

YOUR FUTURE

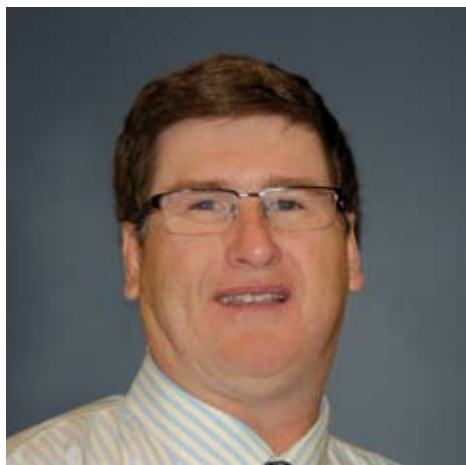


ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

Energy Industries Superannuation Scheme
Accumulation and Executive Schemes - ABN 22 277 243 559

Six months to 31 December 2010

Message from Anthony Butcher Fund Secretary



In 2009 we began a complete review of our investment portfolio to ensure it remains as flexible, effective and efficient as possible. In September 2010 you would have received information about the latest investment strategy changes we had made as part of this ongoing review; changes made so that we can be the best super fund for your industry.

Our chief aim is to provide you with strong long-term returns and while

we are committed to working hard to achieve this, strong returns are also dependent on the performance of investment markets.

It is reassuring that investment markets have been performing well in recent times although there are still concerns about the level of European debt and the strength of the US economy.

We are however optimistic about the future but believe it may be some time before we see sustained global economic growth.

The other significant change that took place in 2010 for EISS was the acquisition of the remaining 50% shareholding in FuturePlus Financial Services, our major service provider.

The main reason for taking full ownership was to give us the opportunity to tailor our financial planning and member services so that they are better able to meet the needs of our members in an ever-changing superannuation environment.

Investment performance

6 months to 31 December 2010

Strategy	%
High Growth	8.2
Diversified	6.4
Balanced	4.7
Capital Guarded	3.3
Cash	1.9

All returns are shown to one decimal place.

Investment returns shown are historical and future performance cannot be guaranteed. Investment returns can go up and down and past performance is not a reliable indicator of future performance.

The markets and you

The Australian dollar has risen strongly against the US dollar and the Euro in recent months and this has had an impact on the super benefits of members. This article looks at why we invest overseas, the effect currency movements can have on investment returns and the measures we take to minimise the effect of currency fluctuations.

We invest in overseas markets in order to gain access to industries that we do not have access to in Australia as they form only a small part of the domestic market. A few examples of such industries are technology stocks, entertainment and manufacturing companies. The Australian market is heavily dominated by financial and banking stocks, mining and resource stocks and about 10% of the share market is made up of property related companies which limits the range of choice for investors wanting to invest in listed companies.

The other reason for investing in overseas companies is to increase the diversification of our investments. Diversification is a way of making returns from an investment more stable as it is rare for a number of different asset classes to move in the one direction at the same time. For example, in the first half of this financial year Australian and international shares have performed reasonably strongly while bonds have struggled.

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While the diversification of investments is in general a good thing, investing overseas exposes an investor to one significant risk and that is the effect of the fluctuation of the Australian dollar against a foreign currency (usually the US dollar or Euro). In simple terms, if you hold a US investment and the Australian dollar rises against the US dollar the value of your investment will fall and vice versa. This also makes the investment more volatile than it would be if it was only held in Australian dollars.

To give you an example, Chart 1 below shows the movements in the US share market (Dow Jones) over the last 12 months and Chart 2 shows those movements in Australian dollars. If you are an Australian investor it is Chart 2 that shows you how well your investment has performed. In this example, although the US market rose around 10% between September and the end of November 2010 it was because of the strengthening Australian dollar that the return for an Australian investor was flat.

So how can an investor protect against currency fluctuations?

The answer is through the use of hedging. Hedging is a method used by investors to remove a particular risk (such as market downturns or currency movements) from their investment approach. EISS generally adopts a 50% currency hedge which has provided some protection for its foreign investments from the rise in the Australian dollar. The level of hedging can change from time to time depending on the Trustee's view about market conditions and the prospects for the Australian dollar. Hedging does not remove risk altogether but it provides greater certainty and stability.

These views are not provided to help you make personal investment decisions. If you have any questions about your personal financial situation in light of the information in this article or in general you should consult a financial planner. You can contact a FuturePlus financial planner by calling **1300 883 788**.

EISS takes full ownership of FuturePlus Financial Services



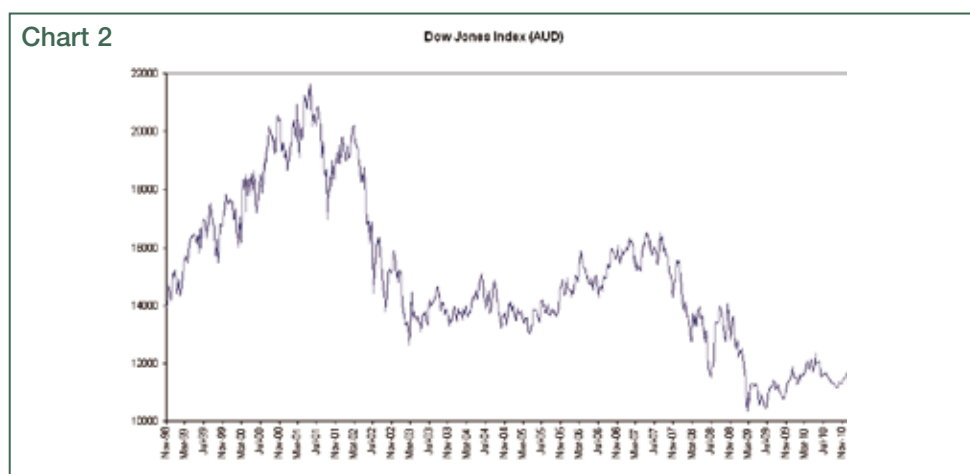
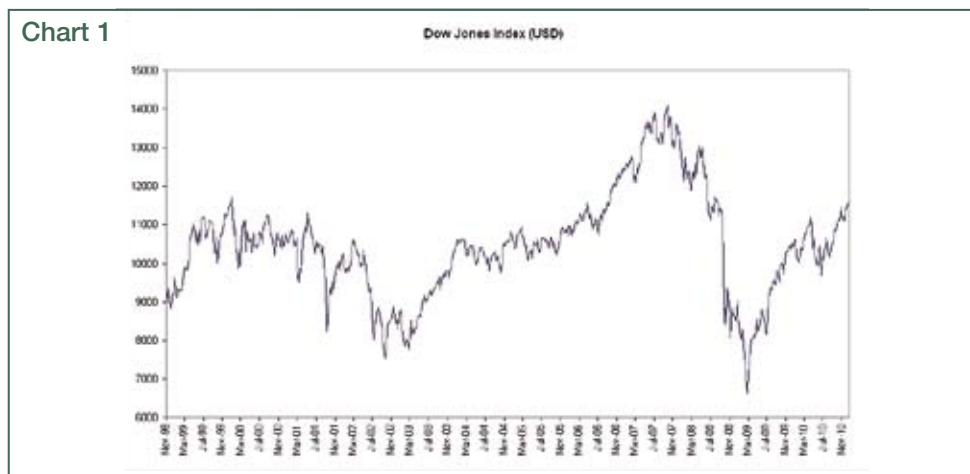
EISS has taken full ownership of FuturePlus Financial Services, our service provider, which was formerly 50% owned by Local Government Super.

We are committed to ensuring that this change of ownership will cause minimal disruption to the services provided to members or employers.

However, there has been one significant change. The Scheme is conducting a review of the way we deliver our services to members and while that is in progress the branch offices, with the exception of Sydney Head Office, have closed and will not be available for member interviews or walk-ins.

Your access to Scheme representatives will be the same as before but we believe this new model will be more flexible, more cost-effective and more convenient for all our members.

FuturePlus will become a true third party provider of administration and back office services to other superannuation funds. In the longer term the purchase will ensure that EISS will have greater control over its service provider and will be able to tailor its range of services better to the needs of its members who work, or used to work, in the energy industries sector.



Frequently asked questions

Q: What are alternative investments?

In Australia most super funds invest mainly in the traditional asset classes which are shares, cash, fixed interest (which is made up of corporate and government bonds), property trusts and direct property. Most investment strategies offered by super funds have differing proportions of these asset types depending on how aggressive or conservative they are.

Alternative investments are basically any asset types that do not fall into these traditional categories and include hedge funds, infrastructure, distressed debt funds, and investment strategies linked to insurance such as life settlement and catastrophe bonds. This is just to name a few.

The definition can vary from country to country. For example, direct property in the US is regarded as alternative

while in Australia it is regarded as a conventional type of investment.

The reasons for investing in alternative investments are:

- to increase diversification within a portfolio
- to make the returns of a portfolio more stable by selecting investments that do not all move in the same direction at the same time
- to gain access to less liquid (which means readily convertible to cash) markets that can offer strong returns for those with a long investment time frame.

At EISS the exposure to alternative investments has always been small but the level of exposure does depend on market conditions and the goals of the particular investment strategy.

We can help you with more than just your super

- Would you like to build an investment portfolio?
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We can help you.
- Need insurance?
We can help you.

Call 1300 883 788 for more information.

Tips on how to minimise your carbon footprint

Power costs just seem to keep rising so here are a few tips on how to keep your power bill under control.

- Unplug your appliances. Leaving appliances on standby can account for between \$11-15 in every \$100 on your bill. This can be avoided if you turn appliances such as TVs, stereos and computers off at the power point.
- For appliances that can't be turned off, like a fridge, make sure there is space for the air to circulate around it. Also, check the thermostat to make sure it is not making the fridge much colder than it needs to be, and ensure that the door seals are clean and that the door itself closes securely.
- When buying appliances check the energy-rating and also whether you might qualify for government rebates for purchasing a high energy-efficient appliance. Not only are energy efficient appliances cheaper to run, they are also good for the environment. For example, an energy-efficient fridge can save up to 4.5 tonnes of greenhouse

gases over its lifetime. Visit www.energyrating.gov.au for more information.

- Try to fill the dishwasher and washing machine before using.
- Switch to compact fluorescent lights.

Heating and cooling make up a substantial part of any power bill. These are tips for making your heating and cooling as efficient as possible.

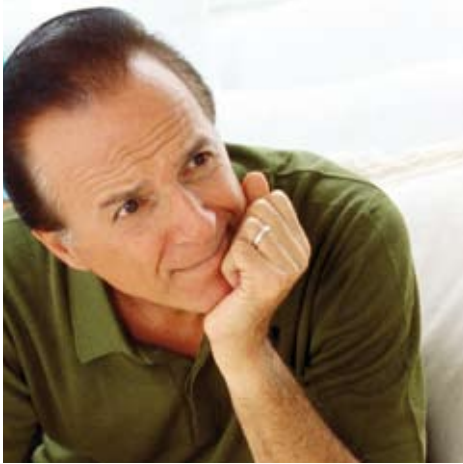
- Insulate your roof to help moderate the fluctuation of temperature in your home. The money you save on your energy bill will repay the investment in a relatively short time.
- Close all external windows and doors when the air-conditioning is running and shade windows during summer to keep the heat out and during winter to keep the heat in.
- Use ceiling fans where possible as they are much cheaper to run than air-conditioning. If you have fans already turn them off when you leave the room as their cooling effect only works while you are in the room.

- If you are using an air-conditioner try not to set the thermostat too high or too low. When heating, each 1°C increase of the thermostat can save up to 10 per cent in power costs.
- Lowering the water heater thermostat, if possible to around 65°C, can also help reduce costs.
- Check your home's energy efficiency rating by going to the NABERS website at www.nabers.com.au which will also provide you with further suggestions about how to make your home as energy efficient as possible.

Finally, you should check that you are getting the best deal possible from your energy supplier. For more information about choosing the best energy supplier go to www.industry.nsw.gov.au/energy/customers/choosing-supplier

(Sources: Choice Online and the NSW Government Industry and Investment website Saving energy)

Test your knowledge with a quick quiz



1. What tax rate is applied to Concessional contributions (e.g. Superannuation Guarantee, salary sacrifice)?
 - (a) 0%
 - (b) 30%
 - (c) 15%
 - (d) 46.5%
2. At what age do you have to withdraw funds from super?
 - (a) 65
 - (b) Never
 - (c) 75
 - (d) 90
3. If you exceed the Concessional cap what additional rate of tax applies to your contributions?
 - (a) 15%
 - (b) 46.5%
 - (c) 92%
 - (d) 31.5%

Answers on the back page.

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The risks of going it alone



Self-managed super funds (SMSFs) have been one of the fastest growing segments of the superannuation industry in recent years and now hold more than 30 per cent of Australia's super savings.

SMSFs have many advantages with the main one being the degree of control that they provide to the investor. They tend to appeal most to those with high super balances and who take an active interest in investment markets.

But SMSFs are not for everyone and there a few questions the Australian Taxation Office recommends you should ask yourself before you consider starting up your own SMSF:

1. How much time do you have?

'Self-managed' super means you have to run the fund yourself or pay someone else to do it for you. Have you got the time to keep up with what's happening in investment markets, make and implement investment decisions and cope with the administration and reporting obligations involved in running an SMSF?

2. What sort of expertise do you need?

Have you got the skills and experience to make better investment decisions than the investment professionals who follow markets and investment trends full-time? Have you got the legal, administrative and tax experience to manage the many obligations that becoming a trustee demands?

For example, trustees of SMSFs have to submit regular income tax and regulatory returns and comply with a myriad of super and tax laws. They also have a host of legal responsibilities, including keeping proper records for 10 years, preparing an investment strategy and selecting and managing investments.

They also have to make all investment decisions in accordance with the sole purpose test which requires that investments be made to maximise retirement benefits and means that you can't lend super money to members or relatives or use investments like artworks for your immediate personal benefit.

If SMSF trustees don't comply with these statutory requirements, the ATO can impose penalties ranging from fines and loss of tax concessions to imprisonment. If a fund loses its compliant status, half the assets in the fund can be forfeited. The ATO has recently announced that it will double the number of audits and pay more attention to fund auditors as it shifts its focus to compliance with the law away from that of the education of SMSF trustees.

3. What will it cost you?

If you haven't got the time or the expertise you can of course delegate the running of the SMSF to external service providers but you will have to pay for those services.

It is often suggested that you need at least \$200,000 in super to make the costs of an SMSF worthwhile. With less than this amount, the fund may have difficulty earning enough to cover the set-up and running costs, such as auditing and regular reporting fees. According to the ATO, SMSFs can typically cost around \$2,000 to run each year and often much more. This doesn't take into account incidentals such as transaction costs.

4. How does it really compare to your current super fund?

Anyone thinking of an SMSF should also make an assessment of the benefits they enjoy in their existing fund and consider whether they can be replicated in an SMSF. For example, could the SMSF provide life insurance at the same cost and the same terms and conditions as the previous fund? Would you be successful in qualifying for a new insurance policy with a new provider?

The same test should be applied to the other considerations already mentioned. Will the SMSF be as cost-effective? Will the extra time you'll need to devote to it be worthwhile? Are the legal and investment risks worth the trouble?

While there are many reasons why people invest in SMSFs they're not for everyone. If you'd like to talk to one of our financial planners about your options in this area, please call **1300 883 788**.

Go to the web for up-to-date account information

You can now view up-to-date account information on the website. Recent enhancements mean that your account details are current when you view them. The information includes:

- account balances
- investment strategy details
- transaction history
- insurance details

- and benefit quotes (for more detailed account information).

You can now also change your contact details online and there will be further enhancements in the future.

If you haven't registered for web access previously and would like to see what the new member site has to offer, all you need to do is go to the Member Login area of the website and follow

the registration prompts.

If you have already registered but have not visited the website recently you will need to change your password when logging in to the new member site.

If you have any questions about the new member website or about how to register, please contact Member Services on **1300 369 901**.

What's happened in investment markets?

The second half of 2010 produced impressive share (equity) market returns as investors were encouraged by continued intervention by governments around the world to stimulate their economies. This left fixed interest markets unattractive and pushed a lot of funds into equity markets.

The US government announced that interest rates would be left at close to zero for an extended period of time, that taxes would be cut for low-to-middle level earners and that a new round of quantitative easing would take place to provide further stimulus in the economy.

Quantitative easing involves the government buying back previously issued bonds in order to increase the levels of liquidity in the economy with the aim of encouraging businesses and consumers to spend the free cash that they have. Quantitative easing on this scale has never been tried before so it's too early to judge the measure's effectiveness but many commentators are expecting it to provide a short-term spark with the risk of high inflation a more distant danger.

Domestically, the Reserve Bank of Australia (RBA) raised interest rates once during the six months with a 0.25% increase occurring on Melbourne Cup day with rates reaching a fairly neutral level of 4.75% as the RBA became increasingly concerned about the risk of inflation.

The rapid rate at which rates have increased is likely to slow down dramatically as the RBA have

announced that they are concerned about the risk of further sovereign default emanating from Europe with Ireland being the latest country to receive bail-out funds from the European Central Bank and the International Monetary Fund. Spain, Portugal, Belgium and Italy are all considered to be risky nations in terms of their ability to meet debt obligations and the possible deflationary effect of default is clearly something that the RBA is concerned over and monitoring closely.

The market commentary below is provided to give an indication of the various factors affecting the investment performance of individual asset classes. It is based only on the gross performance of the relevant market index and no allowance is made for taxes or fees as they apply in your superannuation investment. It is provided merely as an indication of relative performance between asset classes and should not be used as a measure for judging the performance of your investment strategy.

Australian shares

The Australian stock market rose by 12.8%* in the second half of 2010 with four positive months out of six as the market was buoyed by a gradually improving economic backdrop and encouraging corporate profits.

Additionally, the continued demand for raw materials out of China gave the Australian miners a boost with record-high commodity prices and proposed sales volumes increasing.

*as measured by the S&P/ASX 200 Accumulation Index.

International shares

International stock markets rose by 19.0%* over the six months on a hedged basis. Like the domestic stock market, investors were encouraged by improving economic data and improved profit outlooks.

A further driver was the extremely low interest rates throughout much of the developed world, which enticed investors out of fixed interest markets and into riskier assets like equities in order to chase returns.

* as measured by the MSCI World ex-Australia Accumulation Index (Hedged).

Fixed interest and cash

With only Australia offering any kind of return on fixed interest investors, the majority of investors steered clear of bonds in favour of riskier assets and this led to very subdued returns in global fixed interest markets.

Australian bonds returned 0.6%* for the six months – the lowest 6-month return since October 2009. Meanwhile, global bonds returned 2.2%**; marginally higher than domestic returns, as the Federal Reserve (the US central bank) announced that interest rates would be left at emergency level for an extended period, which had the effect of pushing the capital value of bonds higher.

Australian cash investments produced an improved return of 2.5%^ following the recent interest rate rises.

*as measured by the UBS Australian Government Bond Index.

**as measured by the Barclays Capital based Aggregate Index - \$A hedged.

^as measured by the UBS Australian Bank Bill.

Quiz answers

1. (c) 2. (b) 3. (d)

If you have any questions, feel free to contact Member Services on 1300 369 901 or visit www.eisuper.com.au



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SUPERANNUATION SCHEME

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