

Financial Markets

Table 3: Borrowing Composition

	2008-09	2007-08	2006-07	2005-06	2004-05
	\$M	\$M	\$M	\$M	\$M
Refinance Maturing Territory Debt	295	441	338	540	373
New Borrowings	-	46	-	53	-
Gross Borrowing Program	295	487	338	593	373
Less Debt Reduction	-	-	-	-	-
Net Borrowing Program	295	487	338	593	373

Borrowing

The 2008-09 borrowing requirement was considerably lower than last year, with about \$295 million raised to refinance maturing debt. This follows \$487 million raised in 2007-08 and \$338 million in 2006-07, as shown in Table 3.

As in recent years, the Corporation's entire borrowing requirement was met from domestic financial and retail markets. The bulk of the funds were raised through a number of medium to long-term fixed interest securities, issued to institutional investors via private placement and public issue. The Corporation's funding requirements in 2008-09 resulted in the realisation of its fifth major line of bonds. As at 30 June 2009, the Corporation had five institutional bond issues, as detailed in Table 4.

Table 4: Institutional Bond Issues

Maturity Date	Coupon	Amount on Issue
	%	\$M
14 July 2009	6.75	241.5
15 September 2010	5.75	305.0
15 November 2011	6.00	325.0
15 September 2012	6.25	300.0
15 October 2013	6.75	301.0

The Corporation's retail funding sources continued to make a significant contribution towards the Territory's funding requirement, raising approximately \$76 million from the combination of Territory Bonds and Migration Linked Bonds.

Table 5: Borrowing Performance as at 30 June

	2008-09	2007-08	2006-07	2005-06	2004-05
	%	%	%	%	%
1. Average Borrowing Margin					
Short-Term – Margin to Bank Bill Swap Rate (BBSW)	-0.21	-0.14	-0.10	-0.10	-0.11
Long-Term (floating rate) – Margin to Swap	-	-0.10	-	-0.12	-0.08
Long-Term (fixed rate) – Margin to AAA Rated Semi-Government Security	0.13	0.11	0.10	0.10	0.13
2. Cost of Borrowing Achieved During the Year					
Weighted Average Cost of Borrowing	5.96	6.67	6.14	5.93	5.65
3. Total Cost of Funds					
Weighted Average Cost of Funds	6.10	6.34	6.14	6.27	6.72

Portfolio Duration and Term to Maturity

As at 30 June 2009, the weighted average duration of the Northern Territory debt on issue was 3.1 years, a slight decrease from the 3.3 years reported in 2008. Similarly, the term to maturity remained steady, with a weighted average term to maturity of 4.0 years compared to 4.3 years recorded in June 2008.

Interest Rate Risk Management

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 manages its exposure to interest rate risk so as to avoid creating abnormally high refinancing requirements during periods of high interest rates, or unusually low refinancing requirements in periods of low interest rates.

The Corporation uses interest rate swaps and forward start interest rate swaps to manage interest rate risk.

No new interest rate swaps or forward start interest rate swap agreements were entered into during 2008-09.

In June 2009, the Treasurer approved a revised target level of interest rate exposure to maturing Territory debt in any financial year of \$400 million, with a lower limit of \$350 million and an upper limit of \$500 million.

This strategy aims to provide the flexibility to respond to the strongest demand from investors and assists in reducing interest costs without significantly increasing interest rate exposure.

Figure 1 shows the Corporation's interest rate exposure of maturing debt as at 30 June 2009.

Figure 1: Interest Rate Exposure of Maturing Debt as at 30 June 2009

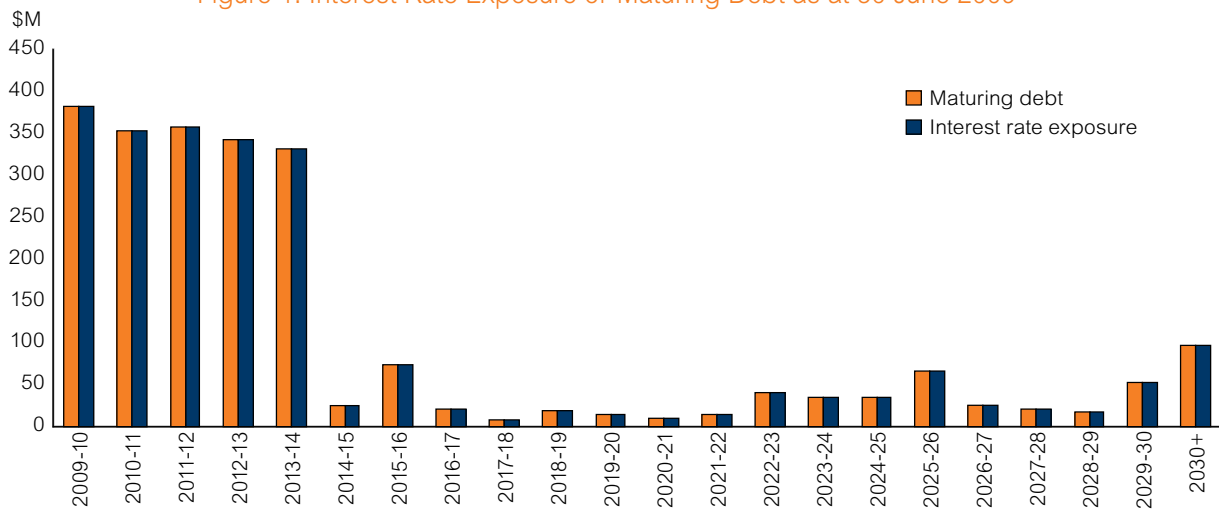
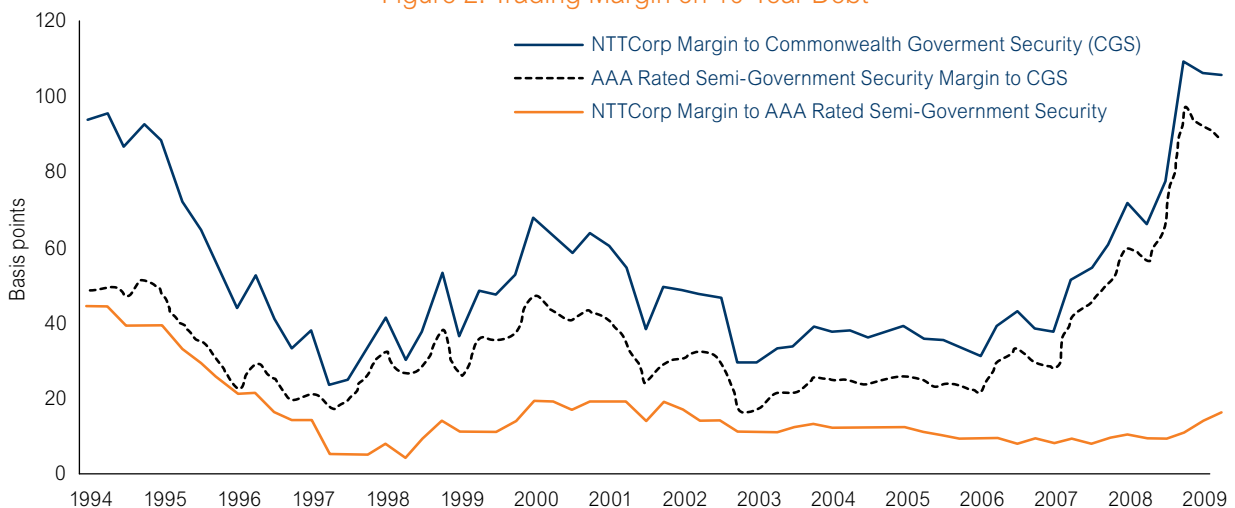


Figure 2: Trading Margin on 10-Year Debt



FUNDING

The Corporation manages the Northern Territory's exposure to funding risk by ensuring the Northern Territory Government is not exposed to a significant refinancing risk in any financial year. The Corporation's approach to minimising funding risk involves the diversification of borrowing and investment activities across the maturity spectrum and utilising a variety of funding sources to meet the Corporation's requirements. 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

Trading Margin

The relatively small size of the Corporation's bond issues does not promote significant trading activity and, as such, the trading margin is more of a reflection of the semi-government bond sector. An important influence on trading margins is the perception of liquidity.

The implied margin between a 10-year Northern Territory Government issued bond and an interpolated AAA rated state government fixed interest security has remained steady, increasing slightly throughout the year.

Figure 2 on page 8 shows the trading margin on 10-year debt.

Private Placements and Public Issues

Private placements have been used by the Corporation for a number of years to satisfy specific funding needs. These placements are an alternative to the main semi-government bond market, which is made up of large issues of homogenous debt that have been issued by the central financing authorities of each jurisdiction. Private placements are attractive because of the ease of issuance, which makes them suitable for small parcels of debt, and their flexibility for tailoring to domestic market movements and investor demand.

In recent years, the Corporation has developed a major class of bond issues across a number of years that have between \$240 million and \$325 million on issue. These issues have been established to meet investor demand for greater liquidity and promote market awareness. The Corporation anticipates having in excess of \$1.5 billion outstanding in these select lines within the next financial year.

Promissory Notes

The Corporation's short-term funding requirements are met through its promissory note facility. The notes are issued by way of tender, using ASX Austraclear Services Limited.

The Corporation had one outstanding promissory note as at 30 June 2009. The facility was used throughout the year to meet short-term funding requirements.

The weighted average yield achieved throughout the financial year was 6.78 per cent with an average margin to Bank Bill Swap Reference Rate (BBSW) of -0.21 per cent. The margins to BBSW throughout 2008-09 varied from -0.08 per cent to -0.33 per cent.

Territory Bonds

Territory Bonds is the Corporation's retail fixed interest borrowing product and it is used to attract funds from the general public. Territory Bonds have been issued since 1979 and are offered to investors seeking a safe, secure, government-guaranteed investment.

In 2008-09, a total of \$76 million was raised from 4295 applications, up significantly from the previous year's results of \$60 million from 3853 applications. As at 30 June 2009, total outstanding Territory Bonds on

issue stood at about \$170 million, unchanged from the figures recorded in 2008.

The Corporation seeks to maintain the efficiency of Territory Bonds as a borrowing source. As the variable costs associated with Territory Bonds are generally set by the number of bond holdings, the Corporation has sought to increase the average investment size per bond holding. Figure 3 shows that since June 2000 the average investment size has more than doubled.

Interest rates and terms and conditions for Territory Bonds are reviewed on a regular basis, in line with changes in the market and to ensure that Territory Bonds remain a competitive investment.

Table 6 shows an analysis by term and interest payment frequency of Territory Bonds raised in 2008-09.

Migration Linked Bonds

The Bonds offered by the Corporation satisfy the criteria of a Designated Investment under the following programs administered by the Department of Immigration and Citizenship (DIAC):

- Business Skills Migration
- Investor/Sponsored Investor Migration
- Investor Retirement Migration

In 2008-09 the Corporation raised \$0.8 million from one single application under the Investor/Sponsored Investor Migration program.

Figure 3: Territory Bonds Outstanding and Average Holding Size

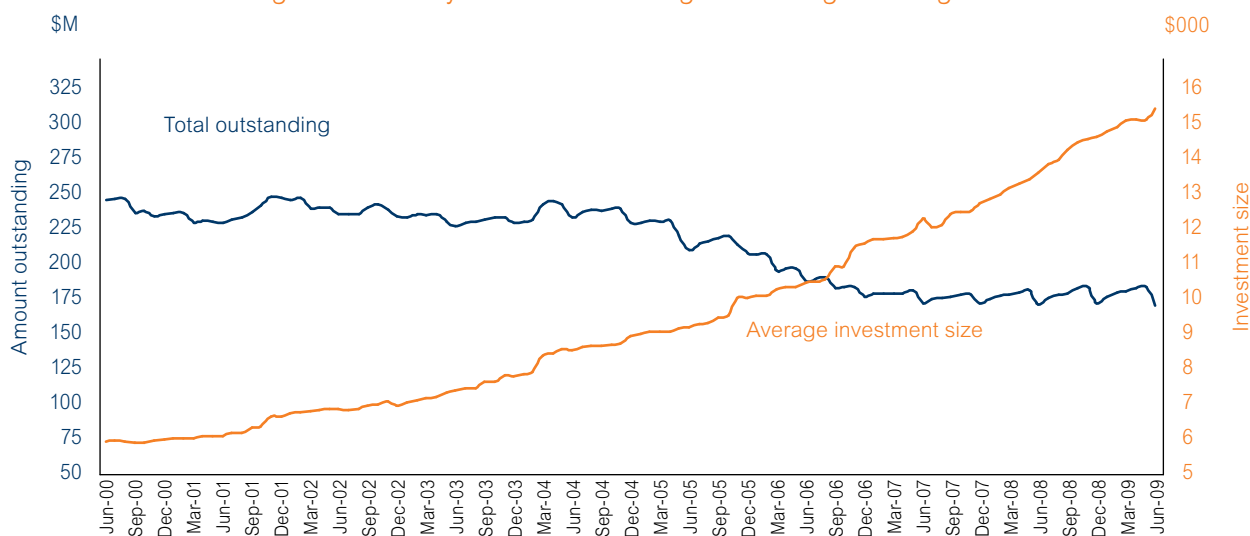


Table 6: Analysis of Funds Raised from Territory Bonds in 2008-09

Term	Interest Paid			Total	Total
	Quarterly	Semi-Annual	Annually		
	%	%	%	%	\$M
1 Year	6.0	9.9	20.6	36.5	27.8
2 Years	3.3	7.5	9.5	20.3	15.4
3 Years	4.6	7.2	10.3	22.1	16.8
5 Years	0.4	2.6	5.6	8.6	6.5
7 Years	2.4	4.8	5.3	12.5	9.5
Total	16.7	32.0	51.3	100.0	-
Total Amount (\$M)	12.7	24.3	39.0		76.0