



# Corporation of Victoria

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## Statement of Corporate Intent

### Our Vision

To be a respected central financing authority and financial adviser, optimising benefits for and protecting the interests of the State of Victoria and State related entities.

### Our Mission

We are united in our commitment to deliver innovative financing solutions to the State. Our culture motivates our people to act with integrity and professionalism to achieve the best results for the State and our clients.

### Our Values

We value the following key skills and knowledge:

- commercial acumen
- relationship management
- proactivity
- empathy
- communication
- management effectiveness
- problem solving
- technical skills

### Our Shareholder

The Treasurer of the State of Victoria is our shareholder. His interests are monitored by the Department of Treasury and Finance. Our Chairman, on behalf of the Board of Directors, reports directly to the Treasurer.

### Our Clients

We provide treasury services to those State and public authorities that have been accepted as participating authorities by the Corporation under the *Treasury Corporation of Victoria Act 1992* (the TCV Act). At 30 June 2006 there were 79 participating authorities (2005: 78), in addition to the budget sector.

We also provide deposit facilities, financial advice and analytical services to participating authorities, government departments, statutory authorities, government business enterprises and, at the request of the Treasurer, other Victorian entities.

### Our Objectives

Established by the TCV Act, Treasury Corporation of Victoria (TCV or the Corporation) is the central financing authority and financial adviser for the State of Victoria. TCV has the following objectives:

- to act as a financial institution for the benefit of the State and participating authorities
- to enhance the financial position of the State, the Corporation and participating authorities
- to provide our services in an effective, efficient and competitive manner.

### Our Guarantee

Our payment obligations in relation to borrowings and derivative transactions are guaranteed by the State of Victoria (section 32 of the TCV Act). Our loans to participating authorities are themselves guaranteed by the State of Victoria.

### Our Business Operations

Assisting the Government in the management of the State's balance sheet, especially in the management of financial risks by:

- centralising the State's borrowing activities to maximise financing outcomes
- managing the impacts of interest rate movements and liquidity by ensuring that only a proportion of the State's debt portfolio is subject to refinancing in any year
- adopting prudent risk management policies and processes in relation to interest rate, refinancing, credit, liquidity, foreign currency and operational risks
- providing expert skills and knowledge to manage those financial risks allocated to TCV by the Government.

Ensuring the liquidity of the State and its authorities by ensuring that sufficient funds at acceptable pricing are always available regardless of prevailing market conditions.

Achieving a cost of borrowing consistent with comparable AAA/Aaa rated State financing authorities.

Providing comprehensive treasury services including:

- debt portfolio management
- cash management and deposit products
- interest rate, foreign exchange and commodity risk management
- economic services
- financing policies and strategies
- general treasury and financing advice
- banking arrangements
- treasury accounting.

Centralising and managing State debt and financial risk by:

- providing a single interface to the financial markets for borrowings and treasury related financial markets transactions
- maintaining and enhancing the State's profile and reputation in financial markets
- assuming and managing financial risk that would otherwise reside with the State or its public authorities
- providing financial advice in anticipation of and in response to, the requirements of the State and its authorities in all their financing arrangements.

## Report of the Chairman and Managing Director

As the State's central financing authority and financial adviser, TCV continues to focus its efforts on the delivery of funding that supports our clients' financial risk profile, on the sourcing of that funding in the most efficient manner reflective of the State's AAA/Aaa rating and on the provision of financing and project advisory services. These efforts have been rewarded with continued growth in our client base and a portfolio of diverse advisory assignments.

All of our activities reflect our vision at TCV – to deliver financing outcomes that are beneficial to and protective of the interests of the State.

The year's net profit of \$14.6 million represents another strong financial performance and is a testament to the capability and diligence of TCV staff.

This result is in excess of the Corporation's budget as defined within the Corporate Plan.

TCV delivers three core competencies to the State and State related entities. These are the provision of:

- loans, financing and risk management services
- deposit facilities
- advisory services.

Loans outstanding as at 30 June 2006 were \$9.3 billion up from \$9.0 billion previously, with 34 borrowing clients as in the previous year.

Deposits totalled \$4.2 billion as at 30 June 2006, compared with \$4.5 billion the preceding June. Some 97 authorities and trusts held deposits with TCV at this time (2005: 98).

As at 30 June 2006, the number of State and public authorities which have been accepted by TCV as participating authorities was 79 (2005: 78).

TCV remains committed to building and maintaining excellent relationships with the State, statutory authorities, government business enterprises and agencies. We provide regular market and economic briefings to metropolitan and regional clients and participate in specialist forums to increase understanding and awareness of public sector financing.

In 2005-06, TCV provided formal presentations to the Victorian Water Industry Association's annual Finance Managers' Workshop and the Institute of Water Administrators' Finance Conference. The Victorian water industry is undergoing significant change as it adapts to a new economic regulatory regime, invests in new infrastructure and in many areas focuses on resource sustainability. Over the next 12 months TCV will continue to work closely with this sector, seeking to deliver financial solutions

and expert advice to assist them in meeting the challenges ahead.

TCV's advisory services include economic advisory services, treasury management and advice and analysis of financing options and investment evaluation, particularly for capital works programs. During 2005-06, TCV provided these services to a broad cross section of clients.

TCV issues Victorian Government guaranteed debt to fund its loans to the State and participating authorities. The manner in which we manage the debt issues reflects our core business proposition of providing financing outcomes that are beneficial to and protective of the interests of the State. TCV's funding strategy addresses issues of management of interest rate risk, prudential risk, financial risk, market liquidity risk and the identification of cost-effective and flexible sources of funding.

TCV maintains four separate funding programs consistent with this strategy. During 2005-06, we predominantly issued through our cornerstone Domestic Inscribed Stock program, reflecting our ongoing commitment to the domestic marketplace through the maintenance of a liquid yield curve. It is anticipated that funding requirements in 2006-07 will also be sourced from this program. Total outstandings of the Domestic Inscribed Stock program as at 30 June 2006 were \$7.8 billion (2005: \$8.8 billion).

While the Domestic Inscribed Stock program is TCV's primary funding source, the Corporation maintains its Euro Medium Term Note (EMTN), Domestic Promissory Note and Euro Commercial Paper programs and utilises these as and when opportunities arise. Over 2005-06, the short programs averaged a combined outstanding of \$597 million. No new issues were undertaken via the EMTN program.

For the first time since TCV's inception in 1993, a major refurbishment of the premises at 1 Collins Street was undertaken. This exercise has allowed the creation of operating synergies within the organisation and importantly now allows our regional clients access to meeting facilities within Melbourne.

The Regional Water Authorities were the first group to take advantage of this facility and we look forward to extending this resource to others over time.

The inclusion of an energy efficient lighting system in the refurbishment was an example of TCV's commitment to eco-friendly policies. A working group was established during the year to further efforts in this regard.

Our ability to deliver TCV's vision will always be dependent upon the quality and skills of individuals across all tiers of the organisation, including the guidance provided by members of the Board.

Sadly, one such individual, Mr Ian Little, passed away on 6 June 2006. Ian was a valued member of

TCV's Board and his contribution will be greatly missed.

During the year, two additional Directors were appointed. In January 2006 Mr Tim Knott joined the Board, followed in May 2006 by Mr Peter Hawkins. Both Directors bring senior level experience in treasury management, banking and finance and corporate governance. We welcome them both and look forward to their ongoing contribution.

As noted in the 2004-05 report, Ms Jane Cutler resigned from the Board in September 2005. We again thank her for her valuable contribution over nearly three years as a Director.

TCV had several staff resignations during the year as individuals sought to further their careers with other organisations.

In each instance, management has taken the opportunity to review the structure of the Corporation and supplement the skills and experience required to deliver its objectives through a combination of internal appointments and external recruitment.

Through the selective adding of skills and the continued training and development of existing staff, TCV has maintained a well structured and highly competent group of managers and staff.

We would like to take this opportunity to commend and thank our staff, management and fellow Board members for their contributions and achievements.

The commitment and support of all of these people remains fundamental to TCV's ability to deliver the Corporation's objectives and this year was especially pleasing as we worked together in a disrupted environment during the premises' alterations to once again deliver an outstanding result.

We look forward to working together in the year ahead to once more deliver the Corporation's expertise to our clients and stakeholders.



Ian Ferres  
**Chairman**

Bill Whitford  
**Managing Director**

## Financial Summary 2005-06

Income and Expenditure Summary*	2005-06 \$ million	2004-05 \$ million	2003-04 \$ million	2002-03 \$ million	2001-02 \$ million
<b>Income</b>					
Interest revenue	-	991.0	912.4	917.9	927.5
Other revenue	-	-15.4	-18.8	41.9	21.4
Net income from financial assets	667.6	-	-	-	-
Administrative fees and recoveries	7.9	7.8	9.4	9.1	9.1
	<b>675.5</b>	<b>983.4</b>	<b>903.0</b>	<b>968.9</b>	<b>958.0</b>
<b>Expenses</b>					
Interest expense on borrowings	-	-950.4	-870.9	-938.5	-929.2
Net expense from financial liabilities	-644.6	-	-	-	-
Other borrowing related expenses	-0.8	-0.8	-0.5	-1.0	-1.0
Administration expenses	-15.5	-14.6	-14.6	-14.9	-14.0
	<b>-660.9</b>	<b>-965.8</b>	<b>-886.0</b>	<b>-954.4</b>	<b>-944.2</b>
<b>Net Profit</b>	<b>14.6</b>	<b>17.6</b>	<b>17.0</b>	<b>14.5</b>	<b>13.8</b>
Dividends declared/paid	15.903	15.481	13.021	13.859	17.000
<b>Balance Sheet Summary*</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
at 30 June	\$ million				
Loans to clients	9,272	9,023	8,562	9,406	8,970
Cash assets	4,577	4,255	4,425	2,963	2,646
Investments	3,214	3,397	3,002	2,825	3,338
Other assets	378	406	1,026	2,347	3,027
<b>Total Assets</b>	<b>17,441</b>	<b>17,081</b>	<b>17,015</b>	<b>17,541</b>	<b>17,981</b>
Financed by:					
Domestic Inscribed Stock	7,827	8,773	6,772	7,459	5,984
Domestic other	4,235	2,341	3,935	2,736	3,587
Offshore	712	855	1,344	2,124	2,983
Gross debt	12,774	11,969	12,051	12,319	12,554
Deposits from public sector	4,179	4,525	3,764	2,657	2,311
Other liabilities	347	449	1,063	2,433	2,985
<b>Total Liabilities</b>	<b>17,300</b>	<b>16,943</b>	<b>16,878</b>	<b>17,409</b>	<b>17,850</b>
Equity	141	138	137	132	131

The 2005-06 data is the first based on Australian Equivalents to International Financial Reporting Standards. AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement have been adopted for the year ended 30 June 2006. Comparatives have not been restated.

## Client Services

TCV's expertise lies in the delivery of financing solutions and advice to the State, statutory authorities, government business enterprises and agencies. TCV's role as the State's central financing authority and financing adviser means that TCV is uniquely positioned to provide impartial analysis, portfolio advice and financing outcomes for our clients. This reflects our:

- knowledge of State objectives, policies and operating environment
- knowledge of client objectives and operating environment
- knowledge of and involvement in global financial markets
- long standing relationships within the financing sector
- highly regarded risk management and quantitative analysis expertise.

Importantly, TCV delivers client solutions in a transparent, responsive environment, resulting in a clear focus on client outcomes. TCV delivers its services through its Treasury Client Services and Project/Structured Finance teams.

### Treasury Client Services

TCV's Treasury Client Services team has extensive financial markets, portfolio structuring, funds management and debt funding experience. They work closely with clients to develop a comprehensive understanding of their funding, investment and advisory requirements in order to tailor solutions that meet these needs.

The team seeks to enhance and assist clients' funding and deposit decisions through a collaborative philosophy supported by superior client service, outstanding financing advice, innovative and flexible products and a sophisticated financial markets presence.

### Loan Facilities

TCV offers a broad range of loan facilities to our clients. The loan options available encompass fixed and floating rate structures and can be tailored to meet the specific needs of our clients. Term to maturity, frequency of rate set and repayment schedule options can all be tailored to suit the requirements of the client's cash flows. The loan facilities provided range from short term working capital accounts to term lending and structured finance.

### Deposit Facilities

TCV offers deposit facilities to assist departments, authorities, government business enterprises and agencies with their cash management activities. TCV advises clients on their short term investment options and can assist clients to structure investment portfolios to meet their specific needs.

### Interest Rate and Foreign Exchange Risk Management

TCV offers a suite of risk management products that provide clients with the flexibility to minimise their interest rate and foreign exchange risks. TCV works with clients to ascertain their business cash flows and risk parameters in order to identify which risk management tools will best achieve their objectives.

### Treasury Management Services

TCV has developed a comprehensive range of treasury management services that can be tailored to suit clients' individual needs. This wide range of services has been developed expressly to provide our client base with a full range of treasury services without the need to maintain these specialist skills in-house. As a central repository of financial services excellence, the services offered include:

- transaction execution
- debt portfolio management
- economic and financial market updates
- advisory services delivering portfolio management advice and strategies to clients' risk management committees
- economic forecasting
- financial market pricing and economic data
- assistance in the development of treasury policies, strategies and reporting
- interest expense forecasting analysis
- portfolio valuation and benchmarking
- accounting, banking and settlements information and advice.

### Economic Advisory Services

TCV briefs clients on developments in the global and domestic economies and financial markets. This information can provide valuable input into business and project planning and treasury strategy development. The services range from the provision of regular economic commentary, to the preparation of Board and management reports and forecasts, to undertaking specific research and advisory assignments. TCV maintains a regular schedule of economic presentations to clients, providing a forum for discussion of current and prospective economic events and issues.

## Project/Structured Finance

TCV's Project/Structured Finance team provides support for clients in the development of infrastructure financing proposals. The team provides analysis and advice on financing options for publicly funded projects and assists clients to evaluate and select infrastructure proposals submitted by the private sector. TCV's priority is to work closely with clients and the State to ensure that investment and financing arrangements meet their business objectives. Our service offering focuses on financial evaluation and risk management.

### Investment evaluation

TCV provides investment evaluation assistance to clients. We utilise a full suite of sophisticated financial analysis tools including cash flow modelling, discounted cash flow analysis, risk and sensitivity analysis.

### Financing options

TCV assists clients to determine the most appropriate funding solution for their project. In many cases, standard loan facilities are appropriate where the asset being financed is integrated into the core operating business. In other cases, the asset may be managed and operated independently of the core business. In these instances, project or structured financing solutions may provide a better funding outcome. TCV is able to provide advice on available funding options and the appropriate financing solution for a particular project.

### Business planning

TCV's knowledge and experience in risk analysis, valuation and cash flow modelling can be drawn upon to assist clients in business planning and development. We assist with capital structure analysis, asset and liability valuations, valuation of contingent assets and liabilities, financial risk analysis such as interest rate or currency exposure and credit risk assessment.

### Partnerships Victoria

The Victorian Government's Partnerships Victoria policy brings a rigorous financial and commercial framework to project evaluation for public sector entities. TCV assists clients in applying the policy to projects including development of project financial models, review of financial models prepared by other advisers, identification and management of financial risks, evaluation of private sector financing proposals, advice on termination and refinancing terms included in project agreements and benchmarking financing arrangements.

## Gateway Project Review

The State has adopted the Gateway Review Process to ensure that major public sector projects, whether procured under the Partnerships Victoria policy or using traditional procurement methodology, are appropriate for the identified need and are implemented in a sound and rigorous manner.

TCV actively supports the Gateway Review Process by providing staff to participate in and in some cases lead, review teams.

### Financial Close Benchmarking

Government and public sector agencies participate in a range of complex financial arrangements with the private sector. The financial impact of these arrangements is often based on financial market parameters. TCV assists government to specify market related parameters and then benchmark their application consistent with financial market convention and conditions. This is a key part of the advice we provide for Partnerships Victoria projects, but is also provided in respect of a range of other transactions.

## Key Advisory Assignments in 2005-06

### Capital Management Considerations for Regulated Victorian Water Businesses

The Victorian water industry represents a substantial part of TCV's customer base in terms of both customer numbers and loan outstandings. In order to better serve this important customer group, TCV undertook an analysis of the Essential Services Commission's approach to water pricing and its implications for financing decisions by Victorian water businesses. The analysis highlighted the "benchmark" financial structure underlying key components of price development. It also provides insight into alternative financial management strategies for businesses in response to the published pricing approach in the context of organisational financial objectives. This work has been presented at a number of industry forums. TCV has also presented the analysis directly to individual water businesses at both Board and management level.

### Gateway Project Review Participation

Under the Gateway process there are six "gates" for evaluation as to whether the project is on-track to meet its objectives. Gateway review panels are skills based and comprise a mix of public and private sector experts.

Participation on review panels provides another opportunity for TCV to share its financial and analytical expertise with a wider cross-section of the public sector beyond its usual client base. It also provides an opportunity to support government in the implementation of this important initiative to promote

continuing improvement in project outcomes. TCV staff have, over the last 12 months, been involved in a number of Gateway Reviews including:

- business case review (Gate 2) of the Galleries of Remembrance Project at the Melbourne Shrine of Remembrance
- business case review (Gate 2) of the Rectangular Pitch Stadium Development
- strategic assessment (Gate 1) of the Tram Procurement Project.

#### Department of Justice: Supreme Court Precinct Review

TCV continues to work with the Department of Justice on its review of the heritage Supreme Court building and the surrounding precinct. The Department review is focussed on the refurbishment needs of the building to ensure that it can continue to operate as a functioning court facility whilst maintaining its impressive architectural and heritage features. The review also proposes the construction of the new Supreme Criminal & Civil Court Building around and above a partially retained former High Court Building. TCV has been working with the Department on this project for two years, focussing on assessing the financial feasibility of the project using a sophisticated financial model. The financial model has been progressively updated as new information is identified as part of the technical and architectural investigation.

In May 2006, the Government committed \$32 million over two years towards the first stage of redevelopment of the Supreme Court, with funding from the 2006/07 budget to address public and occupational health and safety issues, as well as providing increased security at major criminal trials.

#### Melbourne Convention Centre Development

TCV was engaged by Major Projects Victoria (MPV) to provide specialist advice on the specification and execution of the financing arrangements for this important State project undertaken as a privately financed Partnerships Victoria project. The construction value of the (core) Convention Centre is approximately \$420 million. In addition to the Convention Centre, the project also includes approximately \$700 million of commercial development and precinct activation, including a hotel, the development of Dukes Dock, a maritime museum, 50,000 square metres of retail development, 10,000 square metres of lifestyle development and a residential and office complex.

TCV was able to provide MPV with assurance that the complex financing package proposed by the successful bidder was priced on a basis consistent with financial market practices and that a transparent, verifiable procedure for pricing the financial package at financial close was developed. On the day of financial close, TCV benchmarked the financial market pricing parameters to ensure that

pricing was consistent with the agreed process and financial market conventions.

#### Foreign Exchange

TCV assisted several departments and authorities including Port of Melbourne Corporation, Melbourne Water Corporation, Tourism Victoria and the 2007 World Swimming Championships Corporation to execute their foreign currency hedging requirements during 2005-06. TCV facilitated forward foreign exchange transactions that enabled authorities and departments to lock in foreign exchange rates when timing and volume were certain.

#### Debt Portfolio Advisory Service

TCV provided portfolio advisory services to several major clients, including Department of Treasury and Finance (DTF), Melbourne Water Corporation, South East Water Limited and VicUrban. These clients engaged TCV as their debt portfolio advisor. Under this arrangement, TCV works closely with each of them to develop a comprehensive understanding of their business and their subsequent debt portfolio management requirements. For some of these engagements, TCV staff regularly attended and presented to the clients' risk management committees, further strengthening the partnership approach to the clients' debt management needs.

#### Our Clients Include:

##### State of Victoria

Budget Sector

##### Water - Metropolitan

City West Water Limited

Melbourne Water Corporation

South East Water Limited

Yarra Valley Water Limited

##### Water - Regional

Barwon Region Water Authority

Central Gippsland Region Water Authority

Central Highlands Region Water Authority

Coliban Region Water Authority

East Gippsland Region Water Authority

Gippsland and Southern Rural Water Authority

Goulburn-Murray Rural Water Authority

Goulburn Valley Region Water Authority

Grampians Wimmera Mallee Water Authority

Lower Murray Urban and Rural Water Authority

North East Region Water Authority

South Gippsland Region Water Authority

Wannon Region Water Authority

Western Region Water Authority

Westernport Region Water Authority

#### Ports and Transport

Port of Melbourne Corporation

Roads Corporation

Rolling Stock Holdings (Victoria) Pty Ltd

Southern and Eastern Integrated Transport Authority

Transport Ticketing Authority

Victorian Regional Channels Authority

Victorian Rail Track Corporation

#### Health

Austin Health

Bairnsdale Regional Health Service

Banyule Community Health Service Inc

Barwon Health

Bayside Health

Bellarine Community Health Inc

Cobram District Hospital

Dental Health Services Victoria

Eastern Health

La Trobe Community Health Service Inc

La Trobe Regional Hospital

Melbourne Health

Northern Health

Peter MacCallum Cancer Institute

Portland District Health

Royal Women's Hospital

Upper Hume Community Health Service Inc.

Wodonga Regional Health Service

#### Education

Board of the Centre for Adult Education

Monash University

Sunraysia College of Technical and Further Education

#### Sports and Recreation

Australian Grand Prix Corporation

Falls Creek Alpine Resort Management Board

Federation Square Management Pty Ltd

Lake Mountain Alpine Resort Management Board

Melbourne 2006 Commonwealth Games Corporation

Melbourne and Olympic Parks Trust

Mount Buller and Mount Stirling Alpine Resort Management Board

Mount Hotham Alpine Resort Management Board

Mt Baw Baw Alpine Resort Management Board

Phillip Island Nature Park Board of Management Incorporated

2007 World Swimming Championships Corporation

The Victorian Arts Centre Trust

Tourism Victoria

Zoological Parks and Gardens Board

#### Other

Bellarine Bayside Foreshore Committee of Management Inc

Boroondara Cemetery Trust

Country Fire Authority

Director of Housing

Emergency Services Superannuation Board

Leo Cussen Institute

Lilydale Memorial Park and Cemetery

Melbourne Market Authority

Metropolitan Fire and Emergency Services Board

Museums Board of Victoria

Rural Finance Corporation of Victoria

State Electricity Commission of Victoria

Transport Accident Commission

Tricontinental Holdings Ltd

The Trustees of the Necropolis Springvale

Victorian Energy Networks Corporation (VENCorp)

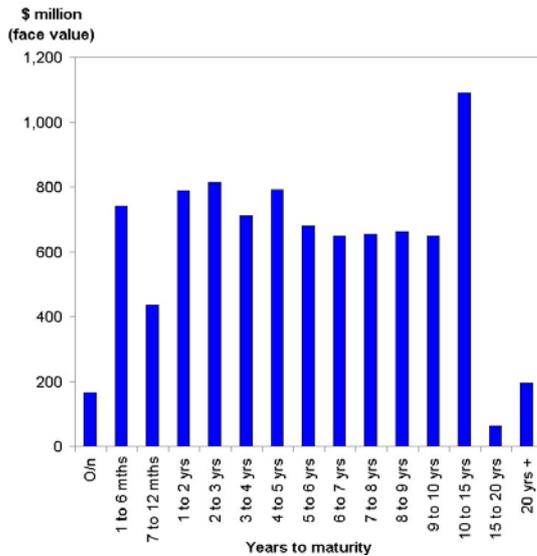
Victorian Plantations Corporation

Victorian Urban Development Authority (VicUrban)

## Funding Activities

TCV provides tailored loans to clients which are available on demand and provided at wholesale rates. Client loan facilities can extend from short-term at call facilities to long-term commitments of 20 years or more.

### Client Loans as at 30 June 2006



These commitments contribute to a complex balance sheet, requiring active management of diverse market segments. To meet these requirements, four key funding programs are maintained:

- TCV's Domestic Inscribed Stock program is the cornerstone of the Corporation's funding strategy incorporating at least five lines of stock with a minimum of \$A1 billion issued per line
- A \$US3 billion Euro Medium Term Note (EMTN) program
- A \$A2 billion Euro Commercial Paper (ECP) program
- A \$A2.5 billion Domestic Promissory Note program.

Activity in each program is predominantly facilitated by a dealer panel. The dealer panels focus on dealing in Domestic Inscribed Stock, buybacks and restructuring of other outstandings and dealing in a variety of other financial market instruments used by TCV in its risk management activities. TCV's current dealer panel members are:

#### Domestic Inscribed Stock Panel

ABN Amro Bank NV (Australia Branch)  
 Australia and New Zealand Banking Group Limited  
 Citigroup Global Markets Australia  
 Commonwealth Bank of Australia  
 Deutsche Capital Markets Australia Limited

Macquarie Bank Limited  
 National Australia Bank Limited  
 RBC DS Global Markets  
 TD Securities  
 UBS Australia Limited  
 Westpac Banking Corporation

#### \$A2.5 billion Domestic Promissory Note Panel

Australia and New Zealand Banking Group Limited  
 Commonwealth Bank of Australia  
 Deutsche Bank AG, (Sydney Branch)  
 Macquarie Bank Limited  
 National Australia Bank Limited  
 Westpac Banking Corporation

#### \$US3 billion Euro Medium Term Note

Morgan Stanley & Co. International Limited  
 Nomura International plc  
 UBS Limited

#### \$A2 billion Euro Commercial Paper Program (Hong Kong)

BA Asia Limited  
 Barclays Capital  
 Citibank International plc  
 Credit Suisse First Boston (Europe) International  
 Deutsche Bank AG London  
 Lehman Brothers International (Europe)  
 Macquarie Asia Limited  
 Macquarie Bank Limited (London Branch)  
 National Australia Bank Ltd, Hong Kong Branch  
 Royal Bank of Canada  
 The Royal Bank of Scotland  
 UBS Investment Bank

#### Top Five Domestic Inscribed Stock Dealer Panel Members 2005-06

The following panel members are the top five performers in terms of the turnover in the Domestic Inscribed Stock program:

Deutsche Bank AG  
 Citigroup Global Markets Australia  
 Commonwealth Bank of Australia  
 Westpac Banking Corporation  
 UBS Australia Limited

#### Funding Targets

In 2005-06, TCV focussed its fund raising activities within the Domestic Inscribed Stock program. During the year \$911 million (face value) of net issuance

was raised, with the TCV 5.75% 15 November 2016 maturity increasing by \$693 million to \$1,402 million, in line with our announced undertaking to maintain five Domestic Inscribed Stock lines with outstandings above \$1 billion. The TCV 6% 15 November 2006 maturity was declassified as a Domestic Inscribed Stock upon falling under one year to maturity.

Outstandings within the ECP and domestic Prnote program averaged \$597 million during the period. The majority of our funding was concentrated within the Domestic Inscribed Stock program.

There were no new offshore sourced funds raised, through the EMTN program, with long term offshore sourced liability outstandings being \$579 million, a reduction of \$219 million over the course of the year.

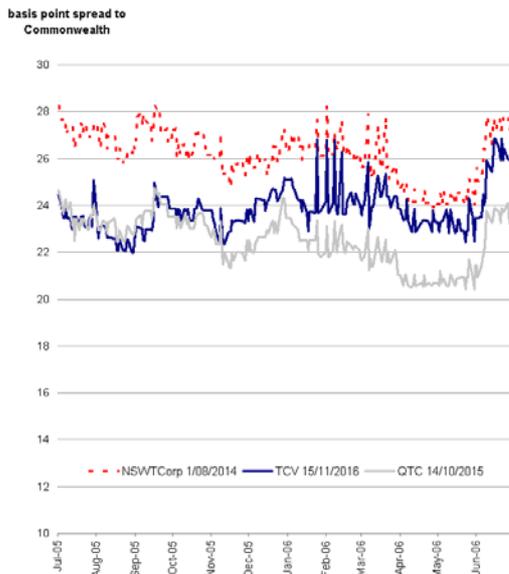
In 2006-07 TCV's funding requirement is \$2,237 million. This represents an increase of \$632 million on the previous year's requirement of \$1,605 million. The funding requirement consists of \$1,045 million in refinancing of maturing client loans and a \$1,192 million new money requirement.

The Domestic Inscribed Stock program will continue to remain the focus of our funding activities, although alternative funding sources will be assessed on an opportunistic basis.

## Business Indicators

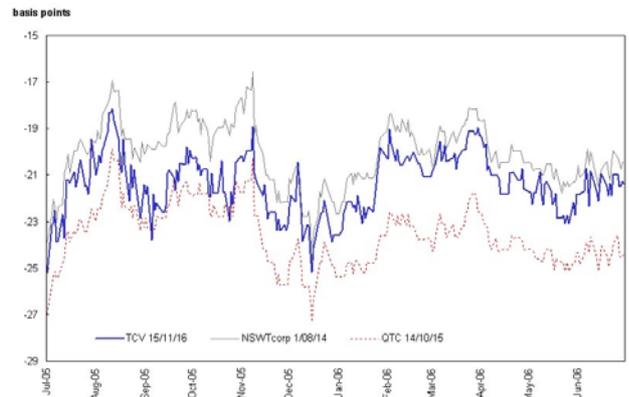
### Margin to Commonwealth

This chart provides a comparison of the margin at which a TCV 10 year security issued by TCV trades in the secondary market against a similar Commonwealth security. During 2005-06, TCV's margin to Commonwealth Bond remained relatively stable and moved in line with our peers.



### TCV Margin to Swap

This chart depicts the margin to swap at which the longest dated TCV Domestic Inscribed Stock issue traded in the secondary market, relative to the equivalent issue of our peers, New South Wales (NSW) and Queensland (QTC) during 2005-06. The chart shows that TCV debt continues to trade below NSW debt and slightly above QTC debt.



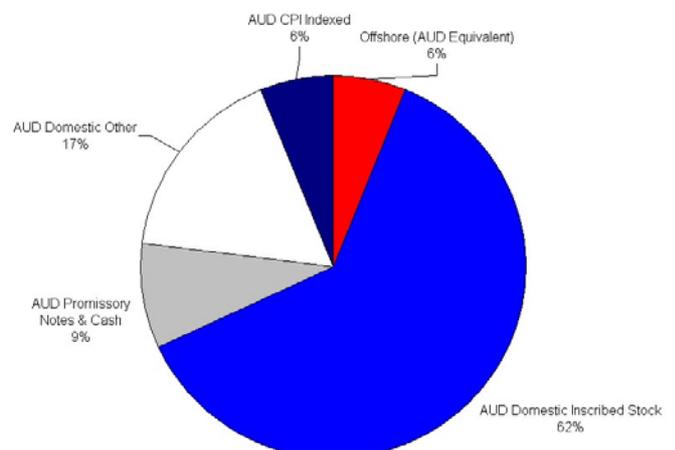
### Credit Ratings of TCV and the State of Victoria

Ratings as at 30 June 2006:

Agency	Long-term Rating Domestic	Long-term Rating Foreign Currency	Short-term Rating
Standard & Poor's Corporation	AAA	AAA	A-1+
Moody's Investors Service	Aaa	Aaa	P-1

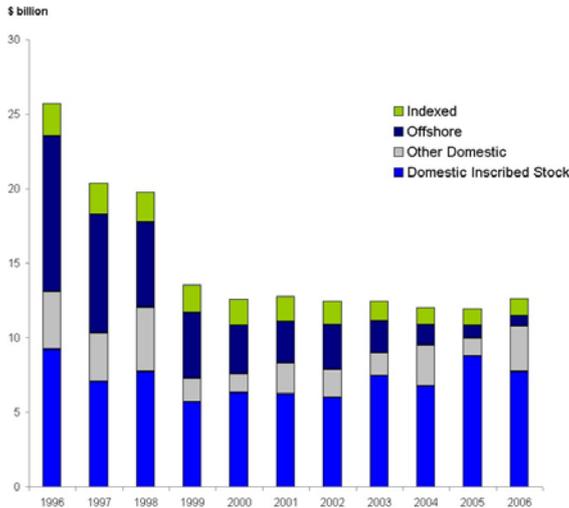
### Mix of TCV Debt

This chart depicts TCV's mix of debt as at 30 June 2006. TCV's strategy is to maintain a diversified borrowing portfolio and access liquidity from different market sectors. Domestic Inscribed Stock outstandings are targeted at a minimum of five lines with total outstandings of at least \$5 billion. 'CPI Indexed' securities, although not a core borrowing category, are likely to remain at current levels. The 'Domestic Other' category largely comprises the reclassified short-dated Domestic Inscribed Stock and other residual outstandings.



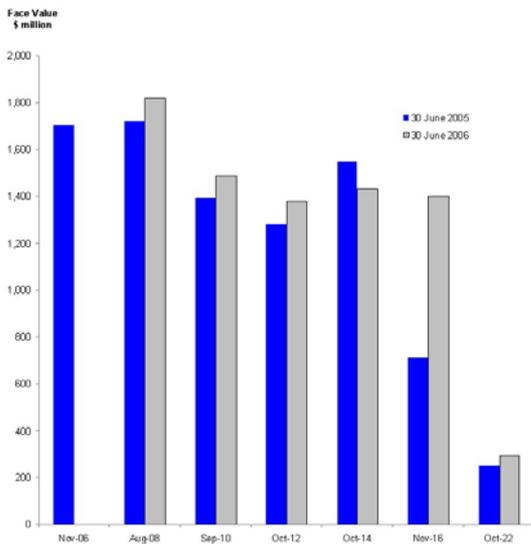
### Total Outstanding Debt

This chart depicts the mix of TCV's total outstanding debt as at 30 June, over a 10 year horizon.



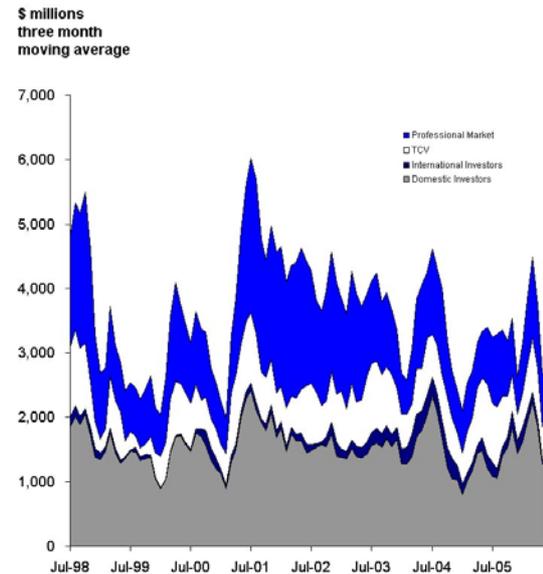
### Domestic Incribed Stock Outstandings

This chart compares Domestic Incribed Stock outstandings by maturity at 30 June 2006 against 30 June 2005.



### Domestic Incribed Stock Turnover

TCV Domestic Incribed Stock is actively traded in the secondary market, as reflected in the following chart. Domestic Incribed Stock turnover demonstrates an underlying demand for TCV credit and is a primary objective in the provision of liquidity to the State.



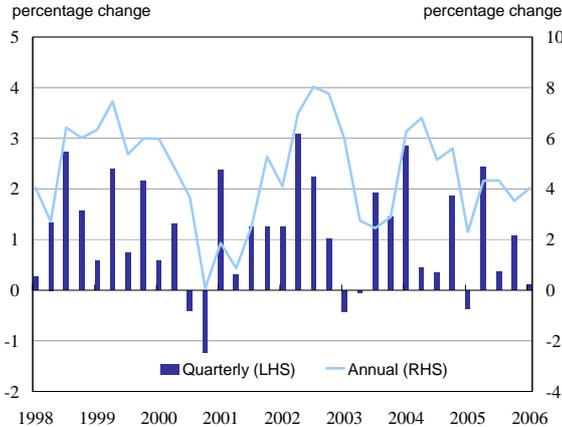
## Economic Environment

TCV's funding needs and debt management strategies are significantly influenced by the financial position of the State and State-related entities. In turn, these positions are influenced by the Government's budget strategy and the state of the Victorian economy.

### The Victorian Economy

The most recent data shows that Victorian State final demand (SFD) rose by 4.0% through the year to the March quarter of 2006, an increase of 1.7 percentage points over the yearly result to the March quarter of 2005. After falling by 13% through the year to the March quarter of 2005, dwelling construction fell by 3.0% through the year to the March quarter of 2006, while business investment grew by 14%. Household consumption, the largest component of SFD, rose by 3.2% through the year to the March quarter 2006. Although lower than the yearly growth rate as at March 2005, it is an improvement on the average 2.5% growth rate in the second half of 2005 and was achieved despite higher petrol prices and official interest rates.

### Victorian Final Demand

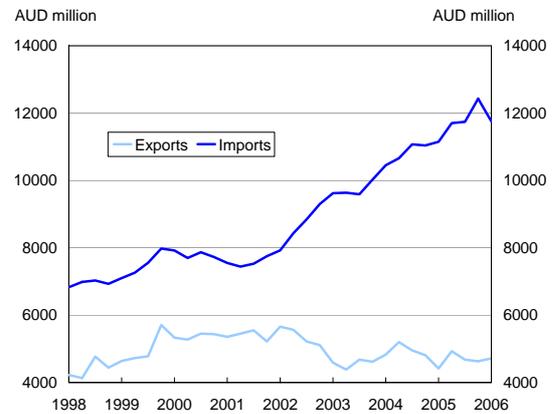


Source: Australian Bureau of Statistics

The strength in business investment continued and the strong Australian dollar has meant that import volumes remained high. Imports averaged just under \$12 billion per quarter in the year to the March quarter of 2006, 5.4% higher than a year earlier. In contrast, total export volumes averaged just over \$4.7 billion per quarter over the same period. However, export growth outpaced import growth in the March quarter of 2006 for the first time since the June quarter of 2004. This resulted in through the year export growth of 6.6%. The strength in exports during 2005 was concentrated

in meat, beverages, road vehicles and power generation equipment.

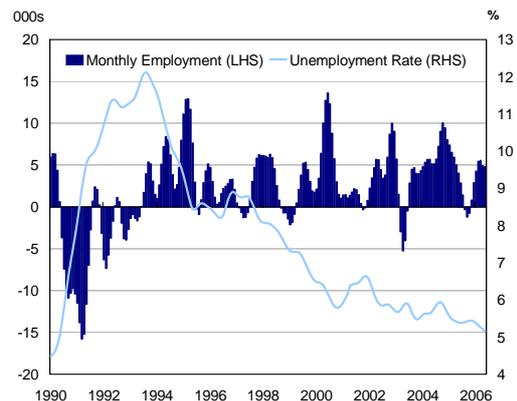
### Victorian External Position



Source: Australian Bureau of Statistics

Throughout this time, the Victorian labour market has remained strong. Victorian trend employment has increased for eight consecutive months, adding almost 40,000 jobs over the twelve months to June 2006. Over the three months to May, employment growth was strongest in the construction, wholesale trade, education, health and community services, property and business sectors<sup>1</sup>. Strong employment growth resulted in the Victorian unemployment rate falling to 5.1%, the equal lowest rate since May 1990.

### Victorian Labour Market

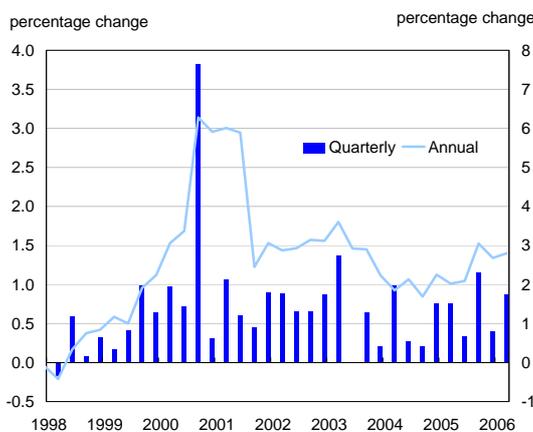


Source: Australian Bureau of Statistics

<sup>1</sup> Original data not seasonally adjusted

While the strength in employment has not added to inflationary pressures, higher petrol prices and a spike in fruit prices pushed Melbourne's CPI above the Reserve Bank of Australia's 2.0% to 3.0% target band. The most recent CPI estimate for the June quarter 2006 shows Melbourne's inflation rate at 3.9% per annum. However, this remains below the national inflation rate of 4.0% and that of a number of other State capitals. Higher than average rises in housing costs in Brisbane and Perth pushed the CPI in these cities up by 4.1% and 4.7% respectively.

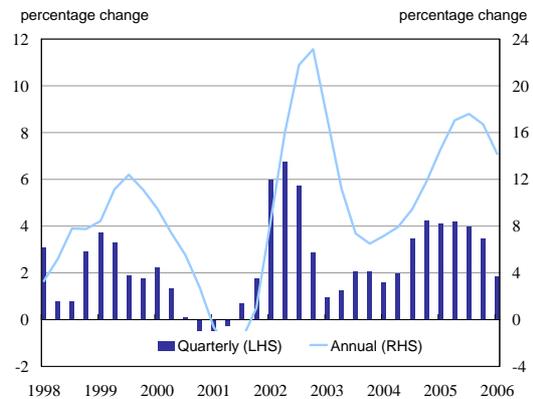
### Inflation



Source: Australian Bureau of Statistics

Stable inflation, high capacity utilisation and robust profit growth outside of the manufacturing sector has maintained Victorian private business investment growth. Through the year to the March quarter 2006, total trend private business investment grew by 14%. The main drivers of this strong growth rate were machinery and equipment, which increased by 20%. Non-dwelling construction was also strong, growing by 8.3% over the same period.

### Trend Private Business Investment



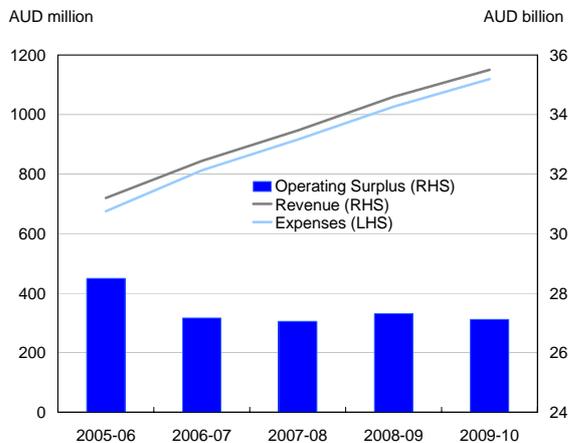
Source: Australian Bureau of Statistics

The public investment outlook is also strong with the Victorian Government committed to spending \$4.9 billion in 2006-07 on public investment projects and an average of \$3.2 billion per annum over the following four years. The investment in infrastructure is designed to sustain economic and employment growth, attract investment and provide quality education, health and transport services.

The Victorian Government remains committed to maintaining an operating surplus of at least \$100 million per annum. Following the revised operating surplus of \$450 million in 2005-06, the surplus is budgeted to be \$317 million in 2006-07 and then average \$316 million per annum over the following three years. The forecasts reflect the State's commitment to conservative management of its net financial liabilities.

The standard measure used to assess general government indebtedness is net debt (gross debt less liquid financial assets). General government net debt is expected to increase from \$2.0 billion (0.9% of Gross State Product (GSP)) at June 2006 to \$7.1 billion (2.5% of GSP) at June 2010. As a proportion of GSP, net debt remains low, consistent with maintenance of the State's triple-A credit rating.

### Victorian Government Fiscal Projections



Source: Victorian Budget Papers 2006-07

The Victorian Budget forecast's Victorian economic growth, as measured by GSP, at 2.50% in 2005-06. This growth rate should continue to be supported by strong business investment and population growth, solid employment growth and moderate growth in consumer spending. Economic growth in 2006-07 is forecast in the state budget paper at 3.25%, as growth in consumer spending recovers along with an improvement in net exports. In Melbourne, consumer price inflation is expected to decline from 3.00% in 2005-06 to 2.50% from 2006-07 to 2009-10. This is lower than the Commonwealth Treasury 2006-07 expectation of national inflation and reflects slower demand and wages pressures outside the resource intensive states.

### Victorian Government Economic Projections as at 30 May 2006 <sup>(1)</sup>

	Actual	Forecasts				
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Gross state product	2.3%	2.50%	3.25%	3.50%	3.25%	3.25%
Employment	3.3%	1.50%	1.25%	1.50%	1.25%	1.25%
Unemployment <sup>(2)</sup>	5.7%	5.50%	5.50%	5.25%	5.25%	5.25%
Consumer price index	2.0%	3.00%	2.50%	2.50%	2.50%	2.50%
Wage cost index <sup>(3)</sup>	3.9%	3.75%	3.50%	3.50%	3.50%	3.50%
Population <sup>(4)</sup>	1.2%	1.10%	1.00%	1.00%	1.00%	1.00%

Source: Australian Bureau of Statistics: Victorian Department of Treasury and Finance

Notes:

1. Year-average per cent change on previous year unless otherwise indicated. All projections apart from population are rounded to the nearest 0.25 percentage point. Projections of population are rounded to the nearest 0.1 percentage point.
2. Year-average level, per cent.
3. Total hourly rate excluding bonuses.
4. June quarter, per cent change on previous June quarter

## Corporate Governance

### Board of Directors

#### Ian N Ferres, FIAA (Aust), FAICD

##### Chairman

First appointed: 1 January 1993.  
Current appointment expires: 31 December 2006

Mr Ferres is also a Consultant to TressCox Lawyers; Director, Australian Unity Limited; Chairman of IXL Limited; Chairman, TDI Limited; Chairman, Vianova Asset Management (Advisory Board); Trustee of Treasury Corporation of Victoria Superannuation Fund Pty Ltd; and a member of The Australia Day (Victoria) Committee.

He completed two years as Group Managing Director and CEO of Australian Unity on 30 June 2004. He worked from 1956 to 1990 with the National Mutual Group including as Executive Manager of their investment, property, unit trust and banking operations from 1975 to 1988. He was an Executive Director from 1983 to 1990.

Since 1990, Mr Ferres has been a director of over 20 State and Commonwealth public sector corporations, private sector listed and unlisted companies. He was Chairman of eight of these. He was also formerly President of the Monash Medical Centre, Captain of the Commonwealth Golf Club and Treasurer of The Australian Club (Melbourne). He qualified as an actuary with the Faculty of Actuaries (Edinburgh) and is a Fellow of the Institute of Actuaries of Australia and the Australian Institute of Company Directors.

Mr Ferres is Chairman of TCV's Remuneration Committee and Occupational Health and Safety Committee.

#### David T Craig, FCPA

##### Deputy Chairman

First appointed 22 August 2000.  
Current appointment expires: 21 November 2006

Mr Craig was Chief Financial Officer of the ANZ Banking Group from 1992 to 1997. He had previously held other senior executive positions within the ANZ Group in Australia and London. He is a Director of ANZ Staff Superannuation (Australia) Ltd and Chairman of VicSuper Pty Ltd. He is also a member of the Compliance Committee of Merrill Lynch Investment Management Ltd; a member of the Industry Advisory Committee of Lazard Asset Management Pacific Co; and a member of the Audit & Finance and Investment Committees of the Murdoch Children's Research Institute Ltd.

Mr Craig is Chairman of TCV's Audit Committee.

#### William (Bill) Whitford, MBA, GAICD

##### Managing Director

First appointed: 28 July 2003.  
Current appointment expires: 27 July 2008

Mr Whitford joined TCV in September 2002 as Executive Manager and was appointed Managing Director on 28 July 2003. He has had considerable experience in financial markets including treasury and financial market roles with Banque National de Paris and State Bank of South Australia and the financing of public infrastructure with the South Australian Government. Mr Whitford is a member of the Australian Institute of Company Directors and represents TCV on the Market Governance Committee of the Australian Financial Markets Association.

#### L Jane Cutler, B.E.(Hons), MBA, MEnv.Sci., FAICD

First appointed: 1 February 2002.  
Appointment expired 19 September 2005.

#### Michael Hirst, B.Com

First appointed: 4 September 2002.  
Current appointment expires: 3 September 2008

Mr Hirst is Chief Operating Officer for Bendigo Bank. He is Chairman of Victorian Securities Corporation Limited and an Executive Director of Sandhurst Trustees Limited. He also holds current directorships with Elders Rural Bank and Barwon Health. Mr Hirst has extensive treasury and financial markets experience having previously held the role of General Manager, Treasury with Colonial Limited, as well as directorships with Colonial First State Investment Managers and Austraclear Limited. Prior to working at Colonial, Mr Hirst spent three years with Chase AMP Bank and seven years with Westpac Banking Corporation.

#### Ian Little, B.Ec(Hons), MSc(LSE), FIPAA, FAICD

First appointed: 22 August 2003.  
Passed away: 6 June 2006.

TCV was deeply saddened by the sudden passing of Mr Little on 6 June 2006. Mr Little was a highly respected and effective Board member, who will be missed by his fellow Directors, the management and staff of TCV.

**Sue Carter, BA(Hons), Grad Dip (App Fin & Invest), MAppSci, ACA, MAICD**

First appointed: 1 February 2005.  
Current appointment expires: 31 January 2008

Ms Carter is a chartered accountant, professional non-executive director and consultant in corporate governance and board effectiveness. She is currently a director of AMP Superannuation Ltd, Peter MacCallum Cancer Institute, Professional Indemnity Insurance Company Australia Limited and Private Health Insurance Administration Council. Previously, Ms Carter was ASIC Regional Commissioner for Victoria (1999-2001), Acting CEO, Queen Victoria Women's Centre Trust (1998) and Chief Financial Officer, ANZ Funds Management (1994-1998). Prior to this she held numerous roles within ANZ, The Charter Group Partnership PLC (UK) and KPMG Peat Marwick (UK).

**Tim Knott, LLB, FCIS, FCIM**

First Appointed 1 January 2006.  
Current Appointment expires 31 December 2008

Mr Knott was Chief Financial Officer and an Executive Director of North Limited from 1998 to 2000. He had previously held several senior executive positions at BHP Limited including Corporate General Manager and Company Secretary, Group Treasurer and Group General Manager Finance and Administration BHP Petroleum. He was also founding President of the Corporate Tax Association of Australia.

**Peter Hawkins, BCA (Hons), FAIB, ABINZ, FAICD**

First Appointed 1 May 2006.  
Current Appointment expires 30 April 2009

Mr Hawkins is a non-executive Director of Mirvac Group, Chairman of Visa International Asia Pacific, a Director of Visa International and a Director of Camberwell Grammar School.

He retired from the Australia and New Zealand Banking Group Limited in December 2005 after a career of 34 years, where he was a member of ANZ's Group Leadership Team and sat on the Boards of ING Australia Limited and ING (NZ) Limited. Roles included Group Managing Director, Group Strategic Development; Group Managing Director, Personal Financial Services; Managing Director ANZ (NZ) Ltd and a number of other senior management positions within the ANZ.

**Appointment of Directors**

The TCV Act provides for a Board of Directors consisting of the Chief Executive Officer (the Managing Director) and between five and seven other Directors appointed by Victoria's Governor in Council on the recommendation of the Treasurer of Victoria.

The Managing Director of the Corporation cannot be appointed Chairperson or Deputy Chairperson of the Board. Officers of the Corporation, other than the Managing Director, are not eligible to be directors.

Under the TCV Act, the Managing Director is appointed by the Board with the approval of the Treasurer of Victoria for a term not exceeding five years but is eligible for reappointment. Directors are appointed for a maximum period of three years but are also eligible for reappointment.

The Governor in Council determines Directors' remuneration, other than that of the Managing Director or a Director who is also an officer of the public service. Details regarding the remuneration of Directors and senior management is given in Note 21 of the financial statements as tabled in Parliament.

Of TCV's Board of Directors, the following members met the State's independent directors criteria under the *Financial Management Act 1994*:

- Ian Ferres
- David Craig
- Jane Cutler (resigned 19 September 2005)
- Michael Hirst
- Sue Carter
- Tim Knott
- Peter Hawkins

**Responsibilities of Directors**

Under the TCV Act, the Board is responsible for the management of the affairs of the Corporation. The Board reviews and approves strategic plans annually, monitors the performance of the Corporation and of the Managing Director throughout the year, assesses and monitors business risks and the achievement of financial objectives and provides overall policy guidance.

The Board also approves key policies in relation to risk management activities and monitors the management of the Corporation's business within the prudential framework established by the Treasurer of Victoria. The Board meets monthly and the Directors may meet with senior management between Board meetings to review specific issues or matters of concern.

The TCV Act requires a Director who has a pecuniary interest in a matter being considered by the Board to declare the nature of the interest at a

meeting, as soon as practicable after the relevant facts have come to their knowledge. It is required that such a declaration is recorded in the minutes.

The TCV Act also provides that, unless the Board (excluding the Director) resolves otherwise, the Director must not be present during any deliberation with respect to the matter.

The Director is not entitled to vote on the matter and if the Director does vote on the matter, the TCV Act requires the vote to be disallowed.

Charters have been established for the Board and each of its Committees. The charters are statements of the purpose and objectives, roles and responsibilities, authority and performance requirements of the Board and its Committees. The charters are reviewed annually. An annual review of board performance is also conducted consistent with the *Financial Management Act* 1994. The last review was completed in mid-2006.

## Board Committees

### Audit Committee

All of the Corporation's Board of Directors are members of the Audit Committee with the exception of the Managing Director, who is invited to attend committee meetings. The Audit Committee is chaired by Mr David Craig. Meetings of the committee are held quarterly, or as required. The purpose of the committee, as

defined by the Audit Committee Charter, is 'to assist the TCV Board to discharge its responsibility to exercise due care, diligence and skill in relation to the oversight of TCV's governance, accountability and financial reporting obligations'.

### Remuneration Committee

All of the Corporation's Board of Directors are members of the Remuneration Committee, with the exception of the Managing Director, who is invited to attend committee meetings. The Remuneration Committee is chaired by Mr Ian Ferres and meets bi-annually, or as required. The primary objectives are to ensure that TCV has appropriate processes to determine remuneration, to review remuneration strategy and budgetary costs, to approve remuneration terms for senior management and to set the terms and conditions of the Managing Director's appointment.

### Occupational Health and Safety Committee

All of the Corporation's Board of Directors are members of this committee, which is chaired by Mr Ian Ferres and meets bi-annually, or as required. The primary objectives are to oversee TCV's occupational health and safety policies and procedures, ensuring compliance with the *Occupational Health and Safety Act* 2004 (Victoria) and fostering and maintaining a safe working environment throughout the Corporation.

### Attendance by Directors at Directors Meetings 1 July 2005 – 30 June 2006

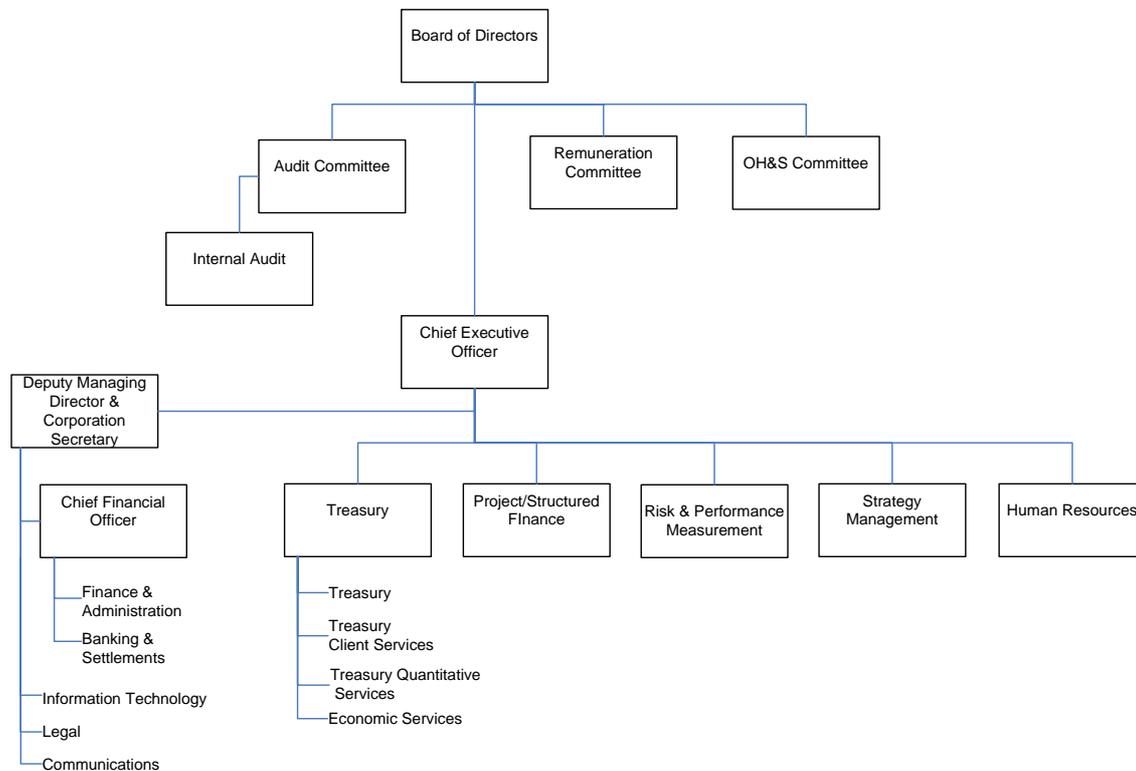
	Board		Audit		Remuneration		Occupational Health & Safety	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
IN Ferres	11	11	7	7	4	4	2	2
DT Craig	11	11	7	7	4	4	2	1
W Whitford	11	11	7	7 <sup>1</sup>	4	4 <sup>2</sup>	2	2
LJ Cutler <sup>3</sup>	2	2	2	2	2	2	0	0
M Hirst	11	11	7	7	4	4	2	2
I Little <sup>4</sup>	10	10	7	7	1	1	1	1
S Carter	11	10	7	6	4	3	2	1
T Knott <sup>5</sup>	5	5	3	3	1	1	1	1
P Hawkins <sup>6</sup>	2	1	1	1	0	0	1	0

#### Notes:

1. William Whitford was an attendee at Audit Committee Meetings
2. William Whitford was an attendee at Remuneration Committee Meetings
3. Jane Cutler resigned from the Board on 19 September 2005
4. Passed away 6 June 2006
5. Tim Knott was appointed 1 January 2006
6. Peter Hawkins was appointed 1 May 2006

## Management

### Organisation Structure



### Management Team

The TCV Management Team comprises the Managing Director and six senior managers:

Bill Whitford, MBA, GAICD

#### **Managing Director**

Bill has been Managing Director of TCV since July 2003 and is responsible to the Board for the management of TCV.

Mark W Engeman, BEc, MBA, CPA, GAICD

#### **Deputy Managing Director and Corporation Secretary**

Mark is responsible for the oversight of TCV's accounting, information technology, legal, communications, audit and settlements operations.

S Ram Doss BSc

#### **General Manager, Risk & Performance Measurement**

Ram is responsible for TCV's Risk & Performance Measurement function. He provides an overview to Board, Prudential Supervisor and DTF that operations are functioning in line with strategic intent and policy and that the level of risk and associated return are within guidelines.

Justin Lofting, BBus (Banking & Finance)

#### **General Manager, Treasury**

Justin is responsible for TCV's treasury and dealing room functions including balance sheet management, debt capital markets program management, treasury client services and economic services.

Julian Polic, BCom, AIAA, CA  
**General Manager, Project/Structured Finance**

Julian is responsible for providing financial advice to clients on major capital projects and alternative financing structures.

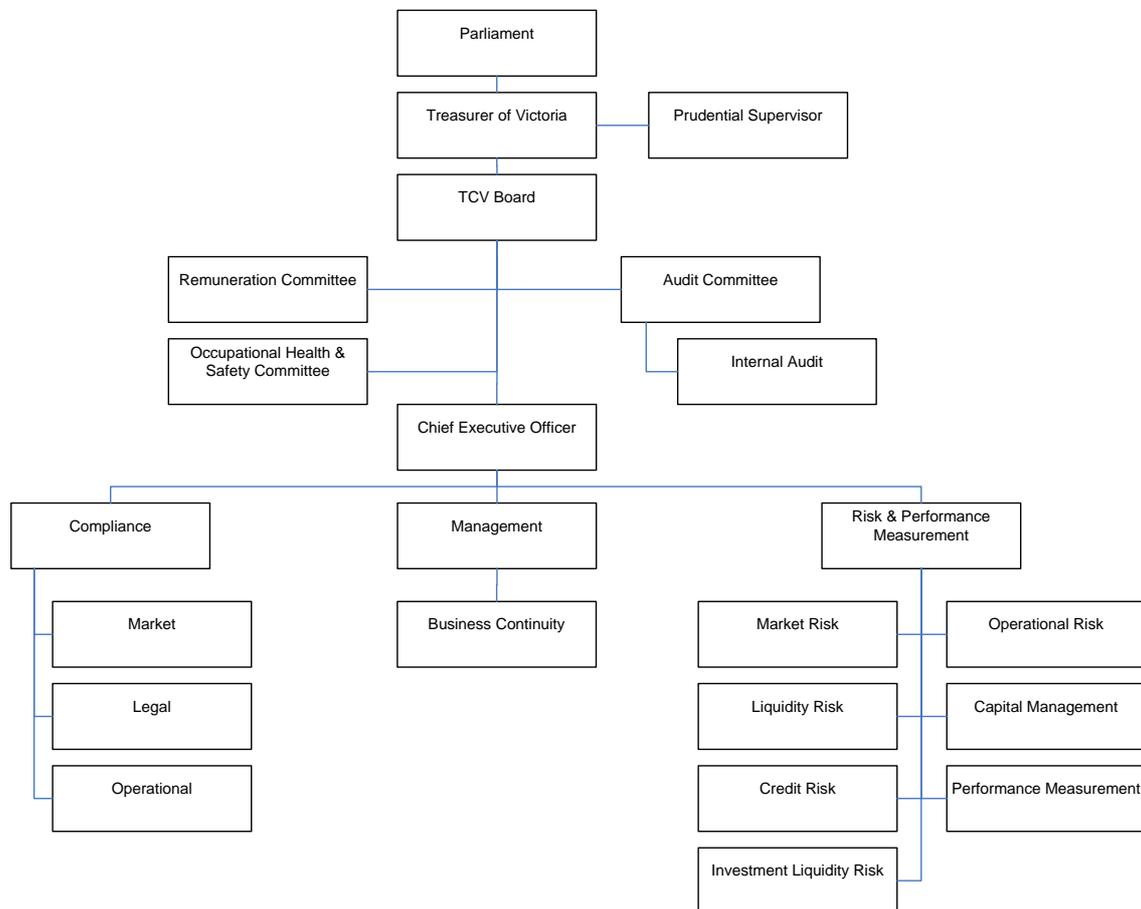
Judy Utley  
**General Manager, Human Resources**

Judy is responsible for the development and implementation of TCV's human capital strategy and the coordination and implementation of training and development and human resources policies and procedures.

Peter Wyatt, BBus, CPA, SA Fin  
**Chief Financial Officer**

Peter is responsible for TCV's accounting and settlements operations and provision of the Corporation's accounts. He provides advice to the Board on TCV's financial position.

### TCV's Risk Management and Control Structure



## Internal Risk Management and Control

TCV's operations expose the Corporation to financial and operational risks. Management of these risks is therefore a core element of organisational policies. In this respect, TCV's principal objective is to provide a robust and consistent risk management, performance measurement and capital management framework which is commensurate with our corporate objectives and risk appetite.

This risk management framework has been developed consistent with the Prudential Policy requirements established by the Treasurer and is monitored by the Board and Prudential Supervisor appointed by the Treasurer. The risk management framework of TCV includes a dedicated and independent Risk and Performance Measurement business unit and established internal risk management policies and procedures set by the Board of Directors and senior management. In addition, TCV maintains an Internal Audit function (an activity outsourced to PricewaterhouseCoopers) to monitor compliance with TCV's risk management requirements.

### Market Risk

Market risk, which includes both interest rate and foreign exchange risk, is the risk of a loss due to adverse movements in market prices or rates of financial instruments and their derivatives. TCV has a comprehensive measurement and control framework to manage market risk. TCV does not maintain any material net foreign currency exposure.

Market risk is quantified daily using both Value-at-Risk and other portfolio level risk measures. These assess the potential loss that TCV might incur under various market scenarios. Risk is managed within an approved limit structure, while risk and revenue are monitored daily, with breaches or excesses being reported to the Managing Director and Board. This is supported by a comprehensive market risk policy that clearly identifies delegations, responsibilities and authorities.

## Liquidity Risk

Liquidity risk relates to the possibility that a financial institution may suffer financial distress due to its inability to raise funds to meet its financial obligations as and when they fall due. TCV ensures that, at any point in time, its holding of available liquid assets covers at least 100% of liabilities maturing within the first month and a proportion thereafter. In addition, TCV is also required to hold a minimum level of high quality liquid assets to meet any unexpected liquidity pressures. The liquidity requirement is stress tested each month under a number of scenarios with the results reported to the Board.

### Investment Liquidity Risk

Investment liquidity risk relates to the risk that TCV may not be able to dispose of an investment when required at fair value because of lack of market liquidity. To manage this, TCV investments must satisfy certain criteria which provide assurance about their market liquidity.

### Credit Risk

In TCV, exposure to credit risk arises mainly through investment in financial assets and through outstanding financial and derivative transactions with market counterparties. TCV's comprehensive risk management framework covers management of credit risk and has set conservative limits both in terms of the quality and amount of credit exposure TCV can hold, based on external credit ratings and in-house credit analysis. TCV will not incur credit exposures rated lower than A- /A3 by Standard & Poor's/Moody's for exposures up to 12 months and progressively higher minimum ratings for longer exposures. Credit exposure limits must be approved by the Board or the Managing Director (under powers delegated by the Board) and management actively monitors these exposures.

The proportion of TCV's derivative and investment portfolio, including cash, by counterparty credit rating as at 30 June 2006 and measured by credit exposure amounts is:

Standard & Poor's Corporation Rating	Derivatives % of Portfolio	Cash Assets & Investments % of Portfolio	Moody's Investors Service Rating	Derivatives % of Portfolio	Cash Assets & Investments % of Portfolio
AAA	11.7	12.9	Aaa	11.7	11.3
AA+	13.1	2.2	Aa1	1.7	3.3
AA	1.7	7.1	Aa2	13.4	8.5
AA-	68.8	66.4	Aa3	70.7	62.4
A+	2.2	2.5	A1		1.2
A	1.1	2	A2	1.1	2
A-			A3		
Victorian Public Authorities	1.4	5.5	Victorian Public Authorities	1.4	5.5
Not rated by S&P but rated at least Aaa by Moody's		1.4	Not rated by Moody's but rated at least AA- by S&P		5.8
Total	100.0	100.0	Total	100.0	100.0

### Operational Risk

The generally accepted definition of operational risk is 'the risk of indirect or direct loss resulting from inadequate or failed internal processes, people and systems or from external events'. TCV uses a scorecard approach to regularly map and evaluate its operational risk profile, assessing the likelihood and consequence of identified risks. Plans are then developed to manage these risks and actions monitored on a quarterly basis.

The Operational Risk Management Committee meets quarterly for this purpose and to address operational risk management issues. A report on operational risk management is presented to the Board quarterly, while any significant operational risk or near loss events are reported to the Board monthly. Details on such events are captured in an internal operational risk database.

TCV's chosen operational risk measurement methodology is consistent with the Basic Indicator Approach proposed by Basel II for calculating risk capital change.

### Business Continuity

Business continuity is critical to TCV's ability to achieve its objectives. TCV has in place detailed business continuity and information technology disaster recovery plans to ensure that:

- the safety of TCV's staff is prioritised above all else
- all aspects of the business are addressed, with particular emphasis on information technology and the front and back office operations
- all critical TCV business operations are safeguarded in all situations
- key resources are available and effectively managed.

These plans are reviewed quarterly and tested annually.

In addition, TCV commissions an annual penetration test of its internet and firewall arrangements, ensuring the ongoing integrity of its information systems.

### Occupational Health & Safety (OH&S)

TCV manages risks to the personal safety of staff and visitors to its premises through a comprehensive occupational health and safety program. An OH&S Board committee was formed in 2002-03 and in 2004-05, an OH&S staff committee was formed to devolve OH&S responsibilities to a broader cross-section of TCV in order to thoroughly capture and address OH&S issues. This committee consists of two employer appointed and two staff elected representatives.

### External Controls and Compliance

TCV is subject to an extensive compliance monitoring regime consistent with the State's financial management principles and financial risk management framework. Several external entities are responsible for monitoring, supervising and reporting on TCV's activities including:

- Treasurer of Victoria – Member of Parliament and TCV's sole shareholder
- Prudential Supervisor - reports to the Treasurer. Oversees TCV's risk framework and provides independent advice to the Treasurer on the financial health, risks and risk management policies of TCV's operations. The Treasurer has currently appointed KPMG as TCV's Prudential Supervisor
- Department of Treasury and Finance - reports to the Treasurer. Maintains a shareholder monitoring role and manages the Prudential Supervision relationship with TCV
- Prudential Auditor - reports to the Prudential Supervisor and DTF. Ensures information reported to the Prudential Supervisor by TCV is accurate and that prudential requirements have been met. The Treasurer has currently appointed PricewaterhouseCoopers to undertake this role
- Auditor-General - reports to Parliament. Provides an independent audit of TCV's financial report and expresses an opinion on it to the Members of the Parliament of Victoria, the responsible Ministers and TCV's Board, as required by the *Audit Act* 1994. The Auditor-General has currently appointed Ernst & Young to provide audit assistance
- Minister for Finance – Member of Parliament. Monitors TCV's compliance with the State's financial and tax reporting and accountability framework via DTF's annual compliance certification process.

## Regulatory Compliance and Disclosures

### Treasury Corporation of Victoria Act 1992 (Victoria)

The TCV Act establishes TCV and sets out its objectives, functions and powers. The TCV Act was reprinted on 3 November 2003. Amending Acts since the reprint include the *Port Services (Port Management Reform) Act 2003*, the *Public Administration Act 2004* and the *Statute Law (Further Revision) Act 2006*.

### Borrowing and Investment Powers Act 1987 (Victoria)

TCV's power to borrow, invest and undertake financial arrangements is conferred under this Act.

### Financial Management Act 1994 (Victoria) and Financial Reporting Directions

This annual report has been prepared in accordance with this Act. Information in respect of Financial Reporting Directions 22A (FRD22A) of the Minister for Finance under the Act which is not contained in this annual report has been prepared and is available to the Treasurer, Members of Parliament and the public on request. In terms of FRD22A, there have been no significant events subsequent to balance date.

### Public Administration Act 2004 (Victoria)

The Corporation is a 'public entity' as defined in the *Public Administration Act 2004*. As a public entity, TCV is required to observe the public sector values and employment principles contained in the Act and to comply with codes of conduct and certain whole-of-government policies established by it. TCV must also keep and make readily available to its Directors documents required to be kept by standard entities under the Act.

### Freedom of Information Act 1982 (Victoria)

Pursuant to section 40 of the TCV Act, TCV is not and is not eligible to be declared to be, an agency or prescribed authority within the meaning of the *Freedom of Information Act 1982*.

### Equal Opportunity and Discrimination Legislation

TCV is subject to Commonwealth and State legislation prohibiting unlawful discrimination and harassment. TCV is a proponent of equal opportunity in the workplace and staff selection is based on skills, competence and experience. Equal opportunity policies are regularly reviewed and updated and a staff awareness program is in place. All employees and potential employees are entitled

to be treated with dignity, free from discrimination of any kind.

TCV is committed to continued action to ensure opportunity for all people regardless of age, gender, marital status, personal appearance, pregnancy, sexuality, race, religion or national origin. TCV encourages and supports the principles of Affirmative Action.

TCV considers sexual harassment, harassment, bullying and discrimination unacceptable forms of behaviour that will not be tolerated under any circumstances. TCV believes that all people have the right to work in an environment that is free of harassment and discrimination of any kind.

### Occupational Health and Safety and Accident Compensation Legislation

TCV is subject to the employer obligations contained in the *Occupational Health and Safety Act 2004 (Victoria)*.

TCV has in place occupational health and safety policies and procedures to ensure it complies with its obligations under the Act. TCV has an active Occupational Health and Safety Committee, comprising management and staff representatives, which facilitates consultation on health and safety matters.

TCV is committed to providing a safe and healthy workplace. As part of this commitment, TCV provides a Health and Fitness Program with a focus on education, prevention and participation. The program is available to all staff and addresses issues of interest and relevance to the working environment.

TCV is also required to comply with the *Accident Compensation (WorkCover Insurance) Act 1993* and the *Accident Compensation Act 1985*. TCV has in place a current WorkCover policy and maintains a register of injuries and WorkCover related issues, ensuring that staff are informed of procedures and processes.

TCV has a Risk Management and Occupational Rehabilitation program, which supports TCV staff.

In the event of a work related injury, TCV will endeavour to ensure the injury does not recur. Should a staff member incur a work related injury that means they are unable to continue their normal work, TCV will provide the necessary assistance for them to remain at work, or return to work as soon as it is safely possible.

During 2005-6, TCV received one workers' compensation claim and managed one case relating to risk management and occupational rehabilitation.

### Information Privacy Act 2000 (Victoria); Health Records Act 2001 (Victoria)

TCV is subject to the *Information Privacy Act 2000* which aims to protect personal information and

promote the transparent handling of personal information in the public sector. TCV is also subject to the *Health Records Act 2001* which aims to protect personal information contained in health records.

TCV supports the individual's right to privacy by:

- ensuring that the privacy of those members of the public who deal with TCV is assured
- ensuring that all staff members of TCV have their privacy respected.

All TCV staff receive training to ensure compliance with the *Information Privacy Act 2000*.

### Whistleblowers Protection Act 2001 (Victoria)

The Corporation is subject to the *Whistleblowers Protection Act 2001*, which commenced operation on 1 January 2002. The purpose of the Act is to encourage and facilitate the making of disclosures of improper conduct by public officers and public bodies. The Act provides protection to whistleblowers who make disclosures in accordance with the Act and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

TCV is committed to the aims and objectives of the Act. TCV does not tolerate improper conduct by its employees, officers or members, nor the taking of reprisals against those who come forward to disclose such conduct. TCV recognises the value of transparency and accountability in its administrative and management practices and supports the making of disclosures that reveal corrupt conduct or conduct involving mismanagement of public resources. TCV will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. TCV will also afford natural justice to the person who is the subject of the disclosure.

TCV has established procedures, based on guidelines issued by the Ombudsman to deal with disclosures of improper conduct or detrimental action by the Corporation, its Directors or its employees. The detailed procedures have been communicated to all employees and Directors and posted on TCV's internal intranet site which is accessible by all employees. A copy of the procedures is available for public inspection at TCV's offices, Level 12, 1 Collins Street, Melbourne, Victoria or via our website [www.tcv.vic.gov.au](http://www.tcv.vic.gov.au). All enquiries should be directed to the Corporation Secretary.

#### Report of Disclosures under the Whistleblowers Protection Act to 30 June 2006

	No. of Disclosures	Types of Disclosures
Disclosures made to TCV during 2005-06	Nil	–
Disclosures referred by TCV to the Ombudsman for determination as to whether they are public interest	Nil	–
Disclosed matters referred to TCV by the Ombudsman	Nil	–
Disclosed matters referred by TCV to the Ombudsman for investigation	Nil	–
Investigations of disclosed matters taken over by the Ombudsman from TCV	Nil	–
Requests made under section 74 to the Ombudsman to investigate disclosed matters	Nil	–
Disclosed matters that TCV has declined to investigate	Nil	–
Disclosed matters that were substantiated upon investigation and the action taken on completion of the investigation	Nil	–
Recommendations made by the Ombudsman that relate to TCV	Nil	–

### **Victorian Industry Participation Policy Act 2003 (Victoria)**

TCV is subject to the Victorian Industry Participation Policy (VIPP) which aims to provide opportunities for participation by local industry in projects, developments, procurements and other initiatives undertaken or funded, whether wholly or partially, by the State. Public bodies are required to apply VIPP in all tenders over \$3 million in metropolitan Melbourne and \$1 million in regional Victoria. In 2005-6, TCV did not tender any projects that met these value thresholds.

### **Competition Policies**

*The Trade Practices Act 1974 (Cth)*, *Fair Trading Act 1999 (Victoria)* and regulations thereunder apply to TCV. The Competitive Neutrality Policy of Victoria is also applicable to the Corporation. The Corporation is, however, excluded from the National Tax Equivalent Regime.

With the exception of income and certain withholding tax exemptions, the Corporation is subject to the usual Commonwealth and State taxes, charges and fees (eg. Goods and Services Tax, Payroll Tax, Fringe Benefits Tax, Transport Accident Corporation registration fees, Accident Compensation levy and Stamp duty).

### **Code of Conduct**

TCV has a code of conduct for all staff. This code is based on the code of ethics developed by the Australian Financial Markets Association and is supplemented by an addendum complying with the *Financial Management Act 1994*. Compliance with the code is a condition of each employee's employment and all staff are encouraged to use it as a frame of reference in their daily activities.

### **Staff Complement**

As at 30 June 2006, TCV employed 52.6 full-time equivalent (FTE) employees (2005: 57.1 FTE).

### **Superannuation**

All employees are eligible to be members of the TCV Superannuation Fund, an accumulation fund that was established in 1993 by TCV for the benefit of its employees in funding their retirement. The fund offers members a range of investment options and provides insurance cover against death or disablement. The fund is managed by a trustee company comprised of two member-elected directors and two TCV appointed directors.

### **Consultants**

In relation to the refurbishment of TCV's office, TCV appointed Architectus Pty Ltd for the provision of architectural and project management services. Total project fees approved were \$143,155 (exclusive of GST). Total expenditure for the reporting period was \$133,605 (exclusive of GST) and no additional contractual commitments have been made.

TCV also employs expert consultants for specific projects to maintain best practice in the finance industry. During 2005-06, 10 consultancies with fees totalling \$391,018 were undertaken.

## Financial Statements 2006

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## Income Statement

For the year ended 30 June 2006

	Note	2006 \$000s	2005 \$000s
<b>Income</b>	2(b), 3		
Interest income			990,979
Net realised and unrealised market movements			(15,357)
Net income from financial assets		667,558	
Fees and other income		7,916	7,801
		<b>675,474</b>	<b>983,423</b>
<b>Expenses</b>	2(b), 3		
Interest expense on borrowings			950,425
Net expense from financial liabilities		644,540	
Other borrowing related expenses		792	823
General administrative expenses		15,512	14,581
		<b>660,844</b>	<b>965,829</b>
<b>Net Profit</b>		<b>14,630</b>	<b>17,594</b>

This is the first financial report prepared based on Australian equivalents to International Financial Reporting Standards. AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement have been adopted for the year ended 30 June 2006. Comparatives for the year ended 30 June 2005 have not been restated.

This statement should be read in conjunction with the accompanying notes.

## Balance Sheet

As at 30 June 2006

	Note	2006 \$000s	2005 \$000s
<b>Assets</b>			
Cash and cash equivalents	5	4,576,829	4,255,437
Trade and other receivables		2,668	5,704
Accrued interest receivable	2(b)		177,897
Investments	2(d), 2(f), 6	3,213,710	3,396,477
Derivative financial instruments receivable	2(b),14	371,238	221,273
Loans to the State of Victoria and participating authorities	2(b), 7, 11	9,272,599	9,022,871
Property, plant and equipment	2(h),8	3,198	1,312
Intangible assets	2(i), 9	539	164
<b>Total Assets</b>		<b>17,440,781</b>	<b>17,081,135</b>
<b>Liabilities</b>			
Trade and other payables		4,260	3,834
Accrued interest payable	2(b)		237,572
Provisions	2(j),24	1,022	737
Derivative financial instruments payable	2(b),14	341,417	207,420
Deposits from public sector	10,11	4,179,294	4,525,341
Interest bearing liabilities – domestic	12	12,061,747	11,113,726
Interest bearing liabilities – offshore	13	712,232	854,623
<b>Total Liabilities</b>		<b>17,299,972</b>	<b>16,943,253</b>
<b>Net Assets</b>		<b>140,809</b>	<b>137,882</b>
<b>Equity</b>			
Contributed equity	4	30,000	30,000
Indexed based structure reserve	4		3,097
Retained earnings	4	110,809	104,785
<b>Total Equity</b>		<b>140,809</b>	<b>137,882</b>

This is the first financial report prepared based on Australian equivalents to International Financial Reporting Standards. AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement have been adopted for the year ended 30 June 2006. Comparatives for the year ended 30 June 2005 have not been restated.

This statement should be read in conjunction with the accompanying notes.

## Statement of Changes in Equity

As at 30 June 2006

	Note	2006 \$000s	2005 \$000s
<b>Total Equity at the Beginning of the Year</b>		<b>137,882</b>	<b>135,769</b>
Adjustment for the adoption of AASB 139 to retained earnings	4, 27	4,200	
<b>Restated Total Equity at the Beginning of the Year</b>		<b>142,082</b>	<b>135,769</b>
Profit for the period		14,630	17,594
<b>Total Recognised Income and Expense for the Year</b>		<b>14,630</b>	<b>17,594</b>
<b>Dividend Paid</b>	4	<b>15,903</b>	<b>15,481</b>
<b>Total Equity at the End of the Year</b>		<b>140,809</b>	<b>137,882</b>

This is the first financial report prepared based on Australian equivalents to International Financial Reporting Standards. AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement have been adopted for the year ended 30 June 2006. Comparatives for the year ended 30 June 2005 have not been restated.

This statement should be read in conjunction with the accompanying notes.

## Cash Flow Statement

For the year ended 30 June 2006

	Note	2006 \$000s	2005 \$000s
<b>Cash Flows from Operating Activities</b>			
Interest received from the State of Victoria and participating authorities		557,095	559,642
Interest paid on borrowings and deposits		(989,931)	(934,486)
Net cash received (paid) - market transactions		4,684	(11,812)
Interest received on investments and cash		458,274	429,120
Fees received		8,653	8,908
Cash paid to suppliers and employees		(14,973)	(14,388)
<b>Net Cash Inflow/(Outflow) from Operating Activities</b>	25(ii)	<b>23,802</b>	<b>36,984</b>
<b>Cash Flows from Investing Activities</b>			
Reduction/(Increase) in loans to the State of Victoria and participating authorities		(458,819)	(287,832)
Sale/(Purchase) of investments		183,218	(344,770)
Payments for property, plant and equipment		(2,469)	(433)
Payments for intangible assets		(593)	(75)
<b>Net Cash Inflow/(Outflow) from Investing Activities</b>		<b>(278,663)</b>	<b>(633,110)</b>
<b>Cash Flows from Financing Activities</b>			
Increase/(Reduction) in derivatives		(832)	(7,048)
Increase/(Reduction) in borrowings		947,886	(312,540)
Increase/(Reduction) in deposits from public sector		(354,898)	761,734
Dividend paid		(15,903)	(15,481)
<b>Net Cash Inflow/(Outflow) from Financing Activities</b>		<b>576,253</b>	<b>426,665</b>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>		<b>321,392</b>	<b>(169,461)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>		<b>4,255,437</b>	<b>4,424,898</b>
<b>Cash and Cash Equivalents at End of Year</b>	5	<b>4,576,829</b>	<b>4,255,437</b>

This statement should be read in conjunction with the accompanying notes.

## Notes to and Forming Part of the Financial Statements

### Note 1 Corporate Information

Treasury Corporation of Victoria (TCV or the Corporation) was established by the *Treasury Corporation of Victoria Act 1992* (the TCV Act) and commenced operations on 1 January, 1993. TCV is the State's central financing authority.

The nature of the operations and principal activities of TCV are described in Note 26.

The financial report of TCV for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Board on 17 August 2006.

### Note 2 Summary of Significant Accounting Policies

#### (a) Basis of Accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Accounting Standards, the requirements of the Financial Management Act 1994, and other mandatory professional reporting requirements.

The financial report has been prepared in accordance with the historical cost convention, except for financial assets and liabilities (refer Note 2(b)). The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000).

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on A-IFRS. Comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. The Corporation has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of A-IFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 27.

Summarised below are Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ending 30 June 2006:

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for TCV
New standard	AASB 7 Financial Instruments: Disclosures	No change to accounting policy required, therefore no impact	1 January 2007	1 July 2007
AASB 2005-1	AASB 139 Financial Instruments: Recognition and Measurement	No change to accounting policy required, therefore no impact	1 January 2006	1 July 2006
AASB 2005-5	AASB 1 First-time Adoption of A-IFRS; AASB 139 Financial Instruments: Recognition and Measurement	No change to accounting policy required, therefore no impact	1 January 2006	1 July 2006

## Note 2 Summary of Significant Accounting Policies (cont.)

ASSB 2005-10	AASB 132 Financial Instruments: Disclosures and Presentation; AASB 101 Presentation of Financial Statements; AASB 114 Segment Reporting; AASB 117 Leases; AASB 133 Earnings per Share; AASB 139 Financial Instruments: Recognition and Measurement; AASB 1 First-time Adoption of A-IFRS; AASB 4 Insurance Contracts; AASB 1023 General Insurance Contracts; and AASB 1038 Life Insurance Contracts.	No change to accounting policy required, therefore no impact	1 January 2007	1 July 2007
AASB 2006-1	AASB 121 The Effects of Changes in Foreign Exchange Rates	No change to accounting policy required, therefore no impact	31 December 2006	1 July 2006

\*Application date is for the annual reporting periods beginning on or after the date shown in the above table.

The following amendments are not applicable to the Corporation and therefore have no impact:

- AASB 2005-2, AASB 1023: General Insurance Contracts
- AASB 2005-6, AASB 3: Business Combinations
- AASB 2005-9, AASB 4: Insurance Contracts; AASB 1023: General Insurance Contracts; AASB: 139 Financial Instruments: Recognition and Measurement; AASB 132: Financial Instruments: Disclosures and Presentation
- AASB 2005-12, AASB 1038: Life Insurance Contracts and AASB 1023: General Insurance Contracts
- AASB 2005-13, AAS 25: Financial Reporting by Superannuation Plans

### (b) Income Recognition and Valuation

TCV has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments, financial assets and financial liabilities applicable for the years ending 30 June 2006 and 30 June 2005. The impact of the change in policy is disclosed in Note 4 and Note 27.

#### Accounting policies applicable for the year ending 30 June 2006

The Income Statement reflects the outcome of the integrated day to day management of the total financial exposures of TCV. Income primarily arises from realised and unrealised fair value gains and losses on assets and interest income. The expense primarily arises from realised and unrealised fair value gains and losses on liabilities and interest expense on borrowings. Income and expenses are incurred in the management of both physical and derivative positions. As all financial assets and liabilities are designated at fair value through profit and loss (see overpage), in the Income Statement, income derived from assets is reflected as "Net income from financial assets" and the expenses incurred in respect of liabilities is reflected as "Net expense from financial liabilities".

#### *Fee Income and Recoveries*

Fee income and recoveries include fees charged for advisory and administrative services together with recoveries from the State Government's budget sector and participating authorities and are used to contribute towards the administrative and borrowing expenses incurred by the Corporation. Fee income and recoveries are recognised as income on an accruals basis.

## Note 2 Summary of Significant Accounting Policies (cont.)

### *Financial Assets and Liabilities*

All financial assets and liabilities are designated at fair value through profit and loss. The designation, on initial recognition, was determined on the basis that TCV manages its financial assets and liabilities on a fair value basis in accordance with documented risk strategies and management information is provided internally on that basis.

Any unrealised profits and losses from revaluation are reported in the Income Statement. Transactions are recognised on a settlement date basis. However, unrealised gains and losses on unsettled transactions as at balance date (refer Note 22) are brought to account in the Income Statement.

Valuations are performed with reference to appropriate market sourced rates for the underlying asset or liability. Market rates for loans to authorities are based on rates commensurate with the TCV rate for similar securities.

Where assets and liabilities have offsetting market risks, mid market prices are utilised for establishing the fair values for offsetting market risks. Bid-offer spreads are applied to net open positions.

### *Significant Accounting Judgements, Estimates and Assumptions*

Where the market for a security is not active, fair value is established by using techniques consistent with accepted methodologies for pricing financial instruments, periodically tested against observable market data or transactions as available.

## **Accounting policies applicable for the year ending 30 June 2005**

### *Income*

Income reflects the outcome of the integrated day to day management of the total financial exposures of TCV. This income arises from the aggregate of interest income, realised gains and losses, and unrealised gains and losses incurred in the management of both physical and derivative positions.

### *Fee Income and Recoveries*

Fee income and recoveries include fees charged for advisory and administrative services together with recoveries from the State Government's budget sector and participating authorities and are used to contribute towards the administrative and borrowing expenses incurred by the Corporation.

### *Interest income*

Interest income is recognised as it accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate.

### *Financial instruments*

Financial instruments in the Balance Sheet are stated at market value representing net fair value except for certain indexed based structures as detailed below. Any unrealised profits and losses from revaluation are reported in the Income Statement. Transactions are recognised on a settlement date basis. However, unrealised gains and losses on unsettled transactions as at balance date (refer Note 22) are brought to account in the Income Statement.

Market valuations are performed with reference to appropriate market sourced rates for the underlying asset or liability. Market rates for loans to authorities are based on rates commensurate with the TCV rate for similar securities.

Certain indexed based structures are accounted for on the historical cost basis. The structures consist of capital indexed bonds, indexed annuity bonds and an indexed swap; each underlying instrument differs as to the recognition of the applicable indexation subsequent to a CPI release date. The treatment of indexation reflects the underlying economic substance of the transactions accounted for on the historical cost basis by ensuring that the quarterly CPI changes are applied to both the assets and liabilities through to maturity. In accounting for these instruments, under historical cost, the policy is to align the recognition of indexation for each instrument. An adjustment is created for the last period prior to maturity where the capital indexed bonds will not receive indexation, in comparison to the indexed annuity bonds which will be impacted. This adjustment is reviewed annually. A further adjustment is made to the current financial year results to reflect the timing differences in the indexation recognition.

## Note 2 Summary of Significant Accounting Policies (cont.)

### *Derivative Financial Instruments*

TCV enters into derivative financial instruments, as outlined in Note 14, to manage the market risks inherent in its asset and liability management activities.

Those derivative instruments used to manage market risk are valued to market on a daily basis and the resulting profits and losses recognised in the Income Statement. On settlement, the realised gains and losses resulting from derivative instruments are reported immediately in the Income Statement. Derivative financial instruments are shown in the financial statements as gross amounts.

### *Amortisation of Discount/Premiums*

Discounts and premiums on assets (including loans to participating authorities) and liabilities are amortised over the term of the asset or liability on historical or constant yield basis, with the amortisation being taken to the Income Statement.

### **(c) Borrowing Costs**

Borrowing costs are recognised as an expense when incurred.

### **(d) Assets and Liabilities**

Assets and liabilities are classified according to their nature and presented in an order that reflects relative liquidity. Transactions involving financial instruments sold, but not yet purchased, entail an obligation to purchase a financial instrument at a future date. Securities sold short are generally Commonwealth or state government issues that are actively traded in the market and for which suitable liquidity exists.

### **(e) Debt and Loans Reconstruction**

TCV debt securities may be repurchased from the market and cancelled. Similarly, loans to authorities may be repaid before maturity and replaced with new loans. Gains and losses associated with these repurchases/prepayments are recognised immediately in the Income Statement.

### **(f) Stock Lending**

#### **Accounting policies applicable for the year ending 30 June 2006**

At 30 June 2006, there were no stocks on issue secured by the provision of substitute stock.

#### **Accounting policies applicable for the year ending 30 June 2005**

The issue of stock secured by the provision of substitute stock of the Commonwealth Government or a state government is accounted for at face value in the Statement of Financial Position as a liability under 'Interest Bearing Liabilities – Domestic'. An equivalent amount, being the amount of stock to be paid back, is shown as an asset under 'Investments'.

### **(g) Foreign Currency Translation**

Assets, liabilities and associated hedging arrangements denominated in foreign currencies are initially converted at the rate of exchange ruling at the date of the transaction and are translated using rates of exchange ruling at the end of the financial year.

Net unrealised gains and losses arising from translation of foreign currency assets and liabilities are brought to account in the Income Statement.

### **(h) Property, Plant and Equipment**

#### **Accounting policies applicable for the year ending 30 June 2006**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment.

Depreciation of property, plant and equipment is calculated on a straight line basis using rates designed to allocate the cost over the expected useful life of the asset. Property, plant and equipment are, in general, amortised over five years, except for computer hardware which is amortised over the estimated useful life of three years.

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

## Note 2 Summary of Significant Accounting Policies (cont.)

Impairment losses are recognised in the income statement in the general administrative expenses line item.

### Accounting policies applicable for the year ending 30 June 2005

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation of property, plant and equipment is calculated on a straight line basis using rates designed to allocate the cost over the expected useful life of the asset. Property, plant and equipment are, in general, amortised over five years, except for computer hardware and software costs which are amortised over estimated useful life of three years.

#### (i) Intangible Assets

### Accounting policies applicable for the year ending 30 June 2006

Intangible assets are stated at cost less accumulated amortisation and impairment.

Amortisation of intangible assets is calculated on a straight line basis using rates designed to allocate the cost over the expected useful life of the asset. Software costs are amortised over the estimated useful life of three years.

The carrying values of intangible assets are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the general administrative expenses item.

### Accounting policies applicable for the year ending 30 June 2005

Intangibles are stated at cost less accumulated amortisation. Amortisation of intangibles is calculated on a straight line basis using rates designed to allocate the cost over the expected useful life of the asset. Computer software costs are amortised over an estimated useful life of three years.

#### (j) Provisions

Provisions are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event, when it is probable that an expense will be incurred and a reliable estimate can be made of the amount of the expenditure.

An obligation to pay a dividend only arises after consultation between the Board and the Treasurer. Following this consultation a formal determination is made by the Treasurer. This process has not yet been completed at the reporting date with respect to the year ended 30 June 2006.

#### (k) Employee leave benefits

##### Salaries, annual leave and sick leave

The liability for salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. The liabilities are measured at the amount expected to be paid when they are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

##### Long service leave

Liabilities arising in respect to long service leave are based on contractual requirements and assessments having regard to staff departures, leave utilisation, future salary increases and appropriate discount factors. Long service leave is payable, pro-rata, to employees with more than seven completed years of recognised service.

#### (l) Repurchase Agreements

### Accounting policies applicable for the year ending 30 June 2006

Financial assets sold under repurchase agreements continue to be recognised as financial assets as TCV retains the contractual right to receive the cash flows of the financial assets sold and substantially retains the risks and rewards of ownership. Financial assets purchased under repurchase agreements are not recognised as financial assets as TCV does not receive the contractual right to receive cash flows.

Interest on the counterparty loan/deposit is taken to income in the Income Statement.

## Note 2 Summary of Significant Accounting Policies (cont.)

### Accounting policies applicable for the year ending 30 June 2005

Securities sold/purchased under repurchase agreements are retained in the financial statements and a counterparty asset/liability is disclosed under the classification Cash and Cash Equivalents : receivables from financial institutions / Interest Bearing Liabilities - Domestic: payables to market participants. Interest on the counterparty loan/deposit is charged to income and expenditure in the Income Statement.

#### (m) Cash and Cash Equivalents

Cash and cash equivalents include 11am deposits with financial institutions and liquid investments maturing in less than three months.

#### (n) Receivables and payables

### Accounting policies applicable for the year ending 30 June 2006

#### Receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that TCV will not be able to collect the debts. Bad debts are written off when identified.

#### Payables

Trade and other payables are carried at amortised costs and represent liabilities for goods and services provided to TCV prior to the end of the financial year that are unpaid and arise when the Corporation becomes obliged to make future payments in respect of the purchase of these goods and services.

### Accounting policies applicable for the year ending 30 June 2005

#### Receivables

Interest receivable/payable is accrued in accordance with the terms and conditions of the underlying financial instruments.

Trade receivables are carried at amounts due. The collectibility of debts is assessed at balance date.

#### Payables

Trade and other payables represent liabilities for goods and services provided prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of falling due.

#### (o) Goods and Services Tax

TCV predominantly provides input taxed supplies and, as such, expense items disclosed where appropriate are inclusive of non recoverable GST.

#### (p) Leases

##### Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

#### (q) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. The Corporation has adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 and AASB 139 to the comparative period.

### Note 3 Income and Expense Items

	<b>2006</b>	<b>2005</b>
	<b>\$000s</b>	<b>\$000s</b>
<b>Interest Income <sup>(1)</sup></b>		
Interest income on cash assets	248,172	256,744
Interest income on investments	186,896	188,342
Interest income on loans to participating authorities	560,708	545,893
	<b>995,776</b>	<b>990,979</b>
<b>Interest Expense on Borrowings <sup>(2)</sup></b>	(946,125)	(950,425)
<b>Net Realised and Unrealised Market Movements</b>		(15,357)
<b>Realised and Unrealised Market Movements of Financial Assets <sup>(1)</sup></b>	(328,218)	
<b>Realised and Unrealised Market Movements of Financial Liabilities <sup>(2)</sup></b>	301,585	
<b>Net Income from Management of Financial Instruments</b>	23,018	25,197
<b>Fees and Other Income</b>	7,916	7,801
	<b>30,934</b>	<b>32,998</b>
<b>Other Borrowing Related Expenses</b>		
Bank and facility fees	152	174
Rating agency fees	424	447
Registry and agency fees	63	76
Other costs	153	126
	<b>792</b>	<b>823</b>
<b>General Administrative Expenses</b>		
Salaries and related employee expenses	8,881	8,355
Depreciation of property plant and equipment	583	481
Amortisation of intangible assets	218	494
Professional fees and contract services	1,812	1,709
Minimum operating lease payments	517	461
Power and other occupancy costs	144	121
Market information services	714	700
Promotional expenses	222	176
Legal costs	232	154
Insurance	179	373
Information technology	1,445	1,216
Other expenses	565	341
	<b>15,512</b>	<b>14,581</b>
<b>Net Profit</b>	<b>14,630</b>	<b>17,594</b>

(1) Included in "Net income from financial assets" in the 2006 Income Statement

(2) Included in "Net expense from financial liabilities" in the 2006 Income Statement

## Note 4 Equity

### Contributed Equity

	2006 \$000s	2005 \$000s
<b>Contributed Equity</b>	<b>30,000</b>	<b>30,000</b>

The Contributed equity of the Corporation is in accordance with Clause 36 "Initial Capital of Corporation" of the TCV Act which states that "The Treasurer may, in respect of the financial year ending on 30 June 1993, pay to the Corporation as initial capital such amount, not exceeding \$30,000,000 as the Treasurer determines".

### Retained Earnings

	2006 \$000s	2005 \$000s
Retained earnings - opening balance	104,785	19,266
Adjustment for the adoption of AASB 139 to retained earnings:		
- Application of bid-offer spreads to net open positions	(3,846)	
- Valuation of indexed based structures, previously valued at historical cost, at fair value	8,046	
	108,985	19,266
Net profit	14,630	17,594
Transfer from general reserve		85,000
Transfer from / (to) indexed based structure reserve	3,097	(1,594)
Dividend paid	(15,903)	(15,481)
<b>Retained Earnings - Closing Balance</b>	<b>110,809</b>	<b>104,785</b>

It is TCV's policy to maintain an adequate capital level, including sufficient retained earnings to mitigate the risks inherent in its business activities.

TCV follows the Treasurer's guidelines which are based on Australian Prudential Reporting Authority capital adequacy guidelines. The capital adequacy of the Corporation remains under constant review by management and Board. The actual level of capital required will vary according to transactional volume and type, and financial market conditions. As at balance date and for the entire financial period, TCV's capital adequacy level exceeded the minimum requirement of the Treasurer's guidelines.

### Dividend

Under Section 31 of the TCV Act, TCV is required to pay dividends to the Government of Victoria, as the Treasurer shall determine. At 30 June 2006, no dividend (2005: nil) has been provided for in the accounts of TCV. The Treasurer, however, has requested that in 2006-07 the Corporation repatriate capital from retained earnings in addition to its annual dividend. At the date of signing these financial statements, a formal determination/direction has not been received.

A dividend of \$15.903 million relating to the financial year ended 30 June 2005 was determined, declared and paid during the financial year.

### Indexed Based Structure Reserve

	2006 \$000s	2005 \$000s
Indexed based structure reserve - opening balance	3,097	1,503
Transfer from / (to) retained earnings	(3,097)	1,594
<b>Indexed Based Structure Reserve - Closing Balance</b>	<b>-</b>	<b>3,097</b>

Prior to 1 July 2005, the indexed based structure reserve was established to support certain indexed based structures, accounted for on a historical cost basis. All financial assets and liabilities were designated at fair value through profit and loss effective 1 July 2005. The reserve was transferred to retained earnings effective 30 June 2006.

## Note 5 Cash and Cash Equivalents

Contractual maturity in:	At call	Less than 3 months	Total
	\$000s	\$000s	\$000s
<b>2006</b>			
Cash at bank and on hand	4,645		4,645
Deposits with futures clearing house	1,721		1,721
Receivables from financial institutions	878,432	2,736	881,168
Short term discounted securities		3,689,295	3,689,295
<b>Total Cash and Cash Equivalents</b>	<b>884,798</b>	<b>3,692,031</b>	<b>4,576,829</b>

Contractual maturity in:	At call	Less than 3 months	Total
	\$000s	\$000s	\$000s
<b>2005</b>			
Cash at bank and on hand	10,223		10,223
Deposits with futures clearing house	3,449		3,449
Receivables from financial institutions	481,000	1,944	482,944
Short term discounted securities		3,758,821	3,758,821
<b>Total Cash and Cash Equivalents</b>	<b>494,672</b>	<b>3,760,765</b>	<b>4,255,437</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Deposits with futures clearing house earns interest at floating rates.

Receivables from financial institutions are made for varying periods of between one day and three months and earn interest at the respective floating or short-term deposit rates.

## Note 6 Investments

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2006</b>						
Floating rate securities	15,904	135,967	277,371	814,709	149,320	1,393,271
Short term discounted securities		166,159				166,159
Offshore issued securities	20,401					20,401
Fixed interest securities	15,315	120,142	217,692	432,762	10,091	796,002
Treasurer guaranteed investments <sup>(1)</sup>	7,006	20,226	25,611	68,338	304,967	426,148
Index linked securities				139,211	272,518	411,729
<b>Total Investments</b>	<b>58,626</b>	<b>442,494</b>	<b>520,674</b>	<b>1,455,020</b>	<b>736,896</b>	<b>3,213,710</b>

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2005</b>						
Stock lending	1,000					1,000
Floating rate securities	30,226	15,828	136,406	553,442		735,902
Short term discounted securities		207,694				207,694
Offshore issued securities	133,949					133,949
Fixed interest securities	51,130	6,928	288,445	814,888	183,945	1,345,336
Treasurer guaranteed investments <sup>(1)</sup>	1,485	20,606	25,866	69,953	296,419	414,329
Index linked securities					66,070	66,070
Index linked securities at historical cost <sup>(2)</sup>		2,134			490,063	492,197
<b>Total Investments</b>	<b>217,790</b>	<b>253,190</b>	<b>450,717</b>	<b>1,438,283</b>	<b>1,036,497</b>	<b>3,396,477</b>

<sup>(1)</sup> TCV's investment powers, approved by the Governor in Council provide, inter alia, that an approved manner of investment is 'the making or acquisition of a loan or advance to any corporation where such loan or advance is at all times guaranteed as to both principal and interest by the Treasurer of the State of Victoria or the government of either the Commonwealth, a state or territory'. At 30 June 2006, this includes investments in Melbourne Cricket Club (\$344.45 million, 2005: \$325.6 million), Werribee Park National Equestrian Centre Inc. (\$0.18 million, 2005: \$0.2 million) and St. Vincent's Hospital (Melbourne) Limited (\$81.52 million, 2005: \$88.5 million).

<sup>(2)</sup> Certain indexed based structures were accounted for on an historical cost basis prior to 1 July 2005. See note 2 (b).

## Note 7 Loans to the State of Victoria and Participating Authorities

Section 8(1) of the TCV Act states that one of the functions of the Corporation is to provide financial accommodation to a participating authority or the State of Victoria. Loans to participating authorities are guaranteed as to both principal and interest by the Treasurer of the State of Victoria. All the loans and advances are conducted in the ordinary course of TCV's business and are entered into upon commercial terms and conditions. Outstanding loans at balance date, by contractual maturity, are categorised as follows:

	At call	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2006</b>							
Overnight & short term cash	110,049						110,049
Short term discounted loans		38,707	99,126				137,833
Floating rate loans		33,588	27,674	60,150	125,471		246,883
Fixed interest loans		573,566	441,207	774,066	2,291,073	4,311,788	8,391,700
Index linked loans					16,966	369,168	386,134
<b>Total Loans to Participating Authorities</b>	<b>110,049</b>	<b>645,861</b>	<b>568,007</b>	<b>834,216</b>	<b>2,433,510</b>	<b>4,680,956</b>	<b>9,272,599</b>
<b>2005</b>							
Overnight & short term cash	81,080						81,080
Short term discounted loans		33,539	71,604				105,143
Floating rate loans			25,019	61,033	75,104		161,156
Fixed interest loans		503,404	398,028	760,407	2,254,863	4,222,785	8,139,487
Index linked loans		41,807	3,076		23,066	358,245	426,194
Fixed interest loans at historical cost <sup>(1)</sup>		275	909	1,414	5,791	101,422	109,811
<b>Total Loans to Participating Authorities</b>	<b>81,080</b>	<b>579,025</b>	<b>498,636</b>	<b>822,854</b>	<b>2,358,824</b>	<b>4,682,452</b>	<b>9,022,871</b>

<sup>(1)</sup> Certain indexed based structures were accounted for on the historical cost basis prior to 1 July 2005. See note 2 (b).

Refer to Note 11 for details of loans by client.

## Note 8 Property, Plant and Equipment

	<b>2006</b>	<b>2005</b>
	<b>\$000s</b>	<b>\$000s</b>
Leasehold improvements, office equipment, furniture and fittings	2,762	1,177
Accumulated depreciation	<u>(708)</u>	<u>(1,103)</u>
	2,054	74
Computer equipment	1,826	1,639
Accumulated depreciation	<u>(1,531)</u>	<u>(1,307)</u>
	295	332
Motor vehicles	1,056	1,104
Accumulated depreciation	<u>(207)</u>	<u>(198)</u>
	849	906
<b>Written Down Value</b>	<b><u>3,198</u></b>	<b><u>1,312</u></b>

### Reconciliation of Property, Plant & Equipment

	<b>2006</b>	<b>2005</b>
	<b>\$000s</b>	<b>\$000s</b>
<b>Leasehold Improvements, Office Equipment, Furniture and Fittings</b>		
Opening balance	74	97
Acquisitions	2,121	19
Disposals	(3)	
Depreciation expense	<u>(138)</u>	<u>(42)</u>
Closing balance	<b><u>2,054</u></b>	<b><u>74</u></b>
<b>Computer Equipment</b>		
Opening balance	332	412
Acquisitions	186	164
Disposals		
Depreciation expense	<u>(223)</u>	<u>(244)</u>
Closing balance	<b><u>295</u></b>	<b><u>332</u></b>
<b>Motor Vehicles</b>		
Opening balance	906	851
Acquisitions	540	604
Disposals	(375)	(354)
Depreciation expense	<u>(222)</u>	<u>(195)</u>
Closing balance	<b><u>849</u></b>	<b><u>906</u></b>
<b>Total</b>	<b><u>3,198</u></b>	<b><u>1,312</u></b>

Depreciation rates used are 33% in respect of computer equipment and 20% in respect of other classes of Property, Plant and Equipment.

## Note 9 Intangible Assets

	2006 \$000s	2005 \$000s
Computer software	5,446	4,853
Accumulated amortisation	(4,907)	(4,689)
<b>Written Down Value</b>	<b>539</b>	<b>164</b>

### Reconciliation of Intangible Assets

	2006 \$000s	2005 \$000s
<b>Computer Software</b>		
Opening balance	164	583
Acquisitions	593	75
Amortisation expense	(218)	(494)
Closing balance	<b>539</b>	<b>164</b>

Amortisation rates are 33% in respect of computer software.

## Note 10 Deposits from Public Sector

Deposits from the public sector consist of short term deposit takings from public sector departments and agencies with maturities up to one year. Deposits at balance date, by contractual maturity, are categorised as follows:

	At call \$000s	Less than 3 months \$000s	3 months to 1 year \$000s	Total \$000s
<b>2006</b>				
Deposits from public sector	3,218,645	947,981	12,668	4,179,294
	At call \$000s	Less than 3 months \$000s	3 months to 1 year \$000s	Total \$000s
<b>2005</b>				
Deposits from public sector	2,988,159	1,529,214	7,968	4,525,341

Refer to Note 11 for details of deposits by client.

## Note 11 Client Loans and Deposits Outstanding

	2006	2006	2005	2005
	Loans	Deposits	Loans	Deposits
	\$000s	\$000s	\$000s	\$000s
<b>State of Victoria</b>	5,445,782	(1,508,894)	5,521,869	(1,372,092)
<b>Participating Authorities:</b>				
Melbourne Water Corporation	1,261,398	(959)	1,197,082	
Yarra Valley Water Limited	749,925		653,550	
South East Water Limited	413,677		389,051	
Rural Finance Corporation of Victoria	515,415		435,616	
City West Water Limited	269,288	(154)	237,679	
Port of Melbourne Corporation	78,614	(5,744)	64,254	(24,984)
State Electricity Commission of Victoria		(339,866)		(357,862)
VicUrban	186,256		190,191	
Rolling Stock Holdings (Victoria) P/L	122,542	(851)	112,968	(4,146)
Department of Human Services		(104,102)		(77,784)
Other participating authorities	229,702	(250,975)	220,611	(239,380)
<b>Public Sector Entities:</b>				
State Superannuation Fund				(1,218,376)
Emergency Services Superannuation Scheme		(697,986)		
Victorian Funds Management Corporation		(6,001)		(327,000)
Victorian Government Trust Funds		(854,514)		(499,133)
Other public sector entities		(362,800)		(349,799)
<b>Other</b>		(46,448)		(54,785)
	<b>9,272,599</b>	<b>(4,179,294)</b>	<b>9,022,871</b>	<b>(4,525,341)</b>

The above are shown at fair values (2005: market values) and may differ from the disclosure by individual participating authorities and public sector bodies depending on their accounting basis.

## Note 12 Interest Bearing Liabilities - Domestic

Financial accommodation obtained by TCV pursuant to Sections 8 and 9 of the *Borrowing and Investment Powers Act 1987* has the benefit of the guarantee of the Government of Victoria contained in Section 32 of the TCV Act.

Contractual maturity in:	At call	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2006</b>							
<b>Benchmark Programs</b>							
Domestic Inscribed Stock <sup>(1)</sup>					3,408,155	4,418,598	7,826,753
TCV Promissory Notes		993,146					993,146
<b>Total Benchmark Programs</b>	<b>-</b>	<b>993,146</b>	<b>-</b>	<b>-</b>	<b>3,408,155</b>	<b>4,418,598</b>	<b>8,819,899</b>
<b>Domestic Borrowings – Other</b>							
Payables to market participants	66,841	9,410					76,251
TCV fixed interest		10,025	1,884,904	11,788	56,699	45,230	2,008,646
Commonwealth Government loans			707	662	1,386	1,318	4,073
Indexed linked securities					20,089	1,132,789	1,152,878
<b>Total Domestic Borrowings - Other</b>	<b>66,841</b>	<b>19,435</b>	<b>1,885,611</b>	<b>12,450</b>	<b>78,174</b>	<b>1,179,337</b>	<b>3,241,848</b>
<b>Total Domestic Borrowings</b>	<b>66,841</b>	<b>1,012,581</b>	<b>1,885,611</b>	<b>12,450</b>	<b>3,486,329</b>	<b>5,597,935</b>	<b>12,061,747</b>
<b>2005</b>							
<b>Benchmark Programs</b>							
Domestic Inscribed Stock <sup>(1)</sup>				1,716,460	1,827,216	5,228,978	8,772,654
TCV Promissory Notes		544,378	209,558				753,936
<b>Total Benchmark Programs</b>	<b>-</b>	<b>544,378</b>	<b>209,558</b>	<b>1,716,460</b>	<b>1,827,216</b>	<b>5,228,978</b>	<b>9,526,590</b>
<b>Domestic Borrowings – Other</b>							
Payables to market participants	111,060	14,932					125,992
Stock lending		1,000					1,000
TCV fixed interest		15,427	47,889	150,146	37,581	58,292	309,335
Commonwealth Government loans			715	675	1,681	1,690	4,761
Indexed linked securities		17,996	4,511		9,119	561,740	593,366
Indexed linked securities at historical cost <sup>2</sup>						552,682	552,682
<b>Total Domestic Borrowings - Other</b>	<b>111,060</b>	<b>49,355</b>	<b>53,115</b>	<b>150,821</b>	<b>48,381</b>	<b>1,174,404</b>	<b>1,587,136</b>
<b>Total Domestic Borrowings</b>	<b>111,060</b>	<b>593,733</b>	<b>262,673</b>	<b>1,867,281</b>	<b>1,875,597</b>	<b>6,403,382</b>	<b>11,113,726</b>

(1) This amount is net of \$78.21 million (2005: \$80.66 million) of Domestic Inscribed Stock held by TCV for secondary market purposes.

(2) Certain indexed based structures were accounted for on the historical cost basis prior to 1 July 2005. See note 2 (b).

## Note 12 Interest Bearing Liabilities - Domestic

TCV Promissory Notes are electronic promissory notes issued under the AUD\$2,500,000,000 Commercial Paper Program with a maturity of 30 days to 1 year.

Domestic Inscribed Stock pay a fixed interest coupon with varying maturities:

- 7.5% coupon with a maturity of 15 August 2008
- 5.5% coupon with a maturity of 15 September 2010
- 6.25% coupon with a maturity of 15 October 2012
- 4.75% coupon with a maturity of 15 October 2014
- 5.75% coupon with a maturity of 15 November 2016
- 6.0% coupon with a maturity of 17 October 2022

Payables to market participants consist of non public sector short term deposit takings with maturities up to one year.

## Note 13 Interest Bearing Liabilities - Offshore

Financial accommodation obtained by TCV pursuant to Section 9 of the *Borrowing and Investment Powers Act* 1987, has the benefit of the guarantee of the Government of Victoria contained in Section 32 of the TCV Act.

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2006</b>						
Euro Commercial Paper	186,238					186,238
Eurobonds	13,106	59,867	132,075	229,431	91,515	525,994
<b>Total Offshore Borrowings</b>	<b>199,344</b>	<b>59,867</b>	<b>132,075</b>	<b>229,431</b>	<b>91,515</b>	<b>712,232</b>

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2005</b>						
Euro Commercial Paper	121,124					121,124
Eurobonds		127,116	106,401	335,334	164,648	733,499
<b>Total Offshore Borrowings</b>	<b>121,124</b>	<b>127,116</b>	<b>106,401</b>	<b>335,334</b>	<b>164,648</b>	<b>854,623</b>

Euro Commercial Paper are negotiable instruments issued by TCV under the AUD\$2,000,000,000 multi-currency Euro Commercial Paper Program with a maturity of 30 days to 1 year.

Eurobonds are issued by TCV under the USD\$3,000,000,000 Euro Medium Term Note Program with the exception of Eurobonds issued by the State Electricity Commission of Victoria 'Shell' (SECV) under an 'in-substance' defeasance arrangement with TCV.

## Note 14 Derivative Financial Transactions Payable and Receivable

TCV enters into derivative financial instruments such as exchange traded futures and options, forward rate agreements, swaps and forward foreign exchange contracts to manage the interest rate and currency risk inherent in the borrowing and asset management activities of the Corporation.

Forward rate agreements are entered into with expiration terms ranging out to 12 months.

Interest rate swap contracts include fixed, floating and indexed cashflows. These net cashflows may occur monthly, quarterly, semi annually and annually. Maturity of outstanding swaps range from less than six months to greater than five years. Maturity and interest rate risk information for forward rate agreements and interest rate swaps is disclosed in this Note and under Note 17.

Currency swap contracts include cashflows on a quarterly, semi annual or annual basis. Maturity of outstanding swaps range from less than six months to less than two years. Currency swaps have been entered into to swap cashflows on underlying borrowings and investments in foreign currency to Australian dollar cashflows.

Forward foreign exchange contracts and foreign exchange swaps are used in the management of TCV's offshore borrowings and client requirements. Outstanding forward foreign exchange contracts and foreign exchange swaps have maturity dates ranging from less than three months to less than one year. TCV does not maintain any significant net foreign exchange exposure.

The fair value of the Corporation's transactions in derivative financial instruments outstanding at the year end are as follows:

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2006</b>						
<b>Derivative Financial Instruments Receivable</b>						
Cross currency swaps		65,030				65,030
Interest rate swaps	665	35,382	5,141	42,098	34,668	117,954
Forward foreign exchange contracts	157	837				994
Exchange traded futures	148	125				273
FX swap position receivable	186,987					186,987
<b>Total Derivative Receivable</b>	<b>187,957</b>	<b>101,374</b>	<b>5,141</b>	<b>42,098</b>	<b>34,668</b>	<b>371,238</b>
<b>Derivative Financial Instruments Payable</b>						
Cross currency swaps		(62,111)				(62,111)
Interest rate swaps	(558)	(34,457)	(4,798)	(42,804)	(7,542)	(90,159)
Forward foreign exchange contracts	(156)	(831)				(987)
Exchange traded futures	(101)					(101)
FX swap position payable	(188,059)					(188,059)
<b>Total Derivative Payable</b>	<b>(188,874)</b>	<b>(97,399)</b>	<b>(4,798)</b>	<b>(42,804)</b>	<b>(7,542)</b>	<b>(341,417)</b>

## Note 14 Derivative Financial Transactions Payable and Receivable (cont.)

The market value of the Corporation's transactions in derivative financial instruments outstanding at 30 June 2005 are as follows:

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2005</b>						
<b>Derivative Financial Instruments Receivable</b>						
Cross currency swaps			64,234			64,234
Interest rate swaps	95	750	10,189	12,977	9,524	33,535
Forward foreign exchange contracts	156	453	956			1,565
Forward rate agreements						
Exchange traded futures	172					172
FX swap position receivable	121,767					121,767
<b>Total Derivative Receivable</b>	<b>122,190</b>	<b>1,203</b>	<b>75,379</b>	<b>12,977</b>	<b>9,524</b>	<b>221,273</b>
<b>Derivative Financial Instruments Payable</b>						
Cross currency swaps			(60,921)			(60,921)
Interest rate swaps	(21)	(381)	(7,168)	(15,520)	(836)	(23,926)
Forward foreign exchange contracts	(156)	(451)	(950)			(1,557)
Forward rate agreements						
Exchange traded futures		(10)	(11)			(21)
FX swap position payable	(120,995)					(120,995)
<b>Total Derivative Payable</b>	<b>(121,172)</b>	<b>(842)</b>	<b>(69,050)</b>	<b>(15,520)</b>	<b>(836)</b>	<b>(207,420)</b>

## Note 15 Financial Liabilities at Fair Value

	Fair Value <sup>(1)</sup>	Principal Owing at Maturity <sup>(2)</sup>	Variance
	\$000s	\$000s	\$000s
Deposits from public sector	4,179,294	4,170,468	8,826
Interest bearing liabilities – domestic <sup>(3)</sup>	12,061,747	11,970,599	91,148
Interest bearing liabilities – offshore	712,232	765,699	(53,467)

(1) Fair value is inclusive of interest due at 30 June 2006.

(2) Principal owing at maturity is the amount TCV is contractually required to pay at maturity, to the holder of the obligation, exclusive of interest due.

(3) Interest bearing liabilities – domestic includes indexed linked securities. For the purposes of this note, the principal owing for indexed linked securities is assumed to equal the principal owing at 30 June 2006.

## Note 16 Risk Management

### Market Risk, Liquidity Risk and Credit Risk

The three major financial risks inherent in TCV's asset and liability management activities are:

- market (interest rate and foreign exchange)
- liquidity
- credit.

These three risks are monitored on a daily basis against Board approved controls and limits.

Market risk is monitored and controlled using the Value at Risk methodology supplemented by scenario based modelling and controls and stress testing. Value at Risk is a measure of the potential loss - within a certain level of confidence - faced by TCV on its risk positions over a given holding period under normal market conditions.

Liquidity risk is minimised by:

1. dealing in highly liquid markets
2. adhering to liquidity controls including the maintenance of a portfolio of liquid assets at all times.
3. not being a price maker but being a price taker in its use of financial instruments and derivatives

Credit risk, which arises due to the potential default of a counterparty to a transaction or the potential default of the issuer of an investment, is monitored daily against credit limits set for each counterparty/issuer based on their external credit ratings and internal assessment. The Corporation maintains a wide range of approved counterparties.

### Concentration of Credit Risk - by credit rating (Standard & Poor's Corporation)

	AAA	AA+/ AA/AA-	A+/A/A-	Other	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2006</b>					
Cash and cash equivalents	79,716	4,143,337	353,776		4,576,829
Investments	1,350,762	1,756,612		106,336	3,213,710
Derivatives <sup>(1)</sup>	9,937	63,347	2,493		75,777
	<b>1,440,415</b>	<b>5,963,296</b>	<b>356,269</b>	<b>106,336</b>	<b>7,866,316 <sup>(3)</sup></b>
<b>2005</b>					
Cash and cash equivalents	257,913	3,710,593	286,931		4,255,437
Investments	1,881,019	1,389,827	38,099	87,532 <sup>(2)</sup>	3,396,477
Derivatives <sup>(1)</sup>	12,178	74,895	10,373		97,446
	<b>2,151,110</b>	<b>5,175,315</b>	<b>335,403</b>	<b>87,532</b>	<b>7,749,360 <sup>(3)</sup></b>

<sup>(1)</sup> The assessed credit exposure of derivatives is the current replacement value and an allowance for potential future exposure

<sup>(2)</sup> Although these securities are not rated by Standard & Poor's Corporation, they are rated Aaa by Moody's Investors Service.

<sup>(3)</sup> Excludes loans to the State of Victoria and participating authorities.

## Note 16 Risk Management (cont.)

### Concentration of Credit Risk - by type of counterparty

	Common'th Government	State Government	Foreign Government supported <sup>(1)</sup>	Banks	Non-Bank Financial Intermediaries	Other Victorian Public Authorities	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2006</b>							
Cash and cash equivalents		16		4,427,676	149,137		4,576,829
Investments	327,303	196,670	99,984	1,776,128	387,477	426,148	3,213,710
Derivatives				65,618	9,099	1,060	75,777
	<b>327,303</b>	<b>196,686</b>	<b>99,984</b>	<b>6,269,422</b>	<b>545,713</b>	<b>427,208</b>	<b>7,866,316 <sup>(2)</sup></b>
<b>2005</b>							
Cash and cash equivalents				4,033,253	222,184		4,255,437
Investments	492,959	752,697	123,569	1,447,434	165,489	414,329	3,396,477
Derivatives				85,268	10,332	1,846	97,446
	<b>492,959</b>	<b>752,697</b>	<b>123,569</b>	<b>5,565,955</b>	<b>398,005</b>	<b>416,175</b>	<b>7,749,360 <sup>(2)</sup></b>

(1) Includes supranationals and financial institutions guaranteed or indemnified by foreign sovereign governments.

(2) Excludes loans to the State of Victoria and participating authorities.

## Note 17 (i) Interest Rate Risk

### Financial Assets

Next interest repricing in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Non interest bearing	Total
2006	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>Cash and Cash Equivalents</b>							
Cash at bank and on hand	4,645						4,645
Deposits with futures clearing house	1,721						1,721
Receivables from financial institutions	881,168						881,168
Short-term discounted securities	3,689,295						3,689,295
<b>Total Cash and Cash Equivalents</b>	<b>4,576,829</b>						<b>4,576,829</b>
<b>Investments</b>							
Floating rate securities	1,393,271						1,393,271
Short term discounted securities		166,159					166,159
Offshore issued securities	20,401						20,401
Fixed interest securities	15,315	120,142	217,692	432,762	10,091		796,002
Treasurer guaranteed investments	7,006	20,226	25,611	68,338	304,967		426,148
Index linked securities				139,211	272,518		411,729
<b>Total Investments</b>	<b>1,435,993</b>	<b>306,527</b>	<b>243,303</b>	<b>640,311</b>	<b>587,576</b>		<b>3,213,710</b>
<b>Loans to Participating Authorities</b>							
Overnight & short term cash	110,049						110,049
Short term discounted loans		38,707	99,126				137,833
Floating rate loans	246,883						246,883
Fixed interest loans	573,566	441,207	774,066	2,291,073	4,311,788		8,391,700
Index linked loans				16,966	369,168		386,134
Interest rate swaps	(15)						(15)
<b>Total Loans to Participating Authorities</b>	<b>930,483</b>	<b>479,914</b>	<b>873,192</b>	<b>2,308,039</b>	<b>4,680,956</b>		<b>9,272,584</b>
<b>Other Financial Assets</b>							
Receivables and prepayments						2,668	2,668
<b>Total Other Financial Assets</b>						<b>2,668</b>	<b>2,668</b>

## Note 17 (i) Interest Rate Risk (cont.)

### Financial Liabilities

Next interest repricing in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Non interest bearing	Total
2006	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>Deposits from Public Sector</b>	<b>4,166,626</b>	<b>12,668</b>					<b>4,179,294</b>
<b>Interest Bearing Liabilities - Domestic</b>							
Domestic Inscribed Stock				3,408,155	4,418,598		7,826,753
Payables to market participants	76,251						76,251
TCV promissory notes	993,146						993,146
TCV fixed interest	10,025	1,884,904	11,788	56,699	45,230		2,008,646
Commonwealth Government loans		707	662	1,386	1,318		4,073
Indexed linked securities				20,089	1,132,789		1,152,878
Interest rate swaps	40,214	(4,097)	23,347	(13,511)	(73,762)		(27,809)
<b>Total Domestic Borrowings</b>	<b>1,119,636</b>	<b>1,881,514</b>	<b>35,797</b>	<b>3,472,818</b>	<b>5,524,173</b>		<b>12,033,938</b>
<b>Interest Bearing Liabilities - Offshore</b>							
Euro commercial paper	186,238						186,238
Eurobonds	13,106	59,867	132,075	229,431	91,515		525,994
Cross currency swaps		(2,919)					(2,919)
<b>Total Offshore Borrowings</b>	<b>199,344</b>	<b>56,948</b>	<b>132,075</b>	<b>229,431</b>	<b>91,515</b>		<b>709,313</b>
<b>Other Financial Liabilities</b>							
Accounts and other payables						4,260	4,260
Provisions						1,022	1,022
<b>Total Other Financial Liabilities</b>						<b>5,282</b>	<b>5,282</b>

## Note 17 (i) Interest Rate Risk (cont.)

### Financial Assets

Next interest repricing in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Non interest bearing	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2005</b>							
<b>Cash and Cash Equivalents</b>							
Cash at bank and on hand	10,223						10,223
Deposits with futures clearing house	3,449						3,449
Receivables from financial institutions	482,944						482,944
Short-term discounted securities	3,758,821						3,758,821
<b>Total Cash and Cash Equivalents</b>	<b>4,255,437</b>						<b>4,255,437</b>
<b>Investments</b>							
Stock lending						1,000	1,000
Floating rate securities	735,902						735,902
Short term discounted securities		207,694					207,694
Offshore issued securities	133,949						133,949
Fixed interest securities	51,130	6,928	288,445	814,888	183,945		1,345,336
Treasurer guaranteed investments	1,485	20,606	25,866	69,953	296,419		414,329
Index linked securities					66,070		66,070
Index linked securities at historical cost <sup>(1)</sup>		2,134			490,063		492,197
<b>Total Investments</b>	<b>922,466</b>	<b>237,362</b>	<b>314,311</b>	<b>884,841</b>	<b>1,036,497</b>	<b>1,000</b>	<b>3,396,477</b>
<b>Loans to Participating Authorities</b>							
Overnight & short term cash	81,080						81,080
Short term discounted loans	33,539	71,604					105,143
Floating rate loans	161,156						161,156
Fixed interest loans	503,404	398,028	760,407	2,254,863	4,222,785		8,139,487
Index linked loans	41,807	3,076		23,066	358,245		426,194
Fixed interest loans at historical cost <sup>(1)</sup>	275	909	1,414	5,791	101,422		109,811
Interest rate swaps	4						4
<b>Total Loans to Participating Authorities</b>	<b>821,265</b>	<b>473,617</b>	<b>761,821</b>	<b>2,283,720</b>	<b>4,682,452</b>		<b>9,022,875</b>
<b>Other Financial Assets</b>							
Receivables/prepayments						5,704	5,704
Accrued interest receivable						177,897	177,897
<b>Total Other Financial Assets</b>						<b>183,601</b>	<b>183,601</b>

<sup>(1)</sup> Certain indexed based structures were accounted for on the historical cost basis prior to 1 July 2005. See note 2 (b).

## Note 17 (i) Interest Rate Risk (cont.)

### Financial Liabilities

Next interest repricing in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Non interest bearing	Total
2005	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>Deposits from Public Sector</b>	<b>4,517,373</b>	<b>7,968</b>					<b>4,525,341</b>
<b>Interest Bearing Liabilities - Domestic</b>							
Domestic Inscribed Stock			1,716,460	1,827,216	5,228,978		8,772,654
Payables to market participants	125,992						125,992
Stock lending						1,000	1,000
TCV promissory notes	544,378	209,558					753,936
TCV fixed interest	15,427	47,889	150,146	37,581	58,292		309,335
Commonwealth Government loans		715	675	1,681	1,690		4,761
Indexed linked securities	17,996	4,511		9,119	561,740		593,366
Indexed linked securities at historical cost <sup>(1)</sup>					552,682		552,682
Interest rate swaps	10,273	79,989	(30,215)	(2,916)	(66,735)		(9,604)
<b>Total Domestic Borrowings</b>	<b>714,066</b>	<b>342,662</b>	<b>1,837,066</b>	<b>1,872,681</b>	<b>6,336,647</b>	<b>1,000</b>	<b>11,104,122</b>
<b>Interest Bearing Liabilities - Offshore</b>							
Euro commercial paper	121,124						121,124
Euro medium term notes							
Eurobonds		127,116	106,401	335,334	164,648		733,499
Cross currency swaps			(3,313)				(3,313)
<b>Total Offshore Borrowings</b>	<b>121,124</b>	<b>127,116</b>	<b>103,088</b>	<b>335,334</b>	<b>164,648</b>		<b>851,310</b>
<b>Other Financial Liabilities</b>							
Accounts and other payables						3,834	3,834
Accrued interest payable						237,572	237,572
Provisions						737	737
<b>Total Other Financial Liabilities</b>						<b>242,143</b>	<b>242,143</b>

(1) Certain indexed based structures were accounted for on the historical cost basis prior to 1 July 2005. See note 2 (b).

## Note 17 (ii) Weighted Average Yields

Weighted average yields as at balance date are presented in the following table.

	2006	2006	2006	2005	2005	2005
	Less than 1 year	1 to 5 years	Greater than 5 years	Less than 1 year	1 to 5 years	Greater than 5 years
	%	%	%	%	%	%
<b>Cash Assets</b>						
Floating	5.75			5.50		
Fixed	5.85			5.58		
<b>Investments</b>						
Floating	5.90			5.59		
Fixed	6.07	6.27	7.88	5.44	5.49	6.29
Indexed		2.67	2.59			3.25
<b>Loans to Participating Authorities</b>						
Floating	5.87			5.59		
Fixed	5.88	5.99	6.12	5.50	5.32	5.40
Indexed		2.98	2.38	3.00	2.91	2.56
<b>Deposits Public Sector</b>						
Floating	5.85			5.79		
Fixed	5.80			5.56		
<b>Domestic Borrowings</b>						
Floating	5.75			5.50		
Fixed	5.83	5.98	6.02	5.43	5.33	5.35
Indexed		2.88	2.54	3.00	2.81	2.93
<b>Offshore Borrowings</b>						
Fixed	5.39	6.02	6.09	4.52	5.35	5.38
<b>Interest Rate Swaps</b>						
Floating	5.90			5.64		
Fixed	6.07	6.49	5.54	5.59	5.58	5.33
Indexed			2.93			3.30

## Note 18 Superannuation

TCV made contributions to the following superannuation funds for staff and Directors:

Name of Fund	Contributions Made 2006	Contributions Made 2005
TCV Superannuation Fund	875,015	710,961
Emergency Services Superannuation Scheme (formerly State Superannuation Fund)	20,586	19,848
Other superannuation funds	58,458	28,946

Superannuation contributions were made at least equivalent to the minimum 9% Superannuation Guarantee Charge contribution level. Several staff elected to have a greater proportion of their remuneration paid as superannuation on a salary sacrifice basis.

The TCV Superannuation Fund is a fully funded accumulation fund with no unfunded liabilities and TCV has made all payments to cover its liability for members of that fund. All payments due for employees and directors who are members of other funds have also been made.

## Note 19 Auditor's Remuneration

Amounts received or due and receivable by the Auditor-General in relation to the audit of the TCV financial statements for the year ended 30 June 2006:

	2006	2005
Auditor-General	\$208,890	\$133,100

No other amounts have been paid or are payable to the Auditor-General.

## Note 20 Related Party Information

TCV is the central funding authority and financing adviser for the State of Victoria. TCV provides treasury services to the budget sector and participating authorities in the non budget sector. TCV also provides financial advice and analytical services to participating authorities, government departments and agencies and other parties at the direction of the Treasurer.

Details of loan and deposit facilities provided as at 30 June 2006 are set out in Notes 7, 10 and 11. All transactions are priced in accordance with TCV's policies.

For the purposes of Part 9.4 of the Directions of the Minister for Finance under the *Financial Management Act* 1994, the following Directors together with the Honourable John Brumby MP, Treasurer for Victoria, are or have been the responsible persons of TCV:

- Ian N. Ferres, Chairman (Appointment effective from 1 January 1993 to 31 December 2006)
- David Craig, (Appointment effective from 22 August 2000 to 21 November 2006, appointed Deputy Chairman 22 August 2003 to 21 November 2006)
- William Whitford (Appointment effective from 28 July 2003 to 27 July 2008)
- Jane Cutler (Appointment effective from 1 February 2002, resigned 19 September 2005)
- Michael Hirst (Appointment effective from 4 September 2002 to 3 September 2008)
- Ian Little (Appointment effective from 22 August 2003, passed away 6 June 2006)
- Sue Carter (Appointment effective from 1 February 2005 to 31 January 2008)
- Tim Knott (Appointment effective from 1 January 2006 to 31 December 2008)
- Peter Hawkins (Appointment effective from 1 May 2006 to 30 April 2009)

TCV may enter into commercial arrangements with parties related to TCV Directors. These arrangements are conducted in the ordinary course of business and are entered into under normal commercial terms and conditions.

## Note 20 Related Party Information (cont.)

The following are appointments held during the year by the Directors whilst being Directors of TCV:

### ***Ian N. Ferres***

Consultant to TressCox Lawyers  
 Director, Australian Unity Limited  
 Chairman, IXL Limited  
 Chairman, TDI Limited  
 Chairman, Vianova Asset Management (Advisory Board)  
 Trustee of Treasury Corporation of Victoria Superannuation Fund Pty Ltd (trustee of the TCV Superannuation Fund)  
 Member of The Australia Day (Victoria) Committee

### ***David T Craig***

Chairman, VicSuper Pty Ltd  
 Director, ANZ Staff Superannuation (Australia) Pty Ltd  
 Merrill Lynch Investment Managers Ltd. (Member of the Compliance Committee)  
 Lazard Asset Management Pacific Co. (Member of the Industry Advisory Panel)  
 Murdoch Childrens Research Institute Ltd. (Member of the Audit & Finance and Investment Committees)

### ***William Whitford***

Nil

### ***Jane Cutler***

Managing Director and Chief Executive Officer, Plum Financial Services Pty Ltd (resigned 31 July 2005)  
 Director, Plum Trustees PFS Nominees Pty Ltd (resigned 31 July 2005)

### ***Michael Hirst***

Chief Operating Officer, Bendigo Bank (Group)  
 Chairman, Victoria Securities Corporation Limited  
 Executive Director, Sandhurst Trustees Limited  
 Director, Elders Rural Bank  
 Director, Barwon Health

### ***Ian Little***

Secretary, Department of Treasury & Finance (passed away 6 June 2006)

### ***Sue Carter***

Director, AMP Superannuation Ltd  
 Director, Peter MacCallum Cancer Institute  
 Director, Professional Indemnity Insurance Company Australia Limited,  
 Director, Private Health Insurance Administration Council  
 Chair, Audit Committees of Peter MacCallum and Professional Indemnity Insurance Company Australia.

## Note 20 Related Party Information (cont.)

### **Tim Knott**

Nil

### **Peter Hawkins**

Director, Mirvac Group

Chairman, Visa International Asia Pacific

Director, Visa International

Director, Camberwell Grammar School

TCV Directors have the benefit of indemnities given by the Treasurer of Victoria pursuant to the *Financial Management Act 1994* and by Victorian Managed Insurance Authority pursuant to the *Victorian Managed Insurance Authority Act 1996*.

## Note 21 Compensation

The total compensation paid or payable to key management personnel for the year was \$1,553,046 (2005: \$1,291,521) consisting of short-term benefits.

### Directors

The total compensation paid or payable to Directors for the year is \$703,154 (2005: \$609,786). These amounts include salary and payments made to superannuation funds on behalf of Directors. In respect of the Managing Director, total compensation is also inclusive of bonus payments.

The following analysis of Directors' compensation is provided:

<b>Total Compensation Income Band</b>	<b>2006 No. of Directors</b>	<b>2005 No. of Directors</b>
\$460,000 to \$470,000	1	-
\$430,000 to \$439,999	-	1
\$80,000 to \$90,000	1	-
\$60,000 to \$69,999	-	1
\$40,000 to \$49,999	3	-
\$30,000 to \$39,999	-	3
\$20,000 to \$29,999	1	-
\$10,000 to \$19,999	-	1
\$0 to \$9,999	2	-
\$0	1	1

## Note 21 Compensation (cont.)

### Executive Officers

The following analysis of compensation received or receivable by Executive Officers (excluding the Managing Director) is provided. Executive Officers are those with the delegated authority to manage the Corporation's business activities. Total compensation includes salary, performance bonuses, superannuation, fringe benefits (cars and car parking) and FBT paid by TCV in relation to those benefits. Base compensation is exclusive of bonus payments, long service leave payments, redundancy payments and retirement benefits.

Income Paid	Total Compensation		Base Compensation	
	2006	2005	2006	2005
	No. of Executive Officers			
\$310,000 to \$320,000	1			
\$290,000 to \$299,999	1	1		
\$270,000 to \$279,999		1	1	
\$240,000 to \$249,999			1	1
\$230,000 to \$239,999	1			
\$220,000 to \$229,999				1
\$210,000 to \$219,999			1	
\$118,000 to \$118,999		1		1

The total compensation paid to the above personnel for the year is \$849,892 (2005: \$681,735).

## Note 22 Contingencies/Commitments

### Contingencies

From time to time, TCV has incurred contingent liabilities as part of its general function to engage in activities relating to the finances of the Victorian public sector, as is prescribed by its enabling legislation and approved by the Treasurer.

In this regard, indemnities have been provided by TCV to third parties involved either directly or indirectly in financing arrangements with TCV, which relate to the maintenance of the financial outcome expected to be available to those parties over the term of the transaction. TCV's exposure arising as a result of indemnities and other financial obligations of this type is itself either guaranteed or otherwise fully indemnified by the State of Victoria.

TCV is of the view that the existence of such supporting indemnification arrangements with the State of Victoria is sufficient to justify not raising any specific provisions in respect of the transactions referred to in the previous paragraph.

TCV has a commitment to provide funding to participating authorities to the extent of Treasurer's approval limits.

In order for the State Electricity Commission of Victoria (SECV) to participate in the national electricity market administered by National Electricity Market Management Company Limited (NEMMCO), a guarantee must be provided to NEMMCO by an acceptable financial institution. The Corporation has provided such a guarantee whereby it undertakes to pay to NEMMCO on demand any and all amounts to an aggregate amount not exceeding \$95,000,000 as at 30 June 2006 (\$95,000,000 as at 30 June 2005) as security for the obligations of SECV to NEMMCO. The guarantee is issued pursuant to section 9 (1) of the TCV Act and is approved by the Treasurer. The guarantee is fully supported by an indemnity from SECV and by non-withdrawable deposits which SECV is obliged to maintain with TCV at an amount of 101% of the amount guaranteed.

## Note 22 Contingencies/Commitments (cont.)

### Commitments

#### Traded Securities Not Yet Settled

Face value maturing in:	3 months to 1 year \$000s	1 to 2 years \$000s	2 to 5 years \$000s	Greater than 5 years \$000s	Total \$000s
<b>Category</b>					
Borrowings - fixed interest				(79,750)	(79,750)
Investments - fixed interest				30,000	30,000
Investments - floating	16,000		46,300		62,300
Loans - fixed interest				183,006	183,006
Loans - floating			25,000		25,000
	<b>16,000</b>		<b>71,300</b>	<b>133,256</b>	<b>220,556</b>

#### Lease Commitments

Commitments in respect of non-cancellable operating leases due:

	2006 \$000s	2005 \$000s
Not later than 1 year	544	247
Later than 1 year but not more than 5 years	2,114	1,978
Later than 5 years		330
	<b>2,658</b>	<b>2,555</b>

Operating lease commitments relate to the Corporation's tenancy at 1 Collins Street Melbourne. The lease has an expiry within 5 years with an option to extend for a further 4 years. The lease contains market review clauses.

#### Other

Commitments in respect of the purchase of computer hardware and software during 2006-07 is \$206,000 (2005-06: \$212,000).

## Note 23 Taxation

TCV is not a tax payer under the *Income Tax Assessment Act 1936*, accordingly no income tax is applicable. TCV is also not subject to the Taxation under State Owned Enterprises Tax Equivalent system.

TCV predominantly provides input taxed supplies and as such the majority of Goods and Services Tax credit claims are in line with regulation 70-5.02 (acquisitions that attract reduced input tax credits). TCV also makes some taxable supplies of financial advisory services and some GST-free supplies in respect of offshore issuances which gives rise to input tax credits in accordance with section 11-15 of the *A New Tax System (Goods and Services Tax) Act 1999*.

## Note 24 Provisions

	2006 \$000s	2005 \$000s
<b>Employee Entitlements</b>		
Current provision	153	74
Non-current provision	869	663
	<u>1,022</u>	<u>737</u>
<b>Total Provisions at 30 June 2006</b>	<u>1,022</u>	<u>737</u>

## Note 25 Notes Supporting Cash Flow Statement

### (i) Cash flows presented on a net basis

Cash flows arising from:

- Payments for/sales of investment securities
- Loans granted to/repaid from public authorities
- Deposits accepted from/repaid to authorities
- Proceeds from issuance of borrowings/repayment of borrowings
- Movement in derivatives payable and receivable

are presented on a net basis in the Statement of Cash Flows.

### (ii) Reconciliation of Net Cash from Operating Activities to Net Profit

	2006 \$000s	2005 \$000s
Net profit	14,630	17,594
Unrealised income from management of financial exposures	6,296	
Amortisation:		
discount on investments		(13,172)
discount on loans to authorities		16,249
discount on borrowings		(30)
Revaluation of:		
investments		(36,226)
loans to authorities		(189,825)
borrowings		229,597
Depreciation of property, plant and equipment	583	481
Amortisation of intangible assets	218	494
Decrease (Increase) in trade and other receivables	3,037	(3,078)
(Decrease) Increase in accrued interest payable		12,886
Decrease (Increase) in accrued interest receivable		2,196
(Decrease) Increase in trade and other payables	1,673	(323)
(Decrease) Increase in accrued employee benefits	285	137
(Decrease) Increase in final indexation timing	(2,920)	4
<b>Net Cash from Operating Activities</b>	<u>23,802</u>	<u>36,984</u>

### (iii) Financing Facilities

\$US50 million (2005: \$US50 million) credit facility has been extended by Clearstream Banking to facilitate securities transactions through the Clearstream system. In addition to cash and cash equivalents, TCV holds a substantial portfolio of liquid assets that can be readily traded and converted into cash. These assets comprise money market investments and semi-government and Commonwealth Government securities.

## Note 26 Segment Reporting

TCV operates from the one geographic location and transacts in the domestic and international financial market business segment, for the benefit of the State of Victoria, its participating authorities and other government entities.

TCV's products and services predominantly incorporate financial market instruments, including loan and deposit facilities, securities, foreign exchange and associated risk management transactions, together with advisory and portfolio services.

## Note 27 Impacts of transition to A-IFRS

### Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under A-IFRS

There were no changes to equity, balance sheet, profit or cash flows as at the date of transition to A-IFRS (1 July 2004) and at the end of the last reporting period under previous AGAAP (30 June 2005) or the for the year ended 30 June 2005.

### Adjustments on transition to AASB 139 Financial Instruments: Recognition and Measurement: 1 July 2005

	Reference	30 June 2005 \$000s	Adjustment \$000s	1 July 2005 \$000s
<b>Assets</b>				
Cash and cash equivalents		4,255,437		4,255,437
Trade and other receivables		5,704		5,704
Accrued interest receivable		177,897		177,897
Investments	1,2	3,396,477	25,734	3,422,211
Derivative financial instruments receivable	1	221,273	12,033	233,306
Loans to the State of Victoria and participating authorities	1	9,022,871	5,068	9,027,939
Property, plant and equipment		1,311		1,311
Intangible assets		165		165
<b>Total Assets</b>		<b>17,081,135</b>	<b>42,835</b>	<b>17,123,970</b>
<b>Liabilities</b>				
Trade and other payables	1	3,834	(1,247)	2,587
Accrued interest payable		237,572		237,572
Provisions		737		737
Derivative financial instruments payable	2	207,420	419	207,839
Deposits from public sector		4,525,341		4,525,341
Interest bearing liabilities – domestic	1,2	11,113,726	39,463	11,153,189
Interest bearing liabilities – offshore		854,623		854,623
<b>Total Liabilities</b>		<b>16,943,253</b>	<b>38,635</b>	<b>16,981,888</b>
<b>Net Assets</b>		<b>137,882</b>	<b>4,200</b>	<b>142,082</b>
<b>Equity</b>				
Contributed equity		30,000		30,000
Indexed based structure reserve		3,097		3,097
Retained earnings		104,785	4,200	108,985
<b>Total Equity</b>		<b>137,882</b>	<b>4,200</b>	<b>142,082</b>

**Note 27 Impacts of transition to Australian equivalents to IFRSs (cont.)**

**Impact of adopting AASB 139 Financial Instruments: Recognition and Measurement**

The Corporation elected to apply the option available under AASB 1 of adopting AASB 139 from 1 July 2005. Outlined below are the areas impacted upon adoption of AASB 139, including the financial impact to equity and profit.

Reference	Item	AGAAP	AIFRS	Impact
1	Financial instruments	Financial instruments in the Balance Sheet are stated at market value representing net fair value except for certain indexed based structures.	Financial instruments in the Balance Sheet are designated at fair value through profit and loss. Where assets and liabilities have offsetting market risks, mid market prices are utilised for establishing the fair values for offsetting market risks. Bid-offer spreads are applied to net open positions.	Decrease in financial instrument asset values of \$1,756,000 and increase in liability values of \$2,090,000.
2	Indexed based structures	Certain indexed based structures are accounted for on the historical cost basis.	Financial instruments in the Balance Sheet are designated at fair value through profit and loss	Increase in financial instrument asset values of \$44,590,000 and liability values of \$36,544,000.

## Certification of Financial Statements

We certify that the attached financial statements for Treasury Corporation of Victoria have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian accounting standards and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the income statement, balance sheet, statement of changes in equity, cash flow statement and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2006 and financial position of Treasury Corporation of Victoria as at 30 June 2006.

We are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.



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Ian N. Ferres  
**Chairman**  
Date: 17 August 2006



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William Whitford  
**Managing Director**  
Date: 17 August 2006



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Peter J. Wyatt  
**Chief Financial Officer**  
Date: 17 August 2006



AUDITOR GENERAL  
VICTORIA

**INDEPENDENT AUDIT REPORT**

**Treasury Corporation of Victoria**

**To the Members of the Parliament of Victoria and Members of the Board of the Corporation**

**Matters Relating to the Electronic Presentation of the Audited Financial Report**

This audit report for the financial year ended 30 June 2006 relates to the financial report of Treasury Corporation of Victoria included on its web site. The Board of the Treasury Corporation of Victoria is responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The audit report refers only to the statements named below. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

**Scope**

*The Financial Report*

The accompanying financial report for the year ended 30 June 2006 of the Treasury Corporation of Victoria consists of income statement, balance sheet, statement of changes in equity, cash flow statement, notes to and forming part of the financial report, and the certification of financial statements.

*Members' Responsibility*

The Members of the Board of the Treasury Corporation of Victoria are responsible for:

- the preparation and presentation of the financial report and the information it contains, including accounting policies and accounting estimates
- the maintenance of adequate accounting records and internal controls that are designed to record its transactions and affairs, and prevent and detect fraud and errors.

*Audit Approach*

As required by the *Audit Act* 1994, an independent audit has been carried out in order to express an opinion on the financial report. The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement.

The audit procedures included:

- examining information on a test basis to provide evidence supporting the amounts and disclosures in the financial report
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the members
- obtaining written confirmation regarding the material representations made in conjunction with the audit
- reviewing the overall presentation of information in the financial report.



AUDITOR GENERAL  
VICTORIA

**Independent Audit Report (continued)**

These procedures have been undertaken to form an opinion as to whether the financial report is presented in all material respects fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, so as to present a view which is consistent with my understanding of the Corporation's financial position, and its financial performance and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

**Independence**

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. The Auditor-General and his staff and delegates comply with all applicable independence requirements of the Australian accounting profession.

**Audit Opinion**

In my opinion, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, the financial position of the Treasury Corporation of Victoria as at 30 June 2006 and its financial performance and cash flows for the year then ended.

MELBOURNE  
17 August 2006

JW CAMERON  
*Auditor-General*

## Appendix 1 – Disclosure Index

The Annual Report of Treasury Corporation of Victoria (TCV) is prepared in accordance with all relevant Victorian legislations. This index has been prepared to facilitate identification of TCV's compliance with statutory disclosure requirements.

Legislation	Requirement	Page Reference
<b>Report of Operations</b>		
<i>Charter and purpose</i>		
FRD22A	Manner of establishment and the relevant Ministers	2, 24
FRD22A	Objectives, functions, powers and duties	2
FRD22A	Nature and range of services provided	2, 6, 7
<i>Management and structure</i>		
FRD22A	Organisational structure	20
<i>Financial and other information</i>		
FRD22A	Statement of workforce data and employment and conduct principles	24 - 26
FRD22A	Summary of the financial results for the year	5
FRD22A	Significant changes in financial position during the year	n/a
FRD22A	Subsequent events	n/a
FRD22A	Operational and budgetary objectives	3
FRD22A	Application of Freedom of Information Act 1982	24
FRD22A	Compliance with building and maintenance provisions of the Building Act 1993	n/a
FRD22A	Statement on National Competition Policy	26
FRD22A	Summary of environmental performance	3
FRD22A	Application and operation of the Whistleblowers Protection Act 2001	25
FRD22A	Details of consultancies over \$100,000	26
FRD22A	Details of consultancies under \$100,000	26
FRD22A	Occupational health and safety	24
FRD10	Disclosure index	67, 68
FRD25	Victorian Industry Participation Policy disclosures	26
<b>Financial Statements</b>		
<i>Financial statements required under Part 7 of the FMA</i>		
SD4.2(c)	Compliance with Australian accounting standards and other authoritative pronouncements	32
SD4.2(c)	Accountable officer's declaration	65
SD4.2(f)	Model Financial Report	n/a
SD4.2(b)	Income Statement	28
SD4.2(b)	Balance Sheet	29
SD4.2(b)	Statement of Changes in Equity	30
SD4.2(b)	Cash Flows Statement	31

<i>Other disclosures in notes to the financial statements</i>		
FRD11	Disclosure of ex-gratia payments	n/a
FRD21A	Responsible person and executive officer disclosures	57-60
<b>Legislation</b>		
Freedom of Information Act 1982		24
Building Act 1983		n/a
Whistleblowers Protection Act 2001		25
Victorian Industry Participation Policy Act 2003		26

## Contact Details

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	+61 3 9651 4843	Settlements
Facsimile	+61 3 9651 4880	General
	+61 3 9650 7557	Dealing room
	+61 3 9651 4899	Settlements
Registry of Incribed Stock	Incribed stock registries are operated by Computershare Investor Services Pty Ltd, located at Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067 Telephone: +61 3 9415 5000 Facsimile: +61 3 9473 2535	
Government Bonds of Victoria	Freecall number 1800 628 008	
Designated Investment Bonds	For information on Designated Investment Bonds issued under the Australian Department of Immigration and Multicultural and Indigenous Affairs Regulations, please email <a href="mailto:tcv@tcv.vic.gov.au">tcv@tcv.vic.gov.au</a> or telephone +61 3 9650 7577.	