

Investment structure

The assets of the CSS Fund, the PSS Fund and the PSSap Fund are managed in a single trust, the ARIA Investments Trust. This provides economies of scale to keep the running cost of the Funds at a competitive level.

The CSS Fund, PSS Fund and the PSSap investment options are divided into asset classes and professional fund managers are appointed to invest those assets. The Funds' investment options tap into the same asset class pool and therefore the same investment managers.

Investment arrangements

ARIA's investment team (see Appendix B) provides investment advice, implements Trustee investment decisions and monitors, reviews and reports on investment performance.

ARIA also uses JANA Investment Advisers Pty Ltd as its principal external investment advisor and retains Macquarie Investment Management Ltd to provide advice on Australian private equity and Pinnacle Property Group Pty Ltd for property advice.

Custodian services

The master custodian for the three Funds is JPMorgan, whose custodial function in relation to investment management includes:

- > settling trades
- > physical custody and safekeeping of securities
- > collecting dividends, preparing accounts and disbursing dividends
- > receiving all monies available for investment from the scheme administrator and allocating them on the instruction of the investment team to investment managers in accordance with the mandates set down by ARIA
- > holding (but not owning) the assets that comprise the Funds
- > unit pricing
- > maintaining consolidated accounts and tax records for the Fund
- > reporting to ARIA on individual fund manager and aggregated investment returns.

Investment managers

All investment managers are paid a fee that is generally based on the value of assets under their control. The fee reflects the investment costs applicable to each particular sector and the investment style (for example passive or active) employed by each manager. In addition, some managers are paid a performance fee for meeting or exceeding a pre-determined benchmark or hurdle rate of return, which is generally a share of any excess performance above that agreed benchmark.

Table 8: Investment managers at 30 June 2007

452 Capital Pty Limited
AMP Capital Investors Limited
AMP Life Limited
Arcadia Funds Management Limited
AXA Rosenberg Investment Management Ltd
Balanced Equity Management Pty Ltd
Barclays Global Investors Australia Limited
BlackRock Financial Management
Brandywine Asset Management LLC
Bridgewater Associates, Inc
Concord Capital Limited
Eureka Funds Management Company
Fiduciary Trust Company International
GMO Australia Limited
Harris Alternatives LLC
Lend Lease Real Estate Investments Limited
Loomis Sayles & Company LLC
Macquarie Investment Management Limited
Marathon Asset Management Limited
Marvin & Palmer Associates Inc
Mesirow Advanced Strategies Inc
MIR Investment Management Limited
Orbis Investment Management Limited
Perpetual Investments
Platinum Asset Management
Principal Global Investors Limited
Rexiter Capital Management Limited
Rogge Global Partners PLC
State Street Global Advisors Limited
Suncorp Investment Management
Templeton Capital Advisors Ltd
Vanguard Investments Australia Limited
Wallara Asset Management
Wellington International Management Company Pte Limited

Table 9: CSS and PSS Cash Investment Option investment manager at 30 June 2007

Macquarie Investment Management Limited

Investment objectives

CSS Default Fund

With the accumulation part of members' total benefits tied to the investment performance of the Fund, achieving competitive returns over the long-term is vital. This is explicitly recognised in the objective for the Fund, which is to maximise the long-term real return of the Fund within acceptable risk parameters.

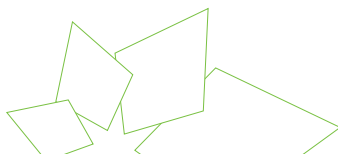
Members' interests are best served by seeking to maximise real returns over the longer-term. However, managing shorter-term volatility is also important, particularly for members close to exiting from the CSS.

The investment objectives of the Fund specify the target, or acceptable, levels of portfolio risk and return. ARIA expects to achieve an average real return of no less than 4.5% after tax and fees over the longer-term. In the current inflation environment, this equates to a nominal return of at least 7% per annum.

In developing an investment strategy to achieve the real return objective of at least 4.5% per annum on average, and recognising that the average person might have a working life of around 30 years, ARIA has adopted the following constraint in order to manage the level of any short-term market volatility:

- > on average, nominal fund returns are expected to be positive 24 years out of 30.

This criterion defines the 'tolerable' level of volatility specified in the Fund's objective. Furthermore, for prudential reasons, not more than 25% of the Fund's investments are to be invested in illiquid assets, with a minimum cash allocation of 2%.



PSS Default Fund

The total benefit payable to members is set by the governing legislation and rules of the PSS. It does not depend on the Earning Rate of the Fund, except for preserved benefit members where investment performance has a more direct impact on their final benefit.

The difference between the total benefit payable to a member and the accumulated member and productivity contributions (including Fund earnings) invested in the Fund is paid from Consolidated Revenue. The call on Consolidated Revenue will depend on the investment performance of the Fund. The better the investment performance of the Fund, the smaller the call on Consolidated Revenue. In these circumstances, it is the employer who bears the investment risk arising from the investment of the Fund.

If the call on Consolidated Revenue is to be minimised, achieving a good return over the long term is of vital importance. This is explicitly recognised by the Fund's investment objective, which is to maximise the long-term real return of the Fund.

The Fund has a long-term perspective, but managing shorter-term volatility is also an imperative. The investment objectives of the Fund specify the target, or acceptable, levels of portfolio risk and return. They are distilled from the characteristics of the scheme, including benefit design, crediting rate policy and liability position.

ARIA expects to achieve an average real return after tax and fees of no less than 4.5% per annum, which derives from a nominal return of at least 7% per annum over the longer-term.

In developing an investment strategy to achieve that objective, and recognising that the average person might have a working life of around 30 years, ARIA has adopted the following constraint in order to manage the level of any short-term market volatility:

- > On average, nominal fund returns are expected to be positive 24 years out of 30.

This criterion defines the 'tolerable' level of volatility specified in the Fund's objective. Furthermore, for prudential reasons, not more than 25% of the Fund's investments are to be invested in illiquid assets, with a minimum cash allocation of 2%.

PSS and CSS Cash Investment Option

All CSS members and PSS preserved benefit members may choose to have the taxed components of their accounts (that is, their member and productivity components) invested in a Cash Investment Option. This Fund's key investment objective is to preserve its capital and earn a return close to that of the UBSA Bank Bill Index.

PSSap investment options

PSSap members' total benefits are tied to the investment performance of the investment option(s) within the PSSap Fund. Therefore achieving a good return over the long-term is vital. This is explicitly recognised in the objectives that ARIA has set for the PSSap investment options, which is to maximise the long-term real return of the options within acceptable risk parameters.

Trustee Choice

The key investment objective is to outperform the Consumer Price Index (CPI) by at least 4.5% per annum over the medium to long-term.

Conservative

The key investment objective is to outperform the Consumer Price Index (CPI) by 3% per annum over the medium to long-term.

Balanced

The key investment objective is to outperform the Consumer Price Index (CPI) by 4% per annum over the medium to long-term.

Aggressive

The key investment objective is to outperform the Consumer Price Index (CPI) by 5% per annum over the medium to long-term.

Bonds/Fixed interest

The key investment objective is, prior to the payment of tax, to at least match the return of a composite index of global and Australian fixed interest securities.

Australian Shares

The key investment objective is, prior to the payment of tax, to at least match the performance of the ASX 300, excluding ASX 300 Listed Property Trusts Index.

International shares (unhedged)

The key investment objective is, prior to the payment of tax, to at least match the return of the unhedged MSCI All Country World (ex-Australia) Index.

International shares (hedged)

The key investment objective is, prior to the payment of tax, to at least match the return of the hedged MSCI All Country World (ex-Australia) Index.

Property

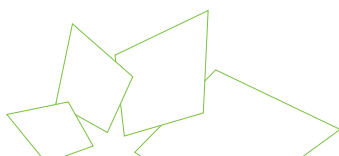
The key investment objective is, prior to the payment of tax, to at least match the return from the Mercer Direct Property Index.

Sustainable

The key investment objective is, prior to the payment of tax, to at least match the performance of the ASX 200 excluding ASX 200 Listed Property Trusts Index.

Cash

The key investment objective is, prior to the payment of tax, to at least match the return from the UBS Warburg Australian Bank Bill Return Index.



Asset allocation

The following tables set out the actual asset allocation for the CSS and PSS Default Funds as at 30 June 2007:

Table 10: CSS Default Fund asset allocation

Asset class	Actual Asset Allocation	
	2006	2007
Australian shares	32.2	32.2
International shares	22.5	21.7
Bonds	13.3	10.5
Market neutral strategies	10.1	9.3
Long/short equity funds	5.4	4.5
Property	13.7	13.5
Cash	2.8	8.3
Total Fund	100	100

Table 11: PSS Default Fund asset allocation

Asset class	Actual Asset Allocation	
	2006	2007
Australian shares	32.1	32.8
International shares	23.0	21.8
Bonds	12.7	10.5
Market neutral strategies	9.9	9.2
Long/short equity funds	4.8	4.5
Property	11.2	12.2
Cash	6.3	9.0
Total Fund	100	100

The following table sets out the actual asset allocation for the PSSap diversified, pre-mixed investment options as at 30 June 2007:

Table 12: PSSap pre-mixed investment options asset allocation

Asset class	Trustee Choice		Conservative		Balanced		Aggressive	
	2006	2007	2006	2007	2006	2007	2006	2007
Australian shares	29.2	32.9	15.0	15.9	18.2	19.5	39.3	42.5
International shares	25.9	21.9	12.0	9.9	17.2	13.1	35.8	30.1
Long/short equity funds	5.0	4.5	-	-	5.0	5.0	5.0	5.0
Property	9.8	12.5	2.9	4.1	9.8	12.3	9.9	12.4
Bonds	12.5	10.4	37.3	42.2	27.9	34.0	-	-
Market neutral strategies	10.0	9.9	-	-	9.9	10.0	8.0	8.0
Cash	7.6	7.9	32.8	27.9	12.0	6.1	2.0	2.0
Total Fund	100	100	100	100	100	100	100	100

Events during the year

Following the establishment of a single investment trust and the merger of CSS and PSS investments within the trust, a number of other changes were made during the year, including:

Alternative investments

ARIA increased its resources in the alternative investment area by appointing Altius Associates as its international private equity asset consultant and Mr Greg Bayles as alternative investments portfolio manager within the investment team. In addition to these appointments, a new trust was established to hold the investments recommended by Altius. These changes represent a movement by ARIA away from investing in international private equity fund of funds toward direct investment in this asset class.

The Funds' exposure to alternative investments increased during the year. A commitment of \$215.7m was made to new Australian private equity funds, \$115.0m to new international opportunistic property funds and \$123.0m to new international private equity funds.

Some of the funds previously committed to private equity, infrastructure and opportunistic property were drawn down during the year, while some investments were realised and the proceeds returned. The net result of these flows was that the investments in these assets rose from \$701.1m at the start of the year (reflecting commitments of \$2 212.8m) to \$939.7m (commitment of \$2 666.5m) at 30 June 2007.

Market neutral funds

One new Market neutral investment, Bridgewater Pure Alpha Fund (Australia), was made during the year. This further investment assists to diversify the sources of outperformance against an appropriate benchmark and is expected to improve the Funds' risk adjusted return.

Bonds

The Funds' remained underweight in bonds throughout 2006/07 because of continuing concerns with this asset class's ability to meet its investment objectives. Japan was restored as part of the benchmark for international bonds due to the significant diversification benefits provided by holding Japanese bonds. After a review of the bonds sector during the year, mandates with two existing bond managers were terminated and two new managers, Rogge Global Partners and Principal Global Investors, were appointed. The changes aim to reduce manager-specific risk and broaden the sources of return from this sector.

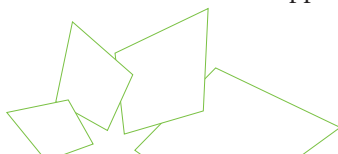
Property

Franklin Templeton Investments was appointed during the year as a global core-plus property advisor and investments subsequently made to this sub-sector as a result of their recommendations during the year.

Arcadia Funds Management, one of the Funds' two specialist Australian property managers, finalised the purchase of two properties on behalf of the Funds during the year, the City Close Industrial Estate in South Sydney and a 92.5% interest in 1 Chifley Square in Sydney's CBD.

Cash

At the beginning of the year Macquarie Investment Management Ltd was appointed as a passive cash manager.



Fund performance

CSS and PSS Default Funds

The CSS Default Fund posted a net return of 16.5% and the PSS Default Fund posted a net return of 17.7%, the fourth consecutive year of double digit returns.

This return was largely due to the robust returns delivered by the listed equity markets worldwide. Australian equities continued a strong positive momentum finishing the year up 27.9% in the CSS and 28.1% in the PSS, buoyed by healthy domestic economic growth, a positive terms of trade derived from our integration into Asian growth and a flurry of merger and acquisition activity. In the CSS international equities gained 25.1% in local currency terms and 13.2% in Australian dollar terms over the year. In the PSS, international equities gained 25.7% in local currency terms and 13.2% in Australian dollar terms over the year.

The Funds' foreign asset returns were somewhat protected from the negative impact of the rise in the Australian dollar by the strategic decision taken to largely hedge the Funds' developed markets exposure.

Solid returns were also achieved by other asset classes with the exception of bonds. The CSS Fund's property sector returned 12.4% over the year with the PSS Fund's property sector returning 12.1% over the year. The market neutral strategies and long/short equity strategies gained 10.1% and 16.3% respectively for the CSS. While the PSS Fund's market neutral strategies and long/short equity strategies gained 10.4% and 16.2% respectively. In contrast, the Fund's bond portfolio only managed a return of 4.5% for the CSS and 4.6% for the PSS, but the decision to remain underweighted in bonds helped to alleviate the impact of this on the Funds.

Both Funds' longer-term investment performance remains ahead of target.

For the CSS, over the past three years to 30 June 2007, the Fund returned an average of 14.5% per annum. The five year average return of 12.0% is above the long-term target. Over ten years, the Fund return averaged 9.1% per annum compared with an average inflation rate of 2.7% per annum.

For the PSS, over the past three years the Fund return averaged 14.9% per annum. The five year average return of 12.2% is above the long term target. Over ten years the Fund averaged 9.1% per annum compared with average inflation of 2.7% per annum.

CSS and PSS Cash Investment Options

The CSS and PSS Cash Investment Option both posted a net return of 5.4%, which is in line with its objective once account is taken of the impact of tax on returns.

PSSap

The PSSap investment choice options collectively performed well in 2006/07. Most financial markets rose strongly throughout the financial year and for the one year period ending 30 June 2007, the Trustee Choice default fund returned 16.7% which was well above its long-term target return of no less than 7% per annum.

The other three pre-mixed, diversified options also performed well, with the highest returns achieved by the options with the largest allocation to equities. The Aggressive option led the way, with a return of 20.3%. This was followed by the Balanced option's 12.2% and the Conservative option's 9.3%.

All single asset class options also performed well, with all but the Fixed Interest and Cash options delivering double digit returns. The Fixed Interest option's

performance of 3.0%, while low, is well within the expected range of outcomes in any given year. Its performance reflected an environment of rising bond yields, which depress the capital value of fixed interest securities and lower their overall return.

Performance by asset class

Performance figures in the following single asset classes are before tax, but after fees.

Australian shares

With local companies continuing to deliver great profit results and financial conditions remain accommodating, the Australian share market again performed strongly throughout the year. This is the fourth consecutive year of very strong returns and the local market delivered a return of 29.5% for the year. There was only one month during the year in which the market posted a negative return (July 2006).

International shares

Global equities bounced back sharply from a short-lived correction in late February and early March, on the back of sustained growth in the world economy and the continuation of strong merger and acquisition activity. Many markets went on to achieve record highs in the later part of the year. In particular, emerging market equities increased by 21% in less than two months from their local trough in early March.

In hedged Australian dollar terms international equities rose by 25.0% over the year. For unhedged \$A-based investors, the rise in world equity markets was harmed by the negative impact on returns of a substantial rise in the value of the \$A. The currency movement lessened the return to unhedged \$A-investors to around 9.3% over the year. The international assets exposure of the Default Fund's remained largely fully hedged.

Australian bonds

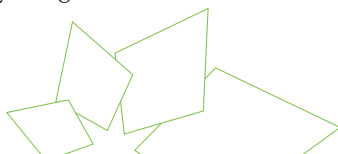
Continued strength in domestic economy coupled with tight labour market conditions and strong international growth led to two short-term interest rate rises in the early part of the year. The lower than expected March quarter CPI figures and the continuation of low credit spreads helped to lighten the pressure for even higher bond yields. Although the market achieved a modest positive return of 4.0%, this outcome was below the 6.4% return from cash. Reflecting a view that cash would prove a better investment than Australian bonds in 2006/07, the Fund's strategic asset allocation to Australian bonds was kept in cash throughout the year, meaning the Fund had no exposure to Australian bonds in 2006/07.

International bonds

As major economies experienced lower unemployment rates and solid economic expansion, most major central banks raised short-term interest rates over the year to tackle the upward drift in inflation rates. The problems associated with the sharp rise in delinquency rates in the US sub-prime mortgage markets appeared to be confined to that sector only with little spillover effect to other credit areas. In hedged Australian dollar terms international bonds returned just 5.7% as a result of increases in the bond yields of major markets.

Market neutral funds

The increase in market volatility in the second half of the year provided hedge fund managers with good investment opportunities. This allowed a number of managers to achieve double digit returns.



Long/short equity funds

The Funds have invested in this asset class since October 2004 with the objective of matching the return of international equities in the long run but with a much lower volatility of return. The market returned 17.4% in Australian dollar terms.

Property

The Australian property market, as measured by the Mercer Australian Unlisted Property Index, performed strongly during the year, returning 13.6%.

Cash

The return from cash was buoyed by a rise in short term interest rates during the year. For the year as a whole, cash returned 6.4%.

Table 13: CSS Default Fund investments 2006/07

Investments	Holdings at 30 June		Proportion
	2006	2007	
Sector	\$m	\$m	%
Australian shares	2 034.6	2 196.2	32.2
International shares	1 422.4	1 485.2	21.7
Bonds	839.0	720.2	10.5
Market neutral funds	637.0	638.0	9.3
Long/short equities	341.7	308.7	4.5
Property	867.5	924.8	13.5
Cash	169.8	566.4	8.3
Total Fund Investments	6 147.0	6 642.5	100.0

Note: Sectors are before tax and after fees. Total Fund investments is after tax and fees.

Table 14: CSS Default Fund performance 2006/07

	One-year performance	Three-year performance	Five-year performance
	Portfolio %	Portfolio %	Portfolio %
Australian shares	27.9	24.4	19.0
International shares	25.5	19.5	15.1
Bonds	4.5	6.4	8.5
Market neutral funds	10.1	9.1	9.8
Long/short equities	16.3	-	-
Property	12.4	13.8	12.4
Cash	6.5	5.4	5.1
Total Fund Investments	16.5	14.5	12.0

Note: Sectors are before tax and after fees. Total Fund investments is after tax and fees.

Table 15: CSS Cash Investment Option performance 2006/07

	Holdings at 30 June 2006 \$m	Holdings at 30 June 2007 \$m	One-year performance %
Total Fund	118.1	113.2	5.4

Table 16: PSS Default Fund investments 2006/07

Investments	Holdings at 30 June 2006	Holdings at 30 June 2007	Proportion
Sector	\$m	\$m	%
Australian shares	2 984.5	3 777.3	32.8
International shares	2 137.6	2 525.0	21.8
Bonds	1 178.1	1 208.4	10.5
Market neutral funds	921.6	1 057.8	9.2
Long/short equities	444.3	518.3	4.5
Property	1 042.0	1 401.2	12.2
Cash	592.2	1 042.4	9.0
Total Fund Investments	9 104.2	11 253.2	100.0

Note: Sectors are before tax and after fees. Total Fund investments is after tax and fees.

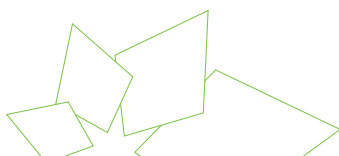
Table 17: PSS Default Fund performance 2006/07

	One-year performance	Three-year performance	Five-year performance
	Portfolio %	Portfolio %	Portfolio %
Australian shares	28.1	24.6	19.0
International shares	25.7	19.5	15.1
Bonds	4.6	6.4	8.3
Market neutral funds	10.4	9.3	9.9
Long/short equities	16.2	-	-
Property	12.1	13.6	12.2
Cash	6.5	5.9	5.5
Total Fund Investments	17.7	14.9	12.2

Note: Sectors are before tax and after fees. Total Fund investments is after tax and fees.

Table 18: PSS Cash Investment Option fund performance 2006/07

	Holdings at 30 June 2006 \$m	Holdings at 30 June 2007 \$m	One-year performance %
Total Fund	7.9	7.9	5.4



ARIA ANNUAL REPORT

2006 - 2007

Investments

Management
Events during the year
Performance
Earning Rate Policy
Investment governance

Table 19: PSSap performance 2006/07

Investment Option	Holdings June 2006	Holdings June 2007	Financial Year performance % 2005/06	Financial Year performance % 2006/07
Conservative	0.5	2.1	7.7	9.3
Balanced (50/50)	1.0	3.2	10.2	12.2
Trustee Choice	97.4	436.0	14.3	16.7
Aggressive	2.5	14.8	16.1	20.3
Cash	0.10	0.7	4.6	5.2
Bonds/Fixed interest	0.10	0.3	2.0	3.0
Australian shares	0.5	4.8	22.3	25.8
International shares (unhedged)	0.2	0.8	17.8	10.9
International shares (hedged)	0.2	1.0	15.5	21.1
Property	1.2	2.3	11.7	14.4
Sustainable	0.2	1.8	19.0	24.1

Investment information

Further information on investment performance can be obtained from:

Web: www.aria.gov.au
Post: ARIA
GPO Box 1907
Canberra City ACT 2601
Phone: 02 6263 6999
Fax: 02 6263 6900
Email: secretary@aria.gov.au

Earnings Rate Policy

On 13 June 2007, the Trustee adopted a new Earnings Rate Policy with effect from 28 June 2007. The new policy follows.

CSS Earnings Rate Policy

Background

This Earnings Rate Policy applies to member accounts and replaces the previous methodology for applying interest with effect from the start of business on 28 June 2007.

Determinations for members exiting prior to Allocation

ARIA will issue an Exit Rate Determination for the Default Fund and Cash Investment Option, for each of the following dates:

28 June 2007
29 June 2007
30 June 2007

Each Exit Rate Determination will apply in respect of member accounts until such time as the next later dated Exit Rate Determination is issued. This is because the accuracy of information (such as accounting and valuation data) will improve. ARIA proposes to issue Exit Rate Determinations for the dates identified above during July and August 2007, as more information becomes available.

Allocation of earnings up to close of business 30 June 2007

As at 1 July 2007 ARIA will allocate to member accounts earnings for the period 1 July 2003 to 30 June 2007, using the Exit Rate for 30 June 2007, once determined, as described above.

Earnings Rates

With effect from 1 July 2007, for each business day, ARIA will determine an 'Earnings Rate' for the Default Fund and Cash Investment Option. Each Earnings Rate will be expressed as a percentage number and represent earnings for the relevant Default Fund or Cash Investment Option from the beginning of that calendar month.

Allocation of earnings using Earnings Rates with effect from 1 July 2007

The applicable Earnings Rate for the last day of a calendar month will be used to apply earnings to member accounts for that month, other than for transactions to and from the member accounts recorded for that month:

- > transactions that are processed to a member's account during a month will use the relevant Earnings Rates for the date of the transaction through to the end of that month, to reflect earnings on such amounts; and
- > transactions that are processed from a member's account during a month will use the relevant Earnings Rates from the beginning of that month to the date of the transaction, to reflect earnings on such amounts.

Processing transactions to member accounts

Transactions will be processed from and to member accounts after validation in accordance with the legislation and the terms of the agreement between the administrator and ARIA.

Members with account balances in the CSS Fund greater than \$1 000 may switch their entire balance of their account between the Default Fund and Cash Investment Option twice yearly. The cut-off for these

switch transactions will generally be the last Friday of a month with the transaction processed once per month on the following Wednesday.

Minimum Amount on Exit

A new Minimum Amount on Exit (MAE) record will be established for each member as at 30 June 2007, generally being their account balance at 30 June 2003 plus contributions up to 30 June 2007. The dollar amount of a member's MAE will appear on future annual member statements from the 2007/08 statement and will also be available to members upon request. The balance of a member's account may, at any time, fall below the MAE. However when a member exits the Scheme, at least the total dollar amount of the MAE will be paid to the member. Partial withdrawals will reduce the MAE by the amount of each withdrawal.

In addition members in the Cash Investment Option at 30 June 2007 will not exit the Cash Investment Option with less than their balance in the Cash Investment Option at 30 June 2007.

PSS Earnings Rate Policy

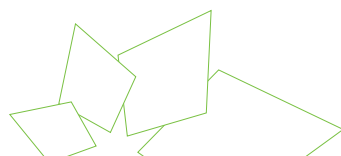
Background

This Earnings Rate Policy applies to member accounts and replaces the previous methodology for applying interest with effect from the start of business on 28 June 2007.

Determinations for members exiting prior to Allocation

ARIA will issue an Exit Rate Determination for the Default Fund and Cash Investment Option, for each of the following dates:

- 28 June 2007
- 29 June 2007
- 30 June 2007



ARIA ANNUAL REPORT

2006 - 2007

Investments

Management
Events during the year
Performance
Earning Rate Policy
Investment governance

Each Exit Rate Determination will apply in respect of member accounts until such time as the next later dated Exit Rate Determination is issued. This is because the accuracy of information (such as accounting and valuation data) will improve. ARIA proposes to issue Exit Rate Determinations for the dates identified above during July and August 2007, as more information becomes available.

Allocation of earnings up to close of business 30 June 2007

As at 1 July 2007 ARIA will allocate to member accounts earnings for the period 1 July 2003 to 30 June 2007, using the Exit Rate for 30 June 2007, once determined, as described above.

Earnings Rates

With effect from 1 July 2007, for each business day, ARIA will determine an 'Earnings Rate' for the Default Fund and Cash Investment Option. Each Earnings Rate will be expressed as a percentage number and represent earnings for the relevant Default Fund or Cash Investment Option from the beginning of that calendar month.

Allocation of earnings using Earnings Rates with effect from 1 July 2007

The applicable Earnings Rate for the last day of a calendar month will be used to apply earnings to member accounts for that month, other than for transactions to and from the member accounts recorded for that month:

- > transactions that are processed to a member's account during a month will use the relevant Earnings Rates for the date of the transaction through to the end of that month, to reflect earnings on such amounts; and

- > transactions that are processed from a member's account during a month will use the relevant Earnings Rates from the beginning of that month to the date of the transaction, to reflect earnings on such amounts.

If under the Scheme Rules an exiting member is entitled to an amount at a specific date and the transaction in relation to this entitlement is processed after that date, then the member will receive, in total, the higher of the entitled amount or the entitled amount plus earnings (based on the relevant Earnings Rates) from the specific date to the date of processing.

Processing transactions to member accounts

Transactions will be processed from and to member accounts after validation; in accordance with the Scheme Rules and the terms of the agreement between the administrator and ARIA.

Preserved and Associate members with account balances in the PSS Fund greater than \$1 000 may switch their entire balance of their account between the Default Fund and Cash Investment Option twice yearly. The cut-off for these switch transactions will generally be the last Friday of a month with the transaction processed once per month on the following Wednesday.

Minimum Amount on Exit

A new Minimum Amount on Exit (MAE) record will be established for each member as at 30 June 2007, generally being their account balance at 30 June 2003 plus contributions up to 30 June 2007. The dollar amount of a member's MAE will appear on future annual member statements from the 2007/08 statement and will also be available to members upon request. The balance of a member's

account may, at any time, fall below the MAE. However when a member exits the Scheme, at least the total dollar amount of the MAE will be paid to the member. Partial withdrawals will reduce the MAE by the amount of each withdrawal.

In addition members in the Cash Investment Option at 30 June 2007 will not exit the Cash Investment Option with less than their balance in the Cash Investment Option at 30 June 2007.

Allocating earnings

PSS and CSS

During the early part of 2007/08, ARIA proposes to allocate Fund earnings to member accounts for the period 1 July 2003 to 30 June 2007 with effect from 1 July 2007.

Following that, Fund earnings will be allocated to member accounts on the last day of each month.

PSSap

Members' interests in the PSSap are valued in units. Contributions and other amounts transferred to the PSSap are used to buy unit which are invested in accordance with members' investment choices. There are 11 investment options to choose from.

The Fund's net earnings are allocated to members' accounts through changes in the unit price which fluctuate in line with investment markets. The unit price for an investment option reflects the total value of assets in the investment option (net of taxes and expenses) divided by the number of units issued in the investment option.

A buy/sell spread is applied to all the investment options to reflect the costs associated with the purchase or sale assets. Calculation of the value of assets in each investment option is generally based on

the latest available market value at the end of each business day and published on the Fund's website at www.pssap.gov.au daily.

Where fees are payable directly from a member's account (for example, insurance premiums and switching fees), units are sold to the extent required for payment.

ARIA's approach to investment governance

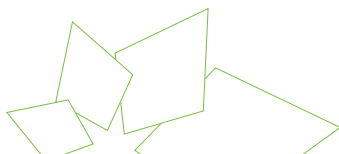
ARIA's investment governance focuses on managing risk. It is driven by ARIA's primary investment objective to maximise long-term real returns while minimising short-term risks in order to safeguard the long-term interests of members.

ARIA believes it has a responsibility to ensure the Funds are not exposed to undue risk because of poor governance behaviour. Therefore it pursues the principles of good governance in its own operations, in service providers and in the companies in which it invests.

ARIA considers investment governance to be an important element of risk management. It recognises that poor environmental, social and corporate governance can lead to a decline in investment value as much as financial or other risks.

ARIA's investment governance is undertaken through a number of initiatives and practices, including:

- > the casting of proxy votes in the Australian and international companies in which it invests; and
- > the Governance Advisory Service, Regnan (see below).



Proxy voting

ARIA values good governance in its own operations, service providers and the companies in which it invests.

In keeping with this principle, ARIA exercises its right to cast proxy votes in the companies in which it invests. This activity underscores ARIA's commitment to ensure long-term shareholder value for members. It also sends a clear signal to companies that as a shareholder, ARIA will vote on company resolutions in the best interests of its members.

Regnan—the Governance Advisory Service

Regnan, ARIA's Governance Advisory Service, was established to protect and enhance shareholder value for members by identifying environmental, social and corporate governance risks in present and future investments and to actively communicate those risks to relevant stakeholders and engage directly with companies as required.

The Governance Advisory Service was established in 2001, as a joint venture between the CSS and PSS Boards and Westpac Investment Management and was subsequently known as BT GAS. The Boards appointed GAS to actively research governance risk in the Funds' Australian equities investments and make recommendations on how to diminish or eliminate such risks. BT GAS actively researched and monitored potential environmental, social and corporate governance risks in ARIA's Australian company investments, which represent around \$5.6 billion.

During 2006/07, BT GAS engaged 46 listed entities on six issues: conflict of interest, director share trading, business ethics, responsible gaming, environmental risk and the governance of externally managed entities. GAS undertook new research into human capital management.

Having created the foundation for a new approach to risk management, in May 2007 ARIA and seven* other major institutional investors founded Regnan, a new company evolving from the former BT GAS. Regnan is Australia's only investment risk management service which focuses on an engagement process to meet the oversight needs of institutional investors. It addresses portfolio exposure to environmental, social and governance risks by directly engaging with companies and performing specialist research and analysis. Regnan's research universe includes all companies in the S&P/ASX200.

**Regnan founders are: ARIA, BT Financial Group, Vanguard Investments Australia Limited, VicSuper, HESTA Superannuation Fund, Hermes UK, Victorian Funds Management Corporation and Local Government Superannuation Scheme.*

The United Nations Principles for Responsible Investment

ARIA became a signatory to the United Nations Principles for Responsible Investment (PRI) in December 2006 and is actively committed to ensuring that all investment activities are undertaken consistently with these principles.