

ANNUAL REPORT 2007

TABLED IN PARLIAMENT

ENHANCING
FINANCIAL
OUTCOMES
FOR THE STATE



Treasury 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) and, at the request of the Treasurer, to other Victorian entities.

At 30 June 2007 there were 81 participating authorities (2006: 79), in addition to the budget sector.

Services provided include:

- 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
- analytical services
- banking arrangements
- treasury accounting.

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

Our business operations assist the Government in the prudent management of Victoria's financing risks by centralising financing and financing advisory activities through the:

- provision of a single interface to the debt markets
- maintenance and enhancement of the State's profile and reputation in financial markets
- assumption and management of financing risk that would otherwise reside with the State or its authorities
- retention of expert skills and knowledge to manage these financing risks
- provision of financing advice in anticipation of and in response to the requirements of the State and its authorities in all their financing arrangements
- adoption of prudent risk management policies and processes in relation to interest rate, refinancing, credit, liquidity, foreign currency and operational risks.

Our Borrowing Programs

Our borrowing programs provide financing liquidity for the State and its authorities as a result of:

- a breadth of borrowing programs that facilitate access to long and short term funding in domestic and international debt capital markets
- an active management philosophy that ensures the ability to provide sufficient funding at acceptable pricing in all market conditions
- a key corporate objective to raise funds at a cost consistent with or better than other comparable AAA/Aaa rated Australian state financing authorities
- a liquidity framework that ensures refinancing risks are spread over time.

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 and advice that supports our clients' financial risk profile. Our efforts centre on sourcing that funding in the most efficient possible manner, reflective of Victoria's AAA/Aaa rating, and on the provision of relevant and effective financing and project advisory services.

These efforts are delivered under the framework provided by our Vision, Mission and Values and through our 2006-09 Corporate Plan approved by the Treasurer of Victoria.

The role TCV plays in the financing of the State is a critical one. As the State's centre of expertise in debt capital markets and financing risk management, TCV enables the Government and its agencies to source funding appropriate to their specific needs at highly competitive rates. Through our advisory functions, we provide these organisations with an ability to fully outsource their treasury requirements, from the complexities of debt structuring, structured finance and business case development through to day to day portfolio management tasks such as portfolio benchmarking, scenario analysis and financial modelling. Through our state-wide liquidity responsibilities, we ensure that the Government and its agencies have access to a pool of liquidity that ensures their operational financing capacity, regardless of prevailing market conditions.

These activities allow TCV to run a significant balance sheet and an active, albeit conservative, financing risk management function. Over 2006-07, these activities resulted in the generation of a net profit of \$21.7 million, another strong financial performance.

However, this financial result only tells a part of the story. The provision of financing advice to borrowing clients ensures revenue savings to a variety of parties.

Of particular note this year was our continued focus on the State's Water Sector. TCV now provides portfolio advisory services to three of the four metropolitan authorities along with significant input to regional authorities in debt structuring and treasury policy establishment.

Along with this activity, we continue to provide strong support to the entire sector by supporting the Victorian Water Industry Association activities and forums.

Our advisory team has also made a significant contribution to the value for money outcomes across a number of projects, the most significant of which this year has been through our input to the bid

analysis for the Royal Children's Hospital, procured under the *Partnerships Victoria* framework.

These outcomes, both financial and non-financial, are a testament to the capability and diligence of TCV's staff and we would take this opportunity to thank them for their efforts throughout the year.

To focus on some organisational statistics:

Our loans outstanding as at 30 June 2007 were \$10.1 billion, up from \$9.3 billion, with 45 borrowing clients, up from 34 in 2006.

Deposits totalled \$3.6 billion, compared with \$4.2 billion the preceding June. Some 96 authorities and trusts held deposits with TCV at this time (2006: 97).

This reduction in deposits largely reflects movements in the overall Budget Sector Portfolio, where short term funds which had been invested with TCV have been utilised through the year.

As at 30 June 2007, the number of State and public authorities which have been accepted by TCV as participating authorities was 81 (2006: 79).

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. As previously mentioned, this program continued through this year with presentations to the Victorian Water Industry Association and also to the Australian Health Services Financial Management Association.

TCV issues Victorian Government guaranteed debt to fund its loans to the State and to 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.

We maintain four separate funding programs consistent with this strategy. During 2006-07, we again predominantly issued through our 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 2007-08 will again be primarily sourced from this program. Total outstandings of the Domestic Inscribed Stock program as at 30 June 2007 were \$9.1 billion (2006: \$7.8 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 2006-07, no new issues were undertaken via the EMTN program and the short programs averaged a combined outstanding of \$1,480 million.

Last year, we reported on our premises refurbishment and noted the availability of the facilities for use by our regional clients. There was a strong take up of this offer during the year by them and the Victorian Water Industry Association. In addition, we have hosted several functions that facilitated the Treasurer's access to our clients and financial market representatives.

The energy saving initiatives implemented during the refurbishment continue to reduce TCV's energy usage.

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 our Board.

Mr David Craig, TCV's Deputy Chairman and Chair of the Audit Committee, retired after 6 years with TCV's Board. We would like to thank him for his valuable contribution over this period.

As a result of this retirement, Mr Michael Hirst has accepted the role of Deputy Chairman and Ms Sue Carter the role of Audit Chair.

Mr Grant Hehir, Secretary of the Department of Treasury and Finance was appointed to the Board in October. He brings to TCV his extensive experience within both the Victorian and Commonwealth governments.

TCV also 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 continues to maintain a well structured and highly competent team.

We would like to take this opportunity to thank all of our staff, the management team and our fellow Board members for their contributions and achievements through the year and to welcome our new staff members to the TCV family.

The commitment and support of all of these people remains fundamental to TCV's ability to deliver the Corporation's objectives and their contribution to our achievements this year are to be commended.

Looking forward, we see a positive impact for TCV from plans for increased infrastructure spending announced by Treasurer Brumby in the 2007-08 Budget, and the subsequent Water Statement. The planned increase in State debt, coupled with a growing requirement for advisory services from our water and major project clients, will ensure we have an active year ahead of us.

We note, however, that in the weeks since 30 June there has been considerable turmoil within global financial markets, primarily triggered by events in the US sub-prime mortgage market. The impact of this on Australian financial markets has also been significant, in terms of a decline in market liquidity and the widening of credit spreads even for state government authorities.

These events have had some impact on TCV. There has been a mark-to-market movement against our liquid asset portfolio. This portfolio is constructed of high end investment grade credits which have minimised the impact of the market movements. Further, debt market activity has diminished as the investment community reviews strategy. However, as a AAA rated Government issuer, we remain able to issue debt at highly competitive rates through existing channels regardless of the market uncertainties and are able to provide funds to our clients as required.

Finally, we would like to take this opportunity to welcome our new Treasurer, John Lenders, and to thank Premier John Brumby for his strong support for TCV during his term as the Victorian Treasurer.

We look forward to working together with our staff, our clients and our stakeholders in the year ahead to once more deliver the Corporation's expertise on behalf of the Victorian community.



Ian N Ferres
Chairman

William (Bill) Whitford
Managing Director

Financial Summary 2006-07

Income and Expenditure Summary*	2006-07 \$ million	2005-06 \$ million	2004-05 \$ million	2003-04 \$ million	2002-03 \$ million
Income					
Interest revenue	-	-	991.0	912.4	917.9
Other revenue	-	-	-15.4	-18.8	41.9
Net income from financial assets	683.2	667.6	-	-	-
Administrative fees and recoveries	7.9	7.9	7.8	9.4	9.1
	691.1	675.5	983.4	903.0	968.9
Expenses					
Interest expense on borrowings	-	-	-950.4	-870.9	-938.5
Net expense from financial liabilities	-653.6	-644.6	-	-	-
Other borrowing related expenses	-0.7	-0.8	-0.8	-0.5	-1.0
Administration expenses	-15.1	-15.5	-14.6	-14.6	-14.9
	-669.4	-660.9	-965.8	-886.0	-954.4
Net Profit	21.7	14.6	17.6	17.0	14.5
Dividends declared/paid	14.6	15.9	15.5	13.0	13.9
Balance Sheet Summary*					
at 30 June					
Loans to clients	10,134.2	9,272.6	9,022.9	8,561.5	9,405.8
Cash assets	3,058.7	4,576.8	4,255.4	4,424.9	2,963.1
Investments	3,244.7	3,213.7	3,396.5	3,002.3	2,825.0
Other assets	657.5	377.7	406.3	1,026.0	2,346.9
Total Assets	17,095.1	17,440.8	17,081.1	17,014.7	17,540.8
Financed by:					
Domestic Inscribed Stock	9,118.1	7,826.8	8,772.6	6,772.0	7,459.0
Domestic other	2,655.5	4,235.0	2,341.1	3,934.7	2,736.2
Offshore	926.4	712.2	854.6	1,344.5	2,123.9
Gross debt	12,700.0	12,774.0	11,968.3	12,051.2	12,319.1
Deposits from public sector	3,602.2	4,179.3	4,525.3	3,763.6	2,656.5
Other liabilities	645.1	346.7	449.6	1,063.4	2,433.5
Total Liabilities	16,947.3	17,300.0	16,943.2	16,878.2	17,409.1
Equity	147.8	140.8	137.9	136.5	131.7

* The 2005 - 06 data is the first based on Australian Equivalents to International Financial Reporting Standards.

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

TCV's key strategic business objective is to service client requirements and cultivate relationships. We deliver client solutions in a transparent, responsive environment, resulting in a clear focus on client relationships and 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 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.

The Treasury Client Services team is also able to draw upon the skills and expertise of specialists from other areas of our operations, including our project and structured finance advisers, risk managers, economic, quantitative, credit and legal analysts, and accounting, settlement and banking managers.

Loan Facilities

TCV offers a broad range of loan facilities to our clients. The loan options available encompass:

- short term loans, as short as one day and up to one year, including an 11am facility
- fixed term floating rate loans

- fixed rate loans for periods longer than one year, including fixed interest, amortising and structured loans.

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.

Deposit Facilities

TCV offers deposit facilities to assist departments, authorities, government business enterprises and agencies with their cash management activities. The deposit facilities include:

- an 11am cash facility, a highly liquid short term facility for investing daily surplus cash balances
- term deposits for the investment of short term cash surpluses for periods up to 365 days
- structured deposits that can be tailored to return principal and income in accordance with an agreed schedule
- the Guaranteed Bill Index Deposit (GBID) which provides returns determined by reference to the daily rate of change of the UBS Australia Bank Bill Index.

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. They include Interest Rate and Vic Domestic Inscribed Stock Forwards, Forward Rate Agreements, interest rate and foreign exchange options, and spot and forward foreign exchange rate contracts.

TCV works with clients to understand 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.

Treasury Advisory and Outsourcing Services

TCV offers a treasury advisory service where we work with clients to develop treasury policies and strategies, executing the agreed strategy. The service may also include the provision of advice directly to management executives and Board members, portfolio management and strategy reports.

During 2006-07, TCV provided a range of these treasury advisory services to several major clients, including Department of Treasury and Finance, Melbourne Water Corporation, South East Water Limited, VicUrban and Yarra Valley Water. These clients engaged TCV as their debt portfolio adviser. 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 present to the clients' risk management committees, further strengthening the partnership approach to the clients' debt management needs.

In addition to these mandates, TCV also assisted VicFleet, Central Highlands Water, South Gippsland Water, Central Gippsland Water and Coliban Water with the development of debt management strategies and the Director of Housing with an investment management strategy for the Housing Guarantee Fund.

TCV also offers a complete treasury outsourcing service, whereby we manage, maintain and account for a client's portfolio in accordance with policies and strategies approved by their management or Board.

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. The schedule of presentations

includes bi-monthly economic briefings for TCV's metropolitan and regional clients, and an economic luncheon every April and October. In 2006-07 in excess of 200 clients attended the economic luncheons.

Presentations and Sponsorships

TCV sponsored and provided formal presentations to the Australian Health Services Financial Management finance conference, the Victorian Water Industry Association's finance manager's workshop and the joint Australian Water Association / Institute of Water Administration / Victorian Water Industry Association conference.

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 2006-07

Capital Management in 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. TCV assisted a number of water authorities in 2006-07 with portfolio structuring advice and financial modelling services, enabling them to strategically address regulatory issues and the increasing number of capital projects.

TCV continued to present to individual water businesses, at both Board and management level, its analysis of the Essential Services Commission's approach to water pricing and the implications for financing decisions. TCV's analysis highlighted the 'benchmark' financial structure underlying key components of price development and provided alternative financial management strategies in response to the published pricing approach.

Barwon Water BioSolids Treatment Project

TCV was engaged by the Department of Treasury and Finance (DTF) to provide specialist advice on the financing arrangements proposed by the short-listed bidders for the Project, which is being delivered under the State's *Partnerships Victoria* policy. This project seeks to develop a sustainable program for the treatment and beneficial use of biosolids from the Black Rock Sewage Treatment Plant and Barwon Water's other water reclamation plants.

TCV was able to provide DTF with a detailed review, benchmarking and evaluation of the financing

package proposed by bidders to ensure that they were priced on a basis consistent with financial market practices. TCV has also proposed amendments to ensure that a transparent, verifiable procedure for pricing the financial package at financial close is developed.

Department Of Justice: Correctional Facilities Contract

TCV has been working with the Department of Justice (DOJ) on the *Partnerships Victoria* Correctional Facilities Project since 2002. TCV has been involved in the calculation of the contractor payments following the commissioning of the facilities and has developed a detailed understanding of key areas of the contract through this work. Accordingly, when a dispute arose with the contractor on the application of these provisions, TCV was requested to advise on the financial aspects of the dispute.

TCV has also been engaged by DOJ to undertake financial modelling and to assist in the assessment of a refinancing proposal submitted by the Victorian Correctional Infrastructure Partnership, the owner/operator of the Correctional Facilities Project.

Department of Treasury and Finance

TCV provided DTF with treasury advice and assistance on the policies relevant to the treasury operations of government business enterprises. In particular, we assisted with the review of the State's Treasury Management Guidelines and the management of the Financial Accommodation Levy. We continued to facilitate client navigation of DTF's processes and sought to increase client awareness of the State's treasury risk management philosophy.

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 develop and execute foreign currency hedging strategies. In particular, TCV facilitated forward foreign exchange transactions that enabled these authorities and departments to lock in foreign exchange rates when timing and volume certainty were known.

Gateway Project Review Participation

Under the State's 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. The latest Gateway Review involved a Gate 2 review (business case review) of City West Water's proposed head office relocation.

New Royal Children's Hospital

TCV was engaged by the Department of Human Services (DHS) to complete a major advisory assignment with the New Royal Children's Hospital Project being delivered under the State's *Partnerships Victoria* policy. The project is the largest hospital redevelopment undertaken by the State Government.

TCV completed a review of the Request for Proposal documentation to ensure that all necessary financial information was asked for from bidders. After the bid submissions, TCV assisted the DHS project evaluation team in assessing the competitiveness of the financing, the financial structures and the associated risks for each funding proposal.

TCV is continuing to assist DHS and DTF during ongoing negotiations with the short-listed bidders, and will ensure that a transparent process for pricing the financing package at financial close is developed.

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 Corporation

Central Gippsland Region Water Corporation

Central Highlands Region Water Corporation

Coliban Region Water Corporation

East Gippsland Region Water Corporation

Gippsland and Southern Rural Water Corporation

Goulburn-Murray Rural Water Corporation

Goulburn Valley Region Water Corporation

Grampians Wimmera Mallee Water Corporation

Lower Murray Urban and Rural Water Corporation

North East Region Water Corporation

South Gippsland Region Water Corporation

Wannon Region Water Corporation

Western Region Water Corporation

Westernport Region Water Corporation

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 Service
Bellarine Community Health Inc
Cobram District Hospital
Dental Health Services Victoria
Eastern Health
Inner East Community Health Services Inc
La Trobe Community Health Service Inc
La Trobe Regional Hospital
Melbourne Health
Northern Health
Peter MacCallum Cancer Institute
Portland District Health
The Royal Women's Hospital
Upper Hume Community Health Service Inc.
Wodonga Regional Health Service

Education

Board of the Centre for Adult Education
Leo Cussen Institute
Monash University
Sunraysia Institute of TAFE

Sports and Recreation

Australian Grand Prix Corporation
Falls Creek Alpine Resort Management Board
Fed Square Pty Ltd
Lake Mountain Alpine Resort Management Board
Melbourne and Olympic Parks Trust
Mount Buller and Mount Stirling Resort Management Board
Mount Hotham Alpine Resort Management Board
Mt Baw Baw Alpine Resort Management Board

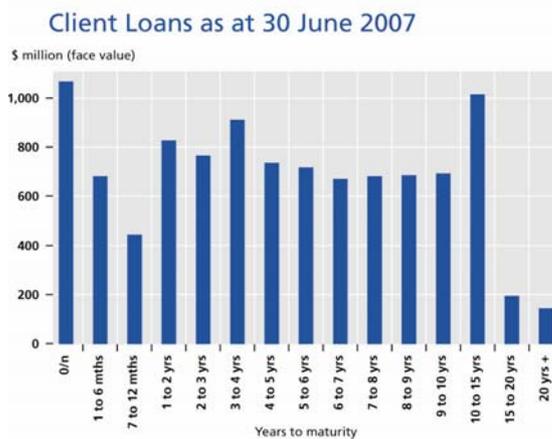
Phillip Island Nature Park Board of Management Incorporated
2007 World Swimming Championships Corporation
The Victorian Arts Centre Trust
Tourism Victoria
Zoological Parks and Gardens Board

Other

Bellarine Bayside Foreshore Committee of Management Inc
Boroondara Cemetery Trust
Country Fire Authority
Director of Housing
Emergency Services Superannuation Board
First Mildura Irrigation Trust
The Lilydale Cemeteries Trust
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
The Trustees of the Necropolis Springvale
VicForests
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.



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 \$A 1.5 billion issued per line
- \$US 3 billion Euro Medium Term Note (EMTN) program
- \$A 2 billion Euro Commercial Paper (ECP) program
- \$A 2.5 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

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

\$A 2.5 billion Domestic Promissory Note

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

\$US 3 billion Euro Medium Term Note

Morgan Stanley & Co. International Limited

Nomura International plc

UBS Limited

\$A 2 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

Funding Targets

In 2006-07, TCV focussed its fund raising activities within the Domestic Inscribed Stock program. During the year Domestic Inscribed Stock outstandings increased by \$1,501 million (face value). All outstanding Domestic Inscribed Stock lines increased through the year.

Domestic Inscribed Stock Outstandings

Maturity	Face Value Outstandings (\$million)	Face Value Change (\$million)
7.50% 15/08/2008	2,056	+237
5.50% 15/09/2010	1,924	+437
6.25% 15/10/2012	1,631	+242
4.75% 15/10/2014	1,531	+66
5.75% 15/11/2016	1,849	+412
6.00% 17/10/2022	400	+107
Total	9,391	+1,501

Outstandings within the ECP and domestic Note program totalled \$1,798 million at year end.

The majority of our funding remains concentrated within the Domestic Inscribed Stock program.

There were no new long term offshore sourced funds raised from our EMTN program during the year. EMTN outstandings total \$442 million, a reduction of \$137 million over the course of the year.

In 2007-08 TCV's funding requirement is \$2,700 million. The funding requirement represents our net call on markets as there are no significant long term debt maturities occurring in the 2007-08 year.

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

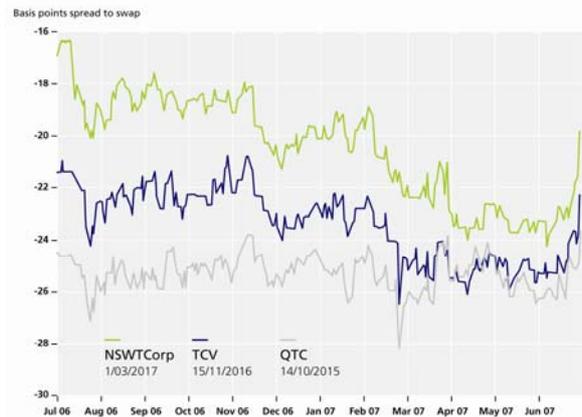
Margin to Commonwealth

This chart provides a comparison of the margin at which a 10 year security issued by TCV trades in the secondary market against a similar Commonwealth security relative to the equivalent issue of our peers, New South Wales Treasury Corporation (NSWTCorp) and Queensland Treasury Corporation (QTC). During 2006-07, TCV's margin to Commonwealth Bond remained relatively stable for the majority of the year before widening during June 2007.



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, NSWTCorp and QTC during 2006-07. The chart shows that TCV debt continues to trade below NSWTCorp debt and slightly above QTC debt.



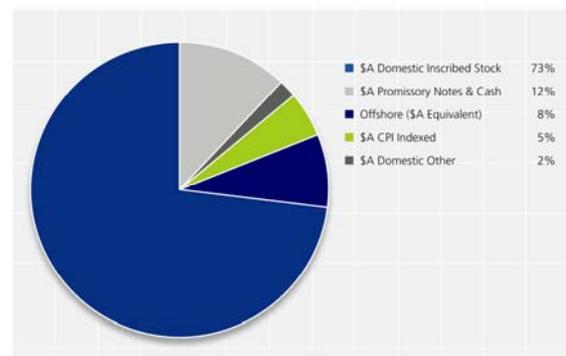
Credit Ratings of TCV and the State of Victoria

Ratings as at 30 June 2007:

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

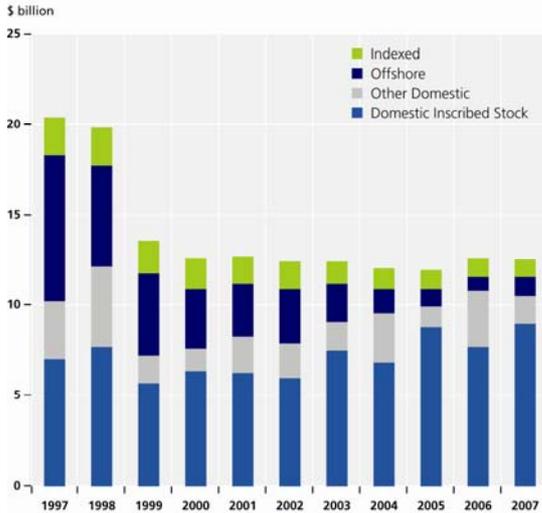
Mix of TCV Debt

This chart depicts TCV's mix of debt as at 30 June 2007. 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 \$7.5 billion. 'CPI Indexed' securities, although not a core borrowing category, are likely to remain at current levels. The 'Domestic Other' category largely comprises the reclassification of short-dated Domestic Inscribed Stock and other residual outstandings.



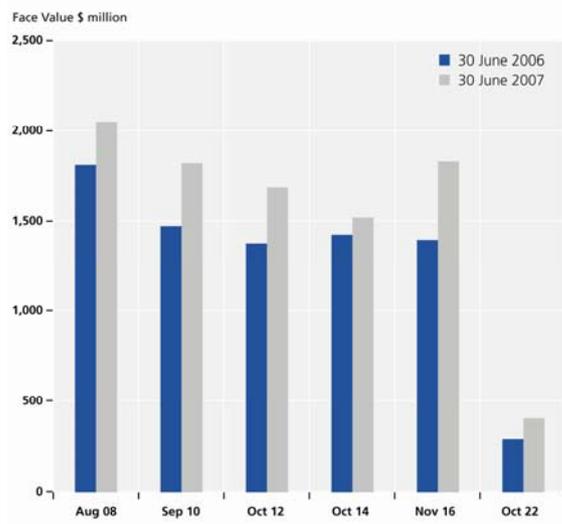
Total Outstanding Debt

This chart depicts the mix of TCV's total outstanding debt as at 30 June 2007, relative to previous periods.



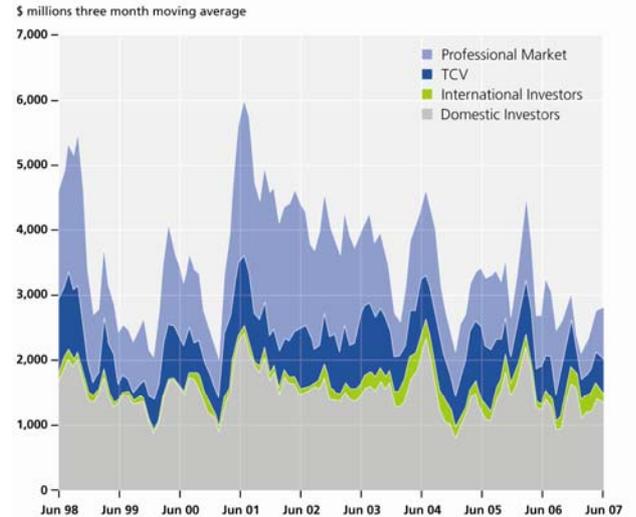
Domestic Incribed Stock Outstandings

This chart compares Domestic Incribed Stock outstandings by maturity at 30 June 2007 against 30 June 2006.



Domestic Incribed Stock Turnover

TCV Domestic Incribed Stock traded actively 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.

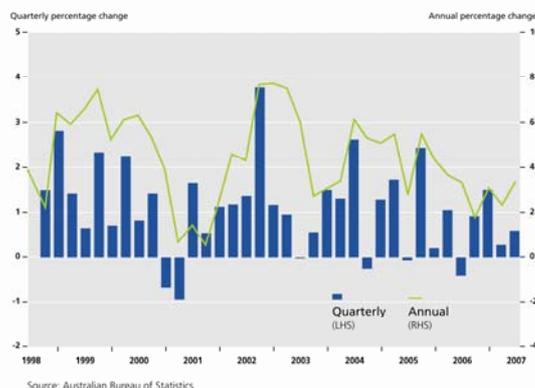
The Victorian Economy

Victorian State Final Demand (SFD) rose by 3.3% through the year to the March quarter of 2007, equal to that over the previous year. Household consumption, the largest component of SFD, rose by 1.2% in the first three months of 2007 and by 3.3% year-on-year.

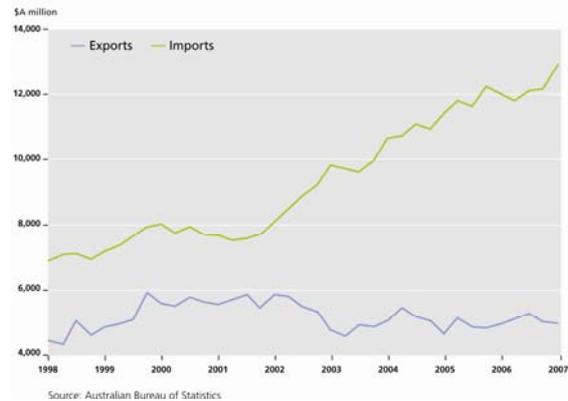
While business investment has softened over the last year, it remains at high levels following a period of strong growth. Between mid 2004 to mid 2006, business investment has averaged 12.9% year-on-year growth. Dwelling investment has weakened over the last two quarters but still grew at around 8.5% year-on-year to the March quarter 2007.

Victorian Final Demand

Non-mineral exporters and import-competing industries in the State's significant manufacturing sector have been relatively disadvantaged by the strong Australian dollar. Exports averaged just over \$5 billion per quarter in the year to March 2007, 3.5% higher than a year earlier. Year-on-year export growth was 0.6%. In contrast, total import volumes averaged over \$12 billion per quarter over the same period. This resulted in through the year import growth of 7.6%. The strength in imports during 2006 was primarily concentrated in machinery and transport equipment.

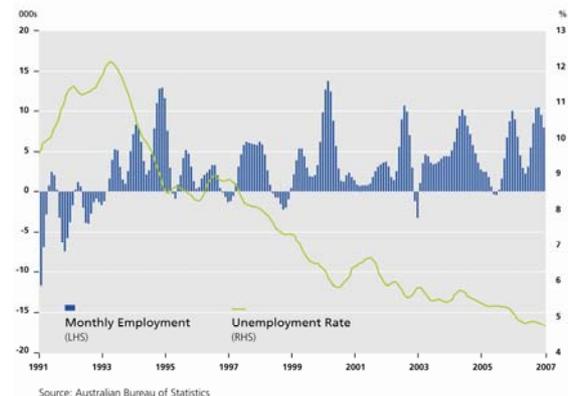


Victorian External Position



Victorian Labour Market

Growth in employment has been relatively strong with year-on-year growth of 2.8% to March 2007. Employment growth has been particularly strong in finance & insurance, wholesale trade and construction. Victorian trend employment shows around 81,000 jobs were added over the twelve months to May 2007. Strong employment growth resulted in the Victorian unemployment rate falling to 4.7%.



Inflation

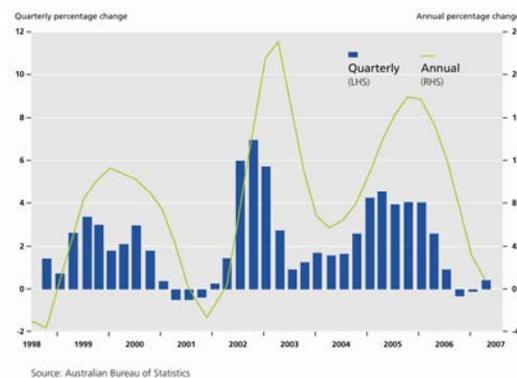
To date, the strength in employment has not added to inflationary pressures, despite elevated petrol prices and a spike in fruit prices. The most recent CPI estimate for the March quarter 2007 shows Melbourne's inflation rate running at 2.2% per annum, which is lower than a year ago when it was 2.8%. Melbourne's inflation rate also remains below the national inflation rate of 2.4% and that of a number of other state capitals. Higher than average rises in housing costs in Brisbane and Perth has kept the CPI in these cities up by 2.9% and 3.5% respectively.

In terms of the inflationary outlook, the Reserve Bank of Australia expects national underlying inflation to remain at the upper end of its target band of between 2%-3% over the next two years. Victorian inflation is expected to be slightly lower averaging around 2.5% over the same period. This reflects the less pronounced nature of inflationary pressures in the non-resource rich states.



Trend Private Business Investment

The current business environment remains conducive to maintaining Victorian private business investment growth at high levels due to the strong global economy, high capacity utilisation, and strong corporate profitability. Through the year to December 2006, total private trend business investment grew by 0.8%. The Victorian Budget notes that the value of Victorian non-residential building approvals grew by 20% in 2006, which was higher than any other state. There was broad based strength across the commercial, industrial and other non-residential sectors.

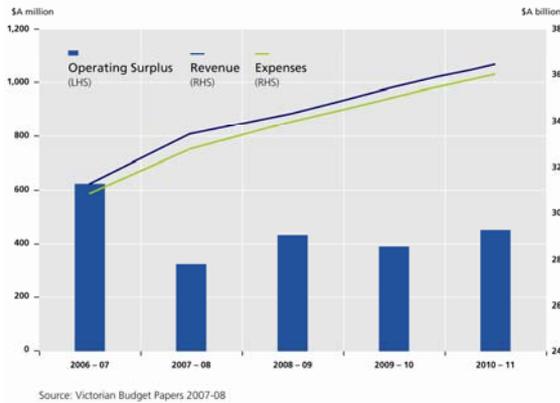


Since 2001, the Victorian government has invested over \$16 billion in infrastructure, averaging over \$2.3 billion a year. For the four years to 2010-11, public infrastructure investment (including that of public non-financial corporations) is expected to average around \$5.5 billion a year. This investment 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. For 2007-08, the budget operating surplus is forecast to be \$324 million, with surpluses averaging around \$424 million envisaged over the next three years. The forecasts reflect the State's commitment to prudent management of its net financial liabilities.

General government net debt (gross debt less liquid financial assets) is projected to increase from \$3.0 billion at June 2007 to \$7.9 billion at June 2011, in real terms. The projected level of general government real net debt in 2011 is equivalent to 2.9% of projected Gross State Product (GSP), compared to 3.1% in 1999.

Victorian Government Fiscal Projections



The Victorian Budget forecasts economic growth, as measured by GSP, of 2.75% in 2006-07. This growth rate is broadly in line with the national growth rate. The Budget shows that economic growth is forecast to rise in 2007-08 and 2008-09 before settling at a 3.0% trend rate of growth in the outer years. Solid consumption growth and ongoing high but moderating levels of business investment are expected to underpin the expansion. Continued population growth and increases in the participation rate will support the labour market and employment growth.

Victorian Government Economic Projections ⁽¹⁾

	Actual	Forecasts				
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Gross state product	2.7%	2.75%	3.25%	3.25%	3.00%	3.00%
Employment	1.7%	2.25%	1.25%	1.25%	1.25%	1.25%
Unemployment ⁽²⁾	5.3%	5.00%	5.00%	5.00%	5.00%	5.00%
Consumer price index	3.1%	3.00%	2.50%	2.50%	2.50%	2.50%
Wage cost index ⁽³⁾	3.8%	3.50%	3.50%	3.50%	3.50%	3.50%
Population ⁽⁴⁾	1.4%	1.20%	1.20%	1.20%	1.20%	1.20%

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 2007

Mr Ferres is a Consultant to TressCox Lawyers; a Director of Australian Unity Limited; St Vincent's Health (Melb) and the Committee for Economic Development of Australia (CEDA); Chairman of TDI Limited, TCV Superannuation Fund Pty Ltd and Vianova Asset Management (Advisory Committee); 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 and 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.

Michael Hirst, BCom

Deputy Chairman

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

Appointed Deputy Chairman on 22 November 2006.

Mr Hirst is Chief Operating Officer for Bendigo Bank. Currently a Director of Elders Rural Bank and Barwon Health, Mr Hirst also holds various Board positions on Bendigo Bank subsidiaries including Sandhurst Trustees Limited, Oxford Funding and Victorian Securities Limited.

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.

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 as Deputy Chairman of the Market Governance Committee of the Australian Financial Markets Association.

David T Craig, FCPA

First appointed: 22 August 2000. Retired: 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 Chairman of VicSuper Pty Ltd.

During his term as a Director of TCV, he was also a director of ANZ Staff Superannuation (Australia) Ltd, 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, from which positions he has subsequently retired.

Mr Craig was Deputy Chairman and Chairman of TCV's Audit Committee.

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

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, ANZ Staff Superannuation (Australia) P/L 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).

Ms Carter is Chairman of TCV's Audit Committee.

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), FAICD, SF Fin, FAIM, ACA (NZ)

First appointed: 1 May 2006. Current appointment expires: 30 April 2009

Mr Hawkins is a non-executive Director of St George Bank Limited, Mirvac Group, Liberty Financial Pty Ltd, 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 Esanda Ltd, 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.

Grant Hehir

First appointed: 17 October 2006. Current appointment expires: 16 October 2009

As Secretary to the Department of Treasury and Finance, Mr Hehir provides leadership in economic, financial and resource management across the Victorian government sector.

Mr Hehir has extensive experience in strategic financial management and the provision of fiscal, economic social policy advice to both the Victorian and Commonwealth governments.

Mr Hehir was the Secretary of the Victorian Department of Education and Training from 2003 before being appointed as Secretary of the Department of Treasury and Finance in June 2006.

In this role, he is responsible for advising on and delivering a range of education and training reform initiatives.

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.

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 (retired 21 November 2006)
- Michael Hirst
- Sue Carter
- Tim Knott
- Peter Hawkins
- Grant Hehir

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 June 2007.

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 was chaired by Mr David Craig until his retirement on 21 November 2006 at which time Ms Sue Carter was appointed.

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 2006 – 30 June 2007

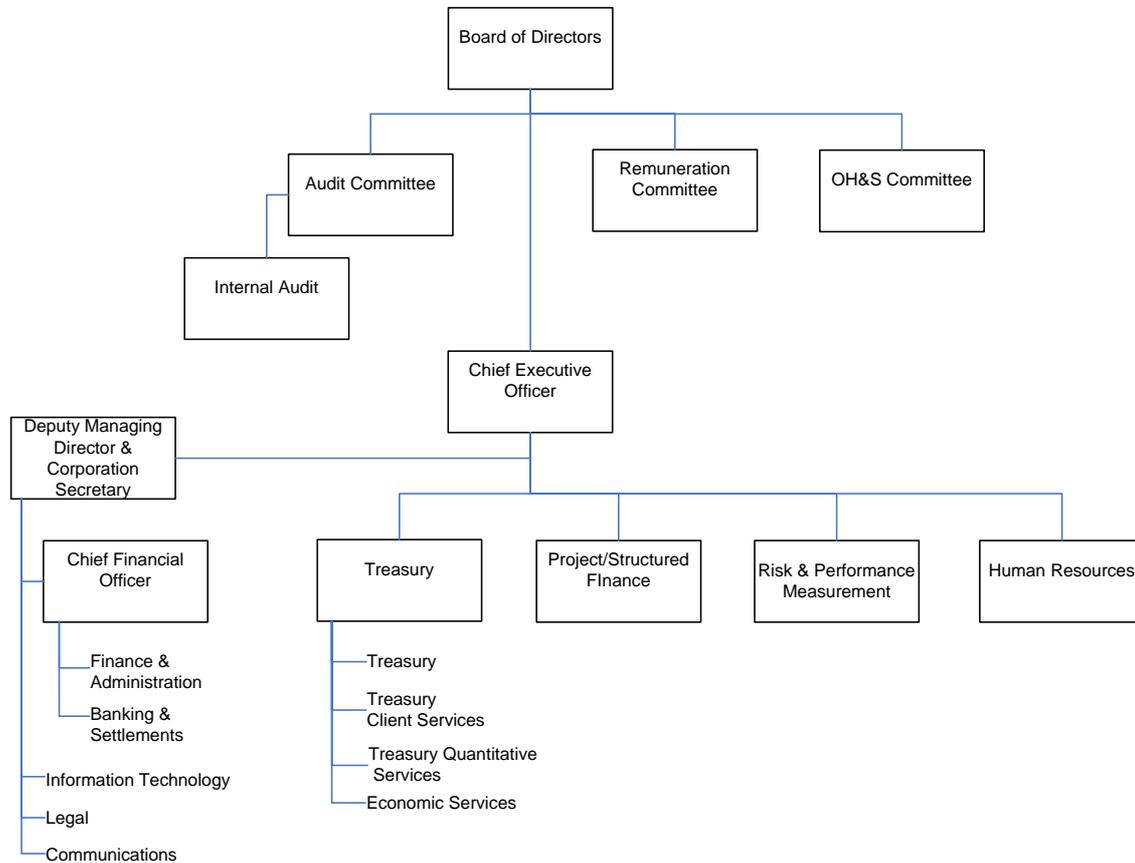
	Board		Audit		Remuneration		Occupational Health & Safety	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
I Ferres	11	11	5	4	3	3	2	2
D Craig ¹	5	5	3	3	2	2	0	0
W Whitford	11	11	5	5 ²	3	3 ³	2	2
M Hirst	11	10	5	5	3	3	2	2
S Carter	11	11	5	5	3	3	2	2
T Knott	11	11	5	5	3	3	2	2
P Hawkins	11	9	5	4	3	2	2	1
G Hehir ⁴	7	7	3	3	1	1	2	2

Notes:

1. David Craig retired on 21 November 2006
2. William Whitford was an attendee at Audit Committee Meetings
3. William Whitford was an attendee at Remuneration Committee Meetings
4. Grant Hehir was appointed to the Board on 17 October 2006

Management

Organisation Structure



Management Team

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

William (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 settlement 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.

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 banking and settlement operations and provision of the Corporation's accounts. He provides advice to the Board on TCV's financial position.

Position Vacant

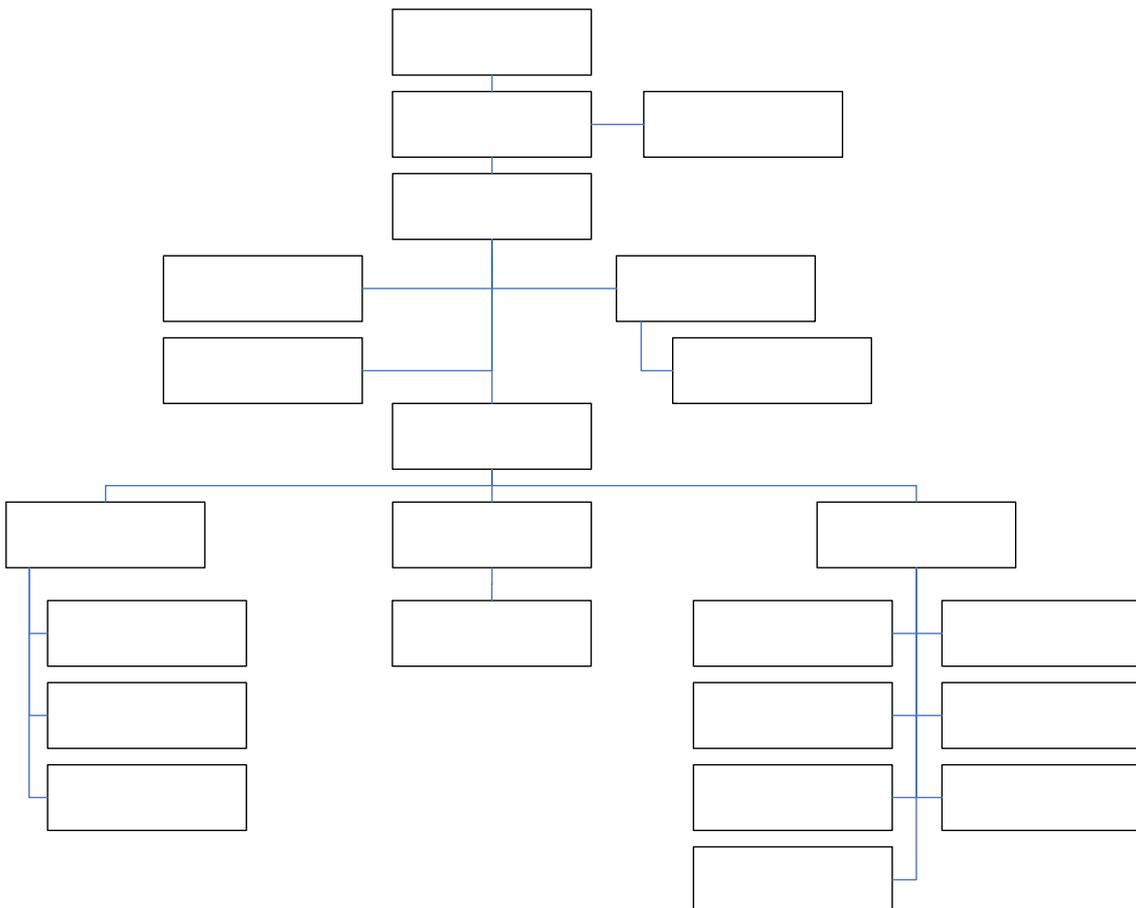
General Manager, Project/Structured Finance

Julian Polic resigned in December 2006 to pursue other interests. TCV would like to thank Julian for his invaluable service over the past five years.

The position is currently vacant, with the business unit reporting directly to the Managing Director until an appointment is made.

The General Manager, Project/Structured Finance is responsible for providing financial advice to clients on major capital projects and alternative financing structures.

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 objectives. 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 business mandate, 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 the 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.

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 set of comprehensive market risk policies that clearly identify delegations, responsibilities and authorities.

Funding 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

At 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 requires long term ratings of at least A-/A3/A- by Standard & Poor's/Moody's/Fitch for exposures up to 12 months and progressively higher minimum ratings for longer term exposures. Credit limits must be approved by the Board or the Managing Director (under powers delegated by the Board) and management actively monitors credit exposure amounts against these limits.

The following table shows the distribution, by counterparty credit rating, of TCV's derivative and investment portfolio, including cash, at 30 June 2007:

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		19.2	Aaa	27.7	20.7
AA+	23.4	0.9	Aa1	50.0	63.9
AA	47.1	62.6	Aa2	10.2	3.1
AA-	17.4	6.4	Aa3		1.3
A+		3.3	A1	8.9	1.0
A	8.9	1.0	A2		
A-			A3		
Victorian Public Authorities	3.2	6.4	Victorian Public Authorities	3.2	6.4
Not rated by S&P but rated at least Aaa by Moody's		0.2	Not rated by Moody's but rated at least AA- by S&P		3.6
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 to address operational risk management issues and to review actual operational risk incidents. 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 charge.

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 Victorian Auditor-General's Office has currently appointed Ernst & Young as their agent
- 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*, the *Statute Law (Further Revision) Act 2006* and the *Public Sector Acts (Further Workplace Protection and Other Matters) 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 22B (FRD22B) 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 FRD22B, 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 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 is signed off by all staff as an acceptable strategy.

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 2006-07, TCV received no workers' compensation claims and there were no managed cases 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*. 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. All enquiries should be directed to the Corporation Secretary.

Report of Disclosures under the Whistleblowers Protection Act to 30 June 2007

	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 2006-07, 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 in place codes of conduct for all staff. These codes are based on the code of ethics and code of conduct developed by the Australian Financial Markets Association and the financial code of conduct required under the *Financial Management Act 1994*. Compliance with these codes is a condition of each employee's employment and all staff are encouraged to use the codes as a frame of reference in their daily activities.

Staff Complement

As at 30 June 2007, TCV employed 50.35 full-time equivalent (FTE) employees (2006: 52.6 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

TCV employs expert consultants for specific projects to maintain best practice in the finance industry. During 2006-07, five consultancies with fees totalling \$173,646 were undertaken.

Financial Statements 2007

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Income Statement

For the year ended 30 June 2007

	Note	2007 \$000s	2006 \$000s
Income			
Net income from financial assets	2(b), 2(c), 2(d), 3	683,191	667,558
Fees and other income	2(d)	7,892	7,916
		691,083	675,474
Expenses			
Net expense from financial liabilities	2(b), 2(c), 3	653,630	644,540
Other borrowing related expenses	2(e)	706	792
General administrative expenses	3	15,083	15,512
		669,419	660,844
Net Profit		21,664	14,630

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

Balance Sheet

As at 30 June 2007

	Note	2007 \$000s	2006 \$000s
Assets			
Cash and cash equivalents	5	3,058,667	4,576,829
Trade and other receivables		8,334	2,668
Investments	2(b), 2(c), 2(f), 6	3,244,719	3,213,710
Derivative financial instruments receivable	2(b), 2(c), 14	645,956	371,238
Loans to the State of Victoria and participating authorities	2(b), 2(c), 7, 11	10,134,210	9,272,599
Property, plant and equipment	2(i), 8	2,616	3,198
Intangible assets	2(j), 9	656	539
Total Assets		17,095,158	17,440,781
Liabilities			
Trade and other payables		2,677	4,260
Provisions	2(k), 2(l), 24	969	1,022
Derivative financial instruments payable	2(b), 2(c), 14	641,507	341,417
Deposits from public sector	10, 11	3,602,239	4,179,294
Interest bearing liabilities – domestic	12	11,773,494	12,061,747
Interest bearing liabilities – offshore	13	926,429	712,232
Total Liabilities		16,947,315	17,299,972
Net Assets		147,843	140,809
Equity			
Contributed equity	4	30,000	30,000
Retained earnings	4	117,843	110,809
Total Equity		147,843	140,809

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

Statement of Changes in Equity

As at 30 June 2007

	Note	2007 \$000s	2006 \$000s
Total Equity at the Beginning of the Year		140,809	137,882
Adjustment for the adoption of AASB 139 to retained earnings	4		4,200
Restated Total Equity at the Beginning of the Year		140,809	142,082
Profit for the period		21,664	14,630
Total Recognised Income and Expense for the Year		21,664	14,630
Dividend Paid	4	14,630	15,903
Total Equity at the End of the Year		147,843	140,809

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

Cash Flow Statement

For the year ended 30 June 2007

	Note	2007 \$000s	2006 \$000s
Cash Flows from Operating Activities			
Interest received from the State of Victoria and participating authorities		576,397	557,095
Interest paid on borrowings and deposits		(1,066,450)	(989,931)
Net cash received (paid) - market transactions		(24,612)	4,684
Interest received on investments and cash		471,913	458,274
Fees received		7,988	8,653
Cash paid to suppliers and employees		(14,850)	(14,973)
Net Cash Inflow/(Outflow) from Operating Activities	25(ii)	(49,614)	23,802
Cash Flows from Investing Activities			
Reduction/(Increase) in loans to the State of Victoria and participating authorities		(1,119,334)	(458,819)
Sale/(Purchase) of investments		(125,162)	183,218
Payments for property, plant and equipment		(210)	(2,469)
Payments for intangible assets		(405)	(593)
Net Cash Inflow/(Outflow) from Investing Activities		(1,245,111)	(278,663)
Cash Flows from Financing Activities			
Increase/(Reduction) in derivatives		35,648	(832)
Increase/(Reduction) in borrowings		331,110	947,886
Increase/(Reduction) in deposits from public sector		(575,565)	(354,898)
Dividend paid		(14,630)	(15,903)
Net Cash Inflow/(Outflow) from Financing Activities		(223,437)	576,253
Net Increase/(Decrease) in Cash and Cash Equivalents		(1,518,162)	321,392
Cash and Cash Equivalents at Beginning of Year		4,576,829	4,255,437
Cash and Cash Equivalents at End of Year	5	3,058,667	4,576,829

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 of Victoria'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 2007 was authorised for issue in accordance with a resolution of the Board on 21 August 2007.

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(c)). The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars.

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).

In the prior year the Corporation adopted the exemption under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards from having to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement to the comparative period. This change was accounted for by adjusting the opening balance of retained earnings at 1 July 2005, as disclosed in Note 4.

(b) Significant Accounting Judgements, Estimates and Assumptions

Where the fair value of financial assets and liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using mathematical models. Where practicable, the input for these models is taken from observable markets, but where this is not practicable a degree of judgement is applied in establishing the fair value. The assumptions and judgements applied by management in determining fair value may have a material impact on the results of the Corporation.

(c) Financial Instruments

Date of recognition

Financial asset 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.

Financial liability transactions are recognised at trade date and any unsettled trades are recognised on the balance sheet.

Financial assets and liabilities designated at fair value through profit and loss

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. Management information is provided internally on a fair value basis.

In the Income Statement, 'Net income from financial assets' primarily arises from realised and unrealised fair value gains and losses on assets and interest income. 'Net expense from financial liabilities' 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.

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. Derivative financial instruments are shown in the financial statements as gross amounts.

Determination of fair value

The fair value of financial assets and liabilities that are traded in an active market are determined with reference to appropriate market sourced rates.

Where the fair value cannot be derived from active markets, it is determined using mathematical models:

- the fair value of deposits from and loans to participating authorities are based on rates commensurate with the market rates or yield curves for similar maturities of securities issued by TCV
- the fair value of other financial assets and liabilities are based on appropriate yield curves derived using assumptions about liquidity and correlations. Key assumptions in the mathematical models are periodically tested by reference to price makers in financial markets and also by market polling at reporting dates to validate assumptions.

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.

(d) Income Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. The following criteria also apply:

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.

(e) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

(f) 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.

(g) 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.

(h) 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.

Note 2 Summary of Significant Accounting Policies (cont.)

(i) Property, Plant and Equipment

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, depreciated over five years, except for computer hardware which is depreciated 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.

Impairment losses are recognised in the Income Statement in the 'General administrative expenses' line item (2007 nil, 2006 nil).

(j) Intangible Assets

Intangible assets represent purchased software and 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 amounts 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 the Income Statement in the 'General administrative expenses' item.

(k) 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 2007.

(l) 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 measured at net present value and 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.

(m) Repurchase Agreements

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 or carries the risk or reward of ownership.

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

Note 2 Summary of Significant Accounting Policies (cont.)

(n) Cash and Cash Equivalents

Cash and cash equivalents include 11am deposits with financial institutions and liquid investments maturing in less than three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes.

(o) Receivables and payables

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.

(p) Goods and Services Tax

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

(q) 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.

(r) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(s) New Standards and Interpretations Not Yet Adopted

Summarised in the paragraphs below are Australian Accounting Standards that have recently been issued or amended which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007 but have not been adopted for this financial report:

AASB 7 Financial Instruments: Disclosures

AASB 7 is applicable for annual reporting periods beginning after 1 January 2007. The standard is not expected to impact on the financial results but will require additional disclosures related to financial instruments.

AASB 8 Operating Segments

AASB 8 is applicable to reporting periods beginning after 1 January 2009. The standard is not expected to impact on the financial results but may require additional disclosures.

AASB 1049 Financial Reporting of General Government Sectors by Governments

AASB 1049 applies to general government reporting and therefore does not apply to TCV's financial statements.

AASB 2005-10

As a result of the release of AASB 7 Financial Instruments: Disclosures, AASB 2005-10 makes consequential amendments to 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. The amendments apply to periods beginning after 1 January 2007 and are expected to only impact on the disclosures within the financial report.

Note 2 Summary of Significant Accounting Policies (cont.)

AASB 2007-3

Amendments to Australian Accounting Standards arising from AASB 8 including amendments to AASB 5 Non-current Assets Held for Sale and Discontinued Operations; AASB 6 Exploration for and Evaluation of Mineral Resources; AASB 102 Inventories, AASB 107 Cash Flow Statements; AASB 119 Employee Benefits; AASB 127 Consolidated and Separate Financial Statements; AASB 134 Interim Financial Reporting; AASB 136 Impairment of Assets, AASB 1023 General Insurance Contracts; and AASB 1038 Life Insurance Contracts. This standard is only expected to impact on disclosures within the financial report.

AASB 2007-4

These amendments arise as a result of the AASB decision that, in principle, all options that currently exist under IFRSs should be included in A-IFRSs and additional Australian disclosures should be eliminated other than those now considered particularly relevant in the Australian reporting environment. The standards amended were AASB 1 First-time Adoption of A-IFRS; AASB 2 Share-based Payment; AASB 3 Business Combinations; AASB 4 Insurance Contracts; AASB 5 Non-current Assets Held for Sale and Discontinued Operations; AASB 6 Exploration for and Evaluation of Mineral Resources; AASB 7 Financial Instruments: Disclosures; AASB 102 Inventories; AASB 107 Cash Flow Statements; AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors; AASB 110 Events after the Balance Sheet Date; AASB 112 Income Taxes; AASB 114 Segment Reporting; AASB 116 Property, Plant and Equipment; AASB 117 Leases; AASB 118 Revenue; AASB 119 Employee Benefits; AASB 120 Accounting for Government Grants and Disclosure of Government Assistance; AASB 121 The Effects of Changes in Foreign Exchange Rates; AASB 127 Consolidated and Separate Financial Statements; AASB 128 Investments in Associates; AASB 129 Financial Reporting in Hyperinflationary Economies; AASB 130 Disclosure in the Financial Statements of Banks and Similar Financial Institutions; AASB 131 Interests in Joint Ventures; AASB 132 Financial Instruments: Presentation; AASB 133 Earnings per Share; AASB 134 Interim Financial Reporting; AASB 136 Impairment of Assets; AASB 137 Provisions, Contingent Liabilities and Contingent Assets; AASB 138 Intangible Assets; AASB 139 Financial Instruments: Recognition and Measurement; AASB 141 Agriculture; AASB 1023 General Insurance Contracts; and AASB 1038 Life Insurance Contracts. The amendments apply to reporting periods commencing 1 July 2007. No material impact on TCV's financial statements is anticipated.

AASB 2007-7

These amendments follow the issuance of AASB 2007-4. The standards amended were AASB 1 First-time Adoption of A-IFRS; AASB 2 Share-based Payment; AASB 4 Insurance Contracts; AASB 5 Non-current Assets Held for Sale and Discontinued Operations; AASB 107 Cash Flow Statements; AASB 128 Investments in Associates. The amendments apply to reporting periods commencing 1 July 2007. No material impact on TCV's financial statements is anticipated.

Note 3 Income and Expense Items

	2007 \$000s	2006 \$000s
Interest Income ⁽¹⁾		
Interest income on cash assets	193,998	248,172
Interest income on investments	219,584	186,896
Interest income on loans to participating authorities	581,000	560,708
	994,582	995,776
Interest Expense on Borrowings ⁽²⁾	(950,758)	(946,125)
Realised and Unrealised Market Movements of Financial Assets ^{(1) (3)}	(311,391)	(328,218)
Realised and Unrealised Market Movements of Financial Liabilities ^{(2) (3)}	297,128	301,585
Net Income from Management of Financial Instruments	29,561	23,018
Fees and Other Income	7,892	7,916
	37,453	30,934
Other Borrowing Related Expenses		
Bank and facility fees	177	152
Rating agency fees	296	424
Registry and agency fees	90	63
Other costs	143	153
	706	792
General Administrative Expenses		
Salaries and related employee expenses	8,536	8,881
Depreciation of property plant and equipment	793	583
Amortisation of intangible assets	288	218
Professional fees and contract services	1,694	1,812
Minimum operating lease payments	495	517
Power and other occupancy costs	123	144
Market information services	815	714
Promotional expenses	224	222
Legal costs	160	232
Insurance	144	179
Information technology	1,372	1,445
Other expenses	439	565
	15,083	15,512
Net Profit	21,664	14,630

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

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

⁽³⁾ Includes net revenue of \$5.427 million (2006 \$ nil) from structured transactions entered into during the year containing financial instruments for which an active market does not exist (refer Note 2 (b)).

Note 4 Equity

Contributed Equity

	2007 \$000s	2006 \$000s
Contributed Equity	30,000	30,000

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

	2007 \$000s	2006 \$000s
Retained earnings - opening balance	110,809	104,785
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
	110,809	108,985
Net profit	21,664	14,630
Transfer from indexed based structure reserve		3,097
Dividend paid	(14,630)	(15,903)
Retained Earnings - Closing Balance	117,843	110,809

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 Regulation 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 2007, no dividend in respect of the year ended 30 June 2007 (2006: nil) has been provided for in the accounts of TCV.

A dividend of \$14.630 million relating to the financial year ended 30 June 2006 was determined, declared and paid during the financial year.

Note 5 Cash and Cash Equivalents

Contractual maturity in:	At call	Less than 3 months	Total
	\$000s	\$000s	\$000s
2007			
Cash at bank and on hand	171,576		171,576
Deposits with futures clearing house	6,131		6,131
Receivables from financial institutions	237,440	474	237,914
Short term discounted securities		2,643,046	2,643,046
Total Cash and Cash Equivalents	415,147	2,643,520	3,058,667

Contractual maturity in:	At call	Less than 3 months	Total
	\$000s	\$000s	\$000s
2006			
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
Total Cash and Cash Equivalents	884,798	3,692,031	4,576,829

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
2007						
Floating rate securities	2,626	80,619	538,980	943,478	225,887	1,791,590
Short term discounted securities		24,386				24,386
Offshore issued securities					73,403	73,403
Fixed interest securities		105,930	154,745	505,154	157,860	923,689
Treasurer guaranteed investments ⁽¹⁾	19,457	20,146	25,359	64,414	275,191	404,567
Index linked securities				14,768	12,316	27,084
Total Investments	22,083	231,081	719,084	1,527,814	744,657	3,244,719

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
2006						
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 ⁽¹⁾	7,006	20,226	25,611	68,338	304,967	426,148
Index linked securities				139,211	272,518	411,729
Total Investments	58,626	442,494	520,674	1,455,020	736,896	3,213,710

⁽¹⁾ 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 2007, this includes investments in Melbourne Cricket Club (\$332.58 million, 2006: \$344.45 million), Werribee Park National Equestrian Centre Inc. (\$0.15 million, 2006: \$0.18 million) and St. Vincent's Hospital (Melbourne) Limited (\$71.83 million, 2006: \$81.52 million).

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
2007							
Overnight & short term cash	1,012,933						1,012,933
Short term discounted loans		29,517	88,933				118,450
Floating rate loans		50,128	10,023	50,186	170,501	50,066	330,904
Fixed interest loans		601,030	447,574	803,208	2,303,648	4,151,718	8,307,178
Index linked loans				9,721		355,024	364,745
Total Loans to Participating Authorities	1,012,933	680,675	546,530	863,115	2,474,149	4,556,808	10,134,210

	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
2006							
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
Total Loans to Participating Authorities	110,049	645,861	568,007	834,216	2,433,510	4,680,956	9,272,599

Refer to Note 11 for additional details of loans by client.

Note 8 Property, Plant and Equipment

	2007	2006
	\$000s	\$000s
Leasehold improvements, office equipment, furniture and fittings	2,386	2,762
Accumulated depreciation	<u>(708)</u>	<u>(708)</u>
	1,678	2,054
Computer equipment	1,558	1,826
Accumulated depreciation	<u>(1,351)</u>	<u>(1,531)</u>
	207	295
Motor vehicles	870	1,056
Accumulated depreciation	<u>(139)</u>	<u>(207)</u>
	731	849
Written Down Value	<u>2,616</u>	<u>3,198</u>

Reconciliation of Property, Plant & Equipment

	2007	2006
	\$000s	\$000s
Leasehold Improvements, Office Equipment, Furniture and Fittings		
Opening balance	2,054	74
Acquisitions	75	2,121
Disposals	(4)	(3)
Depreciation expense	<u>(447)</u>	<u>(138)</u>
Closing balance	<u>1,678</u>	<u>2,054</u>
Computer Equipment		
Opening balance	295	332
Acquisitions	81	186
Disposals		
Depreciation expense	<u>(169)</u>	<u>(223)</u>
Closing balance	<u>207</u>	<u>295</u>
Motor Vehicles		
Opening balance	849	906
Acquisitions	537	540
Disposals	(479)	(375)
Depreciation expense	<u>(176)</u>	<u>(222)</u>
Closing balance	<u>731</u>	<u>849</u>
Total	<u>2,616</u>	<u>3,198</u>

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

	2007	2006
	\$000s	\$000s
Computer software	5,851	5,446
Accumulated amortisation	(5,195)	(4,907)
Written Down Value	656	539

Reconciliation of Intangible Assets

	2007	2006
	\$000s	\$000s
Computer Software		
Opening balance	539	164
Acquisitions	405	593
Amortisation expense	(288)	(218)
Closing balance	656	539

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 as detailed below. Deposits 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	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
2007					
Deposits from public sector	2,053,929	1,512,956	33,760	1,594	3,602,239
	At call	Less than 3 months	3 months to 1 year	1 to 2 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s
2006					
Deposits from public sector	3,218,645	947,981	12,668		4,179,294

Refer to Note 11 for additional details of deposits by client.

Note 11 Client Loans and Deposits Outstanding

	2007	2007	2006	2006
	Loans	Deposits	Loans	Deposits
	\$000s	\$000s	\$000s	\$000s
State of Victoria	5,883,484	(1,043,763)	5,445,782	(1,508,894)
Participating Authorities:				
Melbourne Water Corporation	1,300,970	(474)	1,261,398	(959)
Yarra Valley Water Limited	849,667		749,925	
Rural Finance Corporation of Victoria	632,454		515,415	
South East Water Limited	430,438		413,677	
City West Water Limited	311,265	(10,486)	269,288	(154)
VicUrban	167,283	(13,289)	186,256	
Rolling Stock Holdings (Victoria) P/L	122,846	(1,212)	122,542	(851)
Port of Melbourne Corporation	91,888	(6)	78,614	(5,744)
Department of Human Services		(364,840)		(104,102)
State Electricity Commission of Victoria		(314,644)		(339,866)
Victorian Energy Networks Corporation		(88,642)		(35,770)
Other participating authorities	343,915	(231,023)	229,702	(215,205)
Public Sector Entities:				
Victorian Government Trust Funds		(978,479)		(854,514)
Emergency Services Superannuation Scheme		(124,987)		(697,986)
Victorian Funds Management Corporation		(6,002)		(6,001)
Other public sector entities		(391,222)		(362,800)
Other		(33,170)		(46,448)
	10,134,210	(3,602,239)	9,272,599	(4,179,294)

The above are shown at fair values (2006: fair 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
2007							
Benchmark Programs							
Domestic Inscribed Stock ⁽¹⁾				2,134,086	1,800,678	5,183,377	9,118,141
TCV Promissory Notes		1,256,931					1,256,931
Total Benchmark Programs		1,256,931		2,134,086	1,800,678	5,183,377	10,375,072
Domestic Borrowings – Other							
Payables to market participants	83,485	123,275					206,760
TCV fixed interest		6,103	6,507	18,040	57,986	39,018	127,654
Commonwealth Government loans			698	647	947	1,088	3,380
Indexed linked securities				4,038	28,703	1,027,887	1,060,628
Total Domestic Borrowings - Other	83,485	129,378	7,205	22,725	87,636	1,067,993	1,398,422
Total Domestic Borrowings	83,485	1,386,309	7,205	2,156,811	1,888,314	6,251,370	11,773,494
2006							
Benchmark Programs							
Domestic Inscribed Stock ⁽¹⁾					3,408,155	4,418,598	7,826,753
TCV Promissory Notes		993,146					993,146
Total Benchmark Programs		993,146			3,408,155	4,418,598	8,819,899
Domestic Borrowings – Other							
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
Total Domestic Borrowings - Other	66,841	19,435	1,885,611	12,450	78,174	1,179,337	3,241,848
Total Domestic Borrowings	66,841	1,012,581	1,885,611	12,450	3,486,329	5,597,935	12,061,747

This amount is net of \$76.68 million (2006: \$78.21 million) of TCV Domestic Inscribed Stock held by TCV.

Note 12 Interest Bearing Liabilities – Domestic (cont.)

TCV Promissory Notes are electronic promissory notes issued under the AUD\$2,500,000,000 Commercial Paper Program with maturities up to one 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
2007						
Euro Commercial Paper	532,191					532,191
Eurobonds		67,903	152,741	94,247		314,891
SECV Eurobonds				79,347		79,347
Total Offshore Borrowings	532,191	67,903	152,741	173,594		926,429

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
2006						
Euro Commercial Paper	186,238					186,238
Eurobonds	13,106	59,867	132,075	152,740	91,515	449,303
SECV Eurobonds				76,691		76,691
Total Offshore Borrowings	199,344	59,867	132,075	229,431	91,515	712,232

Euro Commercial Paper are negotiable instruments issued by TCV under the AUD\$2,000,000,000 multi-currency Euro Commercial Paper Program with maturities up to one year. The 2007 liability has a face value of US\$455,000,000 (2006: US\$125,000,000 and A\$18,750,000). TCV does not maintain any significant net foreign exchange exposure (refer Note 14).

Eurobonds are issued by TCV under the USD\$3,000,000,000 Euro Medium Term Note Program. The bonds were issued in Australian dollars.

SECV Eurobonds were issued by the State Electricity Commission of Victoria 'Shell' under an 'in-substance' defeasance arrangement with TCV. The bonds were issued in Australian dollars.

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.

Interest rate swap contracts include fixed, floating and indexed cashflows. These net cashflows may occur monthly, quarterly, semi annually and annually. The maturity dates of outstanding swaps are summarised below. Maturity and interest rate risk information for 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. 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 as summarised below. 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
2007						
Derivative Financial Instruments Receivable						
Interest rate swaps	3,169	1,966	55,001	8,403	39,858	108,397
Forward foreign exchange contracts	14	410	417	1,190		2,031
Exchange traded futures	234					234
FX swap position receivable	535,294					535,294
Total Derivative Receivable	538,711	2,376	55,418	9,593	39,858	645,956
Derivative Financial Instruments Payable						
Interest rate swaps	(2,800)	(1,578)	(42,590)	(15,190)	(27,866)	(90,024)
Forward foreign exchange contracts	(14)	(411)	(417)	(1,190)		(2,032)
Exchange traded futures	(281)	(11)				(292)
FX swap position payable	(549,159)					(549,159)
Total Derivative Payable	(552,254)	(2,000)	(43,007)	(16,380)	(27,866)	(641,507)

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

The fair value of the Corporation's transactions in derivative financial instruments outstanding at 30 June 2006 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
2006						
Derivative Financial Instruments Receivable						
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
Total Derivative Receivable	187,957	101,374	5,141	42,098	34,668	371,238
Derivative Financial Instruments Payable						
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)
Total Derivative Payable	(188,874)	(97,399)	(4,798)	(42,804)	(7,542)	(341,417)

Note 15 Financial Liabilities at Fair Value

	Fair Value ⁽¹⁾	Principal Owing at Maturity ⁽²⁾	Variance
	\$000s	\$000s	\$000s
Deposits from public sector	3,602,239	3,594,898	7,341
Interest bearing liabilities – domestic ⁽³⁾	11,773,494	12,038,840	(265,346)
Interest bearing liabilities – offshore	926,429	977,026	(50,597)

(1) Fair value is inclusive of interest due at 30 June 2007.

(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 2007.

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:

- dealing in highly liquid markets
- adhering to liquidity controls including the maintenance of a portfolio of liquid assets at all times
- 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
2007					
Cash and cash equivalents	49,612	2,800,815	208,240		3,058,667
Investments	1,566,789	1,604,636	60,978	12,316 ⁽²⁾	3,244,719
Derivatives ⁽¹⁾	3,065	84,009	8,548		95,622
	1,619,466	4,489,460	277,766	12,316	6,399,008 ⁽³⁾
2006					
Cash and cash equivalents	79,716	4,143,337	353,776		4,576,829
Investments	1,350,762	1,756,612		106,336 ⁽²⁾	3,213,710
Derivatives ⁽¹⁾	9,937	63,347	2,493		75,777
	1,440,415	5,963,296	356,269	106,336	7,866,316 ⁽³⁾

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

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

⁽³⁾ 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 ⁽¹⁾	Banks	Non-Bank Financial Intermediaries	Other Victorian Public Authorities	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
2007							
Cash and cash equivalents				3,058,667			3,058,667
Investments	14,768	541,544	137,888	1,726,617	419,334	404,568	3,244,719
Derivatives				92,557		3,065	95,622
	14,768	541,544	137,888	4,877,841	419,334	407,633	6,399,008 ⁽²⁾
2006							
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
	327,303	196,686	99,984	6,269,422	545,713	427,208	7,866,316 ⁽²⁾

(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
2007	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Cash and Cash Equivalents							
Cash at bank and on hand	171,576						171,576
Deposits with futures clearing house	6,131						6,131
Receivables from financial institutions	237,914						237,914
Short-term discounted securities	2,643,046						2,643,046
Total Cash and Cash Equivalents	3,058,667						3,058,667
Investments							
Floating rate securities	1,791,590						1,791,590
Short term discounted securities		24,386					24,386
Offshore issued securities					73,403		73,403
Fixed interest securities		105,930	154,745	505,154	157,860		923,689
Treasurer guaranteed investments	19,457	20,146	25,359	64,414	275,191		404,567
Index linked securities				14,768	12,316		27,084
Total Investments	1,811,047	150,462	180,104	584,336	518,770		3,244,719
Loans to Participating Authorities							
Overnight & short term cash	1,012,933						1,012,933
Short term discounted loans	29,517	88,933					118,450
Floating rate loans	330,904						330,904
Fixed interest loans	601,030	447,574	803,208	2,303,648	4,151,718		8,307,178
Index linked loans			9,721		355,024		364,745
Interest rate swaps	(19)						(19)
Total Loans to Participating Authorities	1,974,365	536,507	812,929	2,303,648	4,506,742		10,134,191
Other Financial Assets							
Receivables and prepayments						8,334	8,334
Total Other Financial Assets						8,334	8,334

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
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
2007							
Deposits from Public Sector	3,566,885	33,760	1,594				3,602,239
Interest Bearing Liabilities - Domestic							
Domestic Inscribed Stock			2,134,086	1,800,678	5,183,377		9,118,141
Payables to market participants	206,760						206,760
TCV promissory notes	1,256,931						1,256,931
TCV fixed interest	6,103	6,507	18,040	57,986	39,018		127,654
Commonwealth Government loans		698	647	947	1,088		3,380
Indexed linked securities			4,038	28,703	1,027,887		1,060,628
Interest rate swaps	(368)	(388)	(12,411)	6,769	(11,993)		(18,391)
Total Domestic Borrowings	1,469,426	6,817	2,144,400	1,895,083	6,239,377		11,755,103
Interest Bearing Liabilities - Offshore							
Euro commercial paper	532,191						532,191
Eurobonds		67,903	152,741	173,594			394,238
Cross currency swaps							
Total Offshore Borrowings	532,191	67,903	152,741	173,594			926,429
Other Financial Liabilities							
Accounts and other payables						2,677	2,677
Provisions						969	969
Total Other Financial Liabilities						3,646	3,646

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
2006	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Cash and Cash Equivalents							
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
Total Cash and Cash Equivalents	4,576,829						4,576,829
Investments							
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
Total Investments	1,435,993	306,527	243,303	640,311	587,576		3,213,710
Loans to Participating Authorities							
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)
Total Loans to Participating Authorities	930,483	479,914	873,192	2,308,039	4,680,956		9,272,584
Other Financial Assets							
Receivables and prepayments						2,668	2,668
Total Other Financial Assets						2,668	2,668

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
Deposits from Public Sector	4,166,626	12,668					4,179,294
Interest Bearing Liabilities - Domestic							
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)
Total Domestic Borrowings	1,119,636	1,881,514	35,797	3,472,818	5,524,173		12,033,938
Interest Bearing Liabilities - Offshore							
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)
Total Offshore Borrowings	199,344	56,948	132,075	229,431	91,515		709,313
Other Financial Liabilities							
Accounts and other payables						4,260	4,260
Provisions						1,022	1,022
Total Other Financial Liabilities						5,282	5,282

Note 17 (ii) Weighted Average Yields

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

	2007	2007	2007	2006	2006	2006
	Less than 1 year	1 to 5 years	Greater than 5 years	Less than 1 year	1 to 5 years	Greater than 5 years
	%	%	%	%	%	%
Cash Assets						
Floating	6.25			5.75		
Fixed	6.32			5.85		
Investments						
Floating	6.36			5.90		
Fixed	6.64	6.90	7.77	6.07	6.27	7.88
Indexed		3.57			2.67	2.59
Loans to Participating Authorities						
Floating	6.29			5.87		
Fixed	6.40	6.68	6.80	5.88	5.99	6.12
Indexed		3.69	2.78		2.98	2.38
Deposits Public Sector						
Floating	6.31			5.85		
Fixed	6.30	7.12		5.80		
Domestic Borrowings						
Floating	6.25			5.75		
Fixed	6.24	6.63	6.68	5.83	5.98	6.02
Indexed		3.66			2.88	2.54
Offshore Borrowings						
Fixed	5.32	6.75		5.39	6.02	6.09
Interest Rate Swaps						
Floating	6.03			5.90		
Fixed	6.63	6.80	2.30	6.07	6.49	5.54
Indexed	6.39	5.46	5.48			2.93

Note 18 Superannuation

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

Name of Fund	Contributions Made	Contributions Made
	2007	2006
	\$000s	\$000s
TCV Superannuation Fund	1,197	875
Emergency Services Superannuation Scheme (formerly State Superannuation Fund)	20	21
Other superannuation funds	193	58

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 2007:

	2007	2006
	\$000s	\$000s
Auditor-General	168	209

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

Note 20 Related Party Information

TCV is the central financing 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 2007 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, Premier of Victoria (Treasurer for Victoria during 2006-07), are or have been the responsible persons of TCV:

- Ian N. Ferres, Chairman (Appointment effective from 1 January 1993 to 31 December 2007)
- 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)
- Michael Hirst (Appointment effective from 4 September 2002 to 3 September 2008. Appointed Deputy Chairman 22 November 2006 to 3 September 2008)
- 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)
- Grant Hehir (Appointment effective from 17 October 2006 to 16 October 2009)

Note 20 Related Party Information (cont.)

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.

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

Ian N Ferres

Consultant to TressCox Lawyers

Chairman, TDI Limited

Chairman, Vianova Asset Management (Advisory Committee)

Director, Australian Unity Limited

Director, St Vincent's Health (Melb)

Director, Committee for Economic Development Australia

Chair of Treasury Corporation of Victoria Superannuation Fund Pty Ltd (trustee of the TCV Superannuation Fund)

Member of The Australia Day (Victoria) Committee

Michael Hirst

Chief Operating Officer, Bendigo Bank (Group)

Chairman, Victoria Securities Corporation Limited

Chairman, Oxford Funding Limited

Executive Director, Sandhurst Trustees Limited

Director, Elders Rural Bank

Director, Barwon Health

Director, Homesafe Solutions Ltd

Director, Bendigo Financial Planning

William Whitford

Member, Market Governance Committee, Australian Financial Markets Association

David T Craig

Chairman, VicSuper Pty Ltd

Director, ANZ Staff Superannuation (Australia) Pty Ltd; *Retired (31 December 2006)*

Merrill Lynch Investment Managers Ltd. (Member of the Compliance Committee); *Retired (30 June 2007)*

Lazard Asset Management Pacific Co. (Member of the Industry Advisory Panel); *Retired (31 December 2006)*

Murdoch Childrens Research Institute Ltd. (Member of the Audit & Finance and Investment Committees); *Retired (31 December 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

Director, ANZ Staff Superannuation (Australia) P/L

Note 20 Related Party Information (cont.)

Peter Hawkins

Director, Mirvac Group
 Chairman, Visa International Asia Pacific
 Director, Visa International
 Director, St George Bank Limited
 Director, Liberty Financial Pty Ltd.
 Director, Camberwell Grammar School

Tim Knott

Nil

Grant Hehir

Secretary, Department of Treasury & Finance

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 \$1,687,129 (2006: \$1,553,046) consisting of short term benefits.

Directors

The total compensation paid or payable to Directors for the year is \$725,215 (2006: \$703,154). 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 any bonus payment.

The following analysis of Directors' compensation is provided:

Total Compensation	2007	2006
Income Band	No. of Directors	No. of Directors
\$470,000 to \$480,000	1	1
\$80,000 to \$90,000	1	1
\$40,000 to \$49,999	4	3
\$20,000 to \$29,999	-	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	
	2007	2006	2007	2006
	No. of Executive Officers			
\$330,000 to \$340,000	1			
\$320,000 to \$329,999	1			
\$310,000 to \$319,999		1		
\$290,000 to \$299,999		1		
\$280,000 to \$289,999			1	
\$270,000 to \$279,999			1	1
\$250,000 to \$259,999	1			
\$240,000 to \$249,999				1
\$230,000 to \$239,999		1		
\$210,000 to \$219,999			1	1

The total compensation paid to the above personnel for the year is \$919,442 (2006: \$849,892).

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 2007 (\$95,000,000 as at 30 June 2006) 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
Category					
Investments - fixed interest			(35,500)	(50,000)	(85,500)
Loans - fixed interest				10,000	10,000
	-	-	(35,500)	(40,000)	(75,500)

Lease Commitments

Commitments in respect of non-cancellable operating leases due:

	2007 \$000s	2006 \$000s
Not later than 1 year	560	544
Later than 1 year but not more than 5 years	1,560	2,114
	2,120	2,658

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 2007-08 is \$416,000 (2006-07: \$206,000).

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

	2007	2006
	\$000s	\$000s
Employee Long Service Leave Entitlements		
Current provision	747	778
Non-current provision	222	244
	969	1,022
Total Provisions at 30 June 2007	969	1,022

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

	2007	2006
	\$000s	\$000s
Net profit	21,664	14,630
Net unrealised income (expense) from financial assets and liabilities	(65,056)	6,296
Depreciation of property, plant and equipment	792	583
Amortisation of intangible assets	288	218
Decrease (Increase) in trade and other receivables	(5,666)	3,037
(Decrease) Increase in trade and other payables	(1,583)	1,673
(Decrease) Increase in accrued employee benefits	(53)	285
(Decrease) Increase in final indexation timing		(2,920)
Net Cash from Operating Activities	(49,614)	23,802

(iii) Financing Facilities

\$US50 million (2006: \$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 in Melbourne 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 Subsequent Events

The Corporation had no material or significant events occurring after the reporting date.

The Honourable John Lenders MP assumed responsibility for the Treasury portfolio from the Premier, The Honourable John Brumby MP on 30 July 2007. No material impact on TCV's operations is anticipated.

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 2007 and financial position of Treasury Corporation of Victoria as at 30 June 2007.

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



Ian N Ferres
Chairman

Date: 21 August 2007



William Whitford
Managing Director

Date: 21 August 2007



Peter J Wyatt
Chief Financial Officer

Date: 21 August 2007

Independent Audit Report

Treasury Corporation of Victoria

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

The Financial Report

The accompanying financial report for the year ended 30 June 2007 of the Treasury Corporation of Victoria which comprises an income statement, balance sheet, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the certification of financial statements has been audited.

The Responsibility of the Members of Board for the Financial Report

The Members of the Board of the Treasury Corporation of Victoria are responsible for the preparation and the fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. This responsibility includes:

- establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. These Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

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.

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of Treasury Corporation of Victoria as at 30 June 2007 and its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations), and the financial reporting requirements of the *Financial Management Act 1994*.



D.D.R. Pearson
Auditor-General

MELBOURNE
27 August 2007

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
Report of Operations		
<i>General Information</i>		
FRD22B	Manner of establishment and the relevant Ministers	2, 25
FRD22B	Objectives, functions, powers and duties	2
FRD22B	Nature and range of services provided	2, 6 - 10
FRD22B	Organisational structure	21
FRD22B	Statement of workforce data and employment and conduct principles	25 - 27
<i>Financial and other relevant information</i>		
FRD22B	Summary of the financial results for the year	5
FRD22B	Significant changes in financial position	n/a
FRD22B	Operational and budgetary objectives	3
FRD22B	Subsequent events	n/a
FRD22B	Discussion on operating result and financial position	3, 4
FRD22B	Details of consultancies over \$100,000	n/a
FRD22B	Details of consultancies under \$100,000	27
FRD22B	Application of Freedom of Information Act 1982	25
FRD22B	Compliance with building and maintenance provisions of the Building Act 1993	n/a
FRD22B	Application and operation of the Whistleblowers Protection Act 2001	25
FRD22B	Statement on National Competition Policy	27
FRD22B	Summary of environmental performance	4
FRD22B	Occupational health and safety	25
FRD10	Disclosure index	66, 67
FRD25	Victorian Industry Participation Policy disclosures	27
Financial Statements		
<i>Financial statements required under Part 7 of the FMA</i>		
SD4.2(c)	Compliance with Australian accounting standards and other authoritative pronouncements	33
SD4.2(b)	Income Statement	29
SD4.2(b)	Balance Sheet	30
SD4.2(b)	Statement of Changes in Equity	31
SD4.2(b)	Cash Flows Statement	32
SD4.2(b)	Notes to the financial statements	33 - 63
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<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
Legislation		
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Building Act 1983		n/a
Whistleblowers Protection Act 2001		26
Victorian Industry Participation Policy Act 2003		27

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	+61 3 9650 7577	Dealing room
	+61 3 9651 4843	Settlements
Facsimile	+61 3 9651 4880	General
	+61 3 9650 7557	Dealing room
	+61 3 9651 4899	Settlements
Registry of Inscribed Stock	Inscribed 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 tcv@tcv.vic.gov.au or telephone +61 3 9650 7577.	