed in the Statement of Net Assets as at 30 June 2006 or on the results for the year ended on that date.

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21. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

On 30 May 2006, Local Government Property Fund entered into a \$ 20 million revolving cash advance facility agreement with Westpac Banking Corporation to provide general working capital to the Fund at a variable interest rate.

There are no other outstanding contingent assets and liabilities or commitments as at 30 June 2006 (2005: Nil).

22. SUBSIDIARIES

Name of Entity	2006 Ownership Interest %	2005 Ownership Interest %
Parent Entity		
Local Government Superannuation Scheme Pool B	-	-
Subsidiaries		
Local Investment Fund	61%	64%
Local Government Financial Services Pty Limited	100%	100%
LGFS Facilities Trust	100%	100%
Regional Development Trust	100%	-
LG Secondaries Trust	71%	-
Local Government Property Fund	87%	87%