

# Financial Report

## Page

<b>38</b>	<b>CERTIFICATION OF FINANCIAL STATEMENTS</b>
<b>39</b>	<b>AUDITOR-GENERAL'S REPORT TO THE TREASURER</b>
<b>41</b>	<b>INCOME STATEMENT</b>
<b>42</b>	<b>BALANCE SHEET</b>
<b>43</b>	<b>CASH FLOW STATEMENT</b>
<b>44</b>	<b>STATEMENT OF CHANGES IN EQUITY</b>
<b>45</b>	<b>NOTES TO THE FINANCIAL STATEMENTS</b>
45	Note 1 LEGAL STATUS AND ASSOCIATED GUARANTEES
45	Note 2 SUMMARY OF ACCOUNTING POLICIES
50	Note 3 IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS
54	Note 4 INTEREST REVENUE
54	Note 5 OTHER REVENUE
55	Note 6 INTEREST EXPENSE
56	Note 7 OTHER EXPENSES
56	Note 8 RETAINED PROFITS
57	Note 9 CONTRIBUTED CAPITAL
57	Note 10 TRADE AND OTHER RECEIVABLES
58	Note 11 LOANS
58	Note 12 INTANGIBLE ASSETS
59	Note 13 TRADE AND OTHER PAYABLES
59	Note 14 PROVISIONS AND TAX LIABILITIES
60	Note 15 BORROWINGS
60	Note 16 MATURITY ANALYSIS
63	Note 17 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT
70	Note 18 FAIR VALUES OF FINANCIAL INSTRUMENTS
72	Note 19 RESERVES
72	Note 20 FUNDING FACILITIES
73	Note 21 AUDITOR'S REMUNERATION
73	Note 22 RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES
73	Note 23 FIDUCIARY ACTIVITIES
74	Note 24 DIVIDENDS
74	Note 25 NORTHERN TERRITORY TREASURY CORPORATION ADVISORY BOARD
74	Note 26 FEES AND COMMISSIONS
75	Note 27 OPERATING LEASES
75	Note 28 SEGMENT INFORMATION

# Certification of Financial Statements

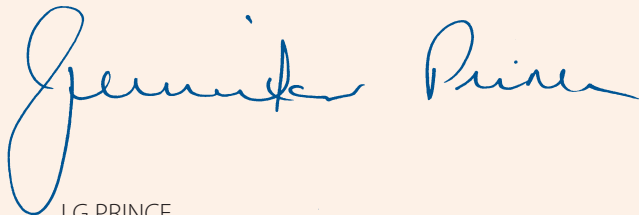
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

The accompanying annual financial statements have been prepared pursuant to the provisions of the *Northern Territory Treasury Corporation Act* and other prescribed requirements. We certify that:

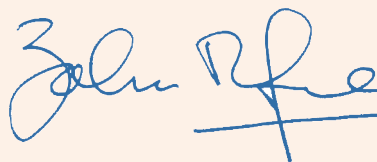
- a) the accompanying financial statements and notes are in agreement with the accounts and records of the Northern Territory Treasury Corporation; and;
- b) in our opinion:
  - (i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
  - (ii) the accompanying annual financial statements have been drawn up so as to present a true and fair view, in accordance with Accounting Standards, of the transactions of the Northern Territory Treasury Corporation for the year ended 30 June 2006 and of the financial position as at 30 June 2006.

At the date of signing, we are not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.

Signed in Darwin on the 26<sup>th</sup> day of September 2006.



J G PRINCE  
Under Treasurer and  
Chairman of the Advisory Board



J R P MONTAGUE  
General Manager



**AUDITOR-GENERAL**

# Auditor-General's Report to the Treasurer

NORTHERN TERRITORY TREASURY CORPORATION  
YEAR ENDED 30 JUNE 2006

Page 1 of 2

## Scope

### *The financial report and the Corporation's responsibility*

The financial report of the Northern Territory Treasury Corporation comprises the Certification of Financial Statements and income statement, balance sheet, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the year ended 30 June 2006.

The Corporation is responsible for the preparation and presentation of the financial report in accordance with the requirements of the *Northern Territory Treasury Corporation Act*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### *Audit approach*

I conducted an independent audit in order to express an opinion to the Treasurer. My audit was conducted in accordance with Australian Auditing and Assurance Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control systems and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements or control deficiencies have been detected.

I performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia and with the requirements of the *Northern Territory Treasury Corporation Act*, a view which is consistent with my understanding of the Corporation's financial position and its financial performance as represented by the results of its operations and cash flows.

I formed my audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of accounting estimates made by the Corporation.

While I considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of my procedures, my audit was not designed to provide assurance on internal controls.

My audit did not involve an analysis of the prudence of business decisions made by the General Manager or the Advisory Board.

I have read the other information in the annual report to determine whether it contained any material inconsistencies with my report.



## AUDITOR-GENERAL

Page 2 of 2

### Independence

I am independent of Northern Territory Treasury Corporation and, in conducting my audit, I followed applicable independence requirements of the *Audit Act* and of Australian professional ethical pronouncements.

### Audit Opinion

In my opinion, the financial report of Northern Territory Treasury Corporation:

- presents fairly the financial position of Northern Territory Treasury Corporation at 30 June 2006, and its financial performance for the year ended on that date; and
- is presented in accordance with Accounting Standards and other mandatory financial reporting requirements in Australia and the requirements of the *Northern Territory Treasury Corporation Act*.

A handwritten signature in black ink, appearing to read 'Frank McGuiness'.

Frank McGuiness  
Auditor-General for the Northern Territory  
Darwin, Northern Territory  
2 October 2006

# Income Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Note	2006	2005
		\$000	\$000
<b>REVENUE</b>		<b>166 339</b>	<b>174 970</b>
Interest	4	165 925	174 671
Other Revenue	5	414	299
<b>EXPENSES</b>		<b>140 227</b>	<b>149 908</b>
Interest	6	137 983	147 642
Other Expenses	7	206	190
Administration	7	2 038	2 076
<b>PROFIT BEFORE INCOME TAX</b>		<b>26 112</b>	<b>25 062</b>
Income Tax Expense		7 834	7 519
<b>NET PROFIT AFTER INCOME TAX</b>	8	<b>18 278</b>	<b>17 543</b>

Notes to the Financial Statements are included on pages 45 to 75.

# Balance Sheet

AS AT 30 JUNE 2006

	Note	2006	2005
		\$000	\$000
<b>TOTAL ASSETS</b>		<b>2 368 274</b>	<b>2 318 590</b>
Cash and Cash Equivalents		39 414	38 876
Trade and Other Receivables	10	8 685	7 804
Prepayments		36	62
Loans	11	2 320 118	2 271 848
Intangible Assets	12	21	-
<b>TOTAL LIABILITIES</b>		<b>2 348 079</b>	<b>2 299 876</b>
Deposits Held		1 609	2 002
Trade and Other Payables	13	41 834	58 344
Provisions	14	18 436	17 696
Tax Liabilities	14	7 834	7 519
Borrowings	15	2 278 366	2 214 315
<b>NET ASSETS</b>		<b>20 195</b>	<b>18 714</b>
<b>TOTAL EQUITY</b>		<b>20 195</b>	<b>18 714</b>
Contributed Capital	9	18 714	18 714
Retained Profits	8	-	-
Reserves	19	1 481	-

Notes to the Financial Statements are included on pages 45 to 75.

# Cash Flow Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Note	2006	2005
		\$000	\$000
		inflows (outflows)	inflows (outflows)
<b>CASH FLOWS from OPERATING ACTIVITIES</b>	22	<b>16 292</b>	<b>19 867</b>
Interest received from investments		166 858	175 562
Interest and other costs of finance paid		(141 341)	(146 536)
Other receipts:			
Management fee		368	262
Payments to suppliers and employees		(2 074)	(1 929)
Income tax paid		(7 519)	(7 492)
<b>CASH FLOWS from INVESTING ACTIVITIES</b>		<b>(48 301)</b>	<b>(6 264)</b>
Repayment of loans		32 280	34 336
Drawdown of loans		(80 550)	(40 600)
Payment for intangible assets		(31)	-
<b>CASH FLOWS from FINANCING ACTIVITIES</b>		<b>32 547</b>	<b>(16 094)</b>
Repayment of borrowings		(799 453)	(551 600)
Drawdown of borrowings		849 937	553 600
Deposits received		(394)	(613)
Dividend paid		(17 543)	(17 481)
<b>NET (DECREASE)/INCREASE IN CASH HELD</b>		<b>538</b>	<b>(2 491)</b>
Cash and Cash Equivalents at the beginning of the financial year		38 876	41 367
Cash and Cash Equivalents at the end of the financial year		39 414	38 876

Notes to the Financial Statements are included on pages 45 to 75.

# Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Note	2006	2005
		\$000	\$000
<b>CONTRIBUTED CAPITAL</b>			
Balance at the beginning of the financial year		18 714	18 714
Movement for the year		-	-
Balance at the end of the financial year		18 714	18 714
<b>RESERVES</b>			
Balance at the beginning of the financial year (Under AGAAP)		-	-
Change in accounting policy due to transition to AIFRS	19	(7 998)	-
Restated balance at the beginning of the financial year		(7 998)	-
Gain/(losses) taken to equity		6 563	-
Transferred from retained earnings	19	2 916	-
Balance at the end of the financial year		1 481	-
<b>RETAINED PROFITS</b>			
Balance at the beginning of the financial year		-	3 127
Change in accounting policy due to transition to AIFRS		2 916	-
Restated balance at the beginning of the financial year		2 916	3 127
Net profit		18 278	17 543
Dividends provided for and paid		(18 278)	(20 670)
Transfer to reserves		(2 916)	-
Balance at the end of the financial year		-	-
<b>TOTAL EQUITY</b>		<b>20 195</b>	<b>18 714</b>

Notes to the Financial Statements are included on pages 45 to 75.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 1. LEGAL STATUS AND ASSOCIATED GUARANTEES

### (a) Determination of GBD status

The Treasurer has determined the Northern Territory Treasury Corporation is a government business division as defined in section 3(1) of the *Financial Management Act*. In accordance with section 10(2) of the *Financial Management Act*, the financial report of the entity has been prepared based on commercial accounting principles and on the basis that it complies with Australian Accounting Standards.

### (b) Statutory Guarantee

Under section 20 of the *Northern Territory Treasury Corporation Act*, all financial obligations incurred or assumed by the Corporation are guaranteed by the Treasurer on behalf of the Northern Territory of Australia.

## 2. SUMMARY OF ACCOUNTING POLICIES

### Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Northern Territory Treasury Corporation Act*, Australian Accounting Standards, Urgent Issue Group Interpretations and the requirements of the *Financial Management Act* and Treasurer's Directions. Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes of the Corporation comply with International Financial Reporting Standards (IFRS).

The financial statements were authorised for issue by the Under Treasurer on 28 August 2006.

### Basis of Preparation

The financial report is presented in Australian dollars (AUD) rounded to the nearest thousand and has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of AIFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of AIFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The Corporation has changed its accounting policies on 1 July 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected the Corporation's financial position, financial performance and cash flows is discussed in note 3. The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006. The Corporation has

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 2 continued*

not restated comparative information for financial instruments including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information and the impact of changes in these accounting policies on 1 July 2005, the date of transition for financial instruments, is discussed further in note 3.

The significant policies which have been adopted in the preparation of this financial report are:

## **(a) Cash and Cash Equivalents**

For the purposes of the Cash Flow Statement, cash includes cash on hand and cash deposits which are readily convertible to cash.

## **(b) Comparative Figures**

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

## **(c) Employee Benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits, such as wages, salaries and annual leave, expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Long Service Leave: In accordance with a Government policy decision made as part of the introduction of Working for Outcomes, on 1 July 2002 the Central Holding Authority assumed the long service leave liabilities of Government agencies, including the Corporation.

## **(d) Expense Recognition**

Expense is recognised to the extent that it is probable that a future sacrifice will flow from the entity and the expense can be reliably measured. Specific expenses are recognised as follows:

### (i) Interest Expense:

Interest expense includes accrued interest, and amortisation of discount and premiums. Interest expense is recognised on a time proportionate basis that takes into account the effective yield on the financial liability.

### (ii) Other Expenses:

Other expenses includes administration charges. Expenses for charges are recognised in the period in which the service is provided on an accrual basis.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 2 continued*

## **(e) Financial Instruments**

### (i) Financial Assets:

Loans and related receivables are recorded at amortised cost less impairment. Loans and receivables are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost (less impairment) with any difference between the initial recognised amount and the amortised cost (less impairment) amount being recognised in the Income Statement over the period of the loan and receivable using the effective interest rate method.

### (ii) Financial Liabilities:

Borrowings and related payables are recorded at amortised cost using the effective interest rate method. Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption amount being recognised in the Income Statement over the period of the borrowing using the effective interest rate method.

### (iii) Derivative Transactions:

The Corporation enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk, including interest rate swaps, cross currency swaps, cross currency interest rate swaps, and forward start interest rate swaps. Further details of derivative financial instruments are disclosed in note 17 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each reporting date. The resulting gain or loss is recognised in the Income Statement immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in the Income Statement depends on the nature of the hedge relationship (refer (iv) below). The Corporation designates its derivatives as hedges of highly probable forecast transactions (cash flow hedges).

### (iv) Hedge Accounting:

#### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Any gain or loss on a derivative hedging foreign currency risk of a recognised monetary asset or liability is recognised in the Income Statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the Income Statement.

### (v) Netting of Swap Transactions:

The Corporation, from time to time, may facilitate certain structured finance arrangements, where a legally recognised right to set-off financial assets and liabilities exists, and the Corporation intends to settle on a net basis. Where these arrangements occur, the revenues and expenses are set-off and the net amount is recognised in the Income Statement. The financial assets and liabilities of such transactions are set-off and the net amount is recognised in the Balance Sheet.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 2 continued*

(vi) Other financial instruments issued by the Corporation:

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual agreement. All the Corporation's compounding products are debt instruments.

(vii) Impairment of financial assets:

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the balance sheet date, that indicates that it is probable that the Corporation will be unable to collect all amounts due. The carrying amount of a financial asset identified as impaired is reduced to its estimated recoverable amount.

(viii) Gains and Losses on Extinguishment:

Gains and losses on extinguishment occur when a borrowing is redeemed prior to the scheduled maturity date. A gain or loss is derived where the fair value at redemption is higher or lower than the value of the bond at amortised cost. These gains and losses are recognised in the period in which the debt is extinguished.

## **(f) Foreign Currency**

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Exchange differences are recognised in profit or loss in the period in which they arise.

## **(g) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of the acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

## **(h) Impairment of Assets**

At each reporting date, the Corporation reviews the carrying amount of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any).

## **(i) Intangible Assets**

Intangible assets are stated at cost less accumulated amortisation and impairment. Cost includes expenditure directly attributable to the acquisition of the item. Amortisation is calculated on a straight-line basis to write off the cost of each item over its expected useful life to the Corporation to its estimated residual value. The

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 2 continued*

useful life of intangible assets is assumed to be 3-5 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

## **(j) Operating Leases**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## **(k) Trade and Other Payables**

Trade payables and other accounts payable are recognised when the Corporation becomes obliged to make future payments resulting from the purchase of goods and services.

## **(l) Provisions**

Provisions are recognised when the Corporation has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

## **(m) Trade and Other Receivables**

Interest and swap receivables are recognised when it is probable that economic benefits associated with the transaction will flow to the Corporation and the amount of revenue/receivable can be measured reliably.

## **(n) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues are recognised as follows:

(i) Interest Revenue:

Interest revenue includes accrued interest, and is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(ii) Other Revenue:

Other revenue includes fees and commissions for services provided. Revenue for fees and commissions are recognised in the period in which the service is provided on an accrual basis.

## **(o) Rounding**

Amounts have been rounded to the nearest thousand dollars.

## **(p) Superannuation**

Employee superannuation entitlements are principally provided through the Northern Territory Government and Public Authorities' Superannuation Scheme (NTGPASS). Benefits from this scheme are supplemented by an additional 3 per cent productivity benefit from the Northern Territory Supplementary Superannuation Scheme (NTSSS).

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 2 continued*

The Corporation makes superannuation contributions on behalf of its employees. Any liability for superannuation is met directly by the Northern Territory Government and the Corporation has and will continue to have no other direct superannuation liability.

## **(q) Taxation**

In line with the Corporation becoming a government business division from 1 July 2001, it is required to pay notional income tax on its accounting profits at the company tax rate of 30 per cent, in accordance with the requirements of the Treasurer's Directions and the Northern Territory Tax Equivalents Regime. Current tax for current and prior periods is recognised as a liability to the extent that it is unpaid.

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

## **3. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Corporation changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards (AIFRS). The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 July 2005.

A reconciliation and explanation of how the transition from superseded policies to AIFRS has affected the Corporation's financial position, financial performance and cash flows is set out below.

### **Effect of AIFRS on the Balance Sheet as at 1 July 2004:**

	\$000
Net Equity (superseded AGAAP)*	21 841
Effect of adoption of AIFRS	-
Net Equity AIFRS	21 841

\* Australian Government Accepted Accounting Principles

### **Effect of AIFRS on the Income Statement and Cash Flow Statement for the financial year ended 30 June 2005:**

There are no material differences between the Income Statement and Cash Flow Statement presented under A-IFRS and their equivalent statements under the superseded policies.

### **Effect of AIFRS on the Balance Sheet as at 1 July 2005:**

The Corporation has elected not to restate comparative information for financial instruments within the scope of Accounting Standards AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement, as permitted on the first-time adoption of A-IFRS. The effect of changes in the accounting policies for financial instruments on the Balance Sheet as at 1 July 2005 is shown below.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 3 continued*

	30 June 2005	Effect of adoption	1 July 2005
	\$000	\$000	\$000
<b>Total assets</b>	<b>2 318 590</b>	<b>43</b>	<b>2 318 633</b>
Cash	38 876	-	38 876
Receivables and other financial assets	7 804	43	7 847
Prepayments	62	-	62
Loans	2 271 848	-	2 271 848
<b>Total liabilities</b>	<b>2 299 876</b>	<b>5 125</b>	<b>2 305 001</b>
Deposits held	2 002	-	2 002
Payables and other financial liabilities	58 344	8 041	66 385
Provisions	17 696	-	17 696
Tax liabilities	7 519	-	7 519
Borrowings	2 214 315	(2 916)	2 211 399
<b>Net assets</b>	<b>18 714</b>	<b>(5 082)</b>	<b>13 632</b>
<b>Total equity</b>	<b>18 714</b>	<b>(5 082)</b>	<b>13 632</b>
Contributed capital	18 714	-	18 714
Retained profits	-	-	-
Hedging reserve	-	(7 998)	(7 998)
General reserve	-	2 916	2 916

## Explanatory notes

The Advisory Board has adopted AASB 139 Financial Instruments: Recognition and Measurement with effect from the date of transition, 1 July 2005. As a result all derivatives are recognised in the Balance Sheet at fair value (either financial asset or liability depending on whether the derivatives fair values are in or out of the money respectively).

The Corporation's derivatives are used to hedge the cash flow risk on the floating rate loans (denominated in either AUD or other foreign currency) arising from movements in the benchmark interest rate and foreign exchange rate. The Corporation designated the derivatives as cash flow hedges and accordingly report the change in the fair value of these derivatives in equity (hedge reserve). Under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, the entire fair value on derivatives designated in qualifying cash flow hedging relationships is reported in equity (hedging reserve). Any ineffectiveness existing at the transition date (1 July 2005) is recorded in retained earnings. After the transition date, amounts reported in equity will be restricted to the effective portion of the fair value changes of the derivatives, with any ineffectiveness reported directly in the financial results for that period. The Corporation has undertaken the necessary steps to ensure that the current hedge structures do qualify for hedge accounting under AASB 139.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 3 continued*

As discussed above, this has resulted in an increase in other financial assets, and liabilities by \$43 000, and \$5 125 000 respectively, and a decrease of \$5 082 000 in equity as at 1 July 2005. The breakdown of the amounts is as follows:

	Other Financial Assets \$000	Other Financial Liabilities \$000	Equity \$000
Fair values of:			
Interest rate swaps	-	1 161	(1 161)
Cross currency interest rate swaps	-	1 303	(1 303)
Cross currency swaps	43	396	(353)
Forward start interest rate swap	-	5 181	(5 181)
Borrowings at amortised cost (using effective interest method)	-	(2 916)	2 916
	<b>43</b>	<b>5 125</b>	<b>(5 082)</b>

## **Effect of AIFRS on the financial results as at 1 July 2005:**

The implementation of AIFRS on 1 July 2005 in particular AASB 139, has resulted in the adoption of hedge accounting whereby all derivatives of the Corporation were designated as cash flow hedges. The gain or loss from measuring the hedging instruments at fair value has been recognised directly in equity – hedging reserve, as the hedging instrument was assessed as being 100 per cent effective. Accordingly, no portion of the fair value of the hedge instruments were identified as ineffective with no impact being reported on retained profits as at that date.

The implementation of AIFRS on 1 July 2005 has also resulted in the basis of measurement for borrowings to be amortised cost. AASB 139 requires that the amortised cost of these borrowings be calculated using the effective interest method. Previously, premiums and discounts were amortised to profit and loss on a straight-line basis. Accordingly, the excess amortisation previously recognised to interest expense has been reversed at 1 July 2005.

## **Accounting policies applied in the comparative financial year**

The following accounting policies were applied to accounting for financial instruments in the comparative financial year and have now been changed:

### **(a) Foreign Currency**

- (i) Transactions: Foreign currency transactions are initially translated into Australian currency at the date of the transaction. At balance date amounts payable and receivable denominated in foreign currencies are translated to Australian currency at rates of exchange at that date. Resulting exchange differences are brought to account in determining the profit and loss for the year.
- (ii) Specific Commitments: Hedging is undertaken in order to avoid or minimise adverse financial effects of movements in exchange rates. Gains and losses arising from hedging transactions are brought to account in the financial year in which the exchange rates change consistent with the underlying foreign financial asset or liability.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 3 continued*

## **(b) Premiums and Discounts**

All premiums and discounts are amortised over the life of the associated borrowing with the amortisation being brought to account in the Income Statement as interest expense.

## **(c) Financial Instruments**

### (i) Basis of Accounting:

Other financial assets and interest bearing liabilities are carried at their historical principal outstanding. Interest revenue and expense, respectively, are recognised over the period in which they become due. Financial instruments held by the Corporation are not traded.

### (ii) Gains and Losses:

Gains and losses on derivatives used as hedges are accounted for on the same basis as the underlying exposures they are hedging. Accordingly, hedge gains and losses are included in the Income Statement when the gains and losses arising on the related underlying exposures are recognised in the Income Statement.

## **(d) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues are recognised as follows:

### (i) Interest Revenue:

Interest revenue includes accrued interest, discount and premiums.

The main adjustments necessary that would make the comparative financial statements comply with AASB 132 and AASB 139 are listed below. Similar adjustments were made at 1 July 2005 to restate the opening financial position of the Corporation to a position consistent with the accounting policies specified in note 2(a) to (q):

- i) the measurement of financial liabilities at amortised cost, rather than at cost in accordance with the superseded policy;
- ii) the recognition and measurement of all derivatives (including any embedded derivatives) at fair value;
- iii) the derecognition of other deferred hedging gains and losses recognised as assets and liabilities; and
- iv) the deferral in equity of the effective portion of the movement in fair value of derivatives accounted for as a cash flow hedge.

It is not practicable for the Corporation to detail the amounts of the adjustments to the Income Statement and to opening retained earnings for the comparative period had the new accounting policies been applied from the beginning of the comparative period. In addition, it is not practicable for the Corporation to detail for the current period, the amounts of the adjustments resulting to each financial statement line item as a consequence of applying the accounting policies specified elsewhere in note 2.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 4. INTEREST REVENUE

	2006	2005
	\$000	\$000
Interest from:		
Northern Territory of Australia	113 612	123 887
Government Owned Corporations	24 191	24 058
Government Business Divisions	28 061	26 663
Local Government Authorities	61	63
	165 925	174 671

	2006	2006	2005	2005
	Average Balance \$000	Average Rate %	Average Balance \$000	Average Rate %
Loans to:				
Northern Territory of Australia	1 601 636	7.09	1 604 922	7.72
Government Owned Corporations	307 220	7.87	289 087	8.32
Government Business Divisions	386 164	7.27	373 963	7.13
Local Government Authorities	963	6.30	744	8.50
	2 295 983		2 268 716	

## 5. OTHER REVENUE

	2006	2005
	\$000	\$000
Other Revenue arising from Financial Instruments		
Gain on Extinguishment	66	37
Other Revenue	348	262
	414	299

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 6. INTEREST EXPENSE

	2006	2005
	\$000	\$000
Interest to:		
Private Placements	107 999	114 145
Debt to Australian Government	13 234	13 376
Public Issues	15 925	18 703
Promissory Notes	825	1 418
	137 983	147 642

	2006	2006	2005	2005
	Average Balance	Average Rate	Average Balance	Average Rate
	\$000	%	\$000	%
Borrowings from:				
Private Placements	1 695 032	6.37	1 609 162	7.09
Debt to Australian Government	281 288	4.70	285 803	4.68
Public Issues	270 021	5.90	305 986	6.11
Promissory Notes	15 000	5.52	26 548	5.45
	2 261 341		2 227 499	

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 7. OTHER EXPENSES

	2006	2005
	\$000	\$000
Other Expenses arising from Financial Instruments		
Losses on Extinguishment	206	190
	206	190
Administration		
Salaries and Related Employee Expenses	751	726
Agent Service Arrangements	511	561
Other Service Arrangements	565	538
Consultants	27	105
Marketing and Promotion	5	-
Document Production	34	32
General Property Management	30	28
Amortisation	10	1
Subscriptions	60	35
Training and Study	9	18
Official Duty Fares	8	5
Travelling Allowance	1	1
Other Operating Expenses	27	26
	2 038	2 076

## 8. RETAINED PROFITS

	2006	2005
	\$000	\$000
Balance at the beginning of the financial year	-	3 127
Adjustments on adoption of AASB 132 and AASB 139 (refer note 3)	2 916	-
Net Profit	18 278	17 543
Dividends provided for and paid	(18 278)	(20 670)
Transfer to general reserve	(2 916)	-
Balance at the end of the financial year	-	-

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 9. CONTRIBUTED CAPITAL

	2006	2005
	\$000	\$000
Balance at the beginning of the financial year	18 714	18 714
Movement for the year	-	-
Balance at the end of the financial year	18 714	18 714

## 10. TRADE AND OTHER RECEIVABLES

	2006	2005
	\$000	\$000
Interest on Loans	5 056	5 261
Debtors	7	3
Other Receivables	-	2 540
Derivative Financial Instruments at fair value		
Forward Start Interest Rate Swaps	412	-
Cross Currency Swaps	914	-
Cross Currency Interest Rate Swap	2 296	-
TOTAL RECEIVABLES	8 685	7 804
Due from External Bodies	3 629	2 543
Due from Northern Territory Government Agencies	5 056	5 261
TOTAL RECEIVABLES	8 685	7 804

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 11. LOANS

	2006	2005
	\$000	\$000
Northern Territory of Australia		
Fixed Rate Loans	1 485 972	1 485 938
Floating Rate Loans	300	-
Credit Foncier Loans	114 904	116 159
Government Owned Corporations		
Fixed Rate Loans	40 000	20 000
Floating Rate Loans	52 092	-
Credit Foncier Loans	233 761	268 587
Government Business Divisions		
Fixed Rate Loans	2 500	-
Floating Rate Loans	40 000	22 500
Credit Foncier Loans	349 658	357 670
Local Government Authorities		
Credit Foncier Loans	931	994
<b>TOTAL LOANS</b>	<b>2 320 118</b>	<b>2 271 848</b>

## 12. INTANGIBLE ASSETS

	2006	2005
	\$000	\$000
Gross Carrying Value		
Balance at the beginning of the financial year	103	103
Additions	31	-
Balance at the end of the financial year	134	103
Accumulated Amortisation		
Balance at the beginning of the financial year	(103)	(102)
Amortisation expense	(10)	(1)
Balance at the end of the financial year	(113)	(103)
Net Book Value		
Balance at the beginning of the financial year	-	1
<b>Balance at the End of the Financial Year</b>	<b>21</b>	<b>-</b>

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 13. TRADE AND OTHER PAYABLES

	2006	2005
	\$000	\$000
Creditors and Accruals	291	349
Interest	37 302	40 134
Accrued Salaries	5	2
Other Payables	31	17 859
Derivative Financial Instruments at fair value		
Interest Rate Swaps	2 700	-
Cross Currency Swaps	410	-
Cross Currency Interest Rate Swap	1 095	-
<b>TOTAL PAYABLES</b>	<b>41 834</b>	<b>58 344</b>
Due to External Bodies	41 722	58 191
Due to Northern Territory Government Agencies	112	153
<b>TOTAL PAYABLES</b>	<b>41 834</b>	<b>58 344</b>

## 14. PROVISIONS AND TAX LIABILITIES

	2006	2005
	\$000	\$000
a) Provisions		
Employee Benefits		
Recreation Leave	140	138
Leave Bonus	13	10
Other	5	5
Total Employee Benefits	158	153
Dividend Payable	18 278	17 543
<b>TOTAL PROVISIONS</b>	<b>18 436</b>	<b>17 696</b>
b) Tax Liabilities		
Notional Income Tax Payable	7 834	7 519
<b>TOTAL TAX LIABILITIES</b>	<b>7 834</b>	<b>7 519</b>

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 15. BORROWINGS

	2006	2005
	\$000	\$000
Domestic Borrowings		
Wholesale Market		
Fixed Interest Securities	1 391 388	1 296 083
Floating Rate Notes	284 939	165 000
Promissory Notes	-	-
Retail Market		
Territory Bonds	186 813	209 479
Migration Linked Bonds	56 650	87 100
Australian Government		
Credit Foncier Loans	279 125	283 450
	2 198 915	2 041 112
International Borrowings		
Yen Loans		
Bonds	-	11 827
Floating Rate Notes	-	15 375
Euro Medium Term Notes		
EMTNs - Bonds	40 398	111 102
EMTNs - Floating Rate Notes	39 053	38 038
	79 451	176 342
TOTAL BORROWINGS	2 278 366	2 217 454
Less discounts	-	(12 524)
Add premiums	-	9 385
NET BORROWINGS	2 278 366	2 214 315

## 16. MATURITY ANALYSIS

### a) Trade and Other Receivables and Payables

	2006		
	0 to 12 months	Over 12 months	Total
	\$000	\$000	\$000
Trade and Other Receivables	8 274	411	8 685
Trade and Other Payables	40 454	1 380	41 834

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 16 continued*

## b) Loans and Borrowings

	2006				
	0 to 3	3 months	1 to 5	Over	Total
	months	to 1 year	years	5 years	
	\$000	\$000	\$000	\$000	\$000
<b>LOANS</b>					
Northern Territory of Australia					
Fixed Rate Loans	186 872	71 900	913 900	313 300	1 485 972
Floating Rate Loans	-	-	300	-	300
Credit Foncier Loans	297	1 074	5 513	108 020	114 904
Government Owned Corporations					
Fixed Rate Loans	-	-	-	40 000	40 000
Floating Rate Loans	-	-	-	52 092	52 092
Credit Foncier Loans	5 267	15 037	72 450	141 007	233 761
Government Business Divisions					
Fixed Rate Loans	-	-	2 500	-	2 500
Floating Rate Loans	-	-	40 000	-	40 000
Credit Foncier Loans	2 272	6 195	36 095	305 096	349 658
Local Government Authorities					
Credit Foncier Loans	17	31	228	655	931
<b>TOTAL LOANS</b>	<b>194 725</b>	<b>94 237</b>	<b>1 070 986</b>	<b>960 170</b>	<b>2 320 118</b>
<b>BORROWINGS</b>					
Due to Other Financial Institutions					
Domestic Borrowings					
Wholesale Market					
Fixed Interest Securities	12 530	4 948	955 281	418 629	1 391 388
Floating Rate Notes	125 000	-	159 939	-	284 939
Promissory Notes	-	-	-	-	-
Retail Market					
Territory Bonds	11 434	63 748	81 970	29 661	186 813
Migration Linked Bonds	10 000	32 400	14 250	-	56 650
Australian Government					
Credit Foncier Loans	-	4 522	20 265	254 338	279 125
International Borrowings					
Yen Loans					
Bonds	-	-	-	-	-
Floating Rate Notes	-	-	-	-	-
Euro Medium Term Notes					
EMTNs - Fixed Interest Securities	13 465	26 933	-	-	40 398
EMTNs - Floating Rate Notes	39 053	-	-	-	39 053
<b>TOTAL BORROWINGS</b>	<b>211 482</b>	<b>132 551</b>	<b>1 231 705</b>	<b>702 628</b>	<b>2 278 366</b>

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 16 continued*

## MATURITY ANALYSIS (2005 Comparatives)

	2005				
	0 to 3 months \$000	3 months to 1 year \$000	1 to 5 years \$000	Over 5 years \$000	Total \$000
<b>LOANS</b>					
Northern Territory of Australia					
Fixed Rate Loans	356 865	51 101	813 772	264 200	1 485 938
Floating Rate Loans	-	-	-	-	-
Credit Foncier Loans	269	985	5 443	109 462	116 159
Government Owned Corporations					
Fixed Rate Loans	-	-	-	20 000	20 000
Credit Foncier Loans	4 830	17 828	76 250	169 679	268 587
Government Business Divisions					
Floating Rate Loans	-	2 500	20 000	-	22 500
Credit Foncier Loans	2 156	5 856	34 757	314 901	357 670
Local Government Authorities					
Credit Foncier Loans	25	38	214	717	994
<b>TOTAL LOANS</b>	<b>364 145</b>	<b>78 308</b>	<b>950 436</b>	<b>878 959</b>	<b>2 271 848</b>
<b>BORROWINGS</b>					
Due to Other Financial Institutions					
Domestic Borrowings					
Wholesale Market					
Fixed Interest Securities	205 276	5 000	702 507	383 300	1 296 083
Floating Rate Notes	50 000	30 000	85 000	-	165 000
Promissory Notes	-	-	-	-	-
Retail Market					
Territory Bonds	1 856	79 677	97 494	30 452	209 479
Migration Linked Bonds	4 450	51 100	31 550	-	87 100
Australian Government					
Credit Foncier Loans	-	4 909	21 970	256 571	283 450
International Borrowings					
Yen Loans					
Bonds	-	11 827	-	-	11 827
Floating Rate Loans	15 375	-	-	-	15 375
Euro Medium Term Notes					
EMTNs - Fixed Interest Securities	59 925	11 828	39 349	-	111 102
EMTNs - Floating Rate Notes	-	-	38 038	-	38 038
<b>TOTAL BORROWINGS</b>	<b>336 882</b>	<b>194 341</b>	<b>1 015 908</b>	<b>670 323</b>	<b>2 217 454</b>

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation uses a variety of derivative financial instruments in the normal course of business in order to manage its exposure to interest rate and foreign exchange rate risk including:

- interest rate swaps (including forward start interest rate swaps) to mitigate the risk of rising interest rates; and
- cross currency swaps to manage the foreign currency risk associated with foreign currency denominated borrowings.

The Corporation does not enter into or trade in derivative financial instruments for revenue speculative purposes.

### (a) Interest Rate Risk

Interest rate risk is the risk of financial loss and/or increased costs due to adverse movements in the values of financial assets and liabilities as a result of changes in interest rates. The Corporation's interest rate risk arises from cash flow mismatches in the maturity profiles and repricing dates of its financial assets and liabilities.

The Corporation aims to manage the interest rate exposure on its financial assets and liabilities at an acceptable level in an attempt to minimise the cost of its borrowing requirements within stated guidelines.

The Corporation's interest rate risk on its financial assets and liabilities are significantly extinguished as a result of its relationship with the Northern Territory of Australia. As at 30 June 2006, approximately 80 per cent of the Corporation's issued debt is on-lent to the Northern Territory of Australia. The interest rates and maturity dates set on these loans are closely matched to the debt issued by the Corporation to external counterparties. The Corporation's loans to the Northern Territory of Australia attract a margin over the cost of servicing the debt.

The Corporation uses domestic interest rate swaps and forward start interest rate swaps to manage interest rate risk. All the interest rate swaps and forward start interest rate swaps that are converting floating rate debt to a fixed rate are designated as cash flow hedges.

- (i) Interest Rate Swaps: By using interest rate swaps, the Corporation agrees to exchange the difference between fixed and floating interest rate amounts calculated by reference to agreed notional principal amounts, thereby, enabling the Corporation to reduce the risk of rising interest rates.

The Corporation enters into interest rate swaps that entitle it to receive interest at floating rates on notional principal amounts and oblige it to pay interest at fixed rates on the same amount. The interest rate swaps allow the Corporation to raise long-term borrowings at floating rates and effectively swap them into fixed rates and accordingly are classified as cash flow hedges.

The interest rate swaps currently in place cover approximately 100 per cent of the floating rate notes outstanding and are scheduled to expire as each borrowing matures. Wherever possible cashflows match and coincide.

Notional principal amounts represent the contract or face value of the swap. The notional amounts do not represent amounts exchanged by the parties to the contract.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 17 continued*

- (ii) Forward Start Interest Rate Swaps: By entering into forward start interest rate swaps, the Corporation agrees to lock in a present interest rate on an agreed notional principal amount for a stated period of time commencing at a specific future date.

Forward start interest rate swaps have effectively addressed interest rate exposure by allowing the Corporation to fix the effective rates for known future debt maturities and accordingly are classified as cash flow hedges. The Corporation has not entered into any new forward start interest rate swap agreements throughout the period 1 July 2005 to 30 June 2006.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

Note 17 continued

(iii) Interest Rate Risk Exposures: The Corporation's exposure to interest rate risk, re-pricing maturities and the effective interest rates on financial instruments at balance date are:

a. Re-pricing maturities

	Weighted Average Int. Rate %	Interest Rate Reset Due in				Non- Interest Bearing \$000	Total \$000
		0 to 3 months \$000	3 months to 1 year \$000	1 to 5 Years \$000	More than 5 years \$000		
<b>Financial Assets</b>							
Cash	5.50	39 414	-	-	-	-	39 414
Receivables		-	-	-	-	8 685	8 685
Prepayments		-	-	-	-	36	36
Loans							
Fixed Rate Loans	6.49	186 872	71 900	916 400	353 300	-	1 528 472
Floating Rate Loans	6.35	300	20 000	72 092	-	-	92 392
Credit Foncier Loans	8.38	-	129 827	117 853	451 574	-	699 254
<b>Total Financial Assets</b>		<b>226 586</b>	<b>221 727</b>	<b>1 106 345</b>	<b>804 874</b>	<b>8 721</b>	<b>2 368 253</b>
<b>Financial Liabilities</b>							
Deposits Held	-	-	-	-	-	1 609	1 609
Payables	-	-	-	-	-	41 834	41 834
Provisions	-	-	-	-	-	26 112	26 112
Employee Benefits	-	-	-	-	-	158	158
Borrowings							
Domestic							
Fixed Interest Securities	6.09	33 964	101 096	1 051 501	448 290	-	1 634 851
Floating Rate Notes	5.55	284 939	-	-	-	-	284 939
Promissory Notes		-	-	-	-	-	-
Australian Government							
Credit Foncier Loans	4.67	-	-	-	279 125	-	279 125
International*							
Yen Loans							
Fixed Interest Securities	-	-	-	-	-	-	-
Floating Rate Notes	-	-	-	-	-	-	-
Euro Medium Term Notes							
Australian Dollar	-	-	-	-	-	-	-
Japanese Yen	-	-	-	-	-	-	-
Euro	-	-	-	-	-	-	-
US Dollar – Fixed	7.25	13 466	26 932	-	-	-	40 398
US Dollar – Floating	5.35	39 053	-	-	-	-	39 053
<b>Total Financial Liabilities</b>		<b>371 422</b>	<b>128 028</b>	<b>1 051 501</b>	<b>727 415</b>	<b>69 713</b>	<b>2 348 079</b>
<b>Derivative Financial Instruments</b>							
Interest Rate Swaps – Fixed	6.60	125 000	-	160 000	-	-	285 000
Interest Rate Swaps – Floating	5.65	(285 000)	-	-	-	-	(285 000)
Forward Start Int. Rate Swaps – Fixed	5.81	-	-	100 000	-	-	100 000
Forward Start Int. Rate Swaps – Floating	6M BBSW	-	-	(100 000)	-	-	(100 000)
Cross Currency Int. Rate Swaps – Fixed	9.30	13 466	26 932	-	-	-	40 398
Cross Currency Int. Rate Swaps – Floating	5.35	(39 053)	-	-	-	-	(39 053)
<b>Total Derivative Financial Instruments</b>		<b>(185 587)</b>	<b>26 932</b>	<b>160 000</b>	<b>-</b>	<b>-</b>	<b>1 345</b>
<b>Total Financial Liabilities (after Derivative Financial Instruments)</b>		<b>185 835</b>	<b>154 960</b>	<b>1 211 501</b>	<b>727 415</b>	<b>69 713</b>	<b>2 349 424</b>

\* Shown as translated carrying value in AUD at balance date

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 17 continued*

For comparative purposes, the Corporation's exposure to interest rate risk, repricing maturities and the effective interest rates on financial instruments at 30 June 2005 were as follows:

	Weighted Average Int. Rate %	Interest Rate Reset Due in				Non- Interest Bearing \$000	Total \$000
		0 to 3 months \$000	3 months to 1 year \$000	1 to 5 Years \$000	More than 5 years \$000		
<b>Financial Assets</b>							
Cash	5.25	38 876	-	-	-	-	38 876
Receivables		-	-	-	-	7 804	7 804
Prepayments		-	-	-	-	62	62
Loans							
Fixed Rate Loans	7.05	356 865	51 101	813 772	284 200	-	1 505 938
Floating Rate Loans	6.28	-	2 500	20 000	-	-	22 500
Credit Foncier Loans	8.35	36 683	12 959	230 664	463 104	-	743 410
<b>Total Financial Assets</b>		<b>432 424</b>	<b>66 560</b>	<b>1 064 436</b>	<b>747 304</b>	<b>7 866</b>	<b>2 318 590</b>
<b>Financial Liabilities</b>							
Deposits Held	-	-	-	-	-	2 002	2 002
Payables	-	-	-	-	-	58 344	58 344
Provisions	-	-	-	-	-	25 062	25 062
Employee Benefits	-	-	-	-	-	153	153
Borrowings							
Domestic							
Fixed Interest Securities	6.29	211 582	135 795	831 533	413 752	-	1 592 662
Floating Rate Notes	5.91	160 000	5 000	-	-	-	165 000
Promissory Notes		-	-	-	-	-	-
Australian Government							
Credit Foncier Loans	4.67	-	-	-	283 450	-	283 450
International*							
Yen Loans							
Fixed Interest Securities	3.20	-	11 827	-	-	-	11 827
Floating Rate Notes	0.17	15 375	-	-	-	-	15 375
Euro Medium Term Notes							
Australian Dollar	10.00	27 500	-	-	-	-	27 500
Japanese Yen	3.21	-	11 827	-	-	-	11 827
Euro	7.29	32 426	-	-	-	-	32 426
US Dollar	5.36	38 038	-	39 349	-	-	77 387
<b>Total Financial Liabilities</b>		<b>484 921</b>	<b>164 449</b>	<b>870 882</b>	<b>697 202</b>	<b>85 561</b>	<b>2 303 015</b>
<b>Derivative Financial Instruments</b>							
Interest Rate Swaps	7.72	(110 000)	25 000	85 000	-	-	-
Forward Start Int. Rate Swaps	6.41	-	-	300 000	-	-	300 000
Forward Start Int. Rate Swaps	Variable	(200 000)	-	(100 000)	-	-	(300 000)
Cross Currency Int. Rate Swaps	9.36	(38 038)	-	38 038	-	-	-
<b>Total Derivative Financial Instruments</b>		<b>(348 038)</b>	<b>25 000</b>	<b>323 038</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* Shown as translated carrying value in AUD at balance date

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

Note 17 continued

## b. Sensitivity analysis

Assuming the financial assets and liabilities at 30 June 2006 were to remain until maturity or settlement without any action by the Corporation to alter the resulting interest rate risk exposure, an immediate and sustained increase of one per cent in market interest rates across all maturities would have the following impact on the net income:

	Forecast effect on net interest income 2006-07		Forecast effect on net interest income 2005-06	
	Rates up by 1%	Rates down by 1%	Rates up by 1%	Rates down by 1%
	\$000	\$000	\$000	\$000
Financial Assets – Cash At Bank	394	(394)	388	(388)
Financial Assets – Floating Rate Loans	203	(203)	6	(6)
Financial Liabilities – Floating Rate Borrowings	-	-	-	-
Others	-	-	-	-
Net Sensitivity**	597	(597)	394	(394)

\*\*The net sensitivity above includes the impact of various interest rate derivatives which are in place to hedge floating rate loans.

## (b) Foreign Exchange Risk

Foreign exchange risk is the risk of financial loss due to adverse movements in foreign exchange rates.

The Corporation's exposure to foreign exchange risk arises when certain borrowings are denominated in foreign currencies. However, the Corporation does not accept any foreign currency exposure and, as such, currency hedging is a part of the management of these activities.

In order to remove the currency exposure, all foreign currency borrowings are fully hedged by way of cross currency interest rate swaps at the initiation of the borrowing transaction. Cross currency interest rate swaps allow the Corporation to raise long-term borrowings in foreign currencies and effectively swap them into Australian dollar fixed interest rates. All cross currency interest rate swaps are designated as cash flow hedges.

By using cross currency interest rate swap contracts, the Corporation agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate, thereby enabling the Corporation to mitigate the risk of adverse movements in foreign exchange rates. The quantum and maturity profile of the cross currency interest rate swaps are reflected in the interest rate risk table.

The Corporation does not lend funds in currencies other than Australian dollars.

## (c) Credit Risk

Credit risk is the risk of financial loss and/or increased costs due to the failure of a counterparty to meet its financial obligations.

The Corporation's exposure to credit risk arises from funds advanced to loan counterparties and the possibility that a counterparty to a physical security and/or derivative financial instrument will not adhere to the terms of the contract with the Corporation when settlement becomes due.

The Corporation aims to ensure that its exposures to individual and group counterparties are within acceptable levels, and to minimise the likelihood that a counterparty will fail to execute its financial obligations.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 17 continued*

The Corporation's dealings in physical securities and/or derivative financial instruments are transacted only with counterparties possessing strong or extremely strong credit rating criteria as determined by Standard and Poor's Rating Group.

In addition, derivative financial instruments are only transacted with counterparties that have signed an International Swaps and Derivatives Association (ISDA) Master Agreement with the Corporation.

The credit risk arising from funds advanced to loan counterparties is considered minimal as loans are only advanced to counterparties within the Northern Territory Public Sector, as directed by the Treasurer of the Northern Territory. Accordingly, ultimate responsibility for loans advanced by the Corporation lies with the Northern Territory Government. The Standard and Poor's credit rating criteria are not applied to loan counterparties.

In the case of recognised financial assets, the carrying amount of the assets recorded in the Balance Sheet represents the Corporation's maximum exposure to credit risk.

The Corporation's exposure to derivative financial instruments has been quantified at replacement cost, that is, the sum of the fair values of all derivative contracts that are in gain at the reporting date. This quantification of credit risk does not take into account the potential credit exposure arising from the derivatives remaining term to maturity.

## **(d) Liquidity Risk**

Liquidity risk is the risk of financial loss and/or increased costs due to unanticipated events or errors in cash flow forecasts which result in additional borrowing costs, reduced investment income, or an inability to meet financial or operational commitments as they fall due.

The Corporation's exposure to liquidity risk may arise due to inadequate or inaccurate communication of actual cash flows and the need to fund unanticipated operating cash requirements when an insufficient cash balance forces the Corporation to liquidate investments and/or utilise backup funding facilities at higher costs.

The Corporation seeks to ensure that adequate cash reserves and/or funding sources are available at all times to meet its short term commitments as they arise.

The Corporation's approach in minimising liquidity risk involves diversification of physical borrowing and investment activities across the maturity spectrum and utilising a variety of funding sources to meet the Corporation's requirements.

In addition, the Corporation at all times maintains:

- minimum cash balances;
- a committed overdraft facility;
- an uncommitted short-term borrowing program via the Corporation's promissory note facility;
- a diverse list of counterparties; and
- its borrowing exposures in a manner that avoids undue reliance on any one counterparty.

The Corporation's exposure to liquidity risk and the maturity profile of assets and liabilities (based on contractual terms) is analysed in Note 16.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 17 continued*

## **(e) Funding Risk**

Funding risk refers to the medium to long term risk that the Corporation may be unable to raise funds when required or at a cost which is substantially higher than could be achieved under normal market conditions. Funding risk typically relates to periods greater than one year, whereas liquidity risk relates to periods less than one year. The objective of funding risk management is to ensure that the Corporation is not exposed to a significant refinancing risk in any financial year.

The Corporation's approach to minimising funding risk involves diversification of physical borrowing and investment activities across the maturity spectrum and utilising a variety of funding sources to meet the Corporation's requirements.

The Corporation has limited funding risk as the Northern Territory Government supports the financial viability of the Corporation under section 20 of the *Northern Territory Treasury Corporation Act*. The demand for such a Government guarantee is believed to be sufficient to allow the Corporation to issue debt at competitive rates under normal market conditions.

The Corporation's funding sources are as follows:

### **Domestic Borrowings**

Wholesale Market

Private Placements and Public Issues

Fixed Interest Securities

Floating Rate Notes

Promissory Notes

Retail Market

Territory Bonds

Migration Linked Bonds

### **International Borrowings**

Yen Loans

Euro Medium Term Notes (EMTN)

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 17 continued*

## 18. FAIR VALUES OF FINANCIAL INSTRUMENTS

As per AASB 132 paragraph 87, the Corporation is required to provide fair value information through supplementary disclosures for any financial assets or financial liabilities that are not measured at fair value in its Balance Sheet.

Fair values of financial instruments are determined on the following basis:

- the fair value of cash and non-interest bearing monetary financial assets and liabilities approximate their carrying value, which is defined as their historical cost;
- the fair value of other monetary financial assets and liabilities is based on discounting the expected future cash flows by applying current market interest rates for assets and liabilities with similar risk profiles. Current market interest rates are determined with reference to the Australian Financial Markets Association (AFMA) Swap Reference Rates plus a margin. Current market interest rates on international borrowings are derived using current market interest rates and exchange rates appropriate to the instrument. The market rates are then used to discount the expected future cash flows arising from the financial assets and liabilities to their present value. The margins applied to the current market interest rates on the Corporation's loans and domestic borrowings take into account credit quality and liquidity considerations; and
- the fair value of derivative financial instruments are derived using current market yields and exchange rates appropriate to the instrument.

The fair values represent the Corporation's best estimate of the replacement cost of the financial transactions undertaken by the entity. The Corporation concedes that in its estimation of fair value there is an element of subjectivity involved in the calculations, given that the Corporation's financial assets and liabilities are not readily priced and are not frequently traded in the financial markets.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

*Note 18 continued*

The fair value of financial assets and liabilities not recorded at fair value is as follows:

FAIR VALUES	30 June 2006 Carrying Value	30 June 2006 Fair Value	30 June 2005 Carrying Value	30 June 2005 Fair Value
<b>Financial Assets</b>	\$000	\$000	\$000	\$000
<b>Loans</b>				
Northern Territory of Australia				
Fixed Rate Loans	1 528 472	1 543 683	1 505 938	1 559 231
Floating Rate Loans	92 392	93 506	22 500	23 015
Credit Foncier Loans	698 323	796 925	742 416	876 178
Local Government Authorities				
Credit Foncier Loans	931	945	994	1 032
<b>Total Loans</b>	<b>2 320 118</b>	<b>2 435 059</b>	<b>2 271 848</b>	<b>2 459 456</b>
<b>Financial Liabilities</b>				
<b>Borrowings</b>				
Domestic				
Wholesale Market				
Fixed Interest Securities	1 391 388	1 425 397	1 296 083	1 366 483
Floating Rate Notes	284 939	290 995	165 000	167 662
Promissory Notes	-	-	-	-
Retail Market				
Territory Bonds	186 813	186 163	209 479	212 605
Migration Linked Bonds	56 650	57 159	87 100	87 788
Australian Government				
Credit Foncier Loans	279 125	233 333	283 450	250 736
International				
Yen Loans				
Fixed Interest Securities	-	-	11 827	12 203
Floating Rate Notes	-	-	15 375	15 387
Euro Medium Term Notes				
Fixed Interest Securities	40 399	41 366	111 102	117 742
Floating Rate Notes	39 052	39 416	38 038	38 346
<b>Total Borrowings</b>	<b>2 278 366</b>	<b>2 273 829</b>	<b>2 217 454</b>	<b>2 268 952</b>
<b>Derivative Financial Instruments</b>				
Interest Rate Swaps	-	-	-	(2 256)
Forward Start Interest Rate Swaps	-	-	-	(5 181)
Cross Currency Swaps	-	-	-	(15 854)
<b>Total Derivative Financial Instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(23 291)</b>

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 19. RESERVES

	2006	2005
	\$000	\$000
Hedging Reserve		
Balance at the beginning of the financial year	-	-
Adjustments on adoption of accounting policies specified by AASB 132 and AASB 139 (refer note 3)	(7 998)	-
Restated balance at the beginning of the financial year	(7 998)	-
Gain/(loss) recognised:		
Interest rate swaps	1 546	-
Forward start interest rate swaps	601	-
Cross currency swaps	682	-
Cross currency interest rate swaps	(1 497)	-
Subtotal	1 332	-
Transferred to profit and loss:		
Interest rate swaps	3 036	-
Forward start interest rate swaps	-	-
Cross currency swaps	(521)	-
Cross currency interest rate swaps	2 716	-
Balance at the end of the financial year	(1 435)	-
General Reserve		
Balance at the beginning of the financial year	-	-
Transfer from Retained Earnings	2 916	-
Balance at the end of the financial year	2 916	-
Total Reserve at the end of the financial year	1 481	-

## 20. FUNDING FACILITIES

### Euro Medium Term Note Facility

In June 1995 the Corporation established a perpetual US\$500 million Euro Medium Term Note programme. The Corporation has undertaken a range of placements from this program in various currencies with maturities of ten years or longer. As at 30 June 2006 the Australian dollar face value issued under the program was \$76 million (2005: \$156 million). In March 2001 a second program with similar terms was established with no specific maturity term and a facility of US\$500 million. As at 30 June 2006 there has been no draw down under this program.

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 21. AUDITOR'S REMUNERATION

External audit services are provided by the Auditor-General for the Northern Territory. The Auditor-General's Office has advised that the estimated cost of this service for the 2005-06 year is \$68 804 (2005: \$51 020).

## 22. RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2006	2005
	\$000	\$000
<b>Net Profit</b>	<b>18 278</b>	<b>17 543</b>
<b>Non-Cash Flows in Net Profit</b>		
Add (gain)/loss on extinguishment	140	154
Less (premium) and discount amortisation	-	(222)
Add other non-cash adjustments	11	1
Add unrealised interest expense	269	1 984
<b>Changes in Assets and Liabilities</b>		
Less decrease /(increase) in interest receivable	933	891
Less decrease /(increase) in debtors	(4)	(1)
Less decrease /(increase) in prepayments	26	22
Add increase /(decrease) in employee benefits	5	30
Add increase /(decrease) in trade creditors	(55)	95
Add increase /(decrease) in tax liabilities	315	26
Add increase /(decrease) in interest payable	(3 626)	(656)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>16 292</b>	<b>19 867</b>

## 23. FIDUCIARY ACTIVITIES

The Corporation acts as manager for the Investments Portfolio of the Central Holding Authority and the Northern Territory Government Conditions of Service Reserve. Any associated assets and liabilities are not recognised in these financial statements. As at 30 June 2006 the size of the Investment Portfolio was \$405 million (2005: \$256 million) and the Northern Territory Government Conditions of Service Reserve was \$234 million (2005: \$195 million). Management fees generated in carrying out these activities are included in the Income Statement. The aggregate income from fiduciary activities for the year was:

	2006	2005
	\$000	\$000
Management Fees	348	262

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 24. DIVIDENDS

The Corporation has provided for a dividend of \$18.278 million which is at the rate of 100 per cent of its net profit for the 2005-06 year in accordance with the Northern Territory Treasurer's budget direction.

## 25. NORTHERN TERRITORY TREASURY CORPORATION ADVISORY BOARD

The Northern Territory Treasury Corporation Advisory Board was established in October 1994. The Under Treasurer of the Northern Territory Treasury, Mrs Jennifer Prince, is Chairman of the board, and the following persons held the position of member during the year ended 30 June 2006:

Mr Anthony S Cole AO	Mercer Human Resource Consulting
Mr Richard V Ryan AO	CSM Group Holdings Limited
Mrs Linda Mackenzie	Northern Territory Treasury
Mr John R P Montague	Northern Territory Treasury Corporation

During the year ended 30 June 2006 only two members were entitled to receive Advisory Board sitting fees, amounting to \$36 000 (2005: \$37 000). Members who are permanently employed under the *Public Sector Employment and Management Act*, or on similar terms, are not entitled to fees.

	2006	2005
	\$000	\$000
Sitting Fees	36	37

## 26. FEES AND COMMISSIONS

The Corporation currently has commission and maintenance arrangements with the following service providers:

Provider	2006	2005
	\$000	\$000
Computershare Investor Services Pty Ltd	255	316
Sungard Systems Pty Ltd	57	48
Moneyline Telerate	32	32
Austraclear Limited	12	5

# Notes to the Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

## 27. OPERATING LEASES

The Corporation has a cancellable operating lease commitment in relation to vehicles. The operating lease involves making monthly lease payments of \$855 which are recognised as an expense on a straight-line basis over the lease term and are included as part of Other Operating Expenses in the Income Statement. The lease commitments in 2005-06 are as follows:

	2006	2005
Terms	\$	\$
1-12 months	9 405	10 260
1-5 years	-	9 405
Later than 5 years	-	-

## 28. SEGMENT INFORMATION

The Corporation acts predominantly in the finance industry and lends funds and provides financial advice to the Northern Territory Government, its government business divisions and local authorities. The Corporation operates predominantly in one geographical area, being the Northern Territory of Australia.

## Contacts

### Executive

Under Treasurer/Chairman	Jennifer Prince	(08) 8999 6033	jennifer.prince@nt.gov.au
General Manager	John Montague	(08) 8999 7975	john.montague@nt.gov.au

### Financial Assets and Liabilities

Assistant Director	Alex Pollon	(08) 8999 6318	alex.pollon@nt.gov.au
Senior Investment Officer	Gloria Lui	(08) 8999 6767	gloria.lui@nt.gov.au
Finance Officer	Ranjana Temple	(08) 8999 7650	ranjana.temple@nt.gov.au
Finance Officer	Kathryn Flynn	(08) 8999 5596	kathryn.flynn@nt.gov.au

### Territory Bonds

OIC Territory Bonds	John Kidd	(08) 8999 7745	john.kidd@nt.gov.au
	Free Call	1 800 089 119	territory.bonds@nt.gov.au

### Financial Administration

Manager Financial Administration	Vicky Coleman	(08) 8999 5599	vicky.coleman@nt.gov.au
Senior Accounting Officer	Imelda Yonaedi	(08) 8999 6833	imelda.yonaedi@nt.gov.au
Senior Budgets and Finance Officer	Kosta Boubaris	(08) 8999 7678	kosta.boubaris@nt.gov.au

### Registry - Computershare Investor Services Pty Ltd

Free Call 1 800 111 441  
GPO Box 2867 Melbourne Victoria 3001

### Website Links:

[www.nttcorp.nt.gov.au](http://www.nttcorp.nt.gov.au)  
[www.computershare.com.au](http://www.computershare.com.au)