New South Wales
Treasury Corporation
Annual Report 2011

Embracing change

Delivering strong and consistent performance in a changing world

Charter

TCorp is the central financing authority for the New South Wales public sector. The *Treasury Corporation Act* 1983 states that TCorp's principal objective is "to provide financial services for, or for the benefit of, the Government, public authorities and other public bodies".

In pursuing its objectives, TCorp has the same legal capacity, powers and authorities as a company under the *Corporations Act* 2001 (Cth). Activities in which TCorp can engage include:

- provision of finance for the Government and NSW public authorities;
- management or advice on management of Government and public authority assets and liabilities;
- acceptance of funds for investment from the Government and public authorities;
- investment of funds; and
- management of TCorp's own assets and liabilities.

TCorp's powers to borrow, invest and undertake financial management transactions are regulated under the *Public Authorities (Financial Arrangements) Act* 1987 (NSW).

Mission statement

TCorp exists to deliver for New South Wales the best that the financial markets can offer.

Corporate objectives

In line with the mission statement, the corporate objectives of TCorp are to:

- achieve cost-effective funding;
- effectively execute portfolio assignments;
- effectively execute risk management and structured finance assignments; and
- meet client and market needs through enhanced resource management and allocation.

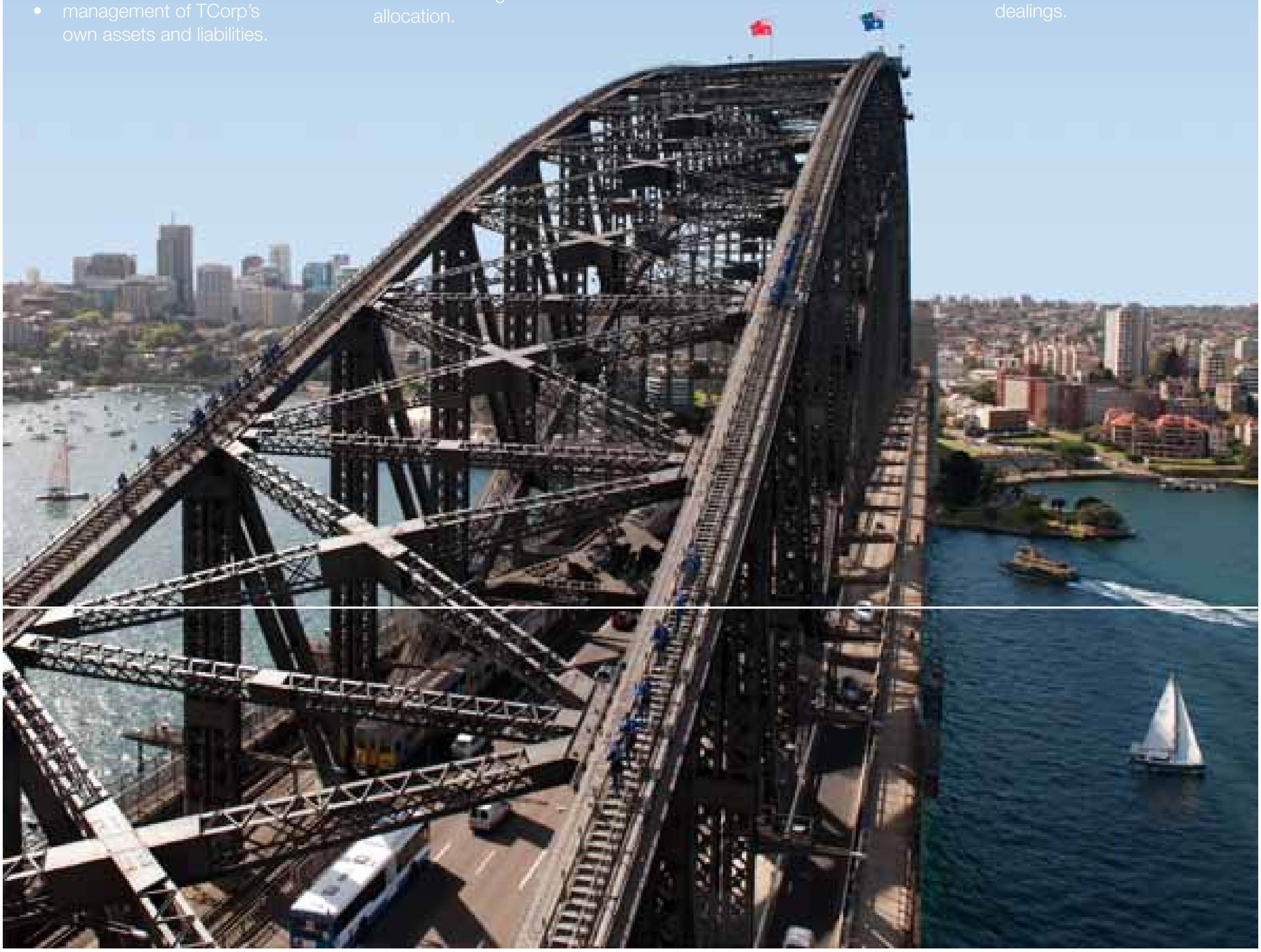
Values

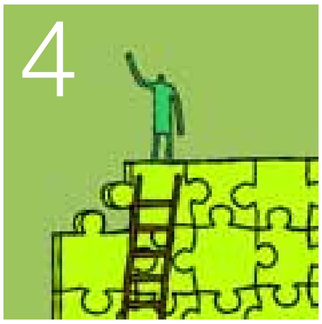
TCorp has skilled professionals who deliver on a broad range of specialised financial services. We work as a team and focus on delivering the best outcome for NSW.

TCorp's Values framework builds on the existing culture that has evolved to reflect where we are now and what our role and strategy requires from our people in the future.

TCorp Values must be lived to be worthwhile. These Values provide a guide to our behaviour and decisions.

- Integrity: Our business is based on trust and integrity, being uncompromised in our delivery of the best possible outcomes for NSW. Integrity must underpin the foundation of all our business dealings; our relationships with our clients, fellow employees, and other stakeholders.
- Results: We exist to add value for NSW and our clients. We strive to achieve the best possible financial outcomes for our clients, TCorp, and NSW.
- Partnership: We see the relationships between TCorp and its external and internal stakeholders as partnerships based on reciprocal obligations and mutual benefits. TCorp aims to create a workplace where people strive, learn, achieve, and build sustainable careers.
- One TCorp: We encourage ownership and take pride in both individual and team success, but never lose sight of the fact that we are 'One TCorp' serving NSW.
- Talk Straight: The quality of our communication is key to building a healthy TCorp culture. We are committed to honest and constructive communication in all our external and internal dealings.





Events in global financial markets over the past year continued to reflect significant cyclical and structural economic factors. The aftershocks of the financial crisis, which weigh heavily on sovereign balance sheets in Europe and the US, will be evident for several years. Meanwhile, the shift of economic power from the west to the emerging economies of Asia continued and is likely to remain a dominant theme.

In this constantly evolving environment, TCorp again produced outstanding financial performance for its clients and shareholder, generating significant tangible value for NSW. We have built our strategies and processes around an assumption of continuing change. We are confident that we can derive the best from financial markets for our stakeholders in the period ahead.

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TCorp's ability to evolve, anticipate and embrace change has delivered excellent outcomes for its clients and shareholder.

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TCorp works in partnership with its debt management clients to provide tailored solutions.

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TCorp
New South Wales Treasury Corporation

Year in Review

$151.4 million

A pre-tax operating profit of $151.4 million, recording excellent performance from all business activities.

Continued strength

A strong balance sheet which grew to $60 billion over the year, and continues to experience no credit losses or expected write-downs on exposures.

$36 billion

Value-added performance on $36 billion of managed debt portfolios, generating substantial interest savings for clients.

CIB growth

The Capital Indexed Bond programme continued to grow, reaching over $5 billion in outstandings.

Funding success

Further diversification of funding sources, marked by successful bond issuance into Japanese and Swiss markets, and strong local and global demand for TCorp's Benchmark Bonds.

Strong Hour-Glass

Strong results for TCorp's Hour-Glass Investments, with all facilities generating robust returns and outperforming benchmarks.

Cash and Fixed income

Positive performance in cash and fixed income portfolios managed for clients, with significant value added against benchmarks.

Value add advisory

Substantial value add for clients over a range of advisory and risk analysis work.

Portfolio outperformance

Outperformance of market benchmarks in managed debt portfolios and managed cash and fixed interest portfolios added more than $90 million direct to the bottom line financial performance of TCorp's clients.

Performance Indicators

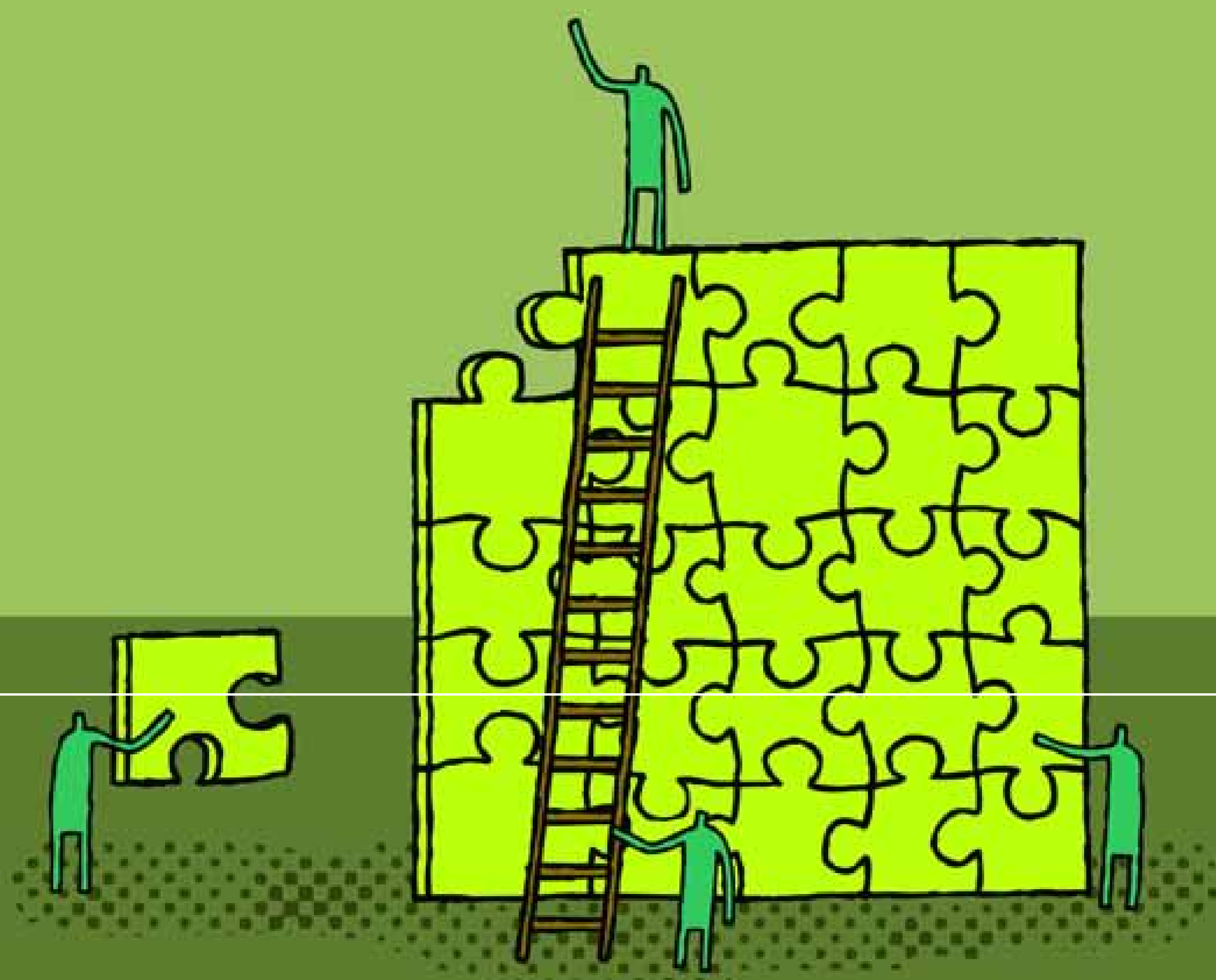
Five Year Summary

	2010/11 $m	2009/10 $m	2008/09 $m	2007/08 $m	2006/07 $m
Profitability					
Profit before income tax equivalent expense	**151**	66	167	32	46
Balance sheet					
Loans to Government clients	**49,516**	44,628	37,889	30,333	27,704
Other assets	**10,859**	12,768	11,131	6,720	4,666
Total assets	**60,375**	**57,396**	**49,020**	**37,053**	**32,370**
Domestic Benchmark Bonds	**41,312**	37,106	30,815	13,790	12,419
Global Echangeable Bonds	**3,800**	6,453	7,366	14,275	14,431
Due to NSW Government clients	**1,100**	1,005	889	539	409
Other borrowings and liabilities	**14,063**	12,747	9,875	8,406	5,068
Total liabilities	**60,275**	**57,311**	**48,945**	**37,010**	**32,327**
Difference represented by equity	**100**	**85**	**75**	**43**	**43**
Asset management for State authorities					
Funds under management					
- Investment Facilities	**11,321**	10,105	7,478	10,362	11,559
- Specific fund mandates	**9,253**	4,479	3,811	3,397	4,028
Liability portfolio management for State authorities					
Liability portfolio management	**36,016**	31,039	25,357	18,900	18,969

2010/2011

Chief Executive's Review

Change has been a key theme for TCorp during the year under review. While change is not new, and TCorp's businesses have been continually evolving, our success is largely attributable to the ability of our people to anticipate and embrace changes in the market environment, client needs and the general operating landscape.



Over the past year, TCorp has delivered excellent outcomes for its clients and shareholder in all business activities. We have ensured uninterrupted access to debt funding for clients at cost effective borrowing rates. We have further reduced the borrowing costs on more than $36 billion of clients' managed debt portfolios by astutely repositioning the duration of their debt over the year. We have added substantial value for investment management clients in our discrete cash and fixed income funds, and our unit trust Hour-Glass Investment Facilities. We have engaged closely with clients on various advisory assignments, and in advancing concepts and products that meet the changing market environment and changing client needs.

The NSW State election in March heralded an exciting and busy period for TCorp. We look forward to working closely with the new government, Treasury and our public sector clients to ensure we effectively assist them to implement key policy initiatives.

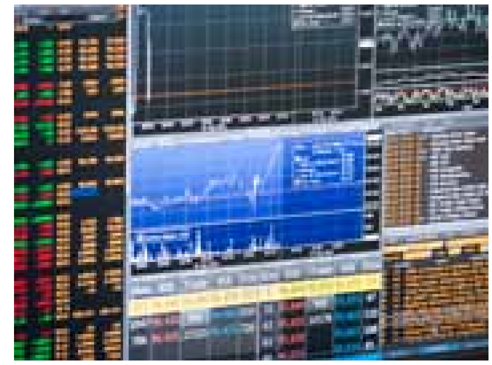
Environment

The hangover effect of the financial crisis continued to weigh on global markets, notably in the sovereign debt and deficit problems in Europe and the US. As foreshadowed in last year's review, these problems have no quick fix and will take years to resolve.

In contrast, vigorous growth continued in the emerging economic superpowers of China and India, and the rebalancing of global economic power will be an underlying theme over the longer term. These influences are important for Australia, given our increasing trade links to Asia, and our historical, political, and institutional links with the western world.

In Australia, the expectations of strongly rebounding economic and market performance after the financial crisis met with resistance. After raising the official cash rate six times in 2009/10, the Reserve Bank of Australia (RBA) limited its monetary policy activity in 2010/11 to one rise of 0.25%, taking the cash rate to 4.75%. Economic growth was subdued, particularly in the second half of the fiscal year, notwithstanding strong export activity. 10 year bond yields again traded within a range of less than 1% over the year, finishing virtually unchanged at 5.25%. The equity market showed some similarities to the previous year, posting strong gains in the first three quarters before giving up ground in the fourth quarter. The ASX 200 began the year at 4300 and rose to nearly 5000 in April, before finishing the year around 4600.

"We have engaged closely with clients on various advisory assignments, and in advancing concepts and products that meet the changing market environment and changing client needs."



Funding

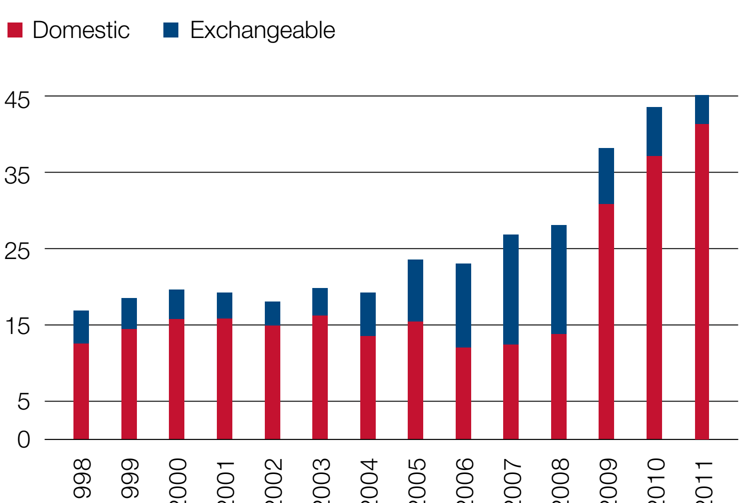
The past year saw further normalisation of funding conditions following the severe dislocation resulting from the financial crisis. This was evident in the relative spreads between key debt funding instruments such as semi-government bonds, swaps and Commonwealth Bonds. After reaching extreme levels at the height of the crisis in early 2009, these relativities to Commonwealth Bonds continued to contract, and by year end were trending back towards long term averages.

This normalisation in market conditions provided TCorp with excellent opportunities to use cost effective debt funding to meet the borrowing needs of our clients. During the year, we raised $11.3 billion from domestic and offshore markets. TCorp's main funding source remains our Benchmark Bond programme, where net issuance increased by $7.3 billion over the year, including the launch of two new Benchmark Bond lines with 2015 and 2018 maturities. We continued during the year to consolidate Benchmark Bond lines carrying the Commonwealth guarantee, retiring more than $4 billion of Commonwealth guaranteed bonds.

TCorp's Capital Indexed Bond programme continued to grow steadily, with outstandings increasing to over $5 billion by year end. This programme will be increasingly important in TCorp's funding mix in future, given the growing demand from TCorp's regulated utility clients for a combination of nominal and inflation-linked borrowings.

During the year, TCorp was able to take advantage of funding opportunities in offshore markets, securing $1.4 billion in Euro Medium Term Note (EMTN) funding from Japanese and Swiss investors. These transactions provided longer duration funding for TCorp's clients; the Japanese issues carry a 10 year maturity, and the Swiss Franc issue is for a 30 year term. The strong demand for TCorp bonds from domestic and offshore investors, and their willingness to invest in longer duration TCorp debt, is evidence of investor confidence in the liquidity of TCorp bonds and the soundness of NSW's AAA rating.

Growth of Benchmark Bonds
A$ billion



Business trends and performance

TCorp's profit before tax of $151.4 million is an outstanding result, bettered only by the extraordinary outcome in 2008/09. All business activities contributed, with the bulk of the above-budget revenues coming from offshore funding activities and astute management of TCorp's balance sheet risks. Since the onset of the financial crisis TCorp has not suffered any credit losses arising from its exposures to financial assets or derivative positions, and we maintained this 'clean sheet' throughout the past year.

TCorp generated excellent results for managed debt and asset clients, adding more than $90 million to their financial results during the year, through a combination of lower interest costs on borrowings, and above benchmark earnings on the funds invested.

Managed debt portfolio mandates grew to more than $36 billion, and TCorp was able to reduce the interest costs for all managed clients by skilfully repositioning the portfolio duration to take advantage of interest rate movements throughout the year. As a result, all managed debt portfolios significantly outperformed their benchmarks.

Cash and fixed income portfolios managed for clients grew to just under $13 billion at year end, reflecting a number of new mandates. All portfolios outperformed client benchmarks and when compared with industry peer managers performed well. TCorp's managed cash and fixed income products have remained 'true to label' throughout and following the financial crisis, providing strong performance in all time periods and avoiding the extreme performance volatility and illiquidity that beset many cash and fixed income funds in the wider market.

"Since the onset of the financial crisis TCorp has not suffered any credit losses arising from its exposures to financial assets or derivative positions."

TCorp's managed funds products, commonly known as the Hour-Glass Investment Facilities also generated strong outright and relative returns over the year. The Cash and Strategic Cash products continued to provide excellent benchmark outperformance, while maintaining healthy liquidity and a conservative credit risk profile. The Medium Term Growth and Long Term Growth Facilities produced solid outright returns for the year, as well as above benchmark returns after deduction of management and custodian fees.

In addition to securing new mandates in TCorp's debt and asset management activities, our Risk Advisory and Client Services teams worked closely with TCorp's regulated utility clients to develop TCorp's debt management framework and products. This ongoing work aims to make the most of the developing markets in nominal and inflation-linked products in a more flexible manner to provide an optimal funding mix for our clients across interest rate cycles. Key enhancements were introduced in the past year and we look forward to implementing this evolutionary approach for clients over the coming period.

TCorp continues to play an important role through our Corporate Finance team in providing advice and assistance to NSW Treasury and agency clients for a variety of financing and risk assessment projects. We expect a busy period as the new government examines a range of financing options for key infrastructure projects.

Operating framework

During the year we continued to bed down systems projects and processes, in particular around the Reuters Kondor system. We also launched TCorp's Intranet and commenced a review of the key systems and process interfaces with our clients to improve how clients can access information more efficiently.

TCorp established a discrete Change Management function during the year, in anticipation of further change and the need to manage projects and initiatives in TCorp's businesses when required. This function provides invaluable assistance to TCorp's business managers.

The continued growth in TCorp's balance sheet, and business activities in general, prompted a further review of TCorp's capital needs. As a result, the Board approved an increase in TCorp's capital base from $85 million to $100 million.

People

The excellent performance by TCorp's business activities confirms the skills and dedication of our staff. They are constantly thinking about how best to respond to changes in the market environment to produce optimal outcomes for TCorp's clients. The performance of TCorp over the past year, and more generally since the onset of the financial crisis, is a credit to our people and we thank them sincerely for their achievements and their dedication.

In March 2011 we farewelled Michael Schur as Chair of TCorp's Board, following his resignation from the role of NSW Treasury Secretary. During his time as TCorp's Chair, Michael provided invaluable support and guidance to TCorp, as the key link between TCorp and its shareholder. We thank him sincerely and wish him all the best for his future endeavours. Michael Lambert was appointed Chair of TCorp commensurate with his appointment as Acting NSW Treasury Secretary. We welcomed Michael back to the TCorp Board and appreciated his guidance and input during the term of his appointment.

The past year presented many challenges for TCorp, which we happily embraced as we continued to evolve. The period ahead looks no less challenging, and the theme of change will indeed be a constant. We are confident that our organisational capability will continue to grow and adapt to meet the needs of our stakeholders, and that the quality and energy of our people will continue to serve NSW well into the future.

S W Knight
Chief Executive

Objectives and Results

Objectives	Performance measures	Results for 2010/11
To achieve cost effective finance for clients through management of TCorp's funding programme and balance sheet activities.	To ensure a cost effective funding mix through diversification of sources of finance and efficient implementation of the annual funding programme.	TCorp issued $7.3 billion into the Benchmark Bond programme. Two new Benchmark Bond lines, April 2015 and February 2018, were established. A number of significant offshore investors were first time participants in this programme. TCorp was also active in the EMTN and Capital Indexed Bond programmes, issuing almost $2.5 billion of non-benchmark term funding. TCorp reactivated its Euro Commercial Paper (ECP) programme, whose outstandings quickly grew to $1.7 billion at year end.
	To meet or exceed budgeted revenue from managing TCorp's balance sheet risk activities.	Management of the market risks inherent in TCorp's balance sheet produced significantly above budget results. Two factors contributed to the strong results: first, risk management of the balance sheet reduced the costs of funds. Second, TCorp sourced more cost effective funding through non-benchmark issuance. Prime liquidity assets held in advance of client loan drawdowns contributed to revenues.
To effectively execute portfolio assignments for clients through management of debt, asset management portfolios and Hour-Glass Investment Facilities.	To outperform neutral benchmarks for managed debt portfolios.	TCorp's management of debt portfolios in line with client mandates resulted in an average 18bps outperformance against benchmark for the financial year. Longer term bond yields fell sharply below long term fair value early in the financial year before rising to neutral levels in December and February. Strategic duration positioning implemented at these levels added significant value.
	To achieve the debt interest cost forecast for the General Government sector.	The debt interest outcome was in line with the agreed target range.
	To generate strong returns for the Hour-Glass Investment Facilities and outperform industry benchmarks.	All four flagship Facilities – Cash, Strategic Cash, Medium Term Growth and Long Term Growth – posted solid absolute returns and outperformed their respective benchmarks, after deduction of all fees and expenses.
	To outperform neutral benchmarks for discretely managed fixed income asset portfolios.	Discretely managed cash portfolios performed significantly in excess of their individual benchmarks. The fixed income asset portfolios also generated strong outperformance of benchmarks. Cash and fixed income portfolio performance outcomes were consistent with first quartile or above median comparator rankings.
To provide professional financial advisory services to TCorp's clients to ensure they achieve value for money from their strategic and commercial activities.	Service delivery, evidenced through: • demonstration of value-add to clients and the State; • formal client surveys and informal feedback; • retention and expansion of the client base; and • fees generated. Effective ongoing deal management and administration.	Another active year in terms of number of assignments spread of clients, type of work and fees generated. Client feedback was highly positive, evidenced through a client survey conducted by KPMG. Key achievements include: • continued involvement across various facets of infrastructure procurement; and • further assistance in the sale or disposal of NSW Government assets and businesses.
To meet client needs through enhanced product innovation and service delivery.	To provide relevant and cost efficient products and services to TCorp's client base.	Cost effective lending, investment, portfolio management, reporting and advisory services were provided to some 180 public sector clients, with business continuing to grow during the year.
	To maintain and improve client satisfaction as measured by an annual survey.	The 2010/11 survey showed excellent results, confirming TCorp's strong reputation and high service standards with clients throughout our business activities.

Board of Directors

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3	4	5	6
	7	8	9

1. Michael Lambert B.Ec (Hons), M.Ec
Chairman Since 29/03/11
Acting Secretary, NSW Treasury. Director, State Superannuation Trustee Committee; Director, Sax Institute and Director State Superannuation Financial Services Pty Ltd.

2. Michael Schur MSc (Econ), MCom (Econ)
Chairman From 1/12/08 until 29/03/11
Secretary, NSW Treasury. Previously, Deputy Secretary, Office of Infrastructure Management, NSW Treasury (3 years); Senior Advisor, The World Bank (5 years) and Advisor, South African Ministry of Finance.

3. Kevin Cosgriff BSc (Hons), M.A
Deputy Chairman
Deputy Secretary, Fiscal and Economic NSW Treasury since 2001. Previously, NZ Treasury and UK Treasury – micro, macro policy.

4. Philip Chronican BCom (Hons), MBA (Dist)
Banking and finance industry for 31 years. Chief Executive Officer Australia, Australia and New Zealand Banking Group Limited. Former Group Executive Westpac Institutional Bank, and Chief Financial Officer, Westpac Banking Corporation.

5. Cristina Cifuentes BEc, LLB (Hons)
Economics and investment management for 28 years. Director, FSS Trustee Corporation; Independent Member, Multi Manager Investment Policy; Committee of Perpetual Investment Management Limited; Member of the Australian Energy Regulator; Board of Hunter Water.

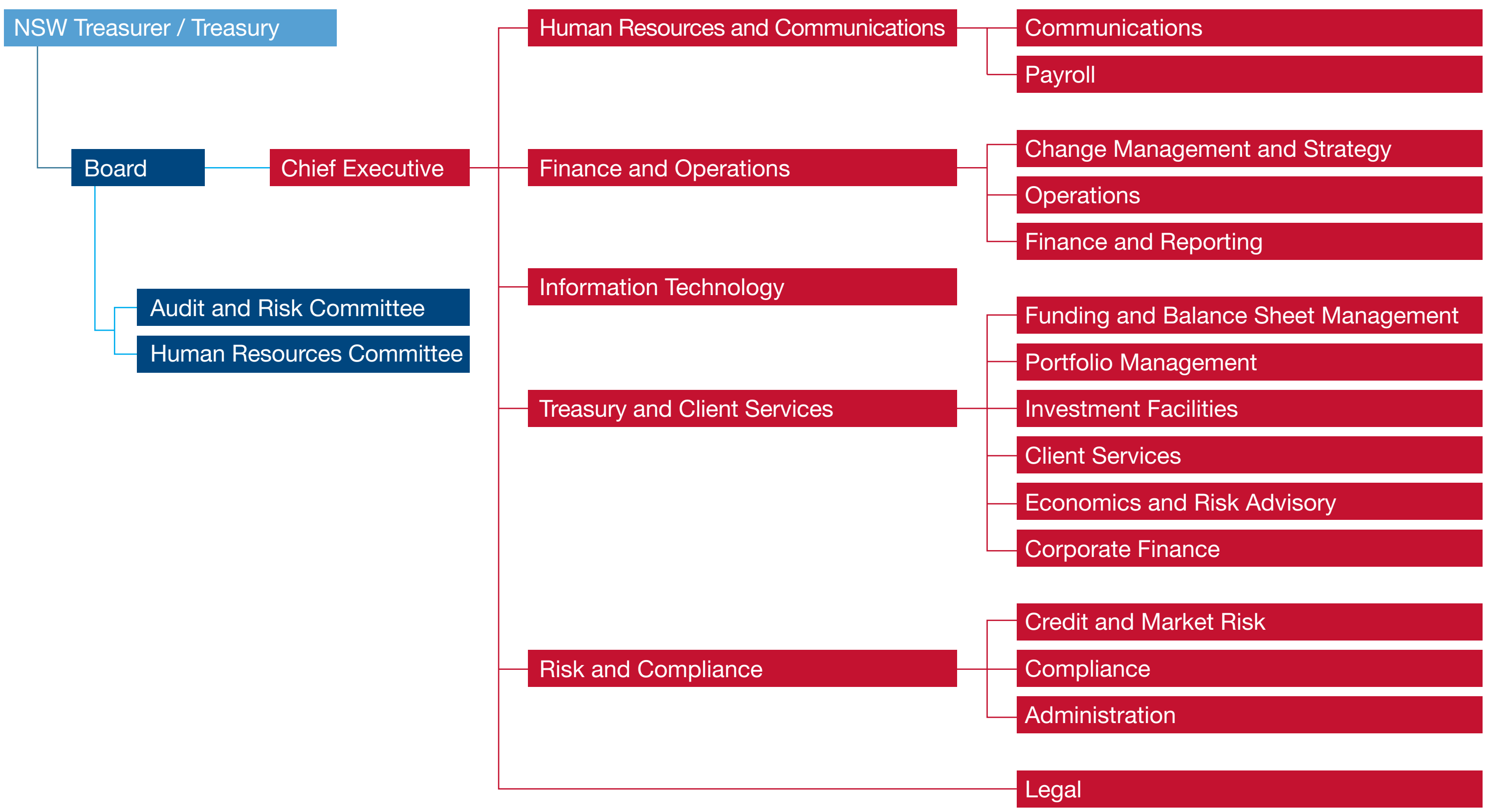
6. Michael Cole BEc, MEc, FFin
Banking and investment management for 38 years. Chairman, Platinum Asset Management Limited; Chairman, IMB Limited; Chairman, Indemnified Loans Committee; Director and Chairman, Ironbark Capital Limited; Director, OneVue Limited and Chairman, Challenger Listed Investments Limited.

7. Bruce Hogan BEc (Hons), FAICD
Finance and industry for 41 years. Former Joint Managing Director, Bankers Trust Australia. Director, Hogan & Company Pty Limited; Director, Snowy Hydro Limited and Chairman, Primary Ethics Limited.

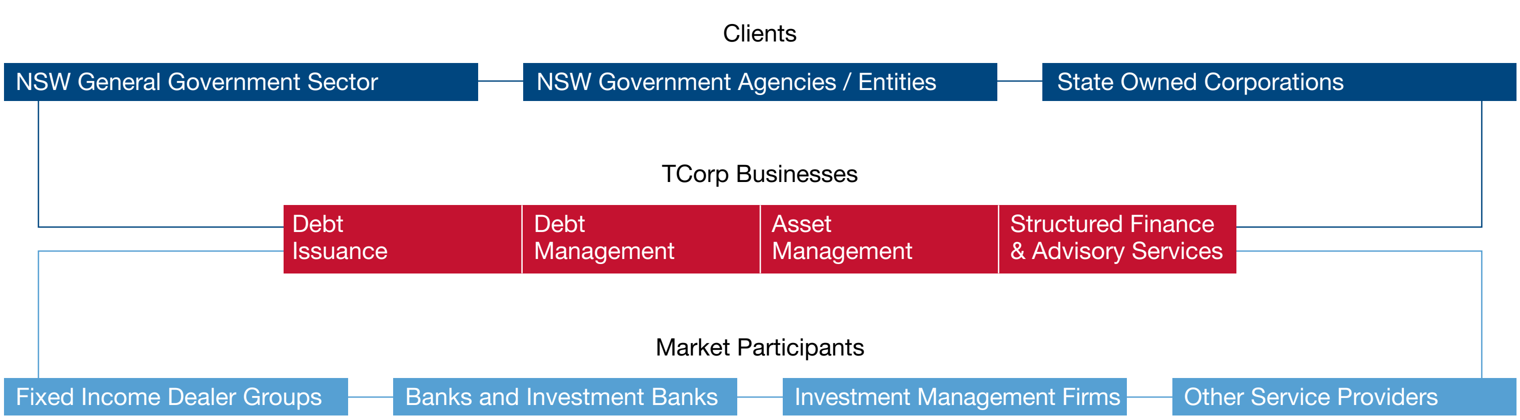
8. Stephen Knight BA, FAICD
Banking and public sector, financial management for 31 years. Chief Executive, TCorp and Chairman, TCorp Nominees Pty Limited. Director, Australian Financial Markets Association Limited and Independent Member, Investment Committee of the Surf Life Saving Foundation.

9. Hon. Alan Stockdale BA, LLB
Barrister for 14 years. Member of Victorian Parliament for 15 years. Former Treasurer of Victoria and Minister for Information Technology and Multimedia. Former Executive Director, Macquarie Bank Limited; Chairman, Medical Research Commercialisation Fund Pty Ltd; Federal President, Liberal Party of Australia; Member of the Advisory Board of Lazard Australia Pty Ltd and Chairman, Master Builders' Association of Victoria Foundation.

Structure and Relationships



Our Business



Debt Issuance

TCorp again raised substantial new borrowings to fund the infrastructure investment programmes of public sector clients.

Strong demand continued for funding infrastructure investments by State enterprises engaged in electricity supply, water catchment and supply, and rail and ports development. Aggregate loans to clients showed a net increase of $4.9 billion over the year to $49.5 billion.

Under the NSW Government's infrastructure investment programme, capital spending over the four years to June 2015 is projected to reach $62.6 billion. This will be the major driver in an estimated $21.3 billion rise in TCorp's loans to clients over that period.

A variety of loan products for clients

TCorp provides a range of efficient standard loan products for public sector clients:

- medium and long term fixed interest loans with semi-annual interest payments, repayable on a fixed maturity date. Interest coupons and maturity dates normally correspond with those of TCorp Benchmark Bonds issued in the wholesale market;
- floating rate loans with interest rates periodically adjusted in line with market rates on bank bills, again with a fixed maturity date;
- the Come and Go Facility, which provides ready access to short term finance. Clients can draw down or repay funds on same day notice, enabling them to rely on TCorp for short term liquidity, rather than hold substantial investments for liquidity purposes, with associated credit and market risks; and
- long term inflation-linked (CPI) loans with a fixed percentage interest coupon, but with the capital value adjusted periodically in line with the CPI. This product has been adopted in significant volume in the Government's Crown debt portfolio, and by regulated utilities. It can be an appropriate form of funding for public sector businesses subject to regulatory frameworks in which CPI movements are a major factor.

For clients whose funding requirements are not fully met by these standard products, TCorp can consider other structures, for example, loans with regularly reducing principal.

Rates on new fixed interest loans are based on the current TCorp Benchmark Bond yield curve in the Australian fixed interest market, plus a small margin representing TCorp's administration fee.

Most public trading enterprises (PTEs) also pay NSW Treasury an annual guarantee fee based on their average volume of loans, but TCorp is not involved in charging or collecting this fee.

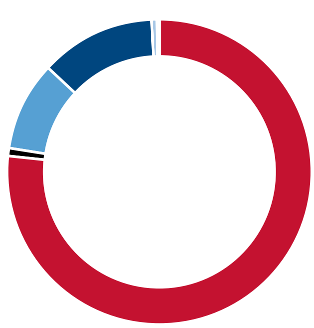
Infrastructure investment changes the pattern of borrowings

TCorp's volume of loans to the regulated utility sector (electricity and water) remained strong throughout the year, reflecting their continued capital expenditure programmes. However, loans outstanding to the electricity generators declined over the year because of the repayment of borrowings following the sale of the generation trading contracts. The Crown Finance Entity's borrowing programme was in line with budget. Improved economic conditions led to increased government revenues, resulting in a reduced borrowing requirement for the Crown Finance Entity.

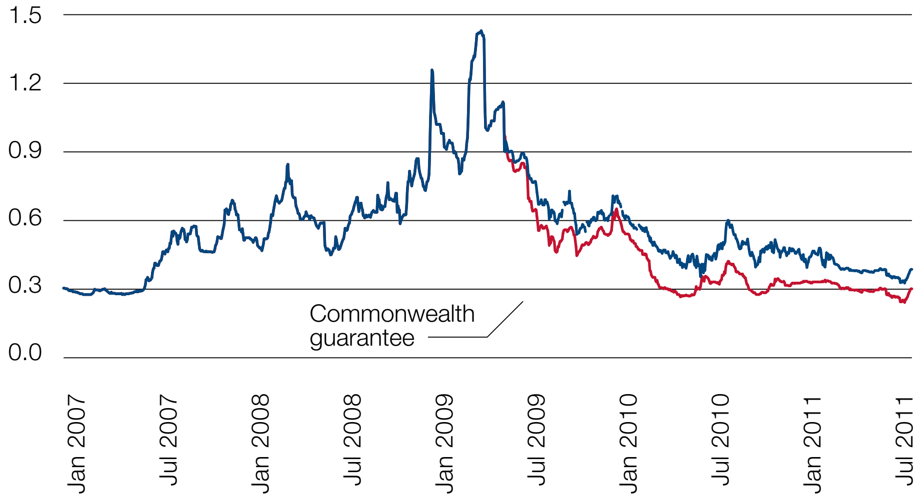
TCorp's largest borrowers at 30 June 2011 were the Crown Finance Entity ($19.0 billion), electricity generation and distribution ($17.6 billion), water catchment and supply ($8.9 billion), transport ($1.7 billion) and ports ($0.8 billion).

Composition of Borrowings
Total $53.3 billion

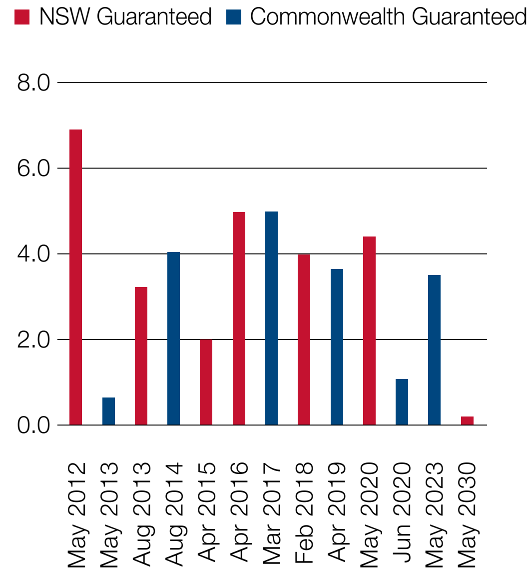
Total Domestic Bonds	$41.3bn
Retail	$0.2bn
Capital Indexed Bonds	$5.2bn
Total Offshore	$6.6bn
Non-Benchmark Domestic	$0.1bn



2017 NSW TCorp vs 2017 Commonwealth Bond Spread
%



Benchmark Bonds on Issue 30 June 2011
A$ billion



Funding TCorp's loans to clients

TCorp funds its lending to the NSW General Government sector and PTEs through successive issues of debt into the domestic and offshore capital markets. We have developed a range of offerings that suit investor requirements and these, backed by the strength of the State's AAA credit rating, enable us to deliver cost effective funding for our clients.

TCorp recorded another successful year of funding activities. We were able to take advantage of opportunities in offshore markets while also responding to strong Australian-dollar investor demand.

For the 2010/11 year, TCorp raised $11.3 billion from debt capital markets. This reflected the need to finance net client borrowing of $5.0 billion and to refinance existing liabilities of $8.8 billion. TCorp had pre-funded $5.5 billion of the 2010/11 requirement in the previous financial year. Reduced client requirements and favourable market conditions saw TCorp pre-fund a further $3.0 billion of the 2011/12 funding requirement in the financial year under review.

The year's funding activities took place in an environment where Australian short term interest rates increased in response to improved economic conditions. The RBA raised the official cash rate once during the financial year, from 4.50% to 4.75%. Conversely, longer term TCorp bond yields were relatively unchanged by year end. The longer term TCorp interest rates (based on the May 2023 maturity) closed steady at 5.63%.

Benchmark Bond issuance

TCorp's Benchmark Bond programme, as provider of price transparency and liquidity to public sector borrowers and institutional investors in TCorp bonds, continues to be the cornerstone of our funding strategy.

Benchmark Bond issuance is concentrated in a small number of maturity dates (Benchmark Bond lines), generally over a 12 year period. The Benchmark Bond programme is supplemented by a more specifically directed issuance, particularly to offshore investors, under TCorp's EMTN programme.

Continuing its commitment to the Capital Indexed Bond (CIB) programme, TCorp issued a further $1.1 billion of CIBs. By year end, the market value of TCorp's CIB outstandings had reached $5.2 billion.

Offshore issuance

TCorp operates in the international debt capital markets to achieve investor diversification, to provide cost savings to the Benchmark Bond curve, and to smooth the maturity profile.

During the year, TCorp issued $1.4 billion into the Japanese market through the EMTN programme.

TCorp took advantage of market conditions to issue CHF130 million of 30 year bonds in the Swiss market and secured $1.1 billion through the rollover of existing deals in the Japanese market.

Attractive investment fundamentals, underpinned by NSW's AAA credit rating, drew support, notably from Japanese and European institutional investors. TCorp continued to use short term promissory note markets to meet cash flow volatility and short term requirements. In March 2011, TCorp reopened its offshore ECP programme and by year end outstandings were $1.7 billion.

TCorp's funding strategy constantly evolves in response to changing market dynamics and investor requirements. Maintaining strong relationships with our borrowing clients, dealer panel members, financial markets institutions and investors has been crucial in accomplishing our funding needs.

Debt and Currency Management

In addition to providing cost efficient funding to the NSW Government, its agencies and the PTEs, TCorp manages clients' portfolios of outstanding debt. This activity provides debt structures that diversify risk and thus add strength to clients' balance sheets. TCorp agrees with each client the policies, benchmarks and risk constraints under which debt management is carried out.

Since its appointment two decades ago as debt manager for NSW Treasury's Crown debt portfolio, TCorp has built up a debt management clientele representing a large proportion of the State's major borrowers. At year end, TCorp was managing the debt portfolios of 21 clients representing $36 billion.

While the largest client portfolio is the $19 billion Crown debt portfolio managed on behalf of NSW Treasury, other substantial portfolios are managed for agencies and PTEs in the electricity, water, roads and transport, and ports sectors. The large scale of these managed portfolios reflects the reality that the businesses are required by the NSW Government to maintain specified levels of gearing in their capital structure, reinforced by new borrowings to fund infrastructure development.

Innovation in debt management

Over the past three years, TCorp has developed debt products to assist regulated utilities manage regulatory revenue risks. For example, TCorp began issuing CIBs in late 2007. Some of the new debt funding needed by utilities (either refinancing maturing loans, or meeting new debt requirements) has been met from the issuance of new CIBs.

TCorp is developing additional risk management products to increase flexibility in managing regulatory risk. The Flexible Debt Management approach encompasses:

- new loan product – TCorp will introduce a new type of inflation-linked loans (year-on-year inflation loans) where the inflation is paid in the coupon rather than accreting in the principal. The existing CIBs accrete inflation into the principal of the loan so the new year-on-year inflation loans deliver a better match to the utility's regulated asset base; and
- interest rate switching of existing debt – for example, converting fixed nominal loans into either floating rate or inflation protected loans. This enables the existing debt portfolio to be aligned more quickly to movements in real interest rates and inflation as the regulatory revenues adjust.

TCorp plans to progressively introduce the new framework from October 2011.

TCorp continued to lengthen client debt portfolios during the year. The average term of TCorp's Benchmark Bonds rose from 6.5 years to 6.9 years. Much of the portfolio lengthening occurred when rates fell during the risk aversion bond rallies of August 2010 (triggered by the US Federal Reserve's announcement of a second round of quantitative easing) and in May-June 2011 (as Greek sovereign debt worries arose).

A priority for many clients was managing the refinancing profile ahead of the May 2012 Benchmark Bond maturity. Most clients refinanced their loans well in advance of maturity and by 30 June only $1.8 billion of May 2012 client loans remained.

Debt management techniques and outcome

In addition to providing cost efficient physical funding to meet individual client requirements for funding and risk management, TCorp uses derivatives to manage the interest rate risk of the actively managed debt portfolios. The active management style adopted is a low risk approach that takes advantage of shorter term movements in market interest rates to achieve or reduce budgeted borrowing costs over the medium term.

Strategic portfolio positions are based on TCorp's modelling of the macroeconomic drivers and fundamental valuations for interest rates. These positions are intended to reduce borrowing costs over an interest rate cycle and are supplemented with tactical management strategies that take advantage of market volatility over shorter timeframes. All active interest rate risk management uses products that are in line with individual clients' risk appetites and limits. Positions are implemented within a transparent, disciplined framework that is rigorously monitored and reported to clients.

Active management of interest rate risk for client debt portfolios is handled in-house, producing economies of scale and cost effective outcomes. TCorp's model based approach aims to position client portfolios to capitalise on market opportunities as they arise. Portfolios were lengthened in August 2010 as Commonwealth bond yields fell to 4.8%, and were unwound in February 2011 when Commonwealth yields rose to 5.7%. The positions delivered a full year gain of 18 basis points, equivalent to $50 million in reduced interest costs for clients over the year.

Currency management techniques and outcome

Since 2007, TCorp has provided currency management services for two Hour-Glass funds. As with the approach to debt management, TCorp's currency management style adopts a model based, low risk approach that takes advantage of extreme market pricing opportunities.

In May 2010 the weakness in the Australian dollar around the Greek crisis provided the opportunity to execute additional Australian dollar hedges for the and Long Term Growth Fund. Those hedges were unwound in October 2010 as the Australian dollar neared parity with the US dollar in a market buoyed by speculation ahead of the RBA's interest rate increase in November 2010. The currency management strategy delivered gains of 23 basis points to the Hour-Glass Medium Term Growth Fund, and 61 basis points to the Hour-Glass Long Term Growth Fund.

TCorp provides other treasury risk management transactions, including foreign exchange and commodity hedging, on behalf of clients and is close to finalising the development of a passive currency management product, and expects this new product to be implemented over the September quarter.

Ausgrid utilises TCorp's debt management products to fund infrastructure projects such as substations and power assets.

We work in partnership with our clients, ensuring we understand their market, financial and business needs. This enables us to develop bespoke solutions tailored to provide optimal outcomes.

MeetingClientNeeds

We have made significant progress in developing the debt management framework to:

- create more precise tailored risk analysis and solutions;
- increase risk management flexibility; and
- improve reporting transparency.

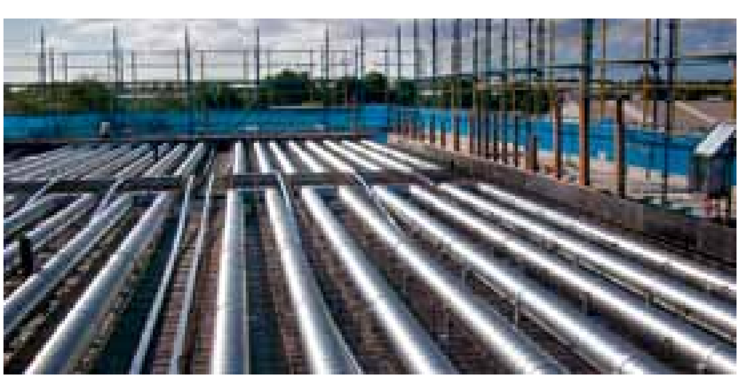
TCorp undertook a number of debt portfolio reviews during the year. Our debt management model matches funding life to the life of the underlying assets, and matches interest rate risk to the earnings of the business. TCorp works closely with each public sector client, disaggregating each business line, to achieve precise and reliable benchmarks. Where debt portfolio settings need to be adjusted, we provide detailed and practical transition plans.

In NSW, electricity and water charges are regulated by the Australian Energy Regulator and the IPART (Independent Pricing and Regulatory Tribunal), respectively. For the eight utility borrowers concerned, TCorp's risk management analysis becomes highly quantitative as each risk is managed independently.

The regulated utilities have increased new capital spending significantly in recent years. This new capital spending has been largely debt financed. In the four years since 30 June 2007, the aggregate debt of the eight utilities has increased from $12.1 billion to $23.7 billion. The asset life is typically about 30 years, a term well beyond TCorp's capacity to align it with debt-funding life. Nevertheless, the average life of new debt at the time of drawdown by the utilities is 9.8 years, a significant achievement in a time of global market turmoil.

Inflation is another important risk factor for borrowers, particularly regulated utilities. As interest costs vary with the rate of inflation, inflation-linked bonds enable borrowers to hedge inflation-linked revenues with an inflation-linked debt expense. Since 2007, TCorp has issued around $4.7 billion in inflation-linked bonds, largely for the regulated utility sector. This has allowed TCorp to provide an optimal mix of real and nominal debt for these clients. TCorp applied its financial management resources during the year to develop approaches and products that harmonise with the clients' needs.

TCorp has also invested in risk and performance reporting systems to provide advanced analytical capability and enhance the quality of portfolio analysis. The new data systems will be introduced over the next two years.



Asset Management

Over the past year, TCorp continued to develop its asset management services which comprise:

- the Investment Facilities, through which TCorp outsources the management of funds and acts as manager of managers; and
- the internally managed cash and bond portfolios, which use TCorp's comparative advantage in managing cash and low credit risk fixed interest portfolios.

Hour-Glass products

The security of our clients' funds is a core focus. With this in mind, TCorp maintains its prudent approach to managing investment risk. TCorp invests in high quality assets, demands full transparency of all investments and aims for enduring liquidity in the funds. While this low risk approach may lead the Investment Facilities funds to lag market benchmarks at times, it ensures protection in times of market dislocation. The financial crisis rigorously tested TCorp's investment approach. Our risk management strategies enabled our clients to navigate that period relatively unscathed. We remain committed to this approach.

Funds under management within the Investment Facilities have grown steadily. The total at the end of the year was $11.3 billion, a $1.2 billion increase over 30 June 2010, reflecting market gains as well as some growth in client funds.

TCorp's flagship Cash Facility performed well against its market benchmark and against its peers. For the financial year, the Cash Facility returned 5.37% net of fees and expenses, bettering its benchmark, the UBS Bank Bill Index, by 0.39%. Contributions to this excess return came primarily from the Facility's allocation to AAA Residential Mortgage Backed Securities and to floating rate notes, which produced good results as conditions in credit markets normalised.

The Strategic Cash Facility strives for opportunistic exposure to high quality, low credit risk, cash and short duration assets at attractive valuations. This strategy proved successful as clients benefited from a recovery in spreads on prime bank paper and floating rate notes. The Strategic Cash Facility outperformed its benchmark, the UBS Bank Bill Index, by 0.6% (net of fees and expenses).

While equity markets around the globe were volatile, most markets ended the year with strong positive returns. The Australian market lagged most of its counterparts, but the S&P/ASX 300 Index produced a return of 11.4% (inclusive of dividends). Nonetheless, the Australian market has been largely static since September 2009, trading in a range between 4500 and 5000 points. The Hour-Glass Australian Shares sector lagged the benchmark by 0.52% net of fees and expenses over the year. The tilt to quality stocks was not rewarded in a market focused on the high returns of speculative small resource stocks. The sector's high quality, low risk strategy has paid off over the three year period and is ahead of benchmark by 2.56%, net of fees and expenses.

Internationally, the MSCI World Index (excluding Australia) also traded erratically but, in local currency terms, finished the year up by 22.1%. Currency movements affected the return for unhedged Australian investors, with the unhedged version of the MSCI index, in Australian dollar terms, returning 2.66%. The Hour-Glass International Shares sector which is managed on an unhedged basis added 0.10% to the benchmark return, net of fees and expenses.

The Hour-Glass Emerging Markets Sector Trust was established in March 2010 to provide clients with a modest exposure to the long term growth prospects of developing countries. This sector was fully funded in September 2010. During the financial year, equity markets in emerging countries followed a similar pattern to their developed market counterparts, returning positive results, in local currency terms, almost across the board. The Australian dollar appreciation negated the local currency gains with the MSCI Emerging Markets Index returning 0.83%. The Hour-Glass Emerging Markets sector lagged the benchmark for the year, but remains ahead of benchmark since inception by 1.73% (net of fees and expenses).

The Hour-Glass Australian Bonds sector invests only in highly rated sovereign issued or government-guaranteed debt instruments. Over the year yields fell. Markets repriced the timing of increases in the RBA's official cash rate in light of weaker than expected economic activity in the non-mining sectors of the economy. The Australian Bonds sector benefited from duration positioning and security selection, returning 5.62% against its benchmark of 5.22%.

The Hour-Glass Listed Property sector returned 23.6%, making it the highest earning sector for the second consecutive year. Global Real Estate Investment Trusts ('property trusts'), which were severely penalised during the financial crisis, benefited from the rebound in investor sentiment. This sector was fully currency hedged for most of the year, enabling Australian dollar investors to avoid the reduction in return from the appreciation in the currency. With the Australian dollar at record highs, a strategic move was taken later in the year to reduce the hedge ratio on the Listed Property sector to 50%.

A successful initiative during the year was the establishment of the Unlisted Property Sector Trust. Over its initial 10 month life, the Unlisted Property sector, established in late August 2010, returned 11.45%. The sector is benchmarked against the Mercer/IPD Australian Pooled Property Fund Index, a survey based index of Australian unlisted property managers. The sector outperformed this index by 1.95%, a strong result largely attributable to opportunistic purchasing of property holdings at discounted prices and a continued contraction in capitalisation rates.

TCorp's Medium Term Growth Facility and Long Term Growth Facility, which cater to clients' longer term investment needs, outperformed their benchmarks. The results were achieved through tactical hedging of currency exposures, as well as active management in the cash and fixed interest sectors. The in-house management of cash, fixed interest and currency investments continues to deliver consistent and strong incremental value for our clients.

The Hour-Glass products target investments in quality companies with sustainable longer term earnings. This practice minimises the risk of large capital losses and enhances our ability to deliver reliable long term results.

Internally managed cash and bond portfolios

TCorp reinforces the strength of the State balance sheet through internal management of specific cash and bond portfolios for NSW Treasury and other agencies. In addition, TCorp is one of the fund managers for the Hour-Glass Cash sector (including managing the sector's day-to-day liquidity) and in March 2009 became the fund manager for the Hour-Glass Core Bond Fund, supplementing TCorp's existing role as manager of the Hour-Glass Liquidity Fund and the Strategic Cash Facility. In carrying out these assignments for the Hour-Glass Investment Facilities, TCorp draws on its long experience in cash and fixed interest markets and its understanding of public sector cash flows.

Major agencies whose portfolios have been managed by TCorp for a number of years include the NSW Trustee & Guardian, the Office of Fair Trading and the Lifetime Care & Support Authority. TCorp also directly manages fixed income investments for State Super and WorkCover Nominal Insurer, with new mandates implemented in 2010. These new investment mandates had been awarded to TCorp in recognition of the value that TCorp's internal fixed income management service can provide to public sector clients and include the management of nominal and Capital Indexed Bond portfolios. During the year a tailored hedging strategy was developed and implemented for WorkCover Nominal Insurer. This portfolio reflects TCorp's commitment to facilitating innovative solutions for the financial risk management of the State.

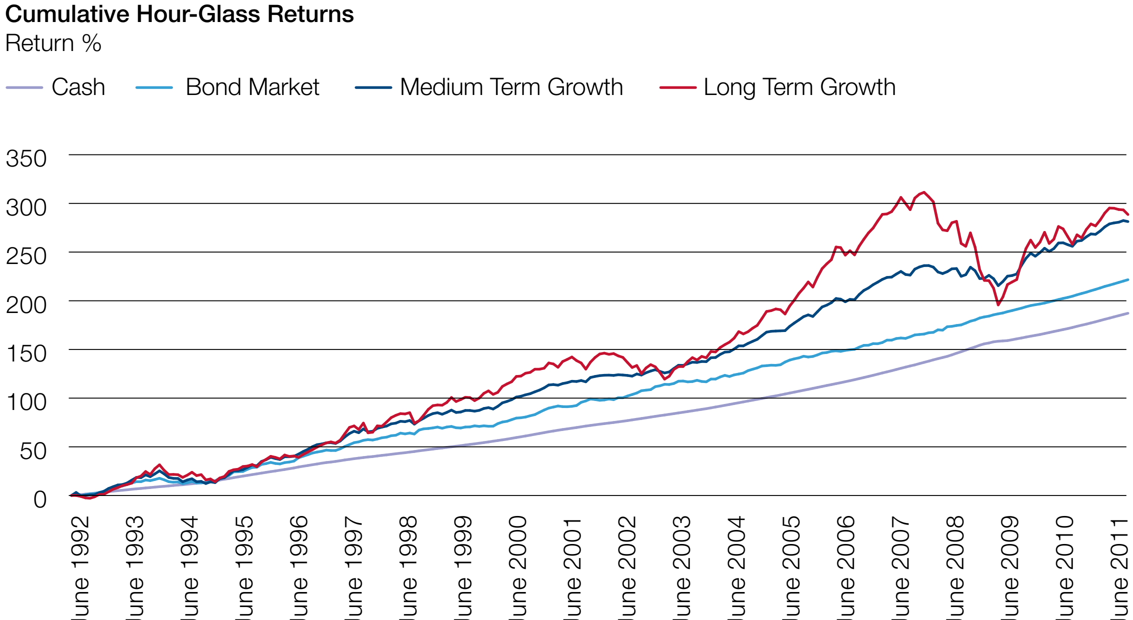
Investment funds managed internally by TCorp rose from $8.25 billion at 30 June 2010 to $12.9 billion at 30 June 2011, of which $3.6 billion was managed for the Hour-Glass Cash, Strategic Cash and Core Bond funds. In 2011, TCorp also managed the investment of the proceeds from the sale of electricity assets and other significant cash flows for the NSW Treasury.

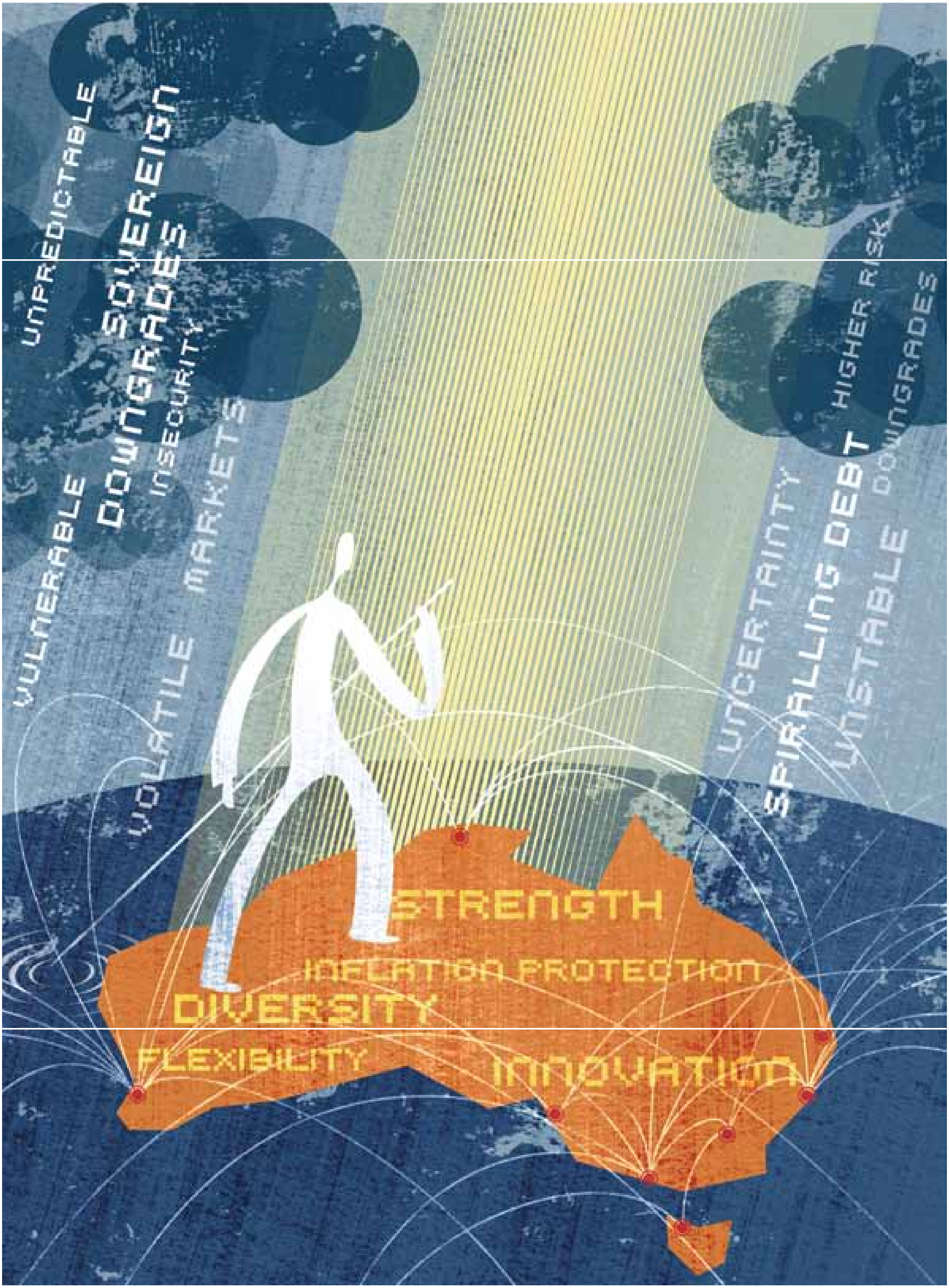
TCorp takes a conservative management approach for cash and fixed income portfolios, consistent with the risk profile of client mandates. A significant investment in information technology, with a sophisticated risk management system, facilitates timely and accurate oversight of portfolio risks. This enables TCorp to add value through informed judgments about portfolio construction, the timing of investments and security selection. Daily forecasting and monitoring of large client cash flows and significant liquidity needs are a key differentiator of TCorp's investment capabilities.

The investment process seeks to add value to client portfolios, using duration and yield curve management allocation between sovereign, semi-government and supranational sectors, with credit exposures limited to high quality banks. The continued supply of sovereign and sovereign guaranteed debt during 2011 has supported opportunities for TCorp's investment style and enhanced the risk and return profile of the internally managed fixed income portfolios.

Over the year, investment returns on all managed portfolios were considerably above benchmarks and consistent with outperforming the broader spectrum of cash and fixed income fund managers.

Cumulative Hour-Glass Returns




UNPREDICTABLE
VULNERABLE
SOVEREIGN DOWNGRADES
DOWNGRADES
INSECURITY
VOLATILE MARKETS
HIGHER RISK
DOWNGRADES
UNCERTAINTY
SPIRALLING DEBT
UNSTABLE
STRENGTH
INFLATION PROTECTION
DIVERSITY
FLEXIBILITY
INNOVATION

The impacts of the 2008/09 global financial crisis continue to send shock waves across financial markets, challenging many traditional investment models. TCorp's products and activities have evolved to ensure we continue to provide appropriate solutions for our clients and investors.

Productsofchange

Significant events and influences in global financial markets have challenged traditional investor behaviour. Key themes include:

- Drastic deterioration in fiscal and sovereign debt positions in the western 'pillar' economies of the US and Europe, threatening their sovereign ratings and their role as unquestioned 'reserve' investments;
- continued shift of economic power from the west to the east, and the increasingly important role of emerging markets;
- a wave of re-regulation and de-leveraging through global financial markets; and
- volatile equity markets which have produced flat returns over the past five years at a time when 'baby boomers' are entering pension draw-down phase.

TCorp has continued to evaluate and modify its product offerings in response to changes in the investment landscape. We continued to promote and build our position as Australia's leading semi-government issuer of inflation-linked bonds, meeting the emerging demands of institutional investors for inflation protection over the medium-to-long term. We will supplement this approach at a retail level by providing inflation-linked annuity bonds as part of the NSW Government's Waratah Bond initiative. These bonds will be launched in the coming year, providing retirees with an income source alternative to volatile equity markets.

TCorp's core funding product, our Benchmark Bond programme, is well placed to respond to the shifts in the global investment landscape. Deteriorating debt and deficit positions in the US and Europe make NSW TCorp bonds an increasingly attractive AAA liquid investment option for global money managers and central banks.

In Australia, changes in regulatory requirements on bank liquidity holdings have emphasised the importance of TCorp and other semi-government issuers as a component of bank liquidity portfolios.

As a manager of clients' investments, TCorp has continued to evolve its products and capabilities. We manage longer-dated inflation-linked bond portfolios on behalf of three significant clients, and have developed strong expertise in this area. We continue to build on our currency management expertise, mindful of the critical impact of currency volatility on investment returns. Our currency overlay activities added value to TCorp's Hour-Glass growth funds for investors over the year. We have also rebalanced our growth portfolios to add diversification in equity and growth sectors through increased weightings of emerging market equities and direct property.

Advisory and Other Services

Corporate Finance

Complementing the activities of the broader Treasury, Client and Risk Advisory team, the dedicated personnel in TCorp's Corporate Finance unit provide analytical, commercial and financial advice to NSW Treasury and other public sector agencies. TCorp's intention is that the client and the State achieve value for money and that results are within acceptable risk limits.

Corporate Finance staff have extensive financial and commercial experience of public and private sector transactions, as well as highly developed quantitative and financial modelling skills. Traditionally work has focused on asset and infrastructure procurement and financing, covering the full array of structures from leasing to complex public-private partnership (PPP) transactions. Advice is provided during the various phases of procurement and continues during the management of transactions. Corporate Finance also liaises with private sector participants and intermediaries, as part of TCorp's role as a bridge to the private sector financing community.

Government asset or business disposal initiatives have led to Corporate Finance's involvement in the commercial assessment of sales processes. TCorp's work with the universities has also been expanding, with TCorp helping universities to approach the banking market and the private sector generally for funding. TCorp also assists NSW Treasury to review and approve such arrangements.

With the election of a new government in March 2011, fresh infrastructure projects have been announced and TCorp has been appointed to work on a number of these.

Listing some of the specific assignments worked on during the year highlights another active year for the unit in terms of number of assignments, spread of clients and type of work:

- NSW Treasury: a member of the assessment panel that examined bids in the divestment of the State's waste services business. The sale was successfully completed in January 2011;
- NSW Treasury: provision of updated market information, assessments, and broader advice and assistance in the monitoring and management of some existing PPP infrastructure transactions;
- NSW Treasury: funding and managing oversight (in conjunction with StateFleet) for the budget sector agencies motor vehicle leasing arrangement which covers more than 23,000 vehicles valued in excess of $500 million;
- NSW Treasury: participation in three Gateway reviews, being a business case review for a major RailCorp project, a strategic review for a housing redevelopment project, and a business case review for a NSW Health IT project;
- NSW Treasury: advice in the review of a number of proposals from universities seeking Treasury approval to enter into loan facilities with the private sector;
- NSW Treasury/RailCorp: management of various cross-border leases over rolling stock. Work included attending to the scheduled termination of several leases, and the coordination and implementation of new management oversight arrangements following the withdrawal of Babcock & Brown;
- NSW Treasury/Department of Services, Technology and Administration (now the Department of Finance and Services): assistance with the evaluation of tender responses for the data centres proposal;
- NSW Treasury/Sydney Harbour Foreshore Authority: provision of financial advisory assistance on the proposed upgrade and expansion of Sydney's convention and exhibition facilities at Darling Harbour;
- Housing NSW/NSW Treasury: financial advice and evaluation panel member for the Riverwood North and Kamira Court Villawood social housing and urban renewal projects. Both transactions received government approvals and reached financial close during the year;
- Department of Premier and Cabinet/ Department of Transport: advice on a proposal to redevelop property in the Wynyard precinct;
- Department of Transport: assistance for preliminary financial modelling work and other general financial advice in relation to the North West Rail Link project;
- Department of Services, Technology and Administration (now the Department of Finance and Services): advice relating to the proposed new imaging devices contract;
- University of Newcastle: evaluation panel member reviewing private sector responses for new transactional banking services and for a facility to fund the development of further student accommodation; and
- University of Wollongong: assistance in the preparation of a submission to NSW Treasury for approval to borrow.

The unit prepared discussion papers, managed service contracts and worked with NSW Treasury on matters including infrastructure financing and university funding.

Treasury

- Member of the assessment panel that examined bids in the divestment of the State's waste services business;
- Provision of updated market information, assessments, and broader advice and assistance in the monitoring and management of some existing PPP infrastructure transactions.

Transport

- Advice on a proposal to redevelop property in the Wynyard precinct;
- General financial advice and assistance for preliminary financial modelling work in relation to the North West Rail Link;
- Funding and managing oversight (in conjunction with StateFleet) for the budget sector agencies motor vehicle leasing arrangement;
- Participation in business case review for a major RailCorp project.

Education

- Advice in the review of proposals from universities seeking Treasury approval to enter into loan facilities with the private sector;
- University of Newcastle: evaluation panel member reviewing private sector responses for new transactional banking services and for a facility to fund the development of further student accommodation; and
- University of Wollongong: assistance in the preparation of a submission to NSW Treasury for approval to borrow.

Advisory Services

TCorp continues to hone its capacity to provide financial risk management advice through a dedicated team of specialists in risk analytics. In many cases, this activity is undertaken as part of TCorp's role as discretionary debt or asset manager for the General Government sector and PTEs. TCorp advises clients on matters such as treasury management policies, benchmarks, portfolio risk constraints and hedging of interest rate exposures. An example of this activity was a debt benchmark review provided for the Newcastle Port Corporation. TCorp also partnered NSW Treasury in advising on the financial market aspects of the Government Guarantee Fee Policy.

TCorp can provide a tailored advisory service for clients who have chosen not to use the discretionary debt management service. This may entail regular advice, such as recommendations on refinancing of maturing loans, or single projects such as a review of policies.

TCorp has a highly experienced economics team which makes regular presentations to debt and asset management clients, as well as providing a weekly economics and markets brief and input to clients' monthly portfolio management reports.

Guarantees

TCorp provides some agencies and PTEs with performance guarantees for a range of commercial and legislative purposes.

These guarantees, are supported by NSW Treasury and, while a relatively minor activity, are an illustration of the breadth of TCorp's role in providing financial accommodation to its clients.

Housing

- Strategic review for a housing redevelopment project;
- Financial advice and evaluation panel member for the Riverwood North and Kamira Court Villawood social housing and urban renewal projects.

Technology

- Department of Services, Technology and Administration: assistance with the evaluation of tender responses for the data centres proposal;
- Department of Services, Technology and Administration: advice relating to the proposed new imaging devices contract.

Property

- Provision of financial advisory assistance on the proposed upgrade and expansion of Sydney's convention and exhibition facilities at Darling Harbour.

External and internal factors have driven evolutionary change in TCorp over the past few years. These factors include the dynamic global financial markets, developing client needs and continuous refinement of TCorp's internal processes and operations.

EvolvingStrategy

Recognising that the complexity and extent of change would persist into the future, TCorp saw that it would need dedicated specialist resources to support business change and ensure strategic outcomes.

The Strategy and Change Management team was established in July 2010. The team manages the annual strategic planning process and its implementation through the business change programme. It brings to TCorp specialist programme and project management skills as well as extensive financial services experience.

The Strategy and Change Management team keeps watch on TCorp's programme and project governance model and project risk management practices. This underpins enhanced visibility of the change programme through the organisation and a well established governance model. Project and programme level risks are promptly identified, managed and reported to the appropriate risk committees.

The business change programme demonstrates a number of TCorp's core values including One TCorp, Partnership and Results. The Strategy and Change Management team works with experts from the front, middle and back office to achieve a balance between day-to-day business and a focus on longer term goals.

Over the past year TCorp's business change programme has made striking progress, without detracting from 'business as usual' activities. The business change programme has established a number of important workstreams including:

- new products and client driven innovation, delivering advanced foreign exchange management services and the Waratah Bond Programme for retail investors;
- debt management product capability, providing new debt instruments tailored for the regulated utility clients;
- client experience, including an external survey of TCorp's major clients and improvement initiatives;
- TCorp-wide initiatives including the launch of TCorp's intranet and the review of premises needs; and
- implementation of the IT strategy, including development of a data warehouse and plans for an external data centre.

Economic Overview

The NSW economy represents about one third of Australia's gross domestic product. The State has a diversified economic base spanning construction, finance, telecommunications, high value manufacturing, business services and transport sectors.

NSW is rated AAA by Moody's Investors Service and Standard & Poor's, two leading international rating agencies. The ratings have been bolstered by the State's strong balance sheet and budget performance. The State's net financial liabilities are projected to stabilise at around 20% of gross state product (GSP) between 2009 and 2015 – about 5% higher than the average from 2000 to 2008. State net debt is projected to rise to just over 10% of GSP by June 2015.

After a period of strength through most of 2010, the NSW economy has slowed in 2011 as a number of headwinds to growth have emerged. This has made the transition from stimulus and public sector led growth to strong growth across all areas of private sector demand longer than initially expected.

State final demand grew by 4.8% through the year to June 2010, but growth moderated to 2.1% through the year to June 2011, reflecting some non-mining sectors of the economy being weighed down by a high Australian dollar, slightly restrictive monetary policy, fiscal consolidation, and cautious households. Global economic growth has slowed and concerns about sovereign debt sustainability in the Euro Area and United States have intensified. This has negatively impacted Australian financial markets and contributed to business and consumer confidence falling to below average levels.

Domestic natural disasters over summer are temporarily weighing on national activity, predominately via a slow recovery in Queensland coal production and exports. International economic growth, which had recovered significantly in 2010, has slowed in 2011. Natural disasters in Japan disrupted global supply chains and geopolitical tensions in the Middle East and North Africa temporarily pushed oil prices higher. Monetary policy has been tightened in a number of countries in response to rising inflation pressures.

In 2010-11, growth in household spending remained firm despite a subdued retail sector, reflecting strong growth in household services. Household incomes were supported by Australia's and NSW's historically high terms of trade, a recovery in wage growth and strong employment growth. The strong Australian dollar also helped to lift household purchasing power, but households continued to be cautious, saving more and borrowing less, as they rebuilt their balance sheets.

Dwelling investment continued its recovery in 2010/11, driven by new construction. In the near term, dwelling investment is expected to slow, with trend building approvals falling in recent months and the broader housing market remaining soft. Higher interest rates and a lull after a pull-forward of first home buyer demand are currently weighing on the housing market.

However, low vacancy rates and rising rental prices suggest that the current slowing in housing construction activity should be short-lived, with the recovery expected to resume over the next two years, albeit at a more moderate pace than in 2010-11.

Business investment recorded modest gains in 2010-11 but, by historical standards, remains subdued, reflecting mixed conditions across sectors. Non-residential building investment declined for the third consecutive year as an emerging recovery in commercial and industrial activity was offset by the unwinding of activity associated with the private school component of the Building the Education revolution. Machinery and equipment investment also declined in 2010-11, partly reflecting the lull after the pull-forward in demand related to tax concessions in 2009, but also a subdued retail sector and the impact of a high Australian dollar on the NSW export and import competing sectors – particularly in tourism, manufacturing and international students.

Strong engineering construction, driven by the mining sector, offset the declines in other sectors. Mining sector investment is expected to rise strongly over the next two years, benefiting from continuing strong global demand for non-rural commodities, particularly thermal coal. NSW is also expected to benefit from strong interstate trade with the resource states as they demand services and manufacturers.

The broader business investment outlook for NSW is positive with above average levels of capacity utilisation and a pick up in commercial loan approvals, the later indicating that business deleveraging and some lending constraints evident during the Global Financial Crisis are moderating.

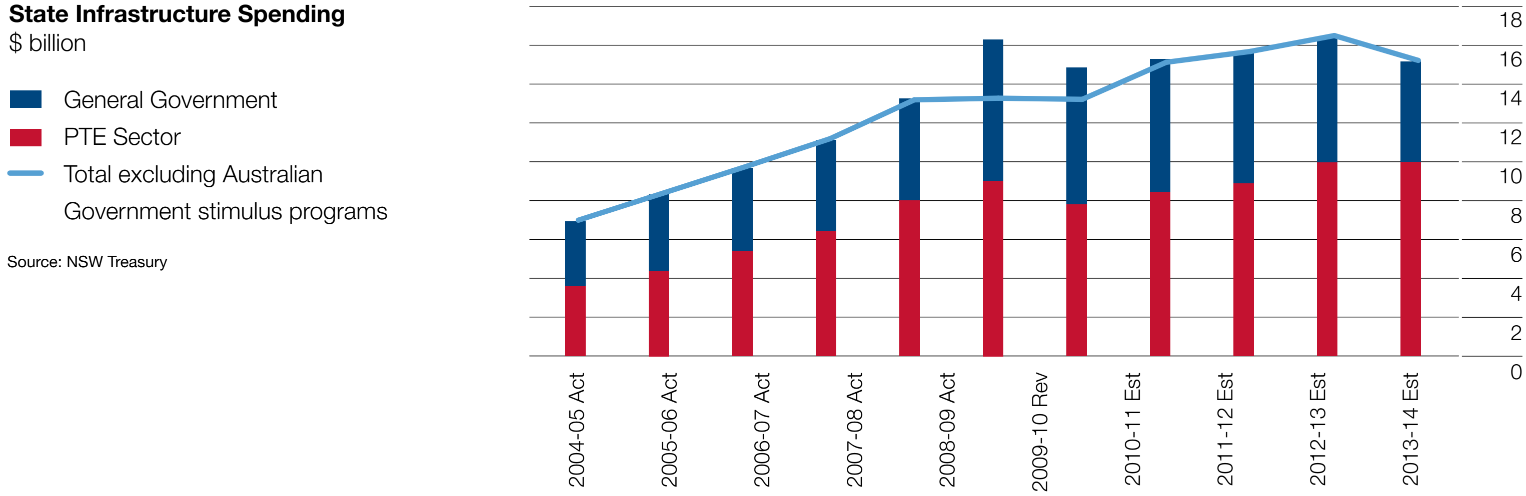
Public sector demand growth moderated in 2010-11 with slower growth in public sector investment due to the wind down of Economic Stimulus spending and unanticipated weather delays to State capital spending. Public sector demand growth is expected to moderate further over the next two years as a broadening in private sector demand becomes the driver of economic growth.

The NSW labour market strengthened considerably over 2010 but employment growth has moderated in 2011 and the unemployment rate has trended slightly higher. Employment grew by an above trend rate of 3.1 per cent in 2010-11 and the unemployment rate declined to an average of 5.1 per cent after averaging 5.7 per cent in 2009-10. A slowing in employment would be in line with the recent slowing in economic activity and population growth. However, the extent of slowing in employment is likely to have been exaggerated by flood repairs in Queensland, which has seen NSW tradespeople temporarily move to Queensland.

Wages growth increased in 2010-11 in response to firming labour market conditions in 2010, growing broadly in line with their long run average. The recent rise in the unemployment rate should lead to a moderation in wage growth in the near term, however, wages growth is expected to increase over the next two years as the labour market and capacity utilisation gradually tighten.

Underlying consumer price index (CPI) inflation troughed in the December quarter 2010 at 2.3 per cent through the year and has picked up over the first half of 2011 as the disinflationary effects of the 2008-09 slowdown have now faded. Sydney's CPI picked up significantly to 3.8 per cent through the year to the June quarter 2011, reflecting

State Infrastructure Spending
$ billion



Source: NSW Treasury

a number of temporary price effects. Natural disasters over summer caused a sharp rise in fruit and vegetable prices and petrol prices have increased, partly due to geopolitical tensions in oil regions. The increase in the tobacco excise also added to the CPI increase.

Over the next two years, underlying CPI inflation is expected to increase as capacity utilisation gradually tightens and the disinflationary effects of the stronger Australian dollar fade. Movements in Sydney's CPI are expected to be more volatile as recent temporary price effects unwind and the introduction of the carbon tax from July 2012 temporarily boosts the CPI by around 0.75 of a percentage point.

Outlook for 2011/12

There is a risk that the recent softness in domestic activity continues in the near term if global financial market volatility, risk aversion, consumer caution and declining confidence levels are sustained. However, despite these considerable downside risks and the recent slowdown in activity, the outlook for economic growth remains solid.

- The latest IMF outlook still expects around trend growth in global output in 2011 and 2012, before lifting to a little above trend thereafter.
- Continuing strong growth in Australia's and NSW's major trading partners in Asia (ex-Japan) is expected to support high commodity export prices. Combined with subdued import prices, this is expected to result in Australia's and NSW's terms of trade remaining at a high level over the next few years. This represents a big shock to national and NSW incomes and is expected to underpin strong mining investment and commodity export growth in both the national and NSW economies. NSW is also expected to benefit from strong interstate trade with the resource states.
- The broader business investment outlook for NSW is positive with above average levels of capacity utilisation and a pick up in commercial loan approvals.
- After a number of years of intermittent drought, the outlook for farm production and rural exports is strong.
- Low vacancy rates and rising rental prices suggest that the current slowing in housing construction activity should be short lived.
- Growth in non-retail components of consumer spending remains strong – reflected in strong household services employment growth.
- While consumer caution is placing substantial pressure on the NSW retail sector, there will be longer-term benefits from stronger household balance sheets.

NSW Treasury estimates that the NSW economy will grow by a below trend rate of 2.5 per cent in 2011-12 before recovering to above trend growth in 2012-13, based on private sector spending strengthening. Activity is expected to lift as 2011-12 progresses with a strengthening in business investment, a resumption of growth in dwelling investment and modest household consumption growth. Net export performance is expected to improve as export growth strengthens and import growth slows marginally from current high rates. In 2012-13 the recovery in activity is expected to continue to strengthen across all areas of private spending with household consumption growth firming in line with income growth.

Employment growth is expected to lift over the course of 2011-12 in line with the expected increase in economic activity and the unemployment rate is expected to stabilise at around current levels of 5.25 per cent.

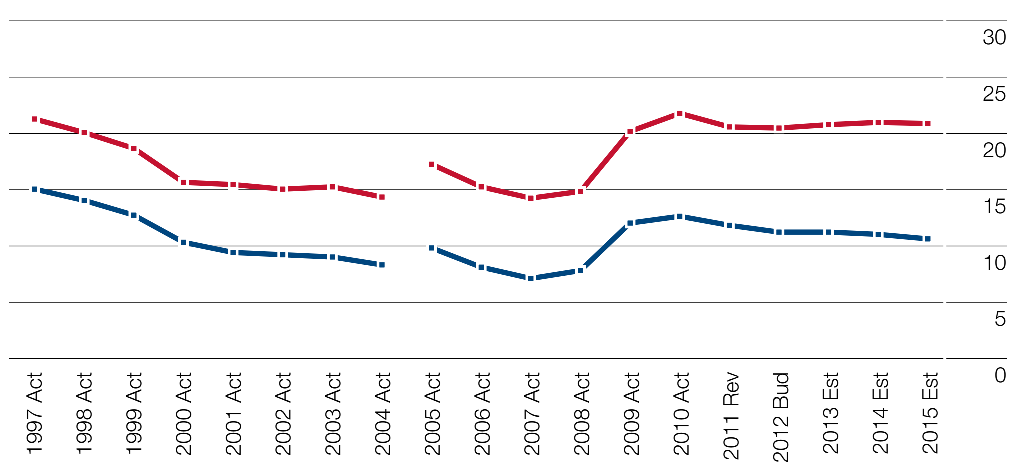
NSW will, however, continue to face some challenges over the next two years including:

- Relatively stronger economic output and population growth in the resource intensive economies.
  - Some industries may face labour and capital constraints due to the rapid expansion of the mining boom.
  - Net interstate migration could return as a large drag on population growth and therefore economic growth.
- Relatively high interest rates – which will impact on NSW households more than other states.
- A high exchange rate – which will constrain NSW manufacturing and services export and import competing sectors.
- Ongoing bouts of risk aversion and volatility in global financial markets as the Euro Area and United States attempt to put their sovereign debt on a sustainable medium term trajectory – which will impact NSW more than other states given the high concentration of Australia's financial services sector in Sydney.
- Both national and NSW productivity growth has slowed over the last six years, averaging 0.7 per cent and 1 per cent respectively. This is well below the 1.6 per cent national average over the last 30 years – the forward assumption used for medium term productivity growth.
  - The impact of slower productivity growth on income has been offset by the rise in the terms of trade – but productivity growth will have to improve as the terms of trade begins to decline.
  - Slower productivity growth is constraining capacity in the economy – if this was to continue there would be more upward pressure on inflation. In that case monetary policy would likely be tightened to slow the economy.

Forecasts over the next two years have a large degree of uncertainty given the substantial downside risks for the global economy. Downside risks to the economic outlook for the coming few years include a larger than expected slowdown in the world economy and the contagion from deteriorating fiscal positions overseas, including in Europe and the US. Australia's economic outlook has become more closely tied to the growth story in emerging Asia, particularly China. There is a risk for Australia that policy errors could cause a 'hard landing' in emerging Asia in coming years, impacting commodity markets. Domestically, downside risks include households remaining cautious for longer, productivity growth remaining weak and the business investment boom being slower to materialise. Upside risks include faster global growth and even higher commodity prices leading to stronger than expected national domestic demand growth in the short term.

Net Financial Liabilities as at 30 June, 1996 to 2014*
% of Gross State Product

Total State
General Government



* Series break in 2004-05 as a result of the adoption of Australian Equivalents to International Financial Reporting Standards. This increases the reported level of net financial liabilities. Net Financial Liabilities include all liabilities such as debt, unfunded superannuation and insurance liabilities.

Source: NSW Treasury

Corporate Governance

The Board of TCorp is committed to high standards of performance, accountability, ethical behaviour and corporate governance.

Role of the Board

The Board's role, in accordance with the *Treasury Corporation Act* 1983 (NSW), is to direct management in achieving the TCorp mission and to fulfil the annual agreement between the Board and the NSW Treasurer as set out in the Statement of Business Intent. The Board's primary responsibilities and corporate governance functions include:

- providing strategic direction and reviewing corporate strategy;
- identifying the principal risks of TCorp's business and, through rigorous inquiry, monitoring the risk management processes;
- determining an appropriate policy regime to control those risks within a risk spectrum acceptable to the NSW Government;
- regularly measuring financial performance against the Board approved annual budget;
- monitoring the conduct and the performance of TCorp and its senior management; and
- overseeing management's succession plans.

Role of management

The Board has established a policy that documents the roles of the Board and the Chief Executive.

The Chairman of the Board is independent of the role of the Chief Executive.

Board composition and appointments

The Board consists of:

- two ex-officio members from NSW Treasury;
- the Chief Executive, appointed by the NSW Governor on the recommendation of the NSW Treasurer; and
- five non-executive directors, appointed by the NSW Governor for a specified term on the recommendation of the NSW Treasurer.

The Chairman of the Board is the Secretary of NSW Treasury and the other member from NSW Treasury holds the position of Deputy Chairman.

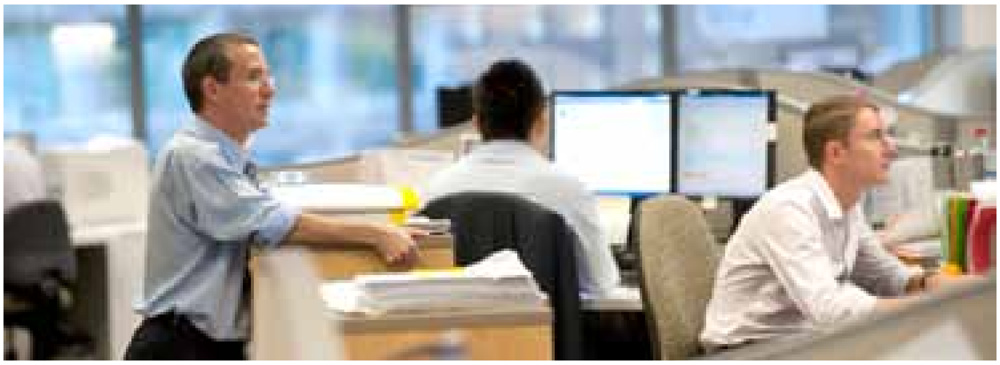
Conduct of Board business

The Board normally holds up to 12 Board meetings each year and will meet whenever necessary to carry out its responsibilities.

The Board has established a policy and a Code of Conduct and Ethics covering its conduct of Board business. The Board aims not only to comply with the requirements set out in the *Treasury Corporation Act* 1983 (NSW), but also to incorporate practices commonly required by entities regulated by the *Corporations Act* 2001 (Cth). The Board recognises that corporate governance is not an aspect of business that can be put in place and then forgotten; rather, it involves continuing review and improvement, keeping track of industry trends and, after consideration and where appropriate, adopting them.

Board discussions, deliberations and decisions that are not required to be publicly disclosed are kept confidential by directors.

"The Board of TCorp is committed to high standards of performance, accountability, ethical behaviour and corporate governance."



Conflicts of interest

Directors must monitor and disclose any actual or potential conflicts of interest as these arise. The *Treasury Corporation Act* 1983 (NSW) requires any director who has a pecuniary interest in a matter being considered, or to be considered, by the Board, to declare the nature of the interest. These declared interests are recorded in a publicly available register. Unless the NSW Treasurer determines otherwise, the director is required not to attend Board meetings about matters relating to declared pecuniary interests or to take part in decisions about these matters.

Committees

Two Board committees, the Audit and Risk Committee and the Human Resources (HR) Committee, assist in decision making, oversight and control. Their contributions enable the Board to focus on strategy, planning and performance enhancement.

Audit and Risk Committee

The Audit and Risk Committee acts as an advisory body to the Board on issues relating to internal and external audit, financial reporting, operational risk management and other accountabilities. The objectives of the Audit and Risk Committee are determined by the Board and codified in a charter. Consistent with best practice, all members of the Audit and Risk Committee are non-executive directors. The Audit and Risk Committee's primary responsibility is to provide independent assistance to the Board by overseeing, monitoring and reporting on:

- TCorp's governance, risk and controls frameworks (including internal and external audit functions), and its external accountability requirements; and
- TCorp's annual financial statements.

The Audit and Risk Committee meets a minimum of four times a year. The internal and external auditors have standing invitations to attend these meetings.

Human Resources Committee

The HR Committee acts as an advisory body to the Board on issues relating to TCorp's HR policies. The role of the HR Committee is to assure the Board that effective plans are in place to underpin continuous improvement in the return on TCorp's investment in people.

Attendance at Board and Board Committee meetings

1 July 2010 — 30 June 2011

	Board		Audit and Risk Committee		HR Committee	
Board Member	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Michael Lambert	3	0				
Michael Schur	7	6				
Kevin Cosgriff	10	8			3	3
Philip Chronican	10	10	6	6		
Cristina Cifuentes	10	9	6	6		
Michael Cole	10	10			3	3
Bruce Hogan	10	9	3	3	1	1
Steve Knight	10	10	6	6	3	3
Alan Stockdale	10	9	3	3	2	3

Risk Management and Compliance

Responsibility for risk management and compliance extends across the entire TCorp organisation.

The risk management framework and key financial parameters are established by the Board and documented in Board policies. This framework includes the establishment and regular monitoring of limits for market, credit and other risks.

The Board's Audit and Risk Committee acts as an advisory body on audit, operational risk management and financial matters. In respect of risk management and compliance, the Audit and Risk Committee reports on whether management has in place a current and appropriate enterprise risk management process and a sound and effective internal control framework. To assist in this process, the Audit and Risk Committee receives regular reports from internal audit, external audit and TCorp management.

The Executive Risk and Compliance Committee (ERiCC) is a management committee reporting to the Chief Executive. It is charged with ensuring that Board policies are adequately embedded in business practice and that there are appropriate levels of supervision, controls, procedures, monitoring and training within the business units. ERiCC's activities are also subject to oversight by the Audit and Risk Committee. Risk management objectives are further supported by a range of management committees whose purpose is to oversee market and operational risk exposures and activities.

The Risk and Compliance department is the centralised function responsible for the day-to-day monitoring of Board policies, client mandates, management procedures and any other risk matters identified as potentially requiring attention. The department is responsible for daily reporting to management, monthly reporting to ERiCC and the Board, and quarterly reporting to the Audit and Risk Committee.

In conjunction with the Risk and Compliance department, the individual business units identify risks specific to their areas and develop controls to reduce those risks to acceptable levels. This decentralised approach ensures comprehensive identification of risks and entrenches management of them in the most appropriate areas.

This organisation-wide approach to risk management fosters a culture of risk awareness, with all levels of TCorp contributing to the framework and the detailed systems and processes that identify, control, monitor and report on risk.

Legal and regulatory compliance

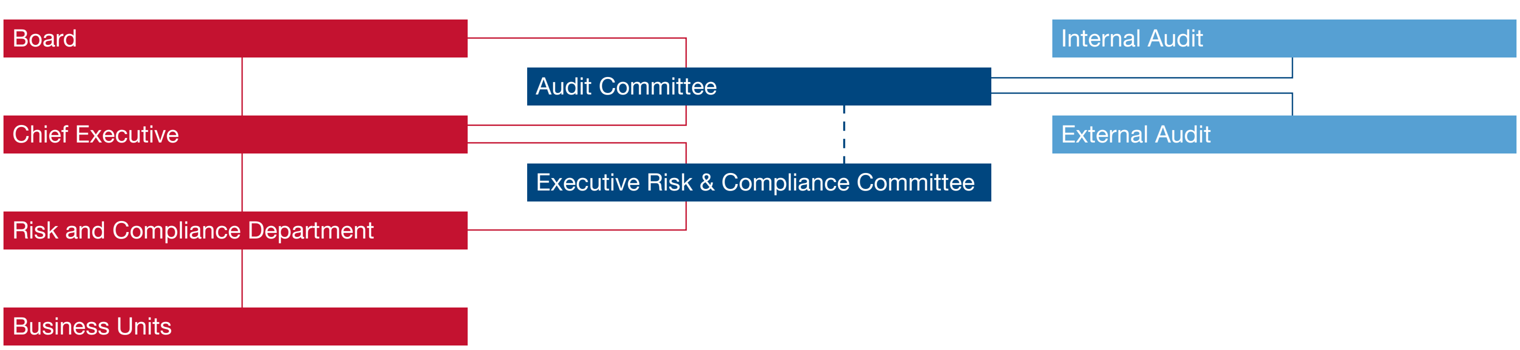
TCorp is regulated by several items of NSW legislation, including its own Act, the *Treasury Corporation Act* 1983 (NSW), as well as the *Public Finance and Audit Act* 1983 (NSW), the *Annual Reports (Statutory Bodies) Act* 1984 (NSW) and the *Public Authorities (Financial Arrangements) Act* 1987 (NSW). TCorp is ultimately accountable to the NSW Parliament, through the NSW Treasurer.

TCorp is not regulated by the Australian Prudential Regulation Authority (APRA) or the Australian Securities and Investments Commission, which govern most operators in the Australian financial markets. However, TCorp voluntarily adopts relevant industry practices which impose conventional market constraints.

TCorp's activities are subject to review and monitoring by a number of external parties, including:

- the NSW Treasurer, who is a Member of Parliament and the NSW Government shareholder representative;
- the NSW Treasury, which maintains a shareholder monitoring role through quarterly and annual reporting requirements common to all NSW Government agencies and by representation on the TCorp Board; and
- the NSW Auditor-General, who reports to Parliament, provides an independent audit of TCorp's financial reports and expresses an opinion on those financial reports in line with the requirements of the *Public Finance and Audit Act* 1983 (NSW).

Compliance is a key element of risk management and TCorp's compliance framework is structured to ensure adherence to applicable laws, regulations, contracts, industry standards and internal policies. Consistent with TCorp's risk management approach, compliance measures are subject to continuous monitoring and improvement. Any compliance issues are referred to the Chief Executive, ERiCC, the Audit and Risk Committee and/or the Board as appropriate.



Use of capital

TCorp does not hold subscribed share capital in the conventional commercial sense. In consultation with its shareholder, the NSW Government, TCorp has retained from past profits an amount of $100 million.

TCorp operates under self imposed capital requirements based on prudential statements published by APRA. Within these TCorp specific capital constraints, TCorp manages market, credit and operational risks to ensure that the level of capital is sufficient to cover the financial risks incurred in its daily business.

Capital usage is calculated daily and monitored against Board approved limits. Management reports are produced daily and summary reports are presented monthly to the Board.

Market risk

TCorp uses a Value-At-Risk model based on historical simulation to assess capital requirements arising from market risk. The model captures the potential for loss of earnings or changes in the value of TCorp's assets and liabilities arising from movements in interest rates and key credit spreads and from fluctuations in the prices of bonds or other financial instruments.

Credit risk

In conducting its business, TCorp invests in high grade financial assets issued by parties external to the whole of the NSW Government grouping. The return achieved on these financial assets must be sufficient to protect against loss in value caused by a decline in the counterparty's creditworthiness or ultimate default.

Credit exposures are monitored daily against Board approved limits.

Operational risk

Operational risk can arise from events such as settlement errors, system failures, procedure breakdowns and external factors. TCorp reviews all possible risks of this nature, assesses the mitigating factors and controls and evaluates the residual risks. TCorp uses Cura software to aid the identification and measurement of risk and implementation of associated internal controls. High risks are managed by improving procedures and process flows, ensuring appropriate segregation of duties, insurance cover and business continuity plans. TCorp allocates capital to cover operational risk.

Auditor independence

TCorp is audited annually by The Audit Office of NSW. The *Public Finance and Audit Act* 1983 (NSW) further promotes independence of the Audit Office by ensuring that only Parliament, not the Executive Government, can remove the Auditor-General and by precluding the provision of non-audit services to all public sector agencies.

Deloitte Touche Tohmatsu was engaged by TCorp until 30 June 2011, and PricewaterhouseCoopers (PwC) was engaged from 1 July 2011, to undertake internal audit projects as approved by the Audit and Risk Committee under TCorp's Audit and Risk Committee and Internal Audit charters and to report findings independently to the Audit and Risk Committee.

Code of Conduct and Ethics

All TCorp staff members sign the TCorp Code of Conduct and Ethics. The Code sets out what is expected of staff in their business affairs and in dealings with clients and other parties. It demands high standards of personal integrity and honesty in all dealings and a respect for the privacy of clients and others. By signing a copy of the Code, staff acknowledges that they have read and understood it and agree to act according to its requirements.

"In conjunction with the Risk and Compliance department, the individual business units identify risks specific to their areas and develop controls to reduce those risks to acceptable levels."

Concise Consolidated Financial Statements

Concise Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	2011 $m	2010 $m
Income from changes in fair value	3,468.3	4,150.5
Less: Expenses from changes in fair value	(3,303.2)	(4,065.0)
Net income from changes in fair value	**165.1**	**85.5**
Fees and commissions	27.8	22.7
Total net income	**192.9**	**108.2**
Less: General administrative expenses		
Staff costs	(20.6)	(18.5)
Financial services costs	(1.7)	(1.5)
Information technology costs	(8.7)	(7.6)
Premises and administration costs	(5.7)	(4.9)
Total general administrative expenses	**(36.7)**	**(32.5)**
Transaction issuance fees	(2.7)	(7.4)
Other transaction costs	(2.1)	(2.4)
Total transaction costs	**(4.8)**	**(9.8)**
Total general administrative and transaction costs	**(41.5)**	**(42.3)**
Profit before income tax equivalent expense	**151.4**	**65.9**
Income tax equivalent expense	(45.4)	(17.1)
Profit after income tax equivalent expense	**106.0**	**48.8**
Other comprehensive income/(loss)		
Total comprehensive income	**106.0**	**48.8**

The accompanying discussion and analysis, and notes form part of these concise financial statements.

This concise report is derived from the full financial report for the year ended 30 June 2011.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of New South Wales Treasury Corporation (TCorp) and its controlled entities as the full financial report.

The full financial report will be sent on request free of charge. Requests can be made on TCorp's website at www.tcorp.nsw.gov.au or by telephone on 02 9325 9325.

Discussion and Analysis of the Concise Consolidated Statement of Comprehensive Income

TCorp's profit before tax of $151.4 million was its second highest on record, only bettered by the extraordinary outcome in 2008/09. All business activities contributed to this outcome, with the majority of the increase arising from TCorp's offshore funding activities and through the astute management of the risks inherent within TCorp's balance sheet.

It is worth noting that since the onset of the financial crisis that TCorp has not suffered any credit losses arising from its exposures to financial assets or derivative positions. Furthermore, lending margins to clients again remained unchanged over the year.

Net income from changes in fair value
Net income from changes in fair value is a measure of the performance of TCorp's core balance sheet management activities. A number of different variables influence this result, including the size of the balance sheet, amount of activity, funding opportunities and market volatility.

The outcome was almost $80 million higher the previous financial year for a variety of reasons including:
- improved offshore funding conditions, allowing TCorp to both issue and repurchase long dated offshore debt at favourable rates, resulting in significantly higher revenues than in the previous year;
- improved margins on liquidity assets (amounts due from financial institutions and securities held);
- improved outcomes in managing TCorp's balance sheet risks, particularly around the hedging of bond issuance in volatile markets; and
- a net increase in loans to government clients of approximately $4.9 billion.

Fees and commissions
Fee income increased by around $5 million primarily due to higher performance fees earned for managing both client debt and asset portfolios. In addition, TCorp's asset management fees were higher due to an increase in funds under management.

General administrative expenses
General administrative expenses increased in line with TCorp's approved budget. The increase in staff costs reflects the growth in TCorp's operating business to support the large actual and future growth in TCorp's core balance sheet activities. The increase in information technology costs was largely driven by higher depreciation and amortisation expense.

Transaction costs
TCorp continued to incur transaction issuance fees to improve access to the debt markets, but at lower levels than in the previous year. Major new issues incurring transaction issuance fees were a $1.55 billion 2018 Benchmark Bond, along with a $150 million 2030 Benchmark Bond.

Income tax equivalent expense
TCorp is subject to tax equivalent payments to the New South Wales Government at an amount equal to 30% of profit (2010: 26%)

Concise Consolidated Balance Sheet

As at 30 June 2011

	2011 $m	2010 $m
Assets		
Cash and liquid assets	1,012.9	484.6
Outstanding settlements receivable	465.0	155.2
Due from financial institutions	3,240.2	4,837.5
Securities held	5,919.5	6,907.4
Derivative financial instruments receivable	176.8	347.3
Loans to NSW Government clients	49,515.9	44,627.9
Other assets	43.5	34.2
Plant and equipment	1.5	2.3
Total assets	**60,375.3**	**57,396.4**
Liabilities		
Due to financial institutions	4,753.2	4,740.9
Outstanding settlements payable	565.5	52.1
Due to NSW Government clients	1,099.6	1,005.0
Borrowings	53,300.9	51,110.3
Derivative financial instruments payable	432.3	344.6
Income tax equivalent payable	13.3	7.5
Other liabilities and provisions	110.2	50.7
Total liabilities	**60,275.0**	**57,311.1**
Net assets	**100.3**	**85.3**
Represented by:		
Equity		
Retained profits	100.3	85.3
Total equity	**100.3**	**85.3**

The accompanying discussion and analysis, and notes form part of these concise financial statements.

Discussion and Analysis of the Concise Consolidated Balance Sheet

The past year saw further normalisation of funding conditions following the severe dislocation resulting from the financial crisis. These conditions provided TCorp with some excellent opportunities to access cost effective funding to meet the increased borrowing needs of its clients.

The principal asset of loans to New South Wales Government clients of $49,515.9 million represented over 80% of total assets. These comprised loans to:

New South Wales public sector clients	**2011 $m**	**2010 $m**
Crown Entity (New South Wales General Government)	18,968.7	15,795.6
Electricity entities	17,576.7	17,135.2
Transport entities	1,652.6	1,165.0
Water entities	8,850.5	8,022.5
Other entities	2,425.3	2,467.2
Universities	42.1	42.4
	49,515.9	**44,627.9**

Securities held, cash and liquid assets and amounts due from financial institutions are held for liquidity management purposes.

Borrowings, the principal liability, comprised:	**2011 Fair Value $m**	**2010 Fair Value $m**
Domestic Benchmark Bonds	41,312.5	37,106.0
Global Exchangeable Bonds	3,800.2	6,453.3
Total benchmark bonds	**45,112.7**	**43,559.3**
Euro Medium Term Notes	2,803.2	3,400.8
Capital Indexed Bonds	5,168.8	3,818.3
Other borrowings	216.2	331.9
	53,300.9	**51,110.3**

The volumes on issue of both Domestic Benchmark and Global Exchangeable Bonds are:

Maturity	**Coupon % p.a.**	**2011 Face Value $m**	**2011 Fair Value $m**	**2010 Face Value $m**	**2010 Fair Value $m**
1 December 2010	7.00	-	-	6,325.5	6,420.0
1 May 2012	6.00	6,905.1	7,038.7	7,831.2	8,082.9
1 May 2013[1]	5.25	640.9	650.6	948.9	969.8
1 August 2013	5.50	3,225.0	3,332.0	2,109.9	2,191.3
1 August 2014[1]	5.50	4,043.9	4,193.6	5,133.9	5,352.6
1 April 2015	6.00	1,991.9	2,077.1	-	-
1 April 2016	6.00	4,967.5	5,191.1	1,526.0	1,597.4
1 March 2017[1]	5.50	4,980.6	5,129.6	6,999.1	7,217.7
1 February 2018	6.00	3,978.3	4,185.1	-	-
1 April 2019[1]	6.00	3,637.3	3,814.5	4,587.4	4,839.9
1 May 2020	6.00	4,396.9	4,536.2	2,509.0	2,600.8
1 June 2020[1]	6.00	1,069.8	1,110.8	1,074.9	1,125.0
1 May 2023[1]	6.00	3,506.1	3,649.5	3,029.6	3,161.9
1 May 2030	6.00	201.5	203.9	-	-
		43,544.8	45,112.7	42,075.4	43,559.3

[1] Commonwealth Government guaranteed borrowings at 30 June 2011 total $18,548.6 million, fair value (2010: $22,666.9 million, fair value).

Concise Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

	2011 $m	**2010 $m**
Total equity at the beginning of the year	85.3	75.0
Profit after income tax equivalent expense	106.0	48.8
Other comprehensive income	-	-
Total comprehensive income	**106.0**	**48.8**
Less: Dividend payable	(91.0)	(38.5)
Total equity at the end of the year	**100.3**	**85.3**

The accompanying discussion and analysis, and notes form part of these concise financial statements.

Discussion and Analysis of the Concise Consolidated Statement of Changes in Equity

The New South Wales Government is not required under legislation to contribute equity to TCorp. Retained profits are held in lieu of contributed equity and provide a capital base commensurate with the risks inherent in TCorp's business. During the year, a Capital Review was presented to the Board and it was noted that TCorp would be required to move to a higher capital base. The Board resolved to approve the capital increase to $100 million.

Concise Consolidated Cash Flow Statement

For the year ended 30 June 2011

	2011 $m	2010 $m
Cash Inflows/(Outflows) from Operating Activities		
Interest and other costs of finance received	3,392.9	2,936.9
Interest and other costs of finance paid	(3,127.3)	(2,683.5)
Fees and commissions received	27.8	30.0
Payments of tax equivalents	(39.6)	(12.4)
Payments of Goods and Services Tax	(1.7)	(0.5)
Payments of general administrative expenses	(36.5)	(45.9)
Loans to NSW Government clients made	(12,703.2)	(17,598.7)
Loans to NSW Government clients repaid	7,872.3	12,094.8
Net cash used in operating activities	**(4,615.3)**	**(5,279.3)**
Cash Inflows/(Outflows) from Investing Activities		
Net cash from/(to) securities held	2,520.5	(2,487.5)
Purchases of plant and equipment	(4.3)	(3.0)
Net cash provided by/(used in) investing activities	**2,516.2**	**(2,490.5)**
Cash Inflows/(Outflows) from Financing Activities		
Proceeds from issuance of borrowings and short term securities	49,823.4	66,947.7
Repayment of borrowings and short term securities	(47,365.5)	(58,677.6)
Net cash proceeds from the purchase or repayment of other short term financial instruments	303.0	145.2
Dividend paid	(38.5)	(92.0)
Net cash provided by financing activities	**2,722.4**	**8,323.3**
Net increase in cash held	623.3	553.5
Cash and cash equivalents at the beginning of the year	389.5	(164.0)
Cash and cash equivalents at the end of the year	**1,012.8**	**389.5**

The accompanying discussion and analysis, and notes form part of these concise financial statements

Discussion and Analysis of the Concise Consolidated Cash Flow Statement

The cash flow statement showed an increase in cash and cash equivalents as defined by accounting standards.

Cash and cash equivalents at the end of the year comprises:

	2011 $m	2010 $m
Cash and liquid assets	1,012.9	484.6
Short term borrowings	(0.1)	(95.1)
Cash and cash equivalents	**1,012.8**	**389.5**

It is noted that most liquid assets held by TCorp do not meet the technical definition of cash and cash equivalents and hence are not presented as cash or cash equivalents as at balance date. TCorp's other liquid assets are included within the due from financial institutions and securities held asset categories disclosed in the concise consolidated balance sheet and are included within investing activities in the cash flow statement.

Net cash used in operating activities was $4,615.3 million, a decrease of $664.0 million on the previous year, reflecting a lower net funding requirement for government client loans.

Net cash provided by investing activities was $2,516.2 million as TCorp reduced its holdings in securities.

Net cash provided by financing activities was $2,722.4 million, a decrease of $5,600.9 million on the previous year. This decrease was due to reduced net levels of issuance of borrowings driven by lower net client funding requirements which were also partially met through a reduction in securities held.

This concise financial report relates to the consolidated entity of New South Wales Treasury Corporation ('TCorp') and its controlled entities at the end of, or during the year ended, 30 June 2011.

All amounts shown are in Australian dollars and are rounded to the nearest million dollars unless otherwise stated.

This concise financial report has been prepared in compliance with Accounting Standard AASB 1039 Concise Financial Reports although there is no statutory requirement for TCorp to prepare a concise financial report and it does not need to comply with this Standard.

1. Segment Information

TCorp has a single reportable operating segment. As the central financing authority for the New South Wales Government, the entity operates solely within the capital markets, banking and finance industry to provide financial services to the New South Wales public sector.

TCorp's major customer is the New South Wales Government and all its agencies, which are considered to be under common control. Revenues received from government clients were:

	2011 $m	2010 $m
Net income from changes in fair value includes:		
Interest income received – NSW Government clients	2,713.1	2,400.6
Interest expense paid – NSW Government clients	(17.4)	(15.4)
	2,695.7	**2,385.2**
Fees and commissions comprise:		
Specific client mandates – asset portfolios	6.8	4.4
Specific client mandates – debt portfolios	12.4	10.2
Hour-Glass Facility Trusts	6.8	5.8
Other fees and commissions from NSW Government clients	1.8	2.3
	27.8	**22.7**

Given the nature of its core functions and the legislative intent, TCorp operates within Australia, apart from a proportion of funding raised offshore. As such, no geographic location segment reporting is presented within these concise financial statements.

2. Dividends

TCorp is a statutory corporation established under the Treasury Corporation Act 1983 (NSW). Prior financial year profits have been retained in lieu of subscribed capital. Any current financial year profits not required to maintain the New South Wales Government agreed appropriate level of equity are declared as dividends to the New South Wales Government.

	2011 $m	2010 $m
Dividends proposed and payable:		
29 July 2011	45.5	-
1December 2011	45.5	-
Dividends paid for previous year:		
30 July 2010	-	19.2
1 December 2010	-	19.3
	91.0	**38.5**

3. Contingent Liabilities and Commitments

a. During the year, TCorp provided short term liquidity facilities to approved client authorities. These facilities are offered on a revolving basis. At the year end, the total facilities were $6,198.5 million (2010: $5,808.5 million) and undrawn commitments were $5,909.7 million (2010: $5,591.2 million). Drawn commitments are recognised as loans to government clients on the balance sheet.

b. TCorp has issued unconditional payment undertakings on behalf of some New South Wales public sector clients to pay to the system operator, the Australian Energy Market Operator, on demand in writing any amount up to an aggregate maximum agreed with individual participants. At balance date, the amounts of these undertakings were:

	2011 $m	**2010 $m**
Market participants		
National Electricity Market	45.6	739.2
Short Term Trading Market	8.2	12.8
	53.8	**752.0**

TCorp has also issued undertakings on behalf of other New South Wales public sector clients in respect of those clients' performance under contracts with third parties. At balance date, the amounts of these undertakings totalled $120.7 million (2010: $86.8 million).

Amounts paid under these undertakings are recoverable from the New South Wales public sector agency participants. This financial accommodation is New South Wales Government guaranteed.

c. TCorp has commitments totalling $650.0 million (2010: $650.0 million) to provide motor vehicle finance to the New South Wales Government. As at year end, the undrawn commitments under these commitments are $103.8 million (2010: $107.3 million). Drawn commitments are recognised as loans to Government clients on the balance sheet.

d. TCorp has on loan to the fixed interest market, under its stock lending facility, TCorp bonds with total market value of $12.5 million (2010: nil). These bonds are not recorded on TCorp's balance sheet.

In the unlikely event of default by the borrowers of bonds, TCorp would obtain ownership of any security pledges held as collateral against stock it has lent. There were no security pledges required to be held at 30 June 2011 (2010: nil).

End of Audited Concise Financial Report

Director's Declaration

The directors declare that in their opinion, the concise consolidated financial report of New South Wales Treasury Corporation complies with Accounting Standard AASB 1039 *Concise Financial Reports.*

The financial statements and specific disclosures included in this concise financial report have been derived from the full financial report for the year ended 30 June 2011.

This declaration is made in accordance with a resolution of the directors.

K Cosgriff
Director

S W Knight
Director

Sydney, 2 September 2011

Independent Audit Report

AUDITOR-GENERAL
NEW SOUTH WALES

GPO Box 12
Sydney NSW 2001

To Members of the New South Wales Parliament

I have audited the accompanying concise financial statements of the New South Wales Treasury Corporation (TCorp), which comprises the statement of comprehensive income, the balance sheet as at 30 June 2011, the statement of changes in equity and the cash flow statement for the year then ended, and related notes, derived from the audited financial statements for both TCorp and the consolidated entity for the year then ended 30 June 2011, and the discussion and analysis. The concise financial statements do not contain all the disclosures required by Australian Accounting Standards and accordingly, reading the concise financial statements is not a substitute for reading the audited financial statements of TCorp. The consolidated entity comprises TCorp and the entities it controlled at the year's end or from time to time during the financial year.

Opinion

In my opinion, the concise financial statements, including the discussion and analysis, of the consolidated entity for the year ended 30 June 2011, comply with Accounting Standard AASB 1039 'Concise Financial Reports'.

My opinion should be read in conjunction with the rest of this report.

Board's Responsibility for the Financial Statements

The members of the Board are responsible for the preparation and fair presentation of the concise financial statements in accordance with Australian Accounting Standard AASB 1039 'Concise Financial Reports', and for such internal control as the members of the Board determine is necessary to enable the preparation of the concise financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the concise financial statements based on my audit. I conducted my audit in accordance with Auditing Standard ASA 810 'Engagements to Report on Summary Financial Statements'. I have conducted an independent audit, in accordance with Australian Auditing Standards, of the full financial statements of TCorp for the year ended 30 June 2011. I expressed an unmodified audit opinion on those financial statements in our report dated 5 September 2011. The Australian Accounting Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the concise financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the concise financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the concise financial statements 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 entity's internal control.

My procedures included testing that the information in the concise financial statements is derived from, and is consistent with, the financial statements for the year, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial statements for the year. These procedures were undertaken to form an opinion whether, in all material respects, the concise financial statements and the discussion and analysis comply with Accounting Standard AASB 1039 'Concise Financial Reports '

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

My opinion does *not* provide assurance:

- about the future viability of the consolidated entity
- that they have carried out their activities effectively, efficiently and economically
- about the effectiveness of internal control
- about the security and controls over the electronic publication of the audtited concise financial statements on any website where they may be presented
- about any other information, which may have been hyperlinked to/from the concise financial statements.

Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.

Peter Achterstraat
Auditor-General

Sydney, 5 September 2011

Investment Facilities Fund Managers and TCorp Dealer Panels

at 30 June 2011

Investment Facilities fund managers

AMP Capital Investors Ltd
Axiom International Investors LLC
BT Investment Management
Capital International Inc
Dexus Property Group
Dimensional Fund Advisors Australia Ltd
Eastpoint Global Pty Ltd
Franklin Templeton Investments Australia Ltd
Integrity Investment Management Australia Ltd
Macquarie Investment Management Ltd
Northcape Capital Pty Ltd
NSW Treasury Corporation
Perennial Investment Partners Ltd
Perpetual Investment Management Ltd
Schroder Investment Management (Aust) Ltd
Solaris Investment Management Ltd
State Street Global Advisors (Aust) Ltd
Tribeca Investment Partners Pty Ltd

Custodian

BNP Paribas Fund Services Australasia Pty Ltd, trading as BNP Paribas Securities Services

TCorp dealer panels

Domestic Bonds
Australia and New Zealand Banking Group Ltd
BNP Paribas, Sydney Branch
Citigroup Global Markets Australia Pty Ltd
Commonwealth Bank of Australia
Deutsche Bank AG, Sydney Branch
J.P. Morgan Australia Ltd
Merrill Lynch International (Australia) Ltd
National Australia Bank Ltd
Nomura International Plc
Royal Bank of Canada
The Royal Bank of Scotland Plc
The Toronto-Dominion Bank, London Branch
UBS AG, Australia Branch
Westpac Banking Corporation

Global Exchangeable Bonds
Australia and New Zealand Banking Group Ltd
BNP Paribas, Sydney Branch
Citigroup Global Markets Ltd
Commonwealth Bank of Australia
Deutsche Bank AG, London Branch
Merrill Lynch International (Australia) Ltd
National Australia Bank Ltd
Nomura International Plc
Royal Bank of Canada Europe Ltd
The Royal Bank of Scotland Plc
The Toronto-Dominion Bank
UBS Ltd
Westpac Banking Corporation

Capital Indexed Bond
Australia and New Zealand Banking Group Ltd
Barclays Bank Plc, Australia Branch
Citigroup Global Markets Australia Pty Ltd
Commonwealth Bank of Australia
Deutsche Bank AG, London Branch
J.P. Morgan Australia Ltd
Merrill Lynch International (Australia) Ltd
The Royal Bank of Scotland Plc
UBS AG, Australia Branch
Westpac Banking Corporation

Euro Medium Term Note
Citigroup Global Markets Ltd
Commonwealth Bank of Australia
Daiwa Capital Markets Europe Limited
Deutsche Bank AG, London Branch
J.P. Morgan Securities Ltd
Merrill Lynch International
Mitsubishi UFJ Securities International plc
National Australia Bank Limited
Nomura International plc
Royal Bank of Canada Europe Ltd
The Toronto-Dominion Bank
The Royal Bank of Scotland Plc
UBS Ltd

Euro Commercial Paper
Banc of America Securities Asia Ltd
Barclays Bank Plc
Citibank Internationals Plc
Commonwealth Bank of Australia
Deutsche Bank AG, London Branch
National Australia Bank Ltd
Nomura International Plc
Royal Bank of Canada
Royal Bank of Scotland Plc
The Hong Kong and Shanghai Banking Corporation Ltd
UBS Ltd
Westpac Banking Corporation

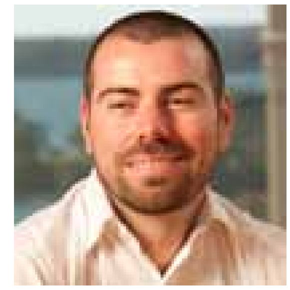
Our people

Adam Ajkic
Corporate Analyst

Michael Allen
General Manager Treasury, Client & Risk Services

David Anderson
Client Reporting Manager

Slava Beliakova
Business Analyst



John Brennan
Test Analyst

Rory Bridle
Head of Client Services

Katherine Burke
Manager Administration

Darren Carr
Network Administrator

Denby Casey
Client Relationship Manager

Agnes Chan
Analyst Corporate Finance

Vivian Chan
BSM, Trading Systems

David Choi
Portfolio Dealer

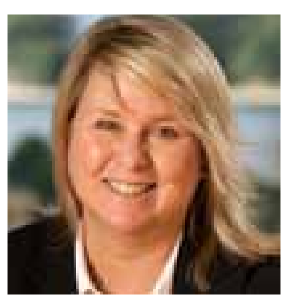
Will Cullen
Facilities and Helpdesk Administrator

Michael Daughton
BSM – Client Delivery

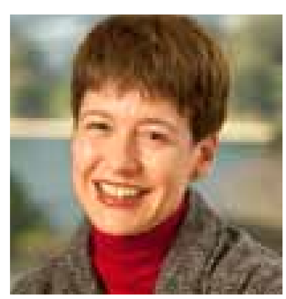
Roy Diprose
Market Risk Officer

Colin Earle
IT Developer

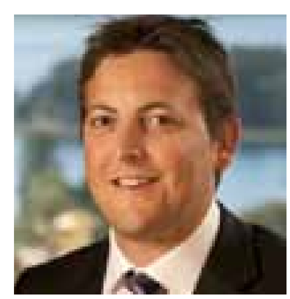
Layla Etri
Legal Counsel



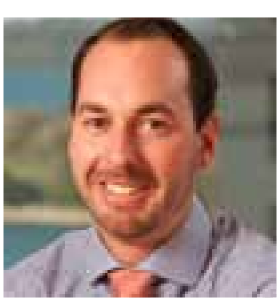
Christine Evers
Client Relationship Manager



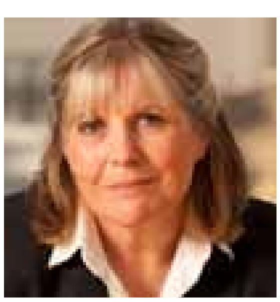
Belinda Finocchiaro
Records Administration Officer



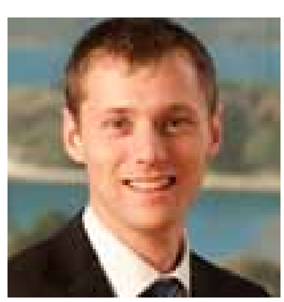
Jason Fredman
Portfolio Dealer, Debt & Currency



William Freeman
Investment Analyst

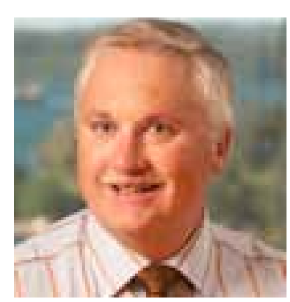


Victoria Gibson
Head of Portfolio Management



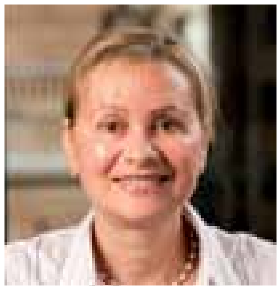
Grant Gordon
Settlements Officer

Jasmine Green
Senior Analyst Corporate Finance



Jonathan Green
Head of Investment Facilities

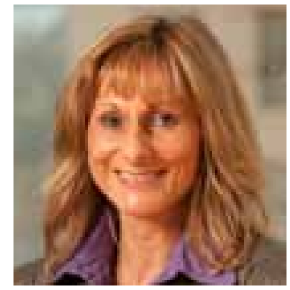
Diana Greenhill
Operational Risk Officer



Lillian Hamilton
Receptionist/
Administration Officer

Timothy Hext
Head of Balance Sheet
& Funding

Kim Ho
Unix Systems Administrator



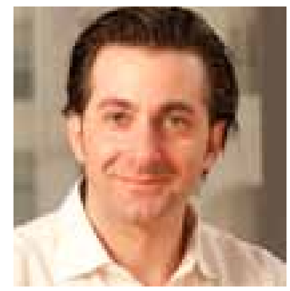
Vicky Hughes
Communications Manager

Adam Hunter
Settlements Officer

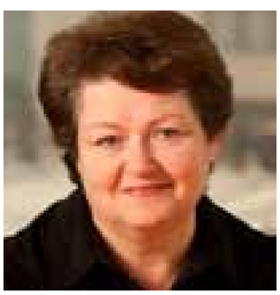
Gede Indrajaya
System Support Analyst

Lloyd Jones
Senior Settlements Officer

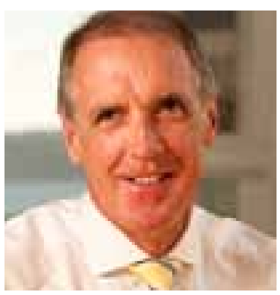
Sriya Jonnalagedda
Test Analyst



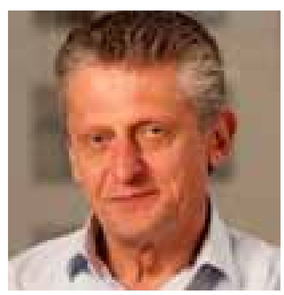
Raffi Kalenderian
Assistant Financial Controller



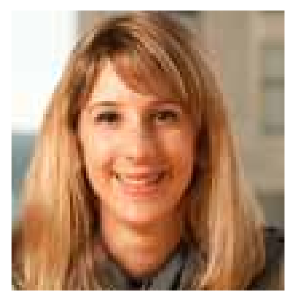
Fiona Karpinsky
Portfolio Administrator



Stephen Knight
Chief Executive



Ivan Koshelev
IT Developer



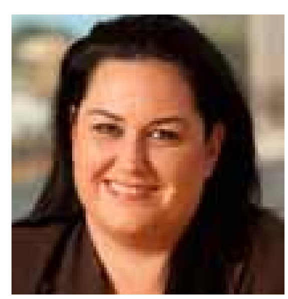
Tali Kriksman
Business Analyst/
Change Coordinator

Teddy Lai
Vendor Manager

Alexandra Lamb
Communications Officer

Norman Leung
Senior Investment Analyst

Ming Tak Lo
Security & Network Manager



Suzanne Long
Manager Balance Sheet

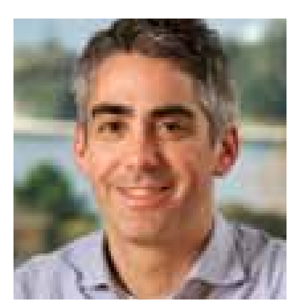
Edward Lu
Technical Analyst

Kelly Mai
Compliance Officer

Chris Manns
Project Manager

Amelia McArdle
General Manager Human
Resources & Communications

Delwyn McNamara
Executive Assistant



Joseph McQuade
Client Relationship Manager

Clare Mifsud
General Counsel

Sally Mitchell
Head of Finance & Reporting

Mario Mojsovski
Senior IT Developer

Christopher Moran
Infrastructure Manager

Andrew Moyse
Portfolio Manager

Mark Mulcahy
Payroll Manager

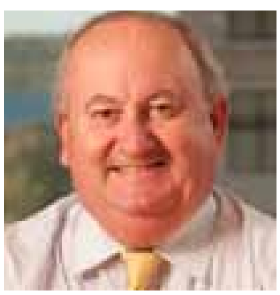
Simon Murphy
Senior Portfolio Manager

Fiona Nash
Test Analyst

Karen Ng
Business Systems Analyst

Ivan Nobilo
Liquidity Manager

Isaac Poole
Economist



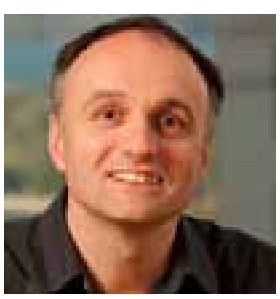
Kevin Pugh
Senior Manager
Corporate Finance

Ram Ramanathan
Database Administrator

Cristina Ramirez
Business Analyst

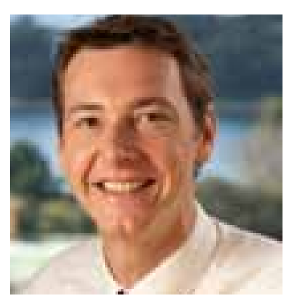
Fiona Rankin
Chief Information Officer

Michael Reddick
Senior Risk Analyst

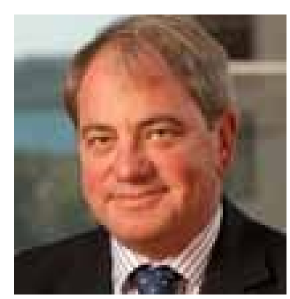


Mark Rocyn-Jones
System Support Analyst

Liz Sands
Client Reporting Coordinator

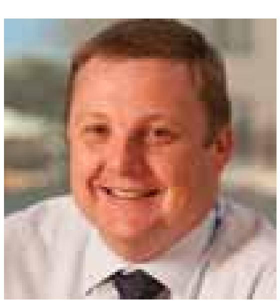


Alex Schuman
Chief Economist &
Head of Risk Strategy

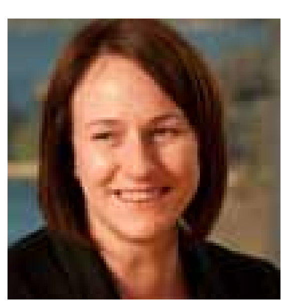


David Seymour
Consultant

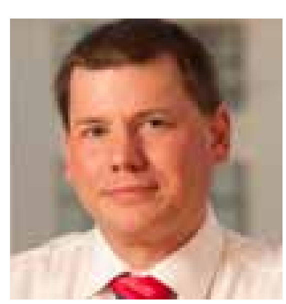
Jenny Sillar
Senior Economist



Paul Smith
Chief Operating Officer



Katherine Sneddon
Treasury, Client & Risk Services
Coordinator

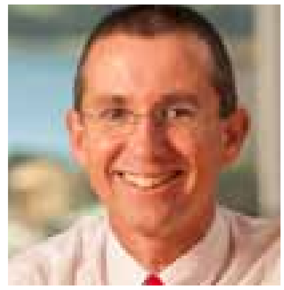


Glenn Solomon
Operational Risk Analyst

Enrico Soriano
Senior Lotus Notes/Web
Application Programmer

Eugenia Spinko
Business Analyst

Bernhard Strobl
Business Analyst



Mark Swan
Chief Risk Officer

Glenn Teasdale
Settlements Officer

Nickie Thompson
Programme Manager

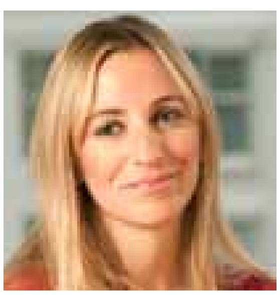
Tin Tran
BSM – Corporate

Fiona Trigona
Manager Funding

Suzanne Tweed
Executive Assistant

David Vincent
IT Developer

Lorna Virata
Portfolio Administrator

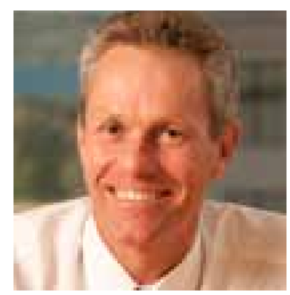


Kelly Walsh
Executive Assistant

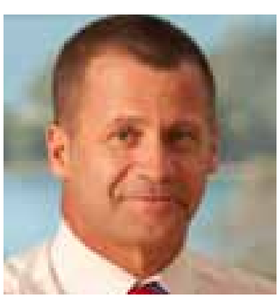
Kylie Willment
Senior Investment Specialist

David Wilson
Manager Operations

Holly Wilson
Human Resources Advisor

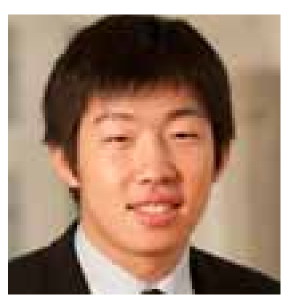


Simon Wilson
Head of Corporate Finance



Mark Wyllie
Market Risk Analyst

Cynthia Xu
Accounts Administrator



Lin Xu
Analyst Economics
& Risk Advisory

Ida Yee
Portfolio Administrator

James Zhang
Market Risk Officer

Ben Zhao
Analyst

Shelly Zvezdakoska
Finance Officer

Not pictured:

Harsha Garikapati
Treasury Administrator

Contact Details

Postal address

Level 22
Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

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Sydney NSW 2001

Telephone 61 2 9325 9325
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Email .... generalq@tcorp.nsw.gov.au
Website .... www.tcorp.nsw.gov.au

Dealing desk

Telephone
Bonds 61 2 9247 5211
Money market 61 2 9247 5633
Authority deposits 61 2 9247 5488
Stock lending 61 2 9247 5501
Client transaction line 61 2 9247 5501
Facsimile 61 2 9325 9344

Operations – settlements

Telephone 61 2 9325 9203
Facsimile 61 2 9325 9355

Registry services

TCorp inscribed stock registries are operated by:

Link Market Services Limited
Level 12
680 George Street
Sydney NSW 2000
Telephone 61 2 8280 7915
Email nswtcorp@linkmarketservices.com.au

The reporting requirements of the *Annual Reports (Statutory Bodies) Act* 1984, and related regulations are dealt with in the separate document, the Twenty-ninth Annual Report of New South Wales Treasury Corporation, tabled in the NSW Parliament.

Online report

Visit our website to access this annual report in convenient HTML, along with other useful company information.

www.tcorp.nsw.gov.au

Design **Wills Brand Design** Photography **Peter Solness** Page 14 and 15 courtesy of **Ausgrid** Illustration Page 18 **Phillip Small**

TCorp

New South Wales
Treasury Corporation