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SUPERANNUATION SCHEME

BUILD your future



Annual Report 2006

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"The most efficient way to accumulate wealth is to start investing as early as possible and to build by earning compound interest on what you invest. One of the most efficient vehicles in which to build wealth is superannuation."

Letter from the Chair

"Build your future with solid and consistent returns"



Dear Member,

It gives me great pleasure to present to you, on behalf of my fellow Board members, the Local Government Superannuation Scheme (LGSS) 2006 Annual Report.

Despite the volatility that gripped world share markets towards the end of the financial year, 2005/6 has again been a sound year for us, both in terms of investment performance and new developments.

On the investment front, it is always important to remember that with superannuation, you are building for your long-term future so you need to remain calm when markets become unstable. Having said that, share markets rise and fall continuously, but fortunately, history has shown that they have risen more than they have fallen. In keeping with this trend and despite the volatility, share markets have reported double-digit returns for the third successive year, which has meant solid performances particularly in our High Growth (18.7%), Diversified (14.7%), and Balanced (11.0%) strategies. For those Retirement and Defined Benefit Scheme members in the Trustee Selection strategy, the results have also been very good with a 17.3% return.

More positive news came when Rainmaker, one of Australia's pre-eminent rating agencies of super fund offerings, awarded their highest rating available, AAA, to the Scheme.

Throughout the year, we have continued to work towards the enhancement of the services we provide to you. We have just opened a new branch in Parramatta, bringing the number of locations we have in NSW to nine.

We have also increased the number of financial planners on hand to meet rising demand from members looking to grow their wealth. And the number of free wealth creation seminars has been increased, with more scheduled for the 2007 year.

In June 2006 Member Representative Barry Mason was replaced by the United Services Union. I want to place on record our deep appreciation of his contribution to the Scheme. As a qualified accountant he was a most professional asset.

All in all, it has been a highly productive year for your Scheme. The Board and I look forward to continuing to serve you and thank you for your ongoing support.

Peter Woods OAM
Chair

Local Government
Superannuation Scheme



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What's **new** at LGSS

"The year has seen us build your Scheme in a variety of ways..."

■ **Assets of \$5.3 billion, up \$0.8 billion from 2004-2005**

■ **Double-digit returns for High Growth, Trustee Selection, Diversified and Balanced investment options**

■ **Rainmaker awards AAA rating**

As usual, it has been a busy year for your Scheme, and we have introduced many new initiatives designed to build your future. Some of the year's highlights are:

Strong Results

For the third consecutive year, share markets have reported double-digit returns. In fact, this has been the best three year period for share markets since the crash of 1987. While part of this performance is due to a recovery from the 2002/3 downturn, there has been strong world growth driven by emerging economies such as China and India. The demand for resources to fuel growth in these regions has greatly benefited the Australian economy.

The performance of the share market has contributed directly to the impressive real returns achieved by our High Growth (18.7%), Trustee Selection (17.3%), Diversified (14.7%) and Balanced (11.0%) strategies.

On the other hand, the performance of fixed interest markets over the last twelve months has been the reverse, as they have been faced with increasing interest rates across the world. In many cases Government and semi-government bonds failed to provide returns above the cash rate for the year. The result has been that the return for the Capital Guarded strategy (7.5%) has been depressed.

The outlook for 2006/7 is promising. There is good reason to believe that world growth will continue to be favourable and this should underpin another good year for equities, although most likely in single-digit returns.

Growth continues

The Local Government Superannuation Scheme continues to grow. Assets have risen during the year to \$5.3 billion, up from \$4.5 billion in 2005. The membership as at 30 June 2006 was 98,133. But your Scheme is also part of a larger grouping of superannuation schemes that together have more than 140,000 members and over \$11 billion in funds under management. This gives us the economies of scale and buying power to continue to keep our fees as low as possible, to deliver a quality range of products and services and solid returns that help you build your future.

AAA rating from Rainmaker

Rainmaker, one of the pre-eminent rating agencies in Australia, recently assessed the Scheme and awarded all LGSS Schemes with an AAA rating, the highest ranking available. Rainmaker is used by superannuation funds to independently assess their product offerings. In making its assessment, Rainmaker examines more than 330 aspects including organisation, investments, communication and education, insurance and ancillary services.

More branches and improved services

For the convenience of members living or working in western Sydney, the Scheme has recently opened a new branch in Parramatta, bringing our total network of offices across the state to nine. Last year we also announced the introduction of personalised "case management" at our regional offices. This service, which has since been implemented, means that instead of talking to

different people each time you contact the Scheme about issues such as your insurance, you will always deal with the one person. Case management improves the speed and efficiency with which your requests are handled.

Retirement Planning booklet wins award

Your Scheme's Retirement Planning booklet won a Silver communications award in 2006 at the Conference of Major Super Funds. This industry award is in recognition of excellence in superannuation marketing communications. The Retirement Planning booklet is handed out at our free Pre-Retirement Planning seminars to assist members. For information on our seminars, contact Member Services on **1300 369 901**.



BUILD your future

2006 **annual** report

New developments and what's coming up



*"Your Scheme never stands still,
We're constantly looking for ways to
help improve your future..."*



Investment strategy changes

Following a review of investments, the Trustee has decided to adopt a new investment policy. Commencing from early 2007, the asset allocation (this is the amount or percentage of the Scheme's funds that are invested in shares, property, cash etc) of some of the investment options available to members, will change from the current allocation to a new allocation range. For further information regarding these changes please refer to the Supplementary Product Disclosure Statement or contact us.

Cash Plus investment strategy change

From 1 July 2006 the Cash Plus strategy changed slightly. The information concerning this change was placed on the Schemes website. For further information regarding this change please see page 21 or see the Scheme's website or contact us.

Budget brings broad benefits

Widely welcomed changes announced in the Government's 2006/7 Budget are set to overhaul the superannuation system. Several of these changes are likely to affect how you plan for your retirement.

Key changes include:

- For those retiring at age 60 or over, the tax on the payment of your end benefit has been abolished. This means that Reasonable Benefit Limits (RBLs) will no longer apply. So if your retirement planning has focused on the use of strategies to maximise your RBLs (e.g. non-commutable pensions, splitting super contributions with your spouse), these may no longer be your best options.
- For those retiring before reaching the age of 60 your lump sum benefit will remain taxable, but at a lower rate and in a simpler way than before.
- Age-based limits on deductible superannuation contribution will be abolished. In their place an annual deductible contribution limit of \$50,000 has been introduced, which includes contributions made by salary sacrifice. Any contributions made above this limit will be taxed at 45% (rather than 15%).
- Post tax superannuation contributions are to be capped at \$150,000 (effective 10 May 2006).
- Deductible superannuation contributions will be able to be made for employees up to age 75.
- People who have ceased working but do not wish to access their superannuation will no longer be forced to do so at age 65 (effective 10 May 2006).

Most of these changes are set to take effect from 1 July 2007, but will need to be passed into law first. Members should take this opportunity to review their personal situation with one of our financial planners. Please call Member Services on **1300 369 901** to arrange an appointment, or to come to one of our seminars.

In-house administration

As you know, our service provider is in the process of bringing in-house the administration of the Scheme, which had previously been outsourced to an external third party. At the same time, this required a substantial upgrading of the Scheme's technology. While there have naturally been some teething problems along the way, we are working towards finalising this project. In the long term we hope that members will experience improved online functionality as well as faster access to information, while employers will find their dealings with the Scheme more secure, streamlined and efficient.

More planners means more services

Your Scheme, through FuturePlus Financial Services, continues to add to the number of financial planners available to assist you. Our wealth creation team for example celebrated its 2nd birthday this year and continues to offer members the opportunity to explore methods of building wealth, both inside and outside superannuation. During the year 25 wealth creation seminars were conducted across NSW, with over 800 members in attendance. More than a third of those





attending decided to take up the complimentary financial planning service they are able to access as members of the Scheme.

A further 50 wealth creation seminars are planned for 2007.

Retirement Scheme and Defined Benefit Scheme members only.

Did you know that if you decide to leave the employ of one of our sponsoring employers, you can now continue to contribute after tax contributions to the Scheme? Employer or salary sacrifice contributions however cannot be accepted once you cease employment with a Scheme employer.

All members

The good news is that these contribution types including employer and salary sacrifice contributions can be received by FuturePlus Super, our public offer superannuation fund. Members who decide to transfer to FuturePlus Super are charged no entry or exit fees and do not lose any of their existing benefits such as any voluntary insurance cover.



Ease into retirement/ Non-Commutable Allocated Pension (NCAP)

**(Only available to Pool A members
[Accumulation (Div A) and
Executive (Div E)]**

The Government's new "transition to retirement" legislation now allows members who are 55 or over to ease into retirement by reducing their workload. The intention is to encourage people who have reached preservation age (currently 55) to top up their income by converting part of their existing super to what's called a non-commutable pension. This facility then pays you a regular income, or pension, which in turn allows you to put a large part of the salary from your job back into your super. So your super grows through salary sacrifice, but your lifestyle is maintained because you live on the combination of the pension income plus the balance of your salary. Please contact Member Services for more information on this.

You can now make a binding nomination of beneficiary

As foreshadowed in last year's annual report, members can now make a binding death benefit nomination, which ensures that any death benefit is payable to your estate. When you do this, the Trustee is then bound to carry out your wishes. But you must remember to renew your binding nomination every 3 years for it to remain valid. Therefore, it is important to keep your Will up-to-date, as the Trustee must follow a valid binding nomination. Where the nomination becomes invalid, the Trustee must pay any death benefit in accordance with the rules of the Scheme's Trust Deed. To take up this option, call Member Services on **1300 369 901**.

Split and save

Super splitting is an option designed to help single income couples improve their retirement savings. In essence, super splitting allows the working partner to transfer certain contributions from their super account to their non-working spouse's super account. Please note that recent changes to Federal Budget means that this may no longer be appropriate for some members. Please contact Member Services, if you require further information.

Scheme research

As part of improving and developing services, the Scheme conducts research during the year. The intention of the research is to obtain feedback from members on a variety of matters, to ensure their needs continue to be met, to identify and address any issues, to improve processes and to develop existing and new services and products. Over the course of the coming year, members may receive a telephone call from one of the research groups the Scheme currently uses. Members are encouraged to participate and provide feedback, but are under no obligation to do so. If you do not wish to participate, simply let the researcher know. The Scheme currently uses the following research companies:

- Woolcott Research Pty Ltd.
- Stent Research and Planning Pty Ltd.



Services that help build your future

Local Government Superannuation Scheme offers you access to a broad range of services designed to build your future. These include:

- Low fees.
- A track record of impressive investment returns.
- Access to financial planning at no additional cost.
- Flexibility in your investment strategy.
- A great range of insurance options.
- Savings through our Fair Go Member Benefits Program.
- Pre-retirement seminars (for members aged 50 or over).
- Retirement workshops (for members two years away from retirement).
- Wealth creation seminars (to help you build your wealth at any age).
- A competitive home loan service.
- Extensive work site visits.
- Call Centre support to answer your questions.
- Access to Client Services staff and financial planners at our Sydney office and regional network (i.e. Lismore, Newcastle, Orange, Wagga Wagga, Wollongong, Albury* and Goulburn*), plus our new metropolitan office in Parramatta.
- A comprehensive range of tools and calculators on our website to help you determine your ideal investment strategy, work out a budget, calculate insurance premiums and estimate your superannuation benefit and allocated pension options at retirement.

- Member communications to keep you up-to-date, including newsletters, statements and Annual Reports.

For more information or to ensure that you are making the most of all the services available to you, call a Member Services Officer on **1300 369 901**.

Albury and Goulburn offices are staffed at least one business day per month. Bookings are essential on **1300 369 901.*

What's new in Fair Go?

We've steadily improved on the number and types of offers we provide you with, to help you save on every day items as well as a few luxuries.

Some of the new offerings now available to you include:

- Sydney Wildlife World, where you can save 15% on admission.
- Sydney Tower and Oztrek, where you can save 10% off admission.
- Petals Flower Delivery, an online florist where you qualify for a 15% discount on the flower value of your order.
- 20% off the normal price on the supply and installation of security equipment at Signature Security.
- Save up to 30% off Travel Insurance with AIG Australia.
- Travel Brochures – select any 5 travel brochures and have them delivered for free.

These additions join our existing list of great offers for savings on health insurance, phone contracts and specials on a host of lifestyle benefits such as family activities like a visit to the Sydney Aquarium, travel, accommodation and entertainment.

Call Member Services on **1300 369 901** today, or visit our website **www.lgsuper.com.au** to find out how you can take full advantage of the Fair Go member loyalty program.

Financial planning

As a member of this Scheme you are entitled to talk to a financial planner (at no direct cost to you) to discuss how to build your wealth and plan for your retirement. During the year through FuturePlus Financial Services*, we have increased the number of planners we have on hand to assist you. All our financial planners are salaried employees and earn no commission on the advice they provide.

Our financial planners can work through your individual needs and, where appropriate, prepare a comprehensive financial plan for you.

Members can make an appointment to see a financial planner at any one of our offices. Contact Member Services on **1300 369 901**, or visit the Local Government Superannuation Scheme website **www.lgsuper.com.au** to find out more.

**FuturePlus Financial Services, partly owned by your Scheme, was created to provide financial planning advice to Scheme members at various stages in their lives. For more details contact Member Services.*



Member Services Contact Centre

The most common way for members to contact us is by phone, through our Member Services Contact Centre.

All our Member Services Officers have completed an extensive training and induction program so that they can provide members with accurate and appropriate information. They are graded using both internal and external criteria to ensure they are offering the highest quality service.

The Member Services Contact Centre also complies with Financial Services Reform requirements. To speak to a Member Services Officer simply call **1300 369 901**.

Seminars

You may have noticed that the number of seminars we conduct each year has increased. These seminars are presented by our team of friendly Account Managers and Financial Planners at work sites and at local venues on subjects including:

- Retirement
- Redundancy
- Non-super investment savings
- Tax and social security
- Budgeting
- Superannuation
- Wealth Creation

Our seminar program is available on our website at www.lgsuper.com.au and you can book your place at one of these events by calling Member Services on **1300 369 901**.

Regional offices

We have offices in the following locations:

Sydney	28 Margaret Street
Parramatta	10-14 Smith Street
Orange	187 Summer Street
Wagga Wagga	2/209 Baylis Street
Wollongong	Shops 2 & 3, 60 Burelli Street
Lismore	81-83 Molesworth Street
Newcastle	161 King Street
Albury*	621 Dean Street
Goulburn*	148 Auburn Street

Albury and Goulburn offices are staffed at least one business day per month. Bookings are essential on **1300 369 901.*

Low cost home loans

Chifley Financial Services, which is partly owned by your Scheme, provides a range of highly competitive home loans to members. It offers you low interest rates and a choice of loans to suit your circumstances. Other features include:

- \$0 Application fee*
- \$0 monthly account keeping fee
- \$0 Split loan fee
- \$0 Electronic redraw fee
- A redraw facility

The loan terms are transparent to ensure members always understand the loan conditions. Before you make any decisions contact Chifley on **1800 800 002** for more information or visit www.chifley.com

**Although there is no loan document preparation fee, some charges such as valuation fees and costs charged by the lender's solicitors are payable. These charges may be non-refundable should the loan be approved and not proceeded with. Other fees and charges may be payable.*

Website

This year we have changed the look of our website. We welcome your opinion and invite you to email us with your feedback to info@lgsuper.com.au

In addition, our website offers a wide range of tools and calculators to help members work out possible solutions relating to their own personal circumstances. These include:

- Risk Profiling questionnaire;
- Superannuation and Allocated Pension calculator;
- Insurance Premium calculators;
- Salary Continuance calculator; plus

Other calculators available through FuturePlus (www.futureplus.com.au) which can help members with budgeting, working out borrowing limits, insurance, loans, term deposit, and looking at whether to rent vs. buy.

Register for Web Access

To register for web access, simply go to www.lgsuper.com.au and click on the web access registration link.



Sustainable Investing

The Trustee believes that it is not only important to maximise investment returns, but also to invest in a way that favours companies/projects that show a commitment to our community and the environment. A few specific initiatives illustrate this:

Property Holdings

The Trustee has adopted an environmental policy which, in part, is designed to increase energy and water efficiencies across those properties we directly own. Additionally, the policy encompasses waste reduction and recycling, indoor air quality, improving operations and maintenance, materials and resources, OH&S and environmental risk management.

Socially Responsible Investment (SRI) Overlay

Our Australian equity managers invest in a range of companies, which may operate in areas such as gambling, uranium mining, logging of old forests and the like, or have a poor environmental record. Your Scheme runs a separate portfolio that sells the shares it holds in these areas and purchases alternative shares in companies that have good social/environment records. While our Scheme has only operated the overlay for a short time, it has performed very well. However, more importantly, it ensures that your superannuation money is invested in industries that enhance the social/environmental profile, without affecting returns. Due to the success of the SRI overlay, the Trustee has approved its extension to cover your Scheme's international equity portfolio.

Insurance for your peace of mind

One way to obtain life, permanent disability or income protection insurance is through your Scheme. The benefit of doing this is that the premiums are paid from your superannuation contributions, meaning that you don't pay for the cost of the insurance directly. If you don't want your super savings to be reduced

by insurance premiums, you can make extra contributions towards your super to pay for insurance. A tax-effective way of doing this is to pay for your premiums using pre-tax dollars via salary sacrifice contributions. You also get to take advantage of the wholesale insurance rates your Scheme has negotiated, which are among the cheapest available.

Taking out insurance isn't a one-off event. As you move along the path to retirement, part of your planning process should include regular reviews of your insurance needs, to ensure that you aren't over or under insured as your needs and circumstances change.

Remember to review your insurance needs regularly.

For more information on insurance, contact us on **1300 369 901**. One of our Financial Planners can work with you to determine whether you have the right cover to meet your particular circumstances.

How the sectors performed

Market commentary

Financial year to end June 2006

Uncertainty about economic growth and inflation, especially in the US, weighed heavily on investors' minds as the financial year to end June 2006 drew to a close. The worry was that if US inflation continued to rise, it would lead to higher interest rates which would, in turn, lower global economic growth and weaken commodity prices.

However, despite a bumpy share market ride in the last two months of the year, those invested in local and overseas shares still ended the year smiling.

Australian shares

The Australian sharemarket ended the year nervously as fears grew about US inflation and interest rates. In May, the local market experienced its largest one month fall in over three years, losing almost 5%. But despite this bumpy finish, Australian shares still rewarded investors with double digit returns for the

full financial year to June 2006, thanks to buoyant global demand for resources and high commodity prices during the year. The second half of the financial year was also characterised by a rush of mergers and acquisitions.

International shares

Despite fears of US inflation and rising interest rates in the last quarter of the year, world sharemarkets also enjoyed a good year, rising 15% on a hedged basis and almost 20% on an unhedged basis due to a weaker Australian dollar.

The Japanese sharemarket was the star performer, rewarding investors with a return of 40.2% for the year. Next up were emerging markets, which rose 34.1% during the year.

Listed Property Trusts (LPTs)

Listed property produced its seventh straight double digit financial year return, gaining 18%. Towards the end of the year, LPTs enjoyed a boost as investors sought safety from the more volatile broader sharemarket.

Fixed interest

Bonds were the financial market's laggards, with both Australian and international bonds under-performing cash for the second time in the past three financial years. Australian bonds rose 3.4% over the year while international bonds were up 5.8%.

Numerous central banks around the world raised interest rates, including the Reserve Bank of Australia, on the back of inflation concerns, pushing up Government Bond yields. The US suffered its 17th consecutive rate rise to 5.25%.

Cash and currencies

The Australian dollar was affected by volatile commodity prices and changing expectations for US interest rates. Over the year, the Australian dollar fell 7.7% against the Euro, 5.5% against the British Pound and gained 2.8% against the US dollar.

Your superannuation explained

About the Scheme

The Local Government Superannuation Scheme (LGSS) was established on 1 July 1997, to specifically cater for employees of NSW Local Government employers.

The Scheme is divided into two Pools (Pool A and Pool B). The diagram at right shows the Scheme's structure. FuturePlus Financial Services provides superannuation and financial planning services to members of the Scheme and is 50% owned by the Scheme.

Pool A Consists of the Assets of Three Divisions:

- Accumulation Scheme - Division A
- Executive Scheme - Division E
- Allocated Pension and Rollover Plan - Division F

Pool B Consists of the Assets of Three Divisions:

- Retirement Scheme - Division B
- Basic Benefit - Division C
- Defined Benefit Scheme - Division D

Both Pools are complying superannuation funds and are subject to concessional taxation treatment.

About the Trustee

LGSS Pty Limited (ABN 68 078 003 497) is the Trustee of the Scheme.

The Trustee is a non-profit company solely engaged in the management and control of the Scheme and its assets for the benefit of its members.

The Trustee engages external experts such as investment advisers and

investment managers, administrators, a custodian, accountants, solicitors and auditors to assist it with its obligations.

LGSS Pty Limited is an APRA Registrable Superannuation Entity Licensee (RSEL: L0001243). The Super Registration Number for Pool A is R1004656 and for Pool B is R1004663.

About the service providers

The administrator of the Scheme is FuturePlus Financial Services Pty Limited. The administrator attends to the day-to-day operation of the Scheme under a written service agreement. FuturePlus also operates the various branches that service member queries and employs salaried financial planners to assist members.

FuturePlus is jointly owned by the Trustee and the Trustee of the Energy Industries Superannuation Scheme. The Trustee undertakes that it will not deal with FuturePlus more favourably than it would deal with any other independent service provider.

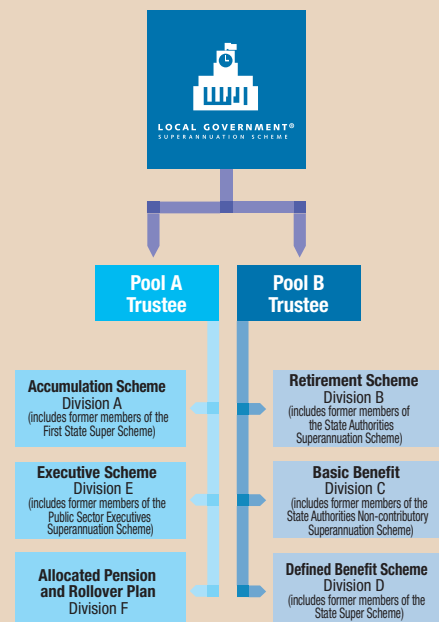
The custodian of the Scheme is JPMorgan Chase Bank. The custodian holds the Scheme's assets under a written service agreement.

The next section of this annual report lists the strategies for each of the available investment options, along with more detailed information on past performance, asset allocations and definitions. Net earnings rates disclosed in this report may not be the same as the rate credited to a member's benefit because of the effect of cash flow timings.

The net earnings allotted to your accounts during this Statement period are calculated daily, based upon the applicable unit prices of the underlying investment strategies you are invested in. These unit prices are derived to be the market value of the investments in your underlying investment strategy after adjustments for taxes, fees and expenses. You should note that any direct fees, contributions tax or expenses (such as insurance premiums) are deducted directly from your account and are not taken into account when deriving applicable unit prices.

Please note that past net earning rates are not an indicator of future net earning rates and that members benefits invested in any particular investment strategy are not guaranteed and the value of their investment may fall.

Local Government Superannuation Scheme Divisions



For more information go to www.lgsuper.com.au, to view the Product Disclosure Statements, or call Member Services on **1300 369 901**.



Investment Strategies

High Growth

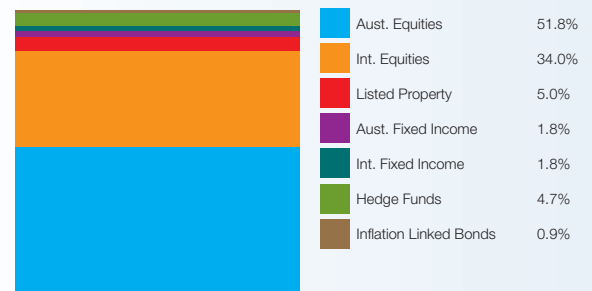
Definition - The High Growth strategy generally invests about 90% of its funds in growth assets, such as Australian and international equities and property. This combination aims to earn high real investment growth above inflation over a minimum period of 10 years. Because the emphasis is on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short-term.

Objective - 5.5% investment return per annum above inflation over 10 years.

Risks - There is a significant chance that the investment value may decrease in the short-term. The chance of a negative return in any year is 1 in 3.

Risk profile - High.

High Growth



Diversified

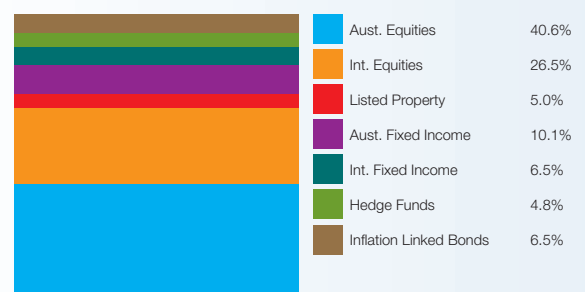
Definition - The Diversified strategy generally invests about 70% of its funds in growth assets, such as Australian and international equities and property. This combination aims to earn real investment growth above inflation over a period of 5 years. Because the emphasis is still on growth, you should keep in mind that there may be what financial professionals call 'short-term volatility' in this strategy. In other words, the value of the investment may fluctuate over the short-term. This volatility is not as great as it is in the High Growth strategy.

Objective - 4.7% investment return per annum above inflation over 5 years.

Risks - There is potential for the value of the investment to decrease in the short-term. The chance of a negative return in any year is 1 in 4.

Risk profile - High/Medium.

Diversified



Balanced

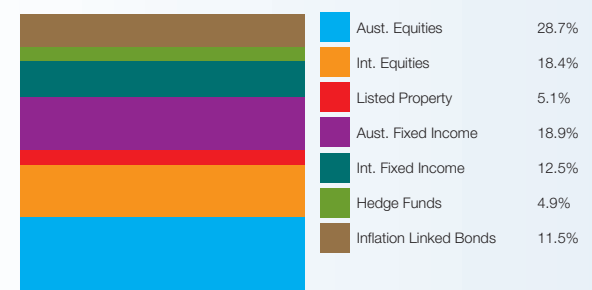
Definition - The Balanced strategy generally invests about 50% in growth assets and 50% in income-producing assets, such as interest bearing securities. This combination offers real investment growth above inflation over 3 years. There are more assets that produce income, which makes the strategy more stable than the High Growth and Diversified strategies.

Objective - 4.0% investment return per annum above inflation over 3 years.

Risks - Although the emphasis is on spreading your investment over various asset classes, there is a possibility that the value of the investment will decrease in the short-term. The chance of a negative return in any year is 1 in 5.

Risk profile - Medium.

Balanced



Capital Guarded

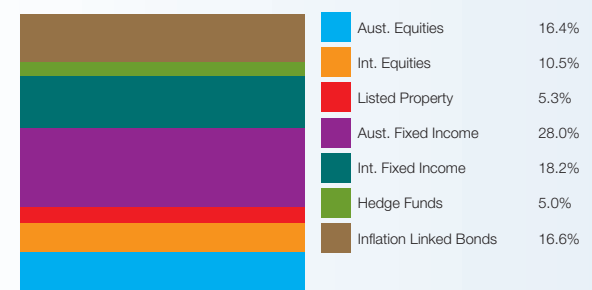
Definition - The Capital Guarded strategy generally invests 30% in growth assets and 70% in income-producing assets. This combination aims to keep investment return fluctuations to a minimum. Although it is relatively more stable than the High Growth, Diversified and Balanced strategies, the returns and the value of the investment can still fluctuate.

Objective - 3.5% investment return per annum above inflation over 3 years.

Risks - Although the emphasis is more on security, returns and the value of the investment can still fluctuate. The chance of a negative return in any year is 1 in 8.

Risk profile - Medium/Low.

Capital Guarded





Asset Allocation as at 30 June ¹	Strategic 2006	Actual 2006	Actual 2005
Aust. Equities	51.0%	51.8%	51.1%
Int. Equities	34.0%	34.0%	33.7%
Listed Property	5.0%	5.0%	5.1%
Aust. Fixed Income	2.0%	1.8%	2.1%
Int. Fixed Income	1.0%	1.8%	1.0%
Hedge Funds	5.0%	4.7%	5.0%
Inflation Linked Bonds	2.0%	0.9%	2.0%

¹ All figures are represented to one decimal place.

Investment Returns over 5 years as at 30 June ¹	2002	2003	2004	2005	2006
Accumulation and Executive Schemes (Div A and E)	-8.8%	-2.6%	16.6%	15.6%	18.7%
Rollover Plan (Div F)	-9.5%	-3.8%	16.1%	13.9%	18.1%
Allocated Pension Plan (Div F)	-10.9%	-4.1%	17.5%	15.3%	18.9%

Annualised 5 year Returns as at 30 June 2006¹

Accumulation and Executive Schemes (Div A and E)	7.3%
Rollover Plan (Div F)	6.3%
Allocated Pension Plan (Div F)	6.6%

Asset Allocation as at 30 June ¹	Strategic 2006	Actual 2006	Actual 2005
Aust. Equities	39.0%	40.6%	39.0%
Int. Equities	26.0%	26.5%	25.7%
Listed Property	5.0%	5.0%	5.1%
Aust. Fixed Income	11.0%	10.1%	11.2%
Int. Fixed Income	7.0%	6.5%	7.1%
Hedge Funds	5.0%	4.8%	4.9%
Inflation Linked Bonds	7.0%	6.5%	7.0%

¹ All figures are represented to one decimal place except for 5 year Investment Returns, Div A and Div E (2003).

Investment Returns over 5 years as at 30 June ¹	2002	2003	2004	2005	2006
Accumulation and Executive Schemes (Div A and E)	-5.4%	-0.04%	12.9%	13.7%	14.7%
Rollover Plan (Div F)	-6.1%	-0.3%	12.7%	12.7%	14.0%
Allocated Pension Plan (Div F)	-7.0%	-0.9%	13.9%	14.0%	15.3%

Annualised 5 year Returns as at 30 June 2006¹

Accumulation and Executive Schemes (Div A and E)	6.9%
Rollover Plan (Div F)	6.3%
Allocated Pension Plan (Div F)	6.7%

Asset Allocation as at 30 June ¹	Strategic 2006	Actual 2006	Actual 2005
Aust. Equities	27.0%	28.7%	26.9%
Int. Equities	18.0%	18.4%	17.8%
Listed Property	5.0%	5.1%	5.1%
Aust. Fixed Income	20.0%	18.9%	20.2%
Int. Fixed Income	13.0%	12.5%	13.1%
Hedge Funds	5.0%	4.9%	4.9%
Inflation Linked Bonds	12.0%	11.5%	12.0%

¹ All figures are represented to one decimal place.

Investment Returns over 5 years as at 30 June ¹	2002	2003	2004	2005	2006
Accumulation and Executive Schemes (Div A and E)	-2.1%	2.7%	9.6%	11.9%	11.0%
Rollover Plan (Div F)	-2.9%	2.0%	9.2%	11.0%	10.3%
Allocated Pension Plan (Div F)	-3.3%	2.2%	10.5%	12.3%	11.4%

Annualised 5 year Returns as at 30 June 2006¹

Accumulation and Executive Schemes (Div A and E)	6.5%
Rollover Plan (Div F)	5.8%
Allocated Pension Plan (Div F)	6.4%

Asset Allocation as at 30 June ¹	Strategic 2006	Actual 2006	Actual 2005
Aust. Equities	15.0%	16.4%	14.9%
Int. Equities	10.0%	10.5%	9.9%
Listed Property	5.0%	5.3%	5.1%
Aust. Fixed Income	29.0%	28.0%	29.1%
Int. Fixed Income	19.0%	18.2%	19.2%
Hedge Funds	5.0%	5.0%	4.8%
Inflation Linked Bonds	17.0%	16.6%	17.0%

¹ All figures are represented to one decimal place.

Investment Returns over 5 years as at 30 June ¹	2002	2003	2004	2005	2006
Accumulation and Executive Schemes (Div A and E)	1.2%	5.2%	6.4%	10.2%	7.5%
Rollover Plan (Div F)	0.4%	4.7%	6.3%	9.5%	7.0%
Allocated Pension Plan (Div F)	0.3%	5.3%	7.0%	10.6%	7.6%

Annualised 5 year Returns as at 30 June 2006¹

Accumulation and Executive Schemes (Div A and E)	6.0%
Rollover Plan (Div F)	5.5%
Allocated Pension Plan (Div F)	6.1%

Investment Strategies - continued

Cash Plus*

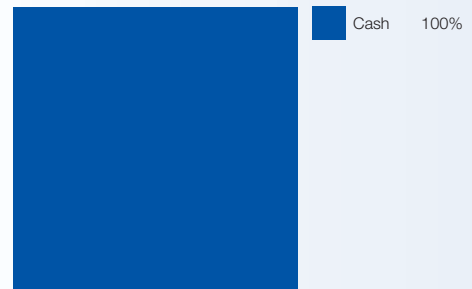
Definition - The Cash Plus strategy invests 100% of available assets in short-term securities, such as cash deposits, and bank, government and semi government securities. The investment return should be more than personal bank deposit rates. It offers maximum security to those very close to retirement.

Objective - 1.5% investment return per annum above inflation over 1 year.

Risks - There is a chance that your investment will not keep up with inflation and therefore its real value will decrease over time. The prospect of loss of value due to inflation increases the longer you leave your investment in cash.

Risk profile - Low.

Cash Plus



BT Institutional Retirement PST (For Executive Scheme members only)

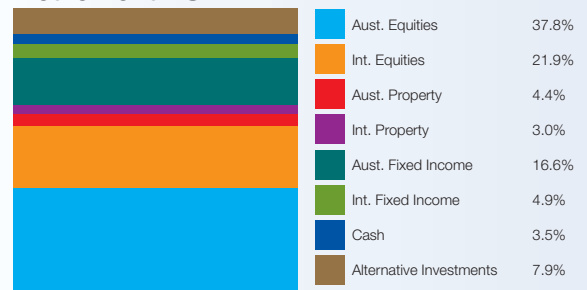
Definition - The BT Institutional Retirement PST is a 'balanced' fund which invests across a broad range of asset sectors, including equities, property, fixed interest and cash.

Objective - Aims to provide a return (before fees) that exceeds the Fund's benchmark* over the long-term (5+ years), through stock selection and asset allocation.

Risks - There is potential for the value of the investment to decrease in the short-term.

Risk profile - High/Medium.

BT Institutional Retirement PST



* Representing a weighted composite of various market indices.

BT Institutional Conservative Growth PST (For Executive Scheme members only)

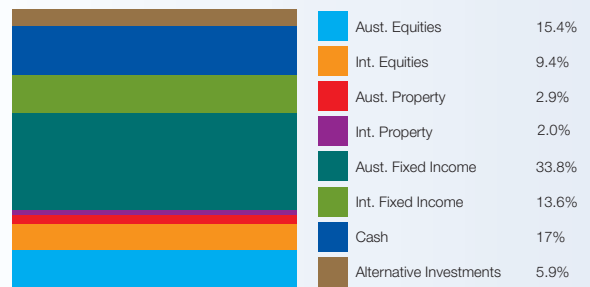
Definition - The BT Institutional Conservative Growth PST invests primarily in fixed interest investments, but can hold up to 30% in other assets, including equities and property.

Objective - Aims to provide a return (before fees) that exceeds the Fund's benchmark* over the medium term (3+ years), through stock selection and asset allocation.

Risks - Although the emphasis is more on security, returns and the value of the investment can still fluctuate.

Risk profile - Medium/Low.

BT Institutional Conservative Growth PST



* Representing a weighted composite of various market indices.





Asset Allocation as at 30 June ¹	Strategic 2006	Actual 2006	Actual 2005
Cash	100%	100%	100%

*The information contained here in respect of the Cash Plus strategy was up to date as at 30 June 2006. Please note that the strategy changed from 1 July 2006 and that information concerning this change was notified to members. For current information concerning this strategy please see page 21 for further information.

¹ All figures are represented to one decimal place.

Investment Returns over 5 years as at 30 June ¹	2002	2003	2004	2005	2006
Accumulation and Executive Schemes (Div A and E)	3.7%	3.5%	4.2%	4.2%	4.6%
Rollover Plan (Div F)	2.9%	3.6%	4.1%	3.8%	3.9%
Allocated Pension Plan (Div F)	3.6%	3.8%	4.8%	4.4%	4.5%

Annualised 5 year Returns as at 30 June 2006 ¹	
Accumulation and Executive Schemes (Div A and E)	4.1%
Rollover Plan (Div F)	3.7%
Allocated Pension Plan (Div F)	4.2%

Asset Allocation as at 30 June ¹	Strategic 2006	Actual 2006	Actual 2005
Aust. Equities	38.0%	37.8%	36.2%
Int. Equities	20.0%	21.9%	22.7%
Aust. Property	5.0%	4.4%	8.9%
Int. Property	3.0%	3.0%	0.0%
Aust. Fixed Income	17.0%	16.6%	16.8%
Int. Fixed Income	7.0%	4.9%	3.7%
Cash	2.0%	3.5%	5.9%
Alternative Investments	8.0%	7.9%	5.8%

¹ All figures are represented to one decimal place.

Investment Returns over 5 years as at 30 June ¹	2002	2003	2004	2005	2006
Executive Scheme (Div E)	-5.2%	-4.7%	14.7%	15.9%	17.2%

Annualised 5 year Returns as at 30 June 2006 ¹	
Executive Scheme (Div E)	7.1%

Asset Allocation as at 30 June ¹	Strategic 2006	Actual 2006	Actual 2005
Aust. Equities	15.0%	15.4%	14.4%
Int. Equities	8.0%	9.4%	9.3%
Aust. Property	3.0%	2.9%	5.4%
Int. Property	2.0%	2.0%	0.0%
Aust. Fixed Income	34.0%	33.8%	33.7%
Int. Fixed Income	15.0%	13.6%	13.0%
Cash	17.0%	17%	19.2%
Alternative Investments	6.0%	5.9%	5.0%

¹ All figures are represented to one decimal place.

Investment Returns over 5 years as at 30 June ¹	2002	2003	2004	2005	2006
Executive Scheme (Div E)	0.5%	5.3%	6.4%	9.6%	10.4%

Annualised 5 year Returns as at 30 June 2006 ¹	
Executive Scheme (Div E)	6.4%



Investment Strategies - continued

Retirement and Defined Benefit Schemes (Pool B)

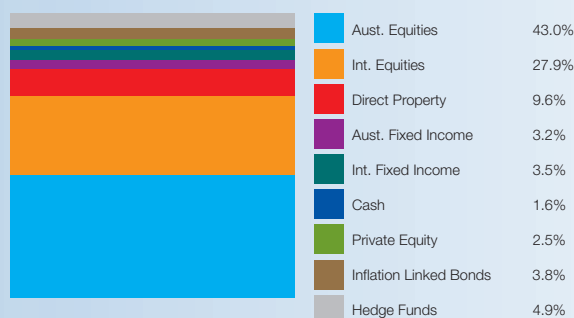
Changes to Investment Options and Strategies

From 1 October 2005 Retirement Scheme members are able to choose various investment options in relation to certain parts of their account. Up to 1 October 2005, members were invested in Trustee Selection.

These arrangements do not apply to Defined Benefit members whose contributions remain invested in Trustee Selection.

Trustee Selection

Definition - The Scheme generally invests approximately 85% of its assets in traditional growth



Asset Allocation as at 30 June ¹	Strategic 2006	Actual 2006	Actual 2005
Aust. Equities	39.5%	43.0%	42.8%
Int. Equities	26.5%	27.9%	27.4%
Direct Property	11.0%	9.6%	9.4%
Aust. Fixed Income	4.0%	3.2%	3.3%
Int. Fixed Income	4.0%	3.5%	3.6%
Cash	2.0%	1.6%	1.9%
Private Equity	3.0%	2.5%	2.1%
Inflation Linked Bonds	5.0%	3.8%	4.5%
Hedge Funds	5.0%	4.9%	5.0%

Investment Returns over 5 years as at 30 June ¹	2002	2003	2004	2005	2006
Retirement and Defined Benefit Scheme (Pool B) Contributory	-5.8%	0.4%	13.4%	14.2%	17.3%
Retirement and Defined Benefit Scheme (Pool B) Deferred	-5.8%	0.4%	13.4%	14.2%	16.7%
Retirement and Defined Benefit Basic Benefit Accumulation Account	0.0%	0.0%	0.0%	14.2%*	17.1%

*The return shown for 2005 is for the period 1 Oct 2004 to 30 June 2005 only.

Annualised 5 year Returns as at 30 June 2006 ¹	
Retirement and Defined Benefit Scheme (Pool B) Contributory	7.5%
Retirement and Defined Benefit Scheme (Pool B) Deferred	7.4%
Retirement and Defined Benefit Basic Benefit Accumulation Account (period 1 October 2004 to 30 June 2006 only)	n/a

¹ All figures are represented to one decimal place.

assets such as Australian and international equities and property. This combination aims to earn high real growth, above inflation over a minimum period of 5 years. Because the emphasis is on growth there may be some short term volatility in this selection. In other words the value of the investment may fluctuate over the short term, although to a lesser extent than the High Growth strategy.

Objective - 5% investment return per annum above inflation over 5 years.

Risks - There is a significant chance that the investment value may decrease in the short-term. The chance of a negative return in any year is 1 in 4.

Risk profile - High/Medium.

Member Investment Choice (Retirement Scheme members only)

From 1 October 2005, members in the Retirement Scheme can access Member Investment Choice in addition to Trustee Selection by choosing the five (5) investment strategies shown below. Member investment choice applies to the following benefit components:

for Contributory members

- Your Contributor Financed Benefit; and
- Basic Benefit Accumulation account

for Deferred members

- Your total account balance

The table below shows the investment returns only for the period 1 October 2005 to 30 June 2006. There are no investment returns for previous periods as the investment strategies only commenced 1 October 2005.

Strategies ¹	Contributor Financed Benefit	Basic Benefit Accumulation Account	Deferred Members
High Growth	10.8%	10.5%	10.1%
Diversified	8.7%	8.5%	8.0%
Balanced	6.8%	6.6%	6.2%
Capital Guarded	5.0%	4.7%	4.4%
Cash Plus	3.4%	3.2%	2.9%

¹ All figures are represented to one decimal place.

There are no annualised 5 year returns for these strategies as they only commenced 1 October 2005.

For further information concerning the Asset Allocation, Investment Objective, Risk and Risk profiles of the above strategies please refer to the equivalent information provided for Pool A. For information regarding returns for Pool A, please refer to pages 8 to 11.



The Board

Your Trustee

The Trustee of your Scheme is LGSS Pty Limited (ABN 68 078 003 497). In accordance with the constitution of the Trustee Company, the Board consists of equal numbers of directors appointed by both employer and union associations. The Board is supported by the Scheme's Chief Executive Officer and the Fund Secretary. Peter Lambert is the Fund Secretary. Brett Westbrook was the Chief Executive Officer until his resignation on 29 September 2006. The Board is currently seeking a replacement to the position of CEO.

Board Members

Peter Woods OAM, Emeritus Mayor, BA, M Litt, MACE, Cert. Comm. Med., MACE FAICD

Appointed by Local Government Association Of NSW.

Patron - Local Government Association of NSW; Chair - LGSS Pty Limited; Director - Chifley Financial Services; Director - FuturePlus Financial Services; Immediate Past President - United Cities and Local Governments (Asia Pacific Region).

John Ernst

Appointed by United Services Union (NSW Division).

President - Metropolitan Salaried Officers Branch, United Services Union (NSW Division); Deputy Chair - FuturePlus Financial Services Pty Limited.

Beverley Giegerl

Appointed by Local Government Association of NSW.

Councillor - Hurstville City Council; Treasurer - Local Government Association of NSW.

Leo Kelly OAM

Appointed by Local Government Association of NSW.

Mayor - Blacktown City Council; Vice President - Local Government Association of NSW; Director - FuturePlus Financial Services; Member of NSW Local Government Committee for Planning, Environment and Industrial Waste Management; Member - NSW Local Government Boundaries Commission.

Barry Mason*

Appointed by United Services Union (NSW Division).

Expenditure/Risk/Assets Co-ordinator - Kogarah Council; Chair - Local Government Financial Services Pty Limited; Director - FuturePlus Financial Services; Deputy Chair - LGSS Pty Limited; Member of The Local Government Managers of Australia.

Martin O'Connell

Appointed by Local Government Engineers' Association.

Director - Local Government Engineers' Association and Association of Professional Engineers, Scientists and Managers, Australia (NSW Branch); Director - Chifley Financial Services Limited; Chair - Audit, Compliance & Risk Management Committee.

Ian Robertson

Appointed by Development & Environmental Professionals' Association (depa).

Secretary - depa; Chair - Determinations Committee; Secretary - Australian Institute of Superannuation Trustees.

John Wearne AM

Appointed by Shires Association of NSW.

Patron - Shires Association of NSW; Chair - Investment Committee; Chair - NSW ARTS Capital Infrastructure Advisory Committee; Trustee - Bluett Awards Foundation.

**Ceased as a Director on 19th June 2006. His position was filled by Mr Paul Marzato, who was replaced by Mr Brian Harris on 27 September 2006.*

Board Members Pictured left to right:

Front: John Ernst, Peter Woods OAM, Beverley Giegerl, Leo Kelly OAM. Back: Barry Mason, Martin O'Connell, John Wearne AM, Ian Robertson.



Scheme Governance

Role of the Board

The Board is responsible for setting the overall strategy for your Scheme and ensuring it is operating in accordance with the Trust Deed and all applicable laws. The Board meets monthly and receives and reviews reports from its service providers. Where necessary, the Board calls upon specialist advice from advisors, such as solicitors, accountants and the Scheme's actuary.

The Board has appointed two Committees to allow it to oversee the operations of your Scheme in greater detail. The Investment Committee (made up of John Wearne - Chair, Barry Mason*, Ian Robertson and Peter Woods) generally meets twice a quarter. The main function of the Committee is to monitor the performance of the Scheme's investment managers and oversee the work of the Scheme's Investment Advisor - Intech Investment Consultants.

The role of the Audit, Compliance and Risk Management Committee (made up of Martin O'Connell - Chair, John Ernst, Beverley Giegerl and Leo Kelly) is to review the internal controls and risk management of your Scheme and its service providers. Committee meetings are also attended by the Scheme's Internal Auditor - Leonard Yong. The Committee generally meets quarterly.

**Barry Mason ceased as a Director on 19th June 2006. His position was filled by Mr Paul Marzato.*



Scheme **Governance** - continued

The financial services industry is becoming increasingly complex, as are the prudential requirements for Trustees of superannuation funds. To assist in meeting this challenge, the Board regularly undertakes courses/seminars aimed at keeping their skills and knowledge up to date.

Industry Regulator

The operations of your Scheme are supervised by the Australian Prudential Regulation Authority (APRA).

Representatives of the Board meet APRA regularly, so as to keep the regulator informed about the activities of your Scheme. These meetings also provide an opportunity for the Board to hear APRA's views about the superannuation industry generally.

Superannuation Licensing

In 2004, the Commonwealth Government passed legislation requiring Trustees of APRA regulated superannuation funds to be licensed and superannuation funds to be

registered. Licensing and registration must be affected by 30 June 2006. To be granted a license trustees must demonstrate that they are able to comply with the SIS Act, new operating standards and have risk management procedures in place. The Board has been successful in acquiring its license.

Indemnity Insurance

The Trustee is indemnified by a policy of insurance in respect of its duties as Trustee of your Scheme.

Taxes, fees and charges

Taxation of contributions

Your Scheme is required to pay tax of up to 15% on all employer contributions¹ received (including contributions made by way of salary sacrifice). Any tax payable in respect of these contributions is deducted from your account. Personal contributions made on an after-tax basis are not subject to tax.

¹ Net of allowable deductions e.g. administration and insurance fees.

Superannuation surcharge tax

From 1 July 2005, the Federal Government has abolished the surcharge payable on certain superannuation contributions. This means that the surcharge will not apply to future superannuation contributions. However, any debt accrued prior to this date is still payable and will be deducted from your account.

Year	Maximum Rate %
Prior to 2003/2004	15.0%
2003/2004	14.5%
2004/2005	12.5%
2005/2006 & later	0.0%

The Australian Tax Office (ATO) determines the amount of surcharge (if any) which relates to your contributions. All surcharge

amounts are deducted from your account and paid to the ATO on your behalf (except for Retirement or Defined Benefit Schemes).

Fees and other costs

There are a number of fees levied by your Scheme. These include:

Investment costs and expense recovery fee

These are the fees and costs for investing the assets and for payment of certain other costs associated with operating your Scheme (full details of these types of fees can be found on our website or in your Product Disclosure Statement). Note that investment management fees are not charged directly to your account. These fees are applied daily on the market value of the assets in each particular investment strategy and are deducted prior to the declaration of the relevant unit price.

Administration Fee

The Trustee sets the Administration Fee at the level needed to recover the cost of administering a member's account. Where applicable, this fee is charged on a monthly basis. A separate administration fee is not charged on Allocated Pension, Rollover Plan, Division D, or deferred accounts. The following page lists all fees charged to members' accounts. For further details refer

to the Product Disclosure Statement, contact Member Services on **1300 369 901**, or visit the website **www.lgsuper.com.au**

Member protection

If you are a protected member, any administration fees deducted from your account cannot exceed the earnings on your account balance in that financial year. This means that your account balance will not fall because of administration fees (insurance and taxes excluded). During the last financial year, account balances with less than \$1,000 were protected. It is important to note that member protection will not fully apply in times of poor or negative returns, as Superannuation law provides that the Scheme can charge a protected member a nominal administration fee of no more than the investment return, plus \$10 in such times (subject to certain pre-conditions met by the Trustee).



Administration, other Fees and Insurance premiums charged in Pool A

For the year ended 30 June 2006	Accumulation Scheme	Executive Scheme	Allocated Pension and Rollover Plan
Administration Fee-Non contributing member	75c per week	\$3 per month	N/A
Administration Fee-contributing member	75c per week	\$6.33 per month	N/A
Basic Death or Invalidity cover	\$5 per month	\$25 per month ¹	N/A
Benefit Payment Fee	\$20	\$30	No charge
Optional investment switch in any financial year	\$20 per switch ²	\$30 per switch ²	No charge

¹ Only available to new members to the Scheme from 1 July 2005.

² The first switch is free in any financial year. Any subsequent switches in that financial year are charged the stated amount.

Investment Fees Charged in Pool A¹

Investment Fees charged to Division A and E² members for the year ended 30 June 2006

Months	High Growth	Diversified	Balanced	Capital Guarded	Cash Plus
July – Sep	0.86%pa	0.84%pa	0.82%pa	0.80%pa	0.70%pa
Oct – June	0.97%pa	0.94%pa	0.89%pa	0.85%pa	0.62%pa

¹ A maximum 1% fee applies for all investment options.

² For information on the Executive Scheme BT options contact the Executive Scheme Relationship Manager – Member Services on 1300 369 901.

Investment Fees charged to Division F¹ members for the year ended 30 June 2006

Months	High Growth	Diversified	Balanced	Capital Guarded	Cash Plus
July – June	1.62%pa	1.59%pa	1.56%pa	1.52%pa	1.25%pa

¹ The Investment Fees include investment management, financial planning and account administration.

Administration Fees Charged in Pool B

	Retirement Scheme	Defined Benefit Scheme
Administration Fee – contributory		
- up to 30/9/05	N/A	N/A
- from 1/10/05	75 cents per week	N/A
Administration Fee – deferred	N/A	N/A
Administration Fee – Accumulation Account	N/A	N/A

Investment Fees Charged in Pool B (Accumulation accounts only)

Investment Fees charged in Division B to contributory members excluding any Basic Benefit Accumulation Account for the year ended 30 June 2006¹

Month	High Growth	Trustee Selection	Diversified	Balanced	Capital Guarded	Cash Plus
Jul – Sep	N/A	0.425%	N/A	N/A	N/A	N/A
Oct – June	0.54%	0.52%	0.52%	0.46%	0.42%	0.19%

¹ A maximum 0.55% fee applies for the Contributor Financed Benefit.

Taxes, fees and charges - continued

Investment Fees charged in Division B to contributory members excluding any Basic Benefit Accumulation Account for the year ended 30 June 2006¹

Month	High Growth	Trustee Selection	Diversified	Balanced	Capital Guarded	Cash Plus
Jul – Sep	N/A	0.425%	N/A	N/A	N/A	N/A
Oct – June	0.85%	0.85%	0.85%	0.80%	0.76%	0.53%

¹ A maximum 0.85% fee applies for the Basic Benefit Accumulation Account.

Investment Fees charged in Division B to deferred members for the year ended 30 June 2006¹

Month	High Growth	Trustee Selection	Diversified	Balanced	Capital Guarded	Cash Plus
Jul – Sep	N/A	0.425%	N/A	N/A	N/A	N/A
Oct – June	1.415%	1.395%	1.395%	1.335%	1.295%	1.065%

¹ A maximum 1.5% fee applies.

Family law fees

As at 30 June 2006, the following fees, were payable for the provision of Family Law information and for the actual 'splitting' of the benefit.

Accumulation Scheme, Executive Scheme and Allocated Pension and Rollover Plan (includes GST)	
Request for Family Law information ¹	\$110
Benefit Split Fee ²	\$88

Retirement, Basic Benefit and Defined Benefit Schemes (includes GST)	
Request for Family Law information ¹ :	
- Current members	\$275
- Deferred members	\$110
- Pensioners	\$110
Benefit Split Fee ²	\$88

¹ This fee is payable by the person requesting the information.

² This fee is generally payable by the member and non-member spouse in equal parts (\$44 each). However, if the non-member spouse is entitled to the whole amount of a splittable payment, the entire amount is payable by the non-member spouse. The member's share of the fee is deducted from the member's account and the non-member spouse's share is deducted from the non-member spouse's splittable payment prior to the transfer of the payment out of the Scheme.

There is also a new fee and charges disclosure in your annual member statement and also in the Product Disclosure Statements which are available at www.lgsuper.com.au



Financial statements

Pool A

Operating Statement for the Year Ended 30 June 2006

	30-Jun-06 (\$ '000)	30-Jun-05 (\$ '000)
Revenue		
Net Investment Revenue	218,735	172,347
Employer Contributions	166,156	153,299
Member Contributions	17,945	13,331
Transfers In	207,891	141,496
Other Revenue	520	62
Total Revenue	611,247	480,535
Less Outgoings		
Administrative Expenses	12,840	8,849
Contributions Surcharge	1,244	1,301
Income Tax Expense	31,881	31,796
Total Outgoings	45,965	41,946
Benefits Accrued as a Result of Operations	565,282	438,589

Statement of Financial Position as at 30 June 2006

	30-Jun-06 (\$ '000)	30-Jun-05 (\$ '000)
Investments		
Short-term Investment	7,376	6,990
Unit Trusts	1,787,669	1,379,140
Pooled Superannuation Trusts	11,692	10,666
Unlisted Hedge Fund	88,714	68,793
Total Investments	1,895,451	1,465,589
Other Assets		
Cash	36,572	36,551
Receivables	2,284	552
Total Assets	1,934,307	1,502,692
Less Liabilities		
Payables	3,994	2,751
Current Tax Liability	15,878	15,615
Deferred Tax Liability	10,307	6,748
Total Liabilities	30,179	25,114
Net Assets Available to Pay Benefits	1,904,128	1,477,578



The complete Financial Report, including the Auditor's Report is available on request by calling Member Services on 1300 369 901, or by going to our website www.lgsuper.com.au

Financial statements - continued



Pool B

Statement of Changes in Net Assets for the Year Ended 30 June 2006

	30-Jun-06 (\$ '000)	30-Jun-05 (\$ '000)
Revenue		
Net Investment Revenue	508,238	396,857
Employer Contributions	52,706	2,303
Member Contributions	35,929	38,881
Transfers In	10,203	2,347
Total Revenue	607,076	440,388
Less Outgoings		
Benefits Paid	184,007	159,832
Administrative Expenses	11,925	9,743
Contributions Surcharge	948	1,054
Income Tax Expense (Benefit)	31,048	33,229
Total Outgoings	227,928	203,858
Net Profit	379,148	236,530

The complete Financial Report, including the Auditor's Report is available on request by calling Member Services on **1300 369 901**, or by going to our website www.lgsuper.com.au

Statement of Net Assets as at 30 June 2006

	30-Jun-06 (\$ '000)	30-Jun-05 (\$ '000)
Investments		
Unlisted Equities and Trusts	3,345,114	2,947,134
Other Assets		
Cash	13,506	17,284
Receivables	306	182
Total Assets	3,358,926	2,964,600
Less Liabilities		
Payables	5,365	4,806
Current Tax Liability	19,535	16,565
Deferred Tax Liability	14,920	31,271
Total Liabilities	67,820	52,642
Net Assets Available	3,291,106	2,911,958

Due to the International Financial Reporting Standards and other accounting policy changes, there has been a requirement to adjust the comparative figures for 30 June 2005. Therefore, some figures will vary to the disclosures made in the 30 June 2005 Annual report.

Large Investments

Local Investment Fund (LIF) is a wholesale investment trust and the majority of the assets of your Scheme are invested through LIF. The investment pool of LIF is allocated to a range of investment managers. Investment managers (and/or their weightings) are changed at appropriate times. Other than investments made through LIF and Chifley Investment Fund, during the year there were no individual investments that exceeded 5% of Pool A assets, 5% of Pool B assets or 5% in a single enterprise. The Chifley Investment Fund is an ASIC registered wholesale-managed investment scheme, the responsible entity of which is Chifley Financial Services Limited. Your Scheme, the Energy Industries Superannuation Scheme and Unions NSW own Chifley in equal shares.

More information

Service providers

The following service providers assist the Trustee in effectively managing the Scheme:

Actuary

Mercer Human Resource Consulting

Administration

FuturePlus Financial Services Limited¹

Mellon Human Resources and Investor Solutions Pty Limited (currently owned by and trading as Mercer Benefit Services) - until 30 September 2005.

Auditor

Deloitte Touche Tohmatsu

Asset Consultant

Russell Investment Group - until replaced by Intech Investment Consultants on 1 August 2006

Custodian

JP Morgan Chase Bank

Solicitors

Allens Arthur Robinson
Phillips Fox

Secretariat to Trustee

FuturePlus Financial Services Pty Limited.

The Trustee reviews its service providers regularly and may from time to time make changes.

Investment Managers for the year ended 30 June 2006

Aberdeen Asset Management (Australia) Limited (until 1 August 2006)

ABN AMRO Asset Management (Australia) Limited

Alliance Bernstein (formally known as Alliance Capital Australia Limited in February 2006).

AQR Capital Management LLC

Bank of Ireland (until 8 September 2005)

BT Financial Group

CDC IXIS Asset Management Australia
Chifley Financial Services Limited

Concord Capital Limited
(until 27 October 2006)

Deutsche Asset Management (Australia) Limited (until 1 August 2006)

FuturePlus Financial Services Limited

Hawkesbridge Limited

LSV Asset Management
(from 1 February 2006)

Marvin & Palmer Associates, Inc

Orion Asset Management Limited

Perennial Value Management Limited
(until 27 October 2006)

PIMCO

Queensland Investment Co-operation
(from 17 July 2006)

State Street Global Advisors, Australia, Limited

The Boston Company Asset
Management LLC

Wellington International Management
Company Pty Ltd



¹ FuturePlus Financial Services Pty Limited (ABN 90 080 972 630) is an Australian Financial Services Licensee (AFSL 238445). FuturePlus took over responsibility for the administration of Retirement Scheme benefits from 1st July 2005 and for the Scheme as a whole from 1st October 2005.

Complaints

With our focus on quality service and transparency, the Trustee of your Scheme wishes to ensure that any enquiries or complaints are handled courteously and promptly. We hope that you will always receive satisfactory service from your Scheme and that all your enquiries are promptly attended to. However, if you are dissatisfied with the service you are receiving, you may lodge a formal complaint. This should be made in writing to:

Complaints Resolution Officer

FuturePlus Financial Services Pty Limited
PO Box N835
Grosvenor Place NSW 1220

The Complaints Resolution Officer will consider your complaint on behalf of the Trustee and provide you with a response as soon as possible. If you are not satisfied with the response, or your complaint has not been resolved within 90 days, you have the option of referring your complaint to the Superannuation

Complaints Tribunal. The Tribunal is an independent body established by the Commonwealth Government to review certain types of decisions. The contact details are:

Superannuation Complaints Tribunal

Locked Bag 3060 GPO
Melbourne VIC 3001
Ph: 1300 780 808

Pool A reserves

The Scheme operates the following reserves in Pool A:

Death or Invalidation Reserve (DORI)

DORI operates to allow for the payment of certain death and disability benefits provided to members. This reserve receives monies that are deducted from members' accounts from time to time. The Actuary regularly reviews this reserve to ensure that the premium charged to members is adequate to support likely future payments based on actuarial assumptions.

Unit Pricing Equalisation Reserve (UPER)

UPER operates for the purpose of allowing reimbursement to members who have been disadvantaged by an error or anomaly to the unit price they have been allocated and that amount cannot be recovered from external sources. The maximum amount that may be maintained in this reserve for this purpose is 0.3% of assets. If the reserve exceeds this figure for any reason, that excess amount may be credited to the earnings and distributed to members.

Administration and tax reserves

Deductions are made from members' accounts and investment earnings to pay for the Scheme's income tax liabilities and operational expenses. They are invested in cash and apply towards the expenses they relate to as and when they become payable.

More information - continued

Changes to the balance held in each of the above mentioned reserve accounts as at 30 June 2006 for the last 3 years are as follows:

Year	DORI (\$'000)	UPER (\$'000)	Admin (\$'000)	Tax (\$'000)
2004	46	1,417	248	(4,897)
2005	4,434	619	(413)	(558)
2006	144	110	139	8,857

Derivatives

Derivatives are used to adjust the weightings of the various portfolios in line with your Scheme's overall investment strategy. Various derivatives may be applied, such as futures and options. Strict investment guidelines which detail all limits approved on the use of derivatives are in place. Currency hedging activities are also carried out in relation to the international equities portfolio, within strictly defined parameters. Derivatives can also be used to protect against possible adverse moves in the markets, to implement tactical asset allocations, or to enter or exit the market at a defined price level. Under no circumstances can they be used to gear the investment portfolio or used for speculative trading. Various managers in LIF have, at times, made use of derivatives as part of their portfolio management activities during 2005/2006. The Trustees require that all derivatives positions are (a) are fully cash covered; (b) are offset to existing assets; or (c) are used to alter the exposures in underlying asset classes.

Eligible rollover fund

An Eligible Rollover Fund (ERF) is a fund which is established for the purpose of accepting and protecting benefits in respect to members of superannuation funds. If transferred to an ERF, a member ceases to have any rights which he or she previously had against the transferring fund. The Trustee has nominated the 'Australia's Unclaimed Super Fund' (AUSfund) as the ERF to which such members' benefits may be paid. Contact details are as follows:

AUSfund Administration

PO Box 2468
Kent Town SA 5071
Ph: 1300 361 798
Fax: 1300 366 233

The Trustee will transfer a benefit to the nominated ERF in circumstances where a benefit is split under family law. A benefit may also be transferred to that ERF for inactive accounts with less than \$400.

Privacy Policy

Your Scheme's Privacy Policy allows our financial planning arm, FuturePlus Financial Services and other organisations such as research companies to contact members that it believes may be approaching retirement. If a member approaching retirement wants to see a Financial Planner, the Privacy Policy also allows the Financial Planner whom they are seeing to access information about their superannuation benefit, so as to make the first interview productive and informative. This has been done as the Scheme believes that our members expect the Scheme to assist them in planning their retirement. Your Scheme acknowledges that some members may not want information on their superannuation benefit used in this way, and if this is the case, please contact Member Services on **1300 369 901**.



Important Changes

Change of Administration

FuturePlus Financial Services took over responsibility for the administration of the Retirement Scheme from 1st July 2005 and for the Scheme as a whole from 1st October 2005.

Trust deed changes

Introduction of Member investment choice (MIC) for Retirement Scheme members

Your Scheme introduced MIC for the above members with effect from 1 October 2005. This provided members with 5 extra investment options to choose from with different levels of investment risk. Contributory members of the Scheme can invest their Contributor Financed Benefit and their

Basic Benefit Accumulation Account as part of MIC, while Deferred members can invest their total benefit.

Introduction of automatic basic death and invalidity cover for new members to the Executive Scheme (Division E)

Your Scheme introduced basic death and invalidity cover to members who joined the Executive Scheme on or after 1 July 2005. Cover commences when you have \$1,000 in your account. The

level of cover you have depends on your age. The premium for the cover is \$25.00 per month. For further information concerning this insurance cover, please see your Product Disclosure Statement or contact Member Services.

Introduction of salary sacrifice for Retirement Scheme members

The Scheme introduced salary sacrifice for the above members with effect from 1 October 2005. The Scheme can, from this date, accept salary sacrificed (i.e. before tax) superannuation contributions from contributory members. Such salary sacrifice contributions can now be accepted towards the normal contributions to the Scheme and also as top-up additional contributions. For further information please contact Member Services.

Binding Death Benefit Nominations

A member may request the Trustee (by notice in a form prescribed by the Trustee) that upon their death all or a specified part of the Benefit is to be paid to the Nominated Beneficiary. The Trustee shall comply with the requirements of Superannuation Law for the acceptance and continuing operation and validity of Binding Nominations.

Introduction of salary sacrifice for Defined Benefit Scheme members

The Scheme introduced salary sacrifice for the Retirement Scheme members with effect from 1 October 2005. The Scheme can, from this date, accept salary sacrificed (i.e. before tax) superannuation contributions from contributory members. Such salary sacrifice contributions can now be accepted towards the normal contributions to the Scheme and also as top-up additional contributions. For further information please contact Member Services.

Non Commutable Allocated Pension (NCAP) (Accumulation Scheme Members only)

Members of the Accumulation and Executive Schemes who have attained preservation age (age 55 if born before 1 July 1960) are now able to purchase a non-commutable allocation pension using their superannuation entitlements.

This includes members who are still working. Terms and conditions apply.

Contribution Splitting

The Federal Government recently introduced contribution splitting with effect from 1 January 2006 for members of accumulation style schemes. Your Scheme has introduced this option for members of the Accumulation and Executive Schemes, which will allow certain contributions to be split or shared with a member's spouse. This will enable couples (married or defacto at the time the split is requested, but not same-sex) to build superannuation in a low-income partner's name and to access two lump sum tax free thresholds and two Reasonable Benefit Limits. For additional information please contact Member Services.

Retirement Scheme – Benefit Payment Policy

From 16 March 2006 a members investment options effective immediately before ceasing employment continue to apply to the member financed portions of the benefit. The Cash Plus option investment return will apply to the employer financed benefit for the period between ceasing employment and payment or deferral. The member's investment options effective at the date of deferral apply to the whole benefit from deferral.

Cash Plus investment strategy change

After a review of its investments, the Trustee has made some slight changes to the investment profile of the Cash Plus Strategy. These changes took effect from 1 July 2006. Any information was placed on the Scheme website. Please see below for updated information concerning the Definition, Objective and Risk of the strategy.

Cash Plus

For investors who want exposure to investments in money market securities with a very low risk of capital loss.

Definition

The Cash Plus strategy invests predominantly in short term Australian money market and fixed interest assets.

In addition, a small proportion of the assets (up to 15%) are invested in global interest type assets having a longer maximum term. This gives this option greater exposure to higher returns than by just investing in short term domestic assets with only a small increase in the overall volatility of the returns. This strategy offers investments for those with short term horizons or those seeking less volatile returns.

Objective

0.25% net investment return per annum above the cash rate, measured over a rolling 3 year period.

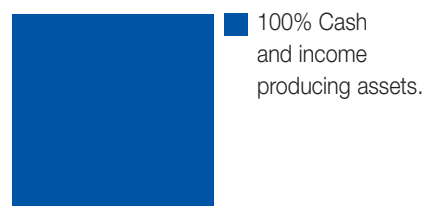
Risks

Depending on market volatility, there is a chance that this investment may experience a negative return but this is expected to only be for periods of no more than a month. Over longer time frames, the chance of a negative return would be remote.

Risk Profile - Low

Indicative asset allocation

Cash Plus



Other changes

Removal of surcharge

The Federal Government has abolished the surcharge payable on surchargeable superannuation contributions. This means that the surcharge will not apply to superannuation contributions from 1 July 2005. However, any debt accrued prior to this date is still payable and will be deducted from your account.





Enquiries

Contact Member Services on
1300 369 901

8:30am – 5:00pm Monday – Friday

One-on-one consultations can be
arranged between 9:00am – 4:30pm at
any one of our listed locations.

Our website is packed with information
to help build your future:

www.lgsuper.com.au

Branches

Sydney 28 Margaret Street

Parramatta 10-14 Smith Street

Orange 187 Summer Street

Wagga Wagga 2/209 Baylis Street

Wollongong Shops 2 & 3,
60 Burelli Street

Lismore 81-83 Molesworth
Street

Newcastle 161 King Street

Albury* 621 Dean Street

Goulburn* 148 Auburn Street

**Albury and Goulburn offices are
staffed at least one business day
per month - bookings are essential.
Phone 1300 369 901.*