

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

Financial Report

For the Year Ended 30 June 2007

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

**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2007**

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

**TRUSTEE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007**

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

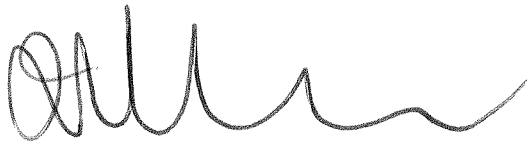
1. The accompanying financial statements of the Local Government Superannuation Scheme Pool B (the Scheme) and its Consolidated Entities consisting of Local Government Superannuation Scheme Pool B and its subsidiaries Local Investment Fund, Local Government Financial Services Pty Limited, LGFS Facilities 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 2007 and the Changes in Net Assets for the year ended 30 June 2007;
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 the Accounting Standards in Australia and the *Superannuation Industry (Supervision) Act 1993*. Accounting Standards include Australian equivalents to the 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 Trustee's 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 ³⁰ day of October 2007



Director



Director

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

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2007**

	Note	Consolidated		Scheme	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Investment Income					
Interest Income		69,844	65,140	1,411	972
Dividend Income		81,582	150,683	1,000	-
Trust Distributions		140,503	37,835	605,644	351,978
Rental Income		34,076	31,836	-	-
Changes in Net Market Value of Investments	4	445,518	482,325	(125,741)	156,500
Unlisted Hedge Fund Distribution		17,551	11,335	17,551	11,335
Other Investment Income		4,285	8,652	436	310
		<u>793,359</u>	<u>787,806</u>	<u>500,301</u>	<u>521,095</u>
Direct Investment Expenses		(60,676)	(57,170)	(10,635)	(12,857)
Net investment income		<u>732,683</u>	<u>730,636</u>	<u>489,666</u>	<u>508,238</u>
Contributions Income					
Employer Contributions	5	71,459	52,706	71,459	52,706
Member Contributions	5	34,089	35,929	34,089	35,929
Transfers From Other Funds	5	16,788	10,203	16,788	10,203
Total Contributions Income		<u>122,336</u>	<u>98,838</u>	<u>122,336</u>	<u>98,838</u>
Total income		<u>855,019</u>	<u>829,474</u>	<u>612,002</u>	<u>607,076</u>
Benefits Paid and Expenses					
Benefits Paid		(211,856)	(184,007)	(211,856)	(184,007)
Superannuation Contributions					
Surcharge		(438)	(948)	(438)	(948)
Scheme Administration Expenses		(15,299)	(14,867)	(14,003)	(11,925)
Total Benefits Paid and Expenses		<u>(227,593)</u>	<u>(199,822)</u>	<u>(226,297)</u>	<u>(196,880)</u>
Increase in Net Assets for the Year Before Income Tax and Minority Interest					
		627,426	629,652	385,705	410,196
Income Tax Expense	3	<u>(35,804)</u>	<u>(31,288)</u>	<u>(35,726)</u>	<u>(31,048)</u>
Increase in Net Assets for the Year After Income Tax Before Minority Interest					
		591,622	598,364	349,979	379,148
Minority Interest		<u>(246,037)</u>	<u>(219,437)</u>	-	-
Increase in Net Assets for the Year Net Assets Available to Pay Benefits at the Beginning of the Financial Year		<u>3,295,158</u>	<u>2,916,231</u>	<u>3,291,106</u>	<u>2,911,958</u>
Net Assets Available to Pay Benefits at the End of the Financial Year		<u>3,640,743</u>	<u>3,295,158</u>	<u>3,641,085</u>	<u>3,291,106</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 2007**

	Note	Consolidated		Scheme	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Investments					
Listed Equities and Trusts	10	1,935,684	3,335,739	-	-
Unlisted Equities and Trusts	10	2,996,828	760,862	3,710,110	3,345,114
Fixed Interest Securities	10	1,125,982	1,062,416	-	-
Direct Property	10	461,390	351,481	-	-
Other Securities	10	7,600	1,910	-	-
Total Investments		<u>6,527,484</u>	<u>5,512,408</u>	<u>3,710,110</u>	<u>3,345,114</u>
Other Assets					
Cash and Cash Equivalents		114,747	213,850	10,320	13,506
Interest Receivable		11,882	8,856	-	-
Dividends Receivable		4,895	11,325	-	-
Other Receivables	11	135,418	64,001	101	306
Total Other Assets		<u>266,942</u>	<u>298,032</u>	<u>10,421</u>	<u>13,812</u>
Total Assets		<u>6,794,426</u>	<u>5,810,440</u>	<u>3,720,531</u>	<u>3,358,926</u>
Less Liabilities					
Accounts Payable	12	27,537	45,679	3,298	5,365
Deposits from Clients		549,055	562,553	-	-
Other Financial Liabilities	13	71,166	2,984	-	-
Current Tax Liability	3	52,816	19,727	52,801	19,535
Deferred Tax Liability	3	23,227	42,975	23,347	42,920
Total Liabilities		<u>723,801</u>	<u>673,918</u>	<u>79,446</u>	<u>67,820</u>
Net Assets Available Before Minority Interest		6,070,625	5,136,522	3,641,085	3,291,106
Less Net Assets Available – Minority Interest		2,429,882	1,841,364	-	-
Net Assets Available to Pay Benefits	8	<u>3,640,743</u>	<u>3,295,158</u>	<u>3,641,085</u>	<u>3,291,106</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 2007**

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 and Interpretations, the Superannuation Industry (Supervision) Act 1993 and provisions of the Trust Deed. The financial report includes the separate financial statements of the Scheme and the consolidated entity.

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 ("AAS25").

The financial statements were authorised for issue by the Directors on 30 October 2007.

(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 accounting policies set out below have been applied in preparing the financial statements for the year end 30 June 2007 and the comparative information presented in these financial statements for the year ended 30 June 2006.

**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 2007**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

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

(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.

Subsidiaries are fully consolidated from the date on which control is transferred to the scheme. They are de-consolidated from the date that control ceases.

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.

**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 2007**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(d) Investments (Continued)

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	Redemption value of units based on market values of underlying assets as advised by the managers of the trusts.
Fixed Interest Securities	Fixed interest securities quoted are stated at market quotations as at the reporting date.
Property Investments	Valuation by a registered valuer during the reporting period.
Other Securities	These include derivative financial instruments including futures, forward contracts, options and interest rate swaps. The net market value of derivatives that are not exchange-traded is estimated at the amount that would be received or paid to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. The net market 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 net market value of an option is determined by applying the Black-Scholes option valuation model.

(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 or substantively enacted by reporting date. 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.

**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 2007**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(e) Income Tax (Continued)

Deferred tax (Continued)

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax assets and liabilities reflects 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 Net Assets represent only those benefits where the payment has been processed by the Consolidated Scheme but has not yet been issued to members.

(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.

**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 2007**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(g) Foreign Currency (Continued)

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.

(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.

**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 2007**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(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.

(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 of Investments

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).

**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 2007**

1. STATEMENT OF ACCOUNTING POLICIES (Continued)

(n) New Accounting Standards and Interpretations Issued, but Not Yet Effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Scheme were in issue but not yet effective.

The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Scheme.

- AASB 7 *Financial Instruments: Disclosures* and consequential amendments to other accounting standards resulting from its issue replace the presentation requirements of the financial instruments specified by AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2007-4 *Amendments to Australian Accounting Standards* arising from ED 151 and Other Amendments. AASB 2007-4 applies to annual reporting periods beginning on or after 1 July 2007.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 8 *Operating Segments* replaces the requirements of segment disclosures in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009.
- AASB 101 *Presentation of Financial Statements* has been revised to include some text from IAS 1 *Presentation of Financial Statements* and has fewer additional Australian disclosure requirements than the existing AASB 101. AASB 101 applies to annual reporting periods beginning on or after 1 January 2007.

(o) Rounding

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

**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 2007**

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 of 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 during the year.

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

3. INCOME TAX

	Consolidated		Scheme	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
(a) Income Tax Recognised in Profit and Loss:				
Current Tax Expense	16,407	19,538	16,153	19,399
Deferred Tax Expense	19,397	11,750	19,573	11,649
	<u>35,804</u>	<u>31,288</u>	<u>35,726</u>	<u>31,048</u>
Total Income Tax Expense	<u>35,804</u>	<u>31,288</u>	<u>35,726</u>	<u>31,048</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 2007**

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	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Increase in Net Assets for the Year Before Income Tax and Minority Interest	627,426	629,652	385,705	410,196
Income Tax Expense Calculated at 15% Difference Not Previously Brought to Account	94,114	94,448	57,856	61,529
Discounted Gains	-	114	-	-
Deferred Gains	-	(5,583)	-	(5,583)
Difference in Tax Rates	(702)	(427)	(702)	(427)
Non Taxable Income – Controlled Entities (Minority Interest)	32	122	-	-
Transfers In	(36,226)	(32,915)	-	-
Non-assessable Contributions	(2,518)	(1,530)	(2,518)	(1,530)
Benefit Payments	(5,113)	(5,389)	(5,113)	(5,389)
Tax on Grossed Up Imputation and Foreign Tax Credits Income	31,778	27,601	31,778	27,601
Death and Invalidity Insurance Deductions	5,038	5,648	5,038	5,648
Contributions Surcharge	(433)	(525)	(433)	(525)
Other Deductible Expenditure	66	142	66	142
Non-assessable Pension Related Investment Income	4	55	3	55
Non-assessable/Deductible Investment Revenue/Losses	(1,532)	(744)	(1,532)	(744)
Under/(Over) Provision Last Year	(14,838)	(11,803)	(14,851)	(11,803)
Imputation and Foreign Tax Credits	(334)	(271)	(334)	(271)
Income Tax Expense	(33,532)	(37,655)	(33,532)	(37,655)
	<u>35,804</u>	<u>31,288</u>	<u>35,726</u>	<u>31,048</u>

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
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

3. INCOME TAX (Continued)

	Consolidated		Scheme	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
(b) Current Tax Liability:				
Income Tax Payable	52,816	19,727	52,801	19,535
	<u>52,816</u>	<u>19,727</u>	<u>52,801</u>	<u>19,535</u>

(c) Deferred Tax Balances:

Deferred Tax Liability Comprises:

Temporary Differences	23,227	42,975	23,347	42,920
	<u>23,227</u>	<u>42,975</u>	<u>23,347</u>	<u>42,920</u>

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

30 June 2007 Consolidated	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
Gross Deferred Tax Liabilities:			
Unrealised Taxable Capital Gains	49,163	(19,643)	29,520
Gross Deferred Tax Assets:			
Unrealised losses	5,646	-	5,646
Provisions	542	105	647
	<u>6,188</u>	<u>105</u>	<u>6,293</u>
Deferred Tax Liability	<u>42,975</u>	<u>(19,748)</u>	<u>23,227</u>
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
Gross Deferred Tax Assets:			
Unrealised losses	3,790	1,856	5,646
Provisions	509	33	542
	<u>4,299</u>	<u>1,889</u>	<u>6,188</u>
Deferred Tax Liability	<u>31,225</u>	<u>11,750</u>	<u>42,975</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 2007**

3. INCOME TAX (Continued)

30 June 2007 Scheme	Opening Balance \$'000	Charged to Income \$'000	Closing Balance \$'000
Gross Deferred Tax Liabilities:			
Unrealised Taxable Capital Gains	49,039	(19,484)	29,555
Gross Deferred Tax Assets:			
Unrealised losses	5,645	-	5,645
Provisions	474	89	563
	<u>6,119</u>	<u>89</u>	<u>6,208</u>
Deferred Tax Liability	<u>42,920</u>	<u>(19,628)</u>	<u>23,347</u>

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
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>

4. CHANGES IN NET MARKET VALUE OF INVESTMENTS

30 June 2007

Consolidated	Held at Reporting Date Gain/(Loss) \$'000	Realised During the Year Gain/(Loss) \$'000	Total \$'000
Listed Equities and Trusts	(49,423)	603,747	554,324
Unlisted Equities and Trusts	(151,347)	11,829	(139,518)
Unlisted Property Trusts	25,220	-	25,220
Fixed Interest Securities	(13,136)	(2,732)	(15,868)
Foreign Exchange	7,082	8,003	15,085
Unlisted Hedge Fund	-	555	555
Other	3,248	2,472	5,720
	<u>(178,356)</u>	<u>623,874</u>	<u>445,518</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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4. CHANGES IN NET MARKET VALUE OF INVESTMENTS (Continued)

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>

30 June 2007

Scheme	Held at Reporting Date Gain/(Loss) \$'000	Realised During the Year Gain/(Loss) \$'000	Total \$'000
Unlisted Unit Trust	(166,248)	11,865	(154,383)
Australian Equities	301	(36)	265
Unlisted Property Trust	27,822	-	27,822
Unlisted Hedge Fund	-	555	555
	<u>(138,125)</u>	<u>12,384</u>	<u>(125,741)</u>

30 June 2006

Scheme	Held at Reporting Date Gain/(Loss) \$'000	Realised During the Year Gain/(Loss) \$'000	Total \$'000
Unlisted 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>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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5. FUNDING ARRANGEMENTS

For years ended 30 June 2007 and 30 June 2006, member and employer contributions for each of the schemes are determined on the basis described below.

(a) Division B Scheme

Member Contributions: Each member elects to contribute between 1% and 9% of salary (2006: between 1% and 9%).

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2006/07 employers contributed at half the “nominal” contribution rate (0.95 times employee contributions). 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. In 2006/07 employers contributed at half the “nominal” contribution rate (1.25% of superable salary). 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 the individuals salary (2006: exceed 6%).

Employer Contributions: Employers contribute on a fully funded basis as determined by the Trustee based on actuarial advice. In 2006/07 employers contributed at half the “nominal” contribution rate (0.82 times employee contributions). In 2005/06 employers contributed at half the “nominal” contribution rate (0.82 times employee contributions).

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6. REMUNERATION OF AUDITORS	Consolidated		Scheme	
	2007	2006	2007	2006
	\$	\$	\$	\$
Auditor of the Parent Entity				
LGSS Pool B Audit	108,230	81,452	108,230	81,452
LIF Audit	28,875	47,300	15,918	30,745
LGPF Audit	21,500	16,500	22,575	13,200
LGFS Audit	43,250	64,560	-	-
	<u>201,855</u>	<u>209,812</u>	<u>146,723</u>	<u>125,397</u>
Other Auditors				
RDT Audit	16,964	29,226	-	-
LGST Audit	18,300	18,500	-	-
	<u>35,264</u>	<u>47,726</u>	<u>-</u>	<u>-</u>

Note: In the current year, the allocation of the audit fee has been charged as 39.37% for LGSS Pool A and 60.63% for LGSS Pool B (2006: 35% for LGSS Pool A and 65% 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 2006.

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.

	2006	2003
	\$'000	\$'000
Accrued Benefits as at 30 June	<u>3,045,231</u>	<u>2,251,639</u>
Net Assets (excluding minority interest) as at 30 June	<u>3,295,158</u>	<u>2,453,576</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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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.

	2007	2006
	\$'000	\$'000
As at 30 th June	* 2,762,207	* 2,484,878
Net Assets (excluding minority interest) as at 30 June	<u>3,640,743</u>	<u>3,295,158</u>

* Excludes benefits for pensions where the Actuary has estimated the liability to be \$67.253 million (2006: \$50.549 million)

9. KEY MANAGEMENT COMPENSATION 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 2007 are as follows:

Employer representatives

Mr S Byrne (Appointed 26 September 2007)
 Ms B Giegerl
 Mr L Kelly
 Mr C Sullivan (Appointed 25 July 2007)
 Mr J Wearne (Resigned 27 June 2007)
 Mr P Woods OAM (Resigned 24 August 2007)

Employee representatives

Mr J Ernst
 Mr B Harris (Appointed 27 September 2006)
 Mr P Marzato (Resigned 27 September 2006)
 Mr M O'Connell
 Mr I Robertson

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
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007**

**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	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short term Benefits	721,500	681,697	575,039	550,088
Post Employment Benefits	40,752	34,468	30,307	29,446
Other Long Term Benefits	-	-	-	-
Termination Benefits	-	-	-	-
Share-based Payments	-	-	-	-
	<u>762,252</u>	<u>716,165</u>	<u>605,346</u>	<u>579,534</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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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**9. KEY MANAGEMENT REMUNERATION AND RELATED PARTY INFORMATION
(Continued)**

(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. 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 \$14,600,105 (2006: \$9,649,966).

During the period 1 July 2006 to 30 June 2007, FuturePlus Financial Services Pty Limited was paid investment management and administration fees of \$13,472,706 (2006: \$11,715,263), for Local Government Superannuation Scheme Pool 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 \$6,433,333 (2006: \$7,433,334).

Included within the Scheme are amounts held with Chifley Investment Fund \$96,090,449 (2006: \$165,181,041). Income earned from the Chifley Investment Fund was \$7,496,888 (2006: \$14,566,071). 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 \$362,067,781 (2006: \$318,135,030). Income earned from the Local Government Property Fund was \$43,932,750 (2006: \$40,770,130).

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 (2006: \$16,000,000).

Included within the Investments of Local Government Superannuation Scheme Pool B are amounts held with Local Investment Fund \$3,243,013,153 (2006: \$2,785,850,339). Distributions received / receivable from Local Investment Fund was \$589,533,662 (2006: \$332,581,208).

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

(e) Other Related Party Transactions (Continued)

As at 30 June 2007 the Scheme has invested a total of \$962,460 representing 14.16% of total capital in 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, Director of LGSS Pty Limited during the year, which is the Trustee of the Scheme, is a Director of Hawkesbridge Limited.

10. INVESTMENTS

	Consolidated		Scheme	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Listed Equity and Trusts Securities	1,935,684	3,335,739	-	-
Unlisted Equities and Trusts Securities	2,996,828	760,862	3,710,110	3,345,114
Fixed Interest Securities	1,125,982	1,062,416	-	-
Direct Property	461,390	351,481	-	-
Other Securities	7,600	1,910	-	-
Total Investments Valued at Net Market Value	<u>6,527,484</u>	<u>5,512,408</u>	<u>3,710,110</u>	<u>3,345,114</u>
Listed Equity and Trusts Securities			-	-
Australian Equity Securities Listed on a Prescribed Stock Exchange	1,788,191	3,209,794	-	-
Units in Trusts Listed on a Prescribed Stock Exchange	135,064	118,226	-	-
Australian Exchange Traded Equity Options	12,429	7,719	-	-
Total Listed Equity and Trusts Securities	<u>1,935,684</u>	<u>3,335,739</u>	<u>-</u>	<u>-</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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10. INVESTMENTS (Continued)	Consolidated		Scheme	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Unlisted Equities and Trusts				
Securities				
Units in Unlisted Australian Fixed Interest Trusts	568,059	495,635	-	-
Units in Unlisted Australian Equity Trusts	2,169,969	54,797	3,348,042	2,861,798
Units in Unlisted Australian Hedge Fund	-	165,181	-	165,181
Units in Unlisted Australian Property Fund	251,749	45,249	362,068	318,135
Units in Unlisted International Equity Trusts	7,051	-	-	-
Total Unlisted Equities and Trusts Securities	<u>2,996,828</u>	<u>760,862</u>	<u>3,710,110</u>	<u>3,345,114</u>
Fixed Interest Securities				
Australian Fixed Interest Securities Listed on a Prescribed Stock Exchange	1,124,976	1,062,416	-	-
Interest Rate Futures	1,006	-	-	-
Total Fixed Interest Securities	<u>1,125,982</u>	<u>1,062,416</u>	<u>-</u>	<u>-</u>
Direct Property				
Direct Property	461,390	351,481	-	-
Total Direct Property	<u>461,390</u>	<u>351,418</u>	<u>-</u>	<u>-</u>
Other Securities				
Australian Share Price Index Futures	-	1,910	-	-
Currency Contracts	7,600	-	-	-
Total Other Securities	<u>7,600</u>	<u>1,910</u>	<u>-</u>	<u>-</u>

**LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B AND ITS
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11. OTHER RECEIVABLES	Consolidated		Scheme	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Deposits Held with Brokers	4,533	11,625	-	-
Unsettled Sale of Investments	18,032	28,657	-	-
Trust Distribution Receivable	100,173	13,620	-	-
Other Receivables	12,680	10,099	101	306
Total Other Receivables	<u>135,418</u>	<u>64,001</u>	<u>101</u>	<u>306</u>
12. ACCOUNTS PAYABLE				
Unsettled Purchase of Investments	16,527	33,046	-	-
Accruals	1,850	2,474	1,779	2,474
Interest	993	1,219	-	-
Other Payables	8,167	8,940	1,519	2,891
Total Accounts Payable	<u>27,537</u>	<u>45,679</u>	<u>3,298</u>	<u>5,365</u>
13. OTHER FINANCIAL LIABILITIES				
Derivatives	2,279	2,794	-	-
Loans	65,000	-	-	-
Other	3,887	190	-	-
Total Other Financial Liabilities	<u>71,166</u>	<u>2,984</u>	<u>-</u>	<u>-</u>
Derivatives				
Currency Contracts	427	50	-	-
Equity Futures	207	2,744	-	-
Options	1,634	-	-	-
Fixed Interest Futures	11	-	-	-
Total Derivatives	<u>2,279</u>	<u>2,794</u>	<u>-</u>	<u>-</u>

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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 levels 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.

(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.

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

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

Contract / Notional Amounts	Consolidated		Scheme	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Forward Currency Contracts	237,000	-	-	-
Buy				
Australian Exchange Traded Options	9,535	6,122	-	-
International Exchange Traded Options	2,885	494	-	-
Australian Share Price Index Futures	19,490	678	-	-
International Share Price Index Futures	-	61,844	-	-
Australian Fixed Interest Futures	2,437	-	-	-
Interest Rate Swaps	-	1,049	-	-
Total Buy	<u>34,347</u>	<u>70,187</u>	<u>-</u>	<u>-</u>
Sell				
Australian Exchange Traded Options	(1,632)	(559)	-	-
Australian Share Price Index Futures	(1,883)	(13,843)	-	-
International Share Price Index Futures	-	(64,870)	-	-
Total Sell	<u>(3,515)</u>	<u>(79,272)</u>	<u>-</u>	<u>-</u>

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 counterparty or industry. The underlying assets of the Consolidated Scheme are managed by a number of unrelated investment managers.

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15. FINANCIAL RISK MANAGEMENT (Continued)

(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 designed to either hedge some or all of this exposure, or alternatively increase exposure to preferred foreign currencies.

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 designed to either hedge some or all of this exposure, or alternatively increase exposure to preferred foreign currencies.

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

2007	Australian Dollars AS'000	US Dollars AS'000	Euro AS'000	Japanese Yen AS'000	Others AS'000	Total AS'000
Net Assets Available Amount Denominated in Foreign Currency	5,031,285	574,521	166,108	73,577	225,134	6,070,625
Net Exposure	<u>5,031,285</u>	<u>574,521</u>	<u>166,108</u>	<u>73,577</u>	<u>225,134</u>	<u>6,070,625</u>
2006	Australian Dollars AS'000	US Dollars AS'000	Euro AS'000	Japanese Yen AS'000	Others 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	<u>3,816,862</u>	<u>749,558</u>	<u>194,569</u>	<u>135,260</u>	<u>240,273</u>	<u>5,136,522</u>

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15. FINANCIAL RISK MANAGEMENT (Continued)

(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:

INTEREST RATE MATURING

2007	FLOATING INTEREST RATE \$'000	WITHIN 12 MONTHS \$'000	1 – 5 YRS \$'000	OVER 5 YRS \$'000	NON- INTEREST BEARING \$'000	WEIGHTED AVG INTEREST RATE %	TOTAL \$'000
Assets							
Cash and Cash Equivalents	114,747	-	-	-	-	5.26%	114,747
Listed Equities and Trusts	-	-	-	-	1,935,684	-	1,935,684
Unlisted Equities and Trusts	-	-	-	-	3,458,218	-	3,458,218
Fixed Interest Securities	31,066	596,900	474,877	-	23,139	5.62%	1,125,982
Other Securities	-	-	-	-	7,600	-	7,600
Receivables	-	-	-	-	152,195	-	152,195
Total Financial Assets	145,813	596,900	474,877	-	5,576,836	-	6,794,426
Liabilities							
Payables	-	-	-	-	98,703	-	98,703
Deposit from Clients	57,663	258,011	38,360	-	195,021	6.49%	549,055
Tax Liabilities	-	-	-	-	76,043	-	76,043
Total Financial Liabilities	57,663	258,011	38,360	-	369,767	-	723,801
Net Financial Assets	88,150	338,889	436,517	-	5,207,069	-	6,070,625

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15. FINANCIAL RISK MANAGEMENT (Continued)

(c) Interest Rate Risk (Continued)

2006	<u>INTEREST RATE MATURING</u>					WEIGHTED AVG	TOTAL \$'000
	FLOATING INTEREST RATE	WITHIN 12 MONTHS	1 – 5 YRS	OVER 5 YRS	NON- INTEREST BEARING	INTEREST RATE	
	\$'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	-	-	5.7%	562,553
Tax Liabilities	-	-	-	-	62,702	-	62,702
Total Financial Liabilities	55,854	459,224	47,475	-	111,365	-	673,918
Net Financial Assets / (Liabilities)	158,257	(94,680)	650,136	-	4,422,809	-	5,136,522

(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 designed 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.

**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 2007**

15. FINANCIAL RISK MANAGEMENT (Continued)

(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.

(b) 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:

Country	2007	2007	2006	2006
	\$'000	%	\$'000	%
	Total	Percentage	Total	Percentage
	Assets	of Total	Assets	of Total
		Assets %		Assets %
Australia	5,705,877	84%	4,466,369	77%
Europe	377,957	6%	417,342	7%
United States and Canada	559,870	8%	759,079	13%
Japan	73,660	1%	139,978	2%
Others	77,182	1%	27,672	1%
Total Assets	6,794,546	100%	5,810,440	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.

**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 2007**

17. ACQUISITIONS

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 2007 is approximately \$ 39.2 million and has net assets of approximately \$ 40.2 million.

In September 2005, the Scheme acquired a controlling interest in the LG Secondaries Trust (LGST). As of 30 June 2007, approximately \$15 million has been committed. LG Secondaries Trust's investment as at 30 June 2007 is approximately \$ 11.5 million and has net assets of approximately \$ 21.4 million. The Scheme has a 65.6% controlling interest as at 30 June 2007. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

18. 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 2007 or on the results for the year ended on that date.

19. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

On 24 April 2007, Local Government Property Fund entered into a \$ 65 million revolving cash advance facility agreement with Westpac Banking Corporation to provide general working capital to the Fund at a variable interest rate.

The trustee was a defendant in a tribunal proceeding involving the dispute for a disability insurance claim. The member was awarded the claim and settlement, although not finalised, is expected to be no more than \$240,000 plus legal costs of no more than \$150,000.

20. SUBSIDIARIES

Name of Entity	2007 Ownership Interest %	2006 Ownership Interest %
Parent Entity		
Local Government Superannuation Scheme Pool B	-	-
Subsidiaries		
Local Investment Fund	58%	61%
Local Government Financial Services Pty Limited	100%	100%
LGFS Facilities Trust	100%	100%
Regional Development Trust	100%	100%
LG Secondaries Trust	66%	71%
Local Government Property Fund	87%	87%

INDEPENDENT REPORT BY THE APPROVED AUDITOR TO THE MEMBERS OF LOCAL GOVERNMENT SUPERANNUATION SCHEME POOL B

(A) Financial Statements

I have audited the financial statements of Local Government Superannuation Scheme Pool B for the year ended 30 June 2007 as set out on pages 3 to 32 attached.

Trustee's Responsibility for the Financial Statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee's responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

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

Auditor's Opinion

In my opinion, the financial statements present fairly, in all material respects, in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the net assets of Local Government Superannuation Scheme Pool B as at 30 June 2007 and the changes in net assets for the year ended 30 June 2007.

(B) Compliance

Trustee's Responsibility for Compliance

The superannuation entity's trustee is responsible for complying with the requirements of the SIS Act, SIS Regulations, the Reporting Standards made under Section 13 of the *Financial Sector (Collection of Data) Act 2001* (FSCODA Reporting Standards), the *Corporations Act 2001* (Corporations Act) and *Corporations Regulations 2001* (Corporations Regulations).

Auditor's Responsibility

My responsibility is to express an opinion on the trustee's compliance with the requirements of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations based on the audit. My audit has been conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit. I have conducted tests in accordance with Australian Auditing Standards as necessary to provide reasonable assurance whether the trustee of the Local Government Superannuation Scheme Pool B has, in all material respects:

- (a) complied with the relevant requirements of the following provisions (to the extent applicable) of the SIS Act and SIS Regulations:
Sections 19(2), 19(3), 36, 65, 66, 67, 69 to 85, 86 to 93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 111, 113, 117, 118, 121, 122, 124, 125, 152, 154;
Regulations 2.33(2), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and
- (b) complied with the FSCODA Reporting Standards that are subject to audit (to the extent applicable); and
- (c) complied with the relevant requirements of the following provisions (to the extent applicable) of the Corporations Act and Corporations Regulations:
Sections 1012B, 1012F, 1012H(2), 1012I, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 1017C(2), 1017C(3), 1017C(5), 1017C(8), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3), 1017E(4), 1020E(8) and 1020E(9); and
Regulation 7.9.32(3); and
- (d) complied with the requirement to prepare and lodge the respective forms comprising the APRA Annual Return

for the year ended 30 June 2007.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SIS Act, SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations apart from those specified. The superannuation entity's trustee is responsible for complying with the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations.

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

Auditor's Opinion

In my opinion the trustee of Energy Industries Superannuation Scheme Pool B has complied, in all material respects, with the requirements of the SIS Act and SIS Regulations, FSCODA Reporting Standards, Corporations Act and Corporations Regulations for the year ended 30 June 2007.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Sarah Woodhouse

Sarah Woodhouse
Partner
Chartered Accountants

30 October 2007