



WESTERN AUSTRALIAN TREASURY CORPORATION

03

ANNUAL REPORT
TO PARLIAMENT



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**WESTERN AUSTRALIAN
TREASURY CORPORATION**

**THE HON. ERIC RIPPER, MLA
TREASURER OF WESTERN AUSTRALIA**

In accordance with section 66 of the Financial Administration and Audit Act 1985, we hereby submit for your information and presentation to Parliament the Annual Report of the Western Australian Treasury Corporation for the year ended 30 June 2003.

The Report has been prepared in accordance with the provisions of the Financial Administration and Audit Act 1985.

J L LANGOULANT
CHAIRMAN
WESTERN AUSTRALIAN
TREASURY CORPORATION

29 August 2003

D V BUTLER
CHIEF EXECUTIVE OFFICER
WESTERN AUSTRALIAN
TREASURY CORPORATION

29 August 2003

Chairman's and Chief Executive Officer's Review

Since the Corporation's inception over seventeen years ago, the core focus of its operations has continued to be the provision of competitively priced debt funding to the Western Australian public sector.

During the year, the Corporation again successfully met its clients' financing needs and continued to deliver low cost funding through its comprehensive range of flexible and diversified lending products. At the end of the financial year, the Corporation had a market value total of \$9.4 billion in loans outstanding to clients, which represents an increase of \$802 million on the previous year.

The Corporation's ongoing commitment to reviewing and improving its products and services led this year to the introduction of Cashflow at Risk ("CFaR") analysis for clients. CFaR is a framework of risk analysis applicable to non-financial institutions and is an extension to the Value at Risk ("VaR") methodology. The development of the CFaR framework was in response to the identification of a number of shortcomings within the VaR framework where it is applied to risk management with non-financial institutions. This analysis will be beneficial to clients in the years ahead as it focuses on the identification, measurement and management of market risk specific to individual clients.

On the funding side, the capital markets experienced some uncertainty following the Federal Treasurer's announcement of a review of the Commonwealth bond market in October 2002, as it engendered much media speculation about the future of this market. However, following the review, the Federal Government decided to maintain the Commonwealth bond market and to ensure that sufficient bonds remain on issue to support the Commonwealth bond futures market. As the Treasurer noted, the bond market plays an important role in managing interest rate risk. This capacity to manage interest rate risk contributes to a lower cost of capital in Australia. Any changes that increase the difficulty of managing interest rate risk could, therefore, lead to an increase in the cost of capital. This decision will secure the presence of an efficient capital market in this country and continue to facilitate the Corporation's management of the mismatches between its assets and liabilities.

In this context, the more liquid a market, the lower the cost to trade in terms of the bid-offer spread and price impact. The Corporation continues to place much emphasis on the liquidity of its "hot stocks", or benchmark lines of stock, and will continue to maintain a range of maturities across the curve. In this regard, during the year, a new "hot stock" was successfully introduced at the long end of the curve with a June 2013 maturity.

The Corporation accesses overseas markets on an opportunistic basis when the cost is lower than that for the equivalent stock in the domestic market after hedging any foreign currency exposure. During the year, the Corporation launched three Australian dollar denominated issues in the Japanese retail, or Uridashi, market. The combination of highly attractive yields, compared to Japanese interest rates, and a strengthening Australian dollar created strong demand for Australian dollar denominated issues in this market and resulted in a very large number of issues of Uridashi bonds by overseas borrowers. This had a significant impact on swap spreads to the extent that yields on the Corporation's longer dated "hot stocks" went above swap rates for a period of time.

The effect of these tight swap spreads and further uncertainty in the the capital markets due to the ongoing geo-political tensions made it a difficult year to achieve targets. However, the Corporation has achieved a very satisfactory rate of return on capital of 13.9% for the year. Work has now begun on addressing the requirement to comply with the International Accounting Standards Board standards, as the comparative figures for the 2006 financial statements will require next year's position to be stated in accordance with the new standards. As the Corporation has for some years marked its financial assets and liabilities to market, we are confident that we have the appropriate systems and experienced staff in place to ensure a smooth implementation of the International Financial Reporting Standards.

On the economic front, the dominant influence on global financial markets during the review period was the stalling US economic recovery, after positive signs early in 2002 failed to ignite the world's largest economy. Once again, the global economy was faced with significant external shocks, including the war in Iraq and the outbreak of SARS, and the uncertainty that these events created contributed to another year of relatively weak growth and falling prices. Central banks across the globe responded to these challenges by further reducing official interest rates, in some cases to nearly 50 year lows, in an attempt to revive growth. US official interest rates were lowered on two occasions by a total of 75 basis points, as the Federal funds rate fell to just 1.0%. Moreover, the US Federal Reserve has indicated that inflation in the US has fallen to a level where further declines would be detrimental to the US economy and has committed to keeping official interest rates low for an extended period.

The Australian economy performed more strongly than the global economy and with rising house prices and household debt levels a concern, the Reserve Bank of Australia left its cash rate target unchanged throughout 2002/03 at 4.75%.

However, the Australian economy was not immune to global economic developments and these, coupled with the impact of a stronger Australian dollar and the on-going impact from the severe drought, saw economic growth slow somewhat over the course of the year. Short-term money market yields finished the year significantly lower than where they started. In early July 2002, 90-day bank bill yields were trading at 5.12% and fell steadily through most of the year, reaching a low of 4.59% in mid-June 2003 before finishing the year at 4.68%. Longer-term bond yields were once again dominated by international developments and movements in the US bond market. Over the course of the year, 10-year Commonwealth bond yields fell from 6.12% at the beginning of July 2002 to a low of 4.58% in mid-June 2003, as concerns about the prospect of deflation in the US reached a crescendo. A sharp bond market sell-off very late in the year, as these fears receded somewhat, sent yields back up with the 10-year bond finishing the financial year at 5.0%.

Despite the impact of the weak global economy and the drought, the Western Australian economy performed relatively strongly during the year, boosted by strong growth in business and dwelling investment. Also assisting growth was a significant rebound in public investment, largely reflecting capital expenditure carried forward from 2001/02 by State Government agencies. This is expected to continue during 2003/04 with a total public sector capital works program forecast at \$3.5 billion.

Having successfully completed implementation of the Summit treasury management system comprising the front and middle office the previous year, the Corporation addressed the replacement of its back office system and the goal of straight through processing. During the year, a contract to acquire the Summit back office system was signed and implementation is now under way. This will result in the full integration of the treasury management and accounting systems and will lead to further gains in operational efficiency and improvements in operational risk management.


During the year, there were two Board changes following the retirement in December 2002 of two long-standing directors. This opportunity is taken to thank Bill Heron and David Eiszele for their support and advice over many years. Their wise counsel will be missed but we are pleased to welcome Gaye McMath and Greg Joyce who bring with them much valuable experience to the Board. Gaye is Pro Vice Chancellor (Resource Management) and Chief Financial Officer at Murdoch University and Greg is Director-General of the Department of Housing and Works.



Recently retired Chief Executive Officer Ray Hughes (left) with Chairman John Langoulant

Shortly after the end of the financial year, Ray Hughes retired having completed thirty seven years of public service, including the last eight as Chief Executive Officer of the Corporation. Over the last twenty five years, Ray has been instrumental in developing the central borrowing concept which started with the Borrowings for Authorities Act in 1981. With this Act, Western Australia was the first State to introduce legislation to establish a central approach to semi-government borrowing. Ray has made a significant contribution to the State and we would like to thank him and to wish him well in his retirement.

Finally we would like to thank the staff for their support during the year. The Corporation is fortunate to have a highly skilled and motivated staff which is a necessary prerequisite to succeed in this business.



J L LANGOULANT
Chairman



D V BUTLER
Chief Executive Officer

Board Members



From left to right

ANNE NOLAN Director

RAY HUGHES Director, Chief Executive Officer (retired)

GAYE MCMATH Director

JOHN LANGOULANT Chairman

GREG JOYCE Director

CATHY NANCE Director



Performance Against Targets for 2002/03

The Board sets annual performance targets for the Corporation. These targets form part of the Statement of Corporate Intent which is published at the start of each financial year in accordance with Section 16I(1) of the Western Australian Treasury Corporation Act 1986.

The Corporation's performance against its targets for 2002/03 is set out below.

1. Estimated Interest Rate Savings

In order to gauge its effectiveness in providing competitively priced loan funds to clients, the Corporation calculates the estimated interest rate savings to clients borrowing from the Corporation compared to the estimated cost to clients of borrowing in the corporate bond market. The following table shows the average of the estimated month end savings for the year. The results are summarised by the credit rating of the corporate bonds used in the calculation. It should be noted that the cost of borrowing from the Corporation does not include any guarantee fees collected by the Corporation on behalf of the State.

Target: Savings > 0.00%.

Outcome: Refer to table below.

2002/03 Estimated Interest Rate Savings to Clients by Reference Bond Credit Rating and Term to Maturity*

Maturity Bucket (Years)	AAA	AA+	AA	AA-
1 to 2	0.17%	0.63%	0.18%	0.22%
2 to 3	0.35%	0.63%	0.60%	0.22%
3 to 4	0.20%		0.20%	0.30%
4 to 5	0.21%	0.80%	0.97%	
5 to 6	0.56%			0.50%
6 to 7	0.64%			0.63%
7 to 8	0.58%			
9 to 10				0.74%
11 to 12	0.18%			
16 to 17	0.28%			

* A blank entry in the table means there is no reference bond available in the corporate bond market for comparative purposes.

Performance Against Targets for 2002/03 (Continued)

2. Assessment of Satisfaction of Client Needs

The Corporation undertakes a program of client visits to assess the level of client satisfaction with existing services and facilities and to assess the need for new services or facilities. Only a subset of the Corporation's clients is assessed each year.

Feedback is obtained as to the suitability of the structure and available maturity choices in relation to the Corporation's lending products and also in relation to risk management and other financial services provided by the Corporation.

Target: 100% Satisfaction level.

Outcome: Refer to table below.

2002/03 Client Satisfaction Assessment Summary

	Corporation Products and Services	
	Structure & Maturities	Risk Management & Other Financial Services
Client has unmet needs	0	0
All needs currently met	17	17
Number of clients assessed during the period	17	17

3. Administration Ratio

The Corporation monitors its administrative efficiency by measuring its Administration Ratio. The Administration Ratio is a measure of the average administrative on-cost that must be borne by the Corporation's clients.

$$\text{Administration Ratio (\%)} = \frac{\text{Net Administration Expense}}{\text{Average Lending Assets}} \times \frac{100}{1}$$

Net administration expense is defined as total administration expenses less non-interest revenue. Average lending assets is defined as the average of the opening and closing book value of loans to clients for the year.

Target: Administration Ratio < 0.15%

Outcome: Administration Ratio = 0.11%

4. Capital Ratio

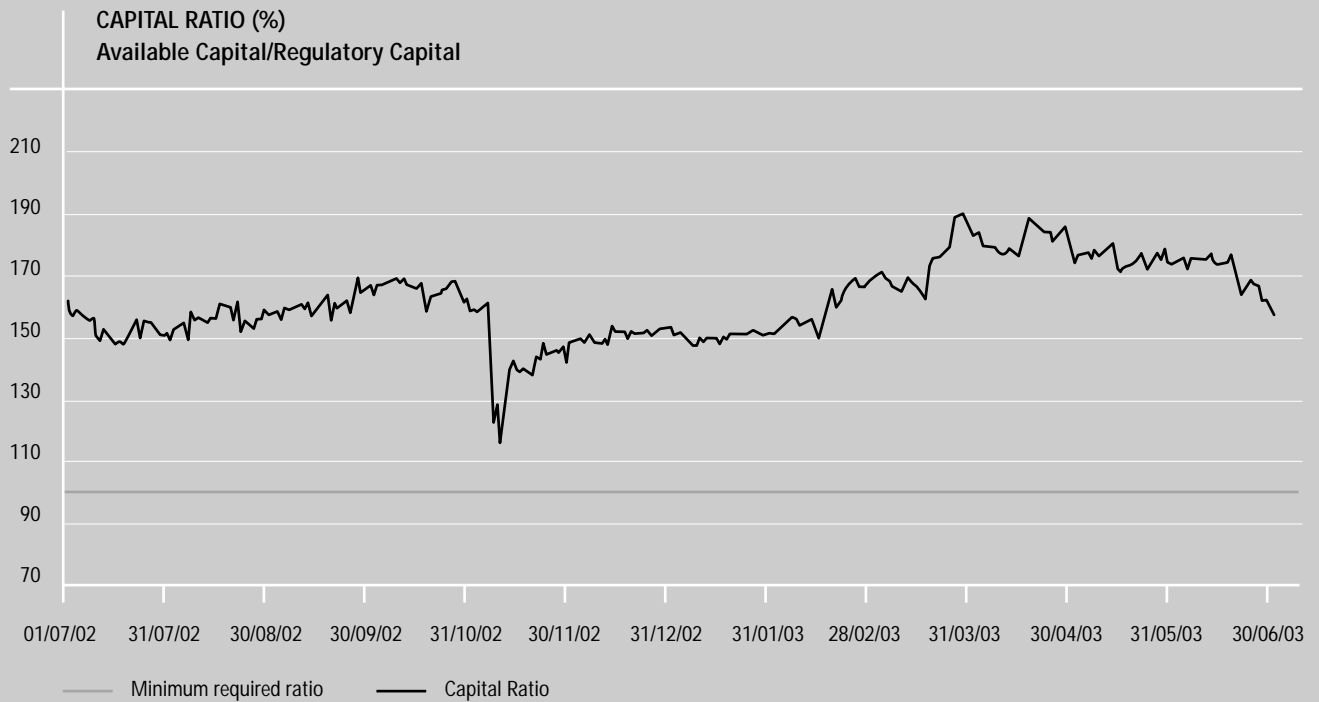
In view of the Corporation's activities as a participant in financial markets, it is essential that it has sufficient capital to efficiently manage its portfolio within prescribed risk parameters. Hence, the Corporation's capital ratio is monitored on a daily basis.

$$\text{Capital Ratio (\%)} = \frac{\text{Available Capital}}{\text{Regulatory Capital}} \times \frac{100}{1}$$

Available capital is defined as the previous year-end equity plus unaudited year to date profits less dividend payments made during the current year. Regulatory capital is defined as the minimum capital required under the Corporation's Board approved capital policy. This policy is based on the Australian Prudential Regulation Authority's standards and guidelines.

Target: Capital Ratio ≥ 100% on a daily basis

Outcome: The capital ratio exceeded the target of 100% on each day of the reporting period graph as shown on the opposite page.



5. Return on Capital

In line with market practice, the target return on capital for the Corporation is adjusted for risk on the basis of the Capital Asset Pricing Model.

$$\text{Return (\%)} = \frac{\text{Annual Pre-Tax Profit}}{\text{Capital as at start of current year}} \times \frac{100}{1}$$

Target: 11.1% - being the risk adjusted pre-tax return on capital required under the Board approved capital policy of the Corporation.

Outcome: 13.9%

6. Market Share

The Corporation calculates its market share as set out in the following formula.

$$\text{Market Share (\%)} = \frac{\text{Book value of WATC client debt}}{\text{Book value of total eligible public sector debt}} \times \frac{100}{1}$$

Eligible public sector debt includes debt in the form of borrowings by the State of Western Australia but excludes finance leases, debt to the Commonwealth and borrowings by Keystart.

Target: Market Share \geq 95%

Outcome: Market Share = 99% (as at 30/6/2002)

It should be noted that the result is lagged due to the timing of the release of relevant source data in relation to the State's debt.

Overview of the Corporation

ENABLING LEGISLATION

The Corporation was established on 1 July 1986 under the Western Australian Treasury Corporation Act 1986 (the "Act") as the State's central borrowing authority. Amendments to the Act during 1998 expanded the Corporation's role to include the provision of financial management services to the Western Australian public sector.

VISION

To be the provider of choice for loan funds and financial services to the Western Australian public sector.

MISSION

To work with our clients to satisfy their financing needs.

CORPORATE OBJECTIVES

The objectives of the Corporation are to:

- Lend at a commercially competitive cost to our clients;
- Provide lending structures and maturities to satisfy our clients' needs;
- Identify and provide information to the public sector on financial risks and strategies to manage these risks;
- Satisfy our clients' needs for financial and risk management services;
- Conduct our operations in an efficient and cost effective manner;
- Efficiently manage our portfolio within prescribed risk parameters;
- Be the primary lender to the Western Australian public sector; and
- Achieve our target return on capital.

CORPORATE VALUES

The Corporation is focused on providing efficient and cost effective financial products and services for the management of the Western Australian public sector's financial assets and liabilities.

The Corporation's values are as follows:

- Customer satisfaction is the top priority of the Corporation's employees and the ultimate aim of every activity. Cost-effective, on-going achievement of customer satisfaction is the foundation of its business.
- Every employee is an important and valued member of a team which strives to provide the highest standard of service to the Corporation's clients.
- The Corporation encourages its employees to be resourceful and creative in the resolution of problems and in the conduct of its business.
- The pursuit of excellence with integrity is promoted throughout the organization and expected in the quality of work done in every function.
- Clear communication of the corporate strategies and objectives to all employees is a priority. Feedback is valued as an integral part of this process.
- Willing co-operation between employees to fulfil commitments to the Corporation's clients and in support of its strategies and objectives is valued and commended.
- The Corporation undertakes to ensure that all its employees have the skills necessary to perform their functions, including taking advantage of new technologies and adjusting well to the changes and dynamics of its business.
- That the Corporation's employment and management practices are free from bias or discrimination.
- The Corporation undertakes to employ modern and appropriate technologies to effectively carry out its Mission.

These values provide the foundation for the Corporation achieving its objectives.



Recently appointed Chief Executive Officer David Butler (left) with Chairman John Langoulant

BOARD OF DIRECTORS

The responsibility for the performance of the Corporation's functions is vested in a board of directors appointed under Section 5B of the Act.

At 30 June 2003, the Corporation's Board comprised:

- Mr John Langoulant, Under Treasurer for the State of Western Australia and Chairperson;
- Ms Anne Nolan, Executive Director (Economic), Department of Treasury and Finance and Deputy Chairperson;
- Mrs Gaye McMath, Pro Vice Chancellor (Resource Management) and Chief Financial Officer, Murdoch University;
- Mr Greg Joyce, Director General, Department of Housing and Works;
- Ms Catherine Nance, Director, PricewaterhouseCoopers;
- Mr Raymond Hughes, Chief Executive Officer.

Following the retirement of Mr Ray Hughes on 18 July 2003, Mr David Butler was appointed to the position of Chief Executive Officer and assumed membership of the Board.

STATE GUARANTEE

Under Section 13(1) of the Act, the financial liabilities incurred or assumed by the Corporation are guaranteed by the Treasurer on behalf of the State. This guarantee is secured upon the Consolidated Fund of the State.

CREDIT RATINGS

The debt of the Corporation is rated as follows:

Rating Agency	Long-Term	Short-Term
Standard & Poor's	AAA	A-1+
Moody's Investors Service	Aaa	Prime-1

All long-term credit ratings currently have a "stable" rating outlook.

INFORMATION STATEMENT

In accordance with Part 5 of the Freedom of Information Act 1992, the Corporation has prepared an Information Statement. This document is available for inspection at the Corporation's office at Level 7, Central Park, 152-158 St. George's Terrace, Perth.

Economic Overview

DOMESTIC MARKET

The Australian economy was once again confronted by numerous negative external economic factors during the 2002/03 financial year, which finally started to take their toll on its recent above average economic performance. Nevertheless, Australia's economic growth over the year still compared favourably to that of the US, Europe and Japan. Dominating the financial year was the war in Iraq, which although brief, cast a pall over the global economy for much of the latter half of the year. In addition, the SARS outbreak, coupled with already lacklustre economic growth in the global economy, a rising Australian dollar and the ongoing effects of the drought in eastern Australia, caused the domestic economy to slow somewhat over the course of the year.

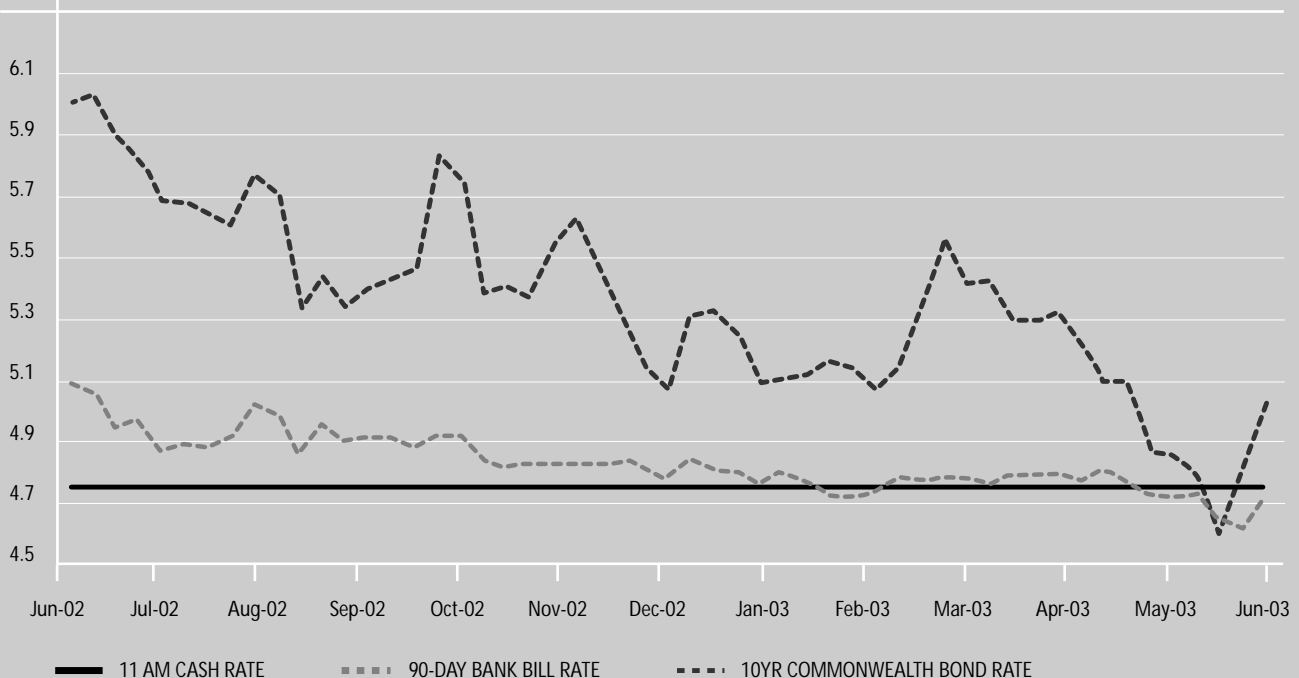
With the global economy looking poised to rebound in the last few months of 2001/02, the Reserve Bank of Australia ("RBA") had raised the cash rate in May and June of 2002 to 4.75% and appeared likely to continue to raise it further during 2002/03. However, as it became apparent that the US economic recovery had stalled over the latter half of 2002, and as various negative geo-political factors began to weigh on consumer and investor confidence, the focus of central banks around the world turned to easing monetary policy. The RBA, however, opted to leave the cash rate unchanged for the entire 2002/03 financial year as the rate of housing

price growth and rising levels of household debt fuelled concerns that a speculative bubble in housing was emerging.

For the year to March 2003 (the latest data available), GDP growth in Australia was 2.9%, which was well down on the result for the equivalent period of the previous year of 4.2%. Particularly disappointing was the growth recorded in the December quarter 2002, of only 0.3%. Despite the slowdown in growth, this performance was still well in excess of the OECD average. The unemployment rate remained relatively steady over the year, declining from 6.2% to 6.0% early in the year, and then hovering between these rates over the remainder of the year to average 6.1%. The inflation rate rose above the RBA's target 2-3% band to a peak of 3.4% in March 2003. The CPI remained unchanged in the June quarter to leave the inflation rate for the year to the June quarter 2003 at 2.7%, slightly lower than the result for the previous year of 2.8%.

While the RBA left monetary policy unchanged for the whole of 2002/03, its bias changed over the course of the year from tightening, through neutral, to an easing bias late in the year. As many central banks in developed countries, including the US, Euro-zone, UK and Canada, began to cut their official interest rates in the latter half of the year, many market participants expected the RBA to follow suit and interest rates moved accordingly.

AUSTRALIAN BENCHMARK INTEREST RATES (%)





Short-term money market yields finished the year significantly lower than where they started. 90-day bank bill yields were trading at 5.12% in July 2002 and fell steadily during most of 2002/03, reaching a low in mid-June 2003 before finishing the year at 4.68%. Longer-term bond yields were once again dominated by international developments and movements in the US bond market. 10-year Commonwealth bond yields fell over the course of the year, from 6.12% at the beginning of July 2002 to a low of 4.58% in mid-June 2003, as concerns about the prospect of deflation in the US reached a peak. A sharp bond market sell-off late in the year as these fears receded somewhat sent yields back up, with the 10-year bond yield finishing at 5.0%.

The Australian dollar appreciated strongly over most of the year after falling in July 2002. After hitting a low for the year of US52.60 cents in early August, it strengthened to around US56 cents in November, a level around which it hovered for the remainder of 2002. From the beginning of 2003, however, it climbed steadily to a high of US67.40 cents at the end of June 2003. The strength in the local currency over the year was mostly attributable to general US dollar weakness against the currencies of most developed countries. Thus, the Australian dollar's performance against the US dollar was not completely matched by its performance against the Euro and Yen, although it did appreciate to some degree against these currencies.

INTERNATIONAL MARKETS

The dominating theme of the year in international markets was the stalling of the US economic recovery after positive signs in the first half of 2002 failed to ignite the world's largest economy. This also coincided with further developments in the 'War on Terror', including the war in Iraq. It was this event which cast the longest shadow over the US economy during the year, as the protracted lead-up stalled consumer and investor confidence and sent oil prices soaring. Following the Iraq war, against a backdrop of lacklustre economic growth and falling inflation, the Chairman of the US Federal Reserve, Alan Greenspan, highlighted the increased risk that the US economy may be on the cusp of a period of sustained price deflation. A further loosening of monetary policy and an increased level of rhetoric about 'unconventional policy measures' sent US interest rates across the yield curve down to levels not seen since the 1950's. Equity markets, meanwhile, buoyed by a rebound in confidence, started to unwind some of the declines of the past three years.

Following the emergence of the US economy from recession late in 2001, the recovery has been sub-par and very uneven across sectors of the economy. Moreover, the labour market

continued to weaken, with the economy shedding 476,000 jobs over the year and the unemployment rate rising to 6.4%, the highest since 1994.

The Federal Funds rate started 2002/03 at 1.75% and was cut by 50 basis points in November 2002 to 1.25%, with the Federal Open Market Committee ("FOMC") citing increased uncertainty and heightened geo-political risk. Another cut in the Funds rate came in June 2003, by 25 basis points to 1.00%. After the economy had failed to exhibit any signs of sustainable growth, the FOMC at its May 2003 meeting judged that the risk of an unwelcome further fall in inflation, although small, outweighed the risk of a significant rise in inflation.

US Treasury bond yields trended downward for most of the year. 10-year yields started the year at 4.85% and spent most of the year falling, reaching a low of 3.11% in early June 2003, a level last seen during the recession of 1958. Much of this decline occurred following the end of the Iraq war and coincided with the Federal Reserve's renewed focus on the risk of deflation. Following the June FOMC meeting, where the Federal Funds rate was cut by 25 basis points, the market revised expectations and bond yields rose sharply in the last week of the financial year. 10-year yields finished the year significantly higher than their lows of early June 2003, at 3.50%. 2-year yields followed a similar pattern for the year, starting at 2.87%, before hitting a low of 1.08% in early June 2003. They too finished the year higher, at 1.30%.

The performance of equity markets in the US over the year has again been a turbulent one, with the bear market of the previous year appearing to have reached a bottom. Equities largely moved in unison with bond yields for much of the year before a late rally in the last months of the year saw the major indices finish up for the year. The S&P 500 started the year at 965 and fell to 775 in October 2002. Whilst it recovered from this point, it re-tested this level three times during the year before a strong rally commencing in early March 2003, due to increased optimism with respect to earnings growth, saw the index rise 22% in the last three months of the year to finish at 975.

The emerging depreciation of the US dollar that was seen in the latter half of 2001/02 continued to a greater degree throughout most of 2002/03, with the Euro reaching record highs against the US dollar. The Euro started the year at around US98 cents, and traded in a range between US96.50 cents and US\$1.01 for the first four months of the year. It then experienced a nearly uninterrupted rally to reach \$1.19 in late May 2003, before a late strengthening of the US dollar saw it fall back to \$1.15 by year-end, a 17% increase on the previous year. The Yen, on the other hand, weakened



Domestic Borrowing

OVERVIEW

The Corporation's domestic borrowing activities during 2002/03 centred primarily on:

- maintaining sufficient volumes on issue and enhancing the liquidity in its "hot stock" lines maturing in 2003, 2005, 2007, 2009 and 2011;
- launching the new 15 June 2013 "hot stock" line to meet debt management requirements;
- pursuing opportunities to issue stocks longer than ten years to hedge specific client requirements;
- issuing short-term inscribed stock to meet floating rate funding requirements; and
- transacting interest rate swaps to facilitate asset/liability management.

FIXED INTEREST

Domestic markets continued to take their direction from US equity and bond markets. Financial markets were dominated by an easing bias, driven again by a lacklustre US economy and the FOMC's apparent willingness to cut official cash rates to zero, if necessary, to kickstart the US economy. These factors contributed to the US Federal Funds rate falling to 1.00% p.a., a level not seen in five decades, and, correspondingly, the US and Australian 10-year bond rates approaching historically low levels at 3.11% p.a. and 4.58% p.a. respectively.

The spread between semi-government and Commonwealth bonds narrowed significantly during the year, as a combination of swap pressure and discussions about the future of the Commonwealth bond market helped semi-government bonds to outperform their Commonwealth counterparts. The Federal Treasurer's release of a discussion paper in October

2002, entitled "Review of the Commonwealth Government Securities Market", drew speculation about the increased importance to financial markets of semi-government bonds in the event that the Federal Treasurer pursued his preference for retiring all outstanding Commonwealth debt. However, during his 2003 budget speech, the Federal Treasurer committed to maintaining current levels of Commonwealth bonds on issue to promote a viable and liquid market.

In line with previous years, swap spreads were again driven by swap "receive side" pressure being generated by Australian dollar issuance into the Japanese Uridashi market, as well as falling outright yields. The spread between the semi-government and swap curves, although volatile, ended the year little changed from where it opened. However, the Corporation did take advantage of this volatility and dealt in the swap market for portfolio management purposes to generate attractive floating rate funding.

During the course of the year, official price making ceased in the Corporation's 15/07/2003 stock line. The Corporation also continued to add to the outstandings of its 15/07/2017 and 15/10/2019 "off-the-run" maturities, as institutional interest presented itself. Ongoing client requirements in the long end of the curve enabled the Corporation to convert its 15/06/2013 "off-the-run" stock line into its newest "hot stock" by way of a tender. The tender was held in November 2002 and consisted of \$120 million of issuance on an "exchange-for-physical" basis. This activity pushed the amount on issue in this stock line to just over \$500 million, enabling two-way price making to commence immediately following the tender.

Market Making Panel

The Market Making Panel and contacts at 30 June 2003 are shown below.

Panel Members	Contact	Telephone
ABN AMRO Bank NV	Mr Michael Cheetham	03 9612 1344
Citigroup Global Markets Australia Pty Ltd	Mr Simon Walters	03 8643 9820
Commonwealth Bank of Australia	Mr Kevin Brinsmead	02 9235 0122
Credit Suisse First Boston Pacific Capital Markets Ltd	Mr Peter Pellicano	02 9394 4444
Deutsche Capital Markets Australia Ltd	Mr Matt Yencken	03 9270 4333
Macquarie Bank Ltd	Mr Mike Walsh	03 9635 9041
National Australia Bank Ltd	Mr Chris Bibby	03 9277 3321
RBC-DS Global Markets	Mr Rod Ireland	02 9223 6011
UBS Warburg Australia Ltd	Mr David Harris	03 9242 6800
Westpac Banking Corporation	Ms Emma Stephenson	02 9283 4100

Domestic Borrowing (Continued)

Taking into account overall performance, the more prominent institutions on the Corporation's Market Making Panel for the financial year ended 30 June 2003 were:

- Westpac Banking Corporation
- National Australia Bank Ltd
- Deutsche Capital Markets Australia Ltd
- Citigroup Global Markets Australia Pty Ltd
- ABN AMRO Bank NV

Stocklending and Repurchases

The volume of stocklending of the Corporation's "hot stocks" declined in 2002/03 to \$91.7 million, compared to the \$179.4 million transacted in 2001/02. The overall volume of stocklending remains at historically low levels. The Corporation upheld its policy of being a lender of last resort to its Market Making Panel for "hot stocks" and did not actively compete against market participants in the lending of Corporation stocks.

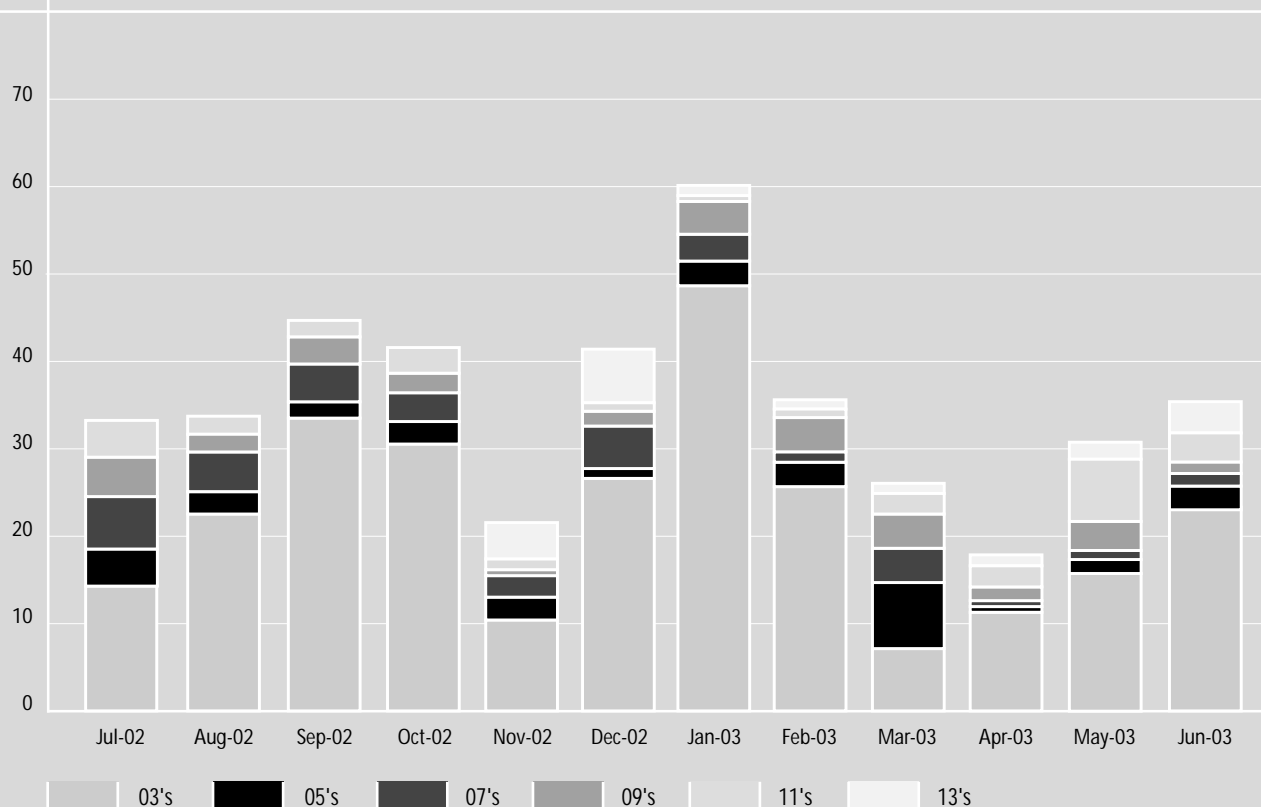
The Corporation maintained a minor presence in the "Repo" market involving other central borrowing authorities' "hot

stocks" which are held from time to time as part of its debt management function. This "Repo" activity enables the Corporation to more effectively manage these holdings to enhance the overall debt management performance. The Corporation maintained a minimal holding of this asset class throughout the financial year which resulted in "Repo" turnover for 2002/03 of \$124.0 million, compared to \$616.0 million for 2001/02.

Turnover in the Corporation's "hot stocks" for the financial year ended 30 June 2003 was \$424,492 million. The Corporation's domestic "hot stock" volumes on issue at 30 June 2003 and the turnover volumes for the financial year were as follows:

Coupon % p.a.	Maturity Date	Volume On Issue	Turnover Volume
8.00	15/07/2003	\$1,303M	\$269,515M
10.00	15/07/2005	\$1,034M	\$ 33,050M
8.00	15/10/2007	\$1,164M	\$ 35,277M
7.50	15/10/2009	\$ 944M	\$ 34,560M
7.00	15/04/2011	\$ 952M	\$ 30,660M
8.00	15/06/2013	\$ 559M	\$ 21,430M

WATC "HOT STOCK" TURNOVER
A\$ billion





SHORT-TERM INSCRIBED STOCK

During 2002/03, the Corporation issued a total of \$11,062 million of short-term inscribed stock with an average maturity of 103 days, resulting in an average daily amount outstanding of \$2,529 million. This continued to be a reliable source of domestic short-term funds for the Corporation. At 30 June 2003, \$3,633 million was outstanding in short-term inscribed stock.

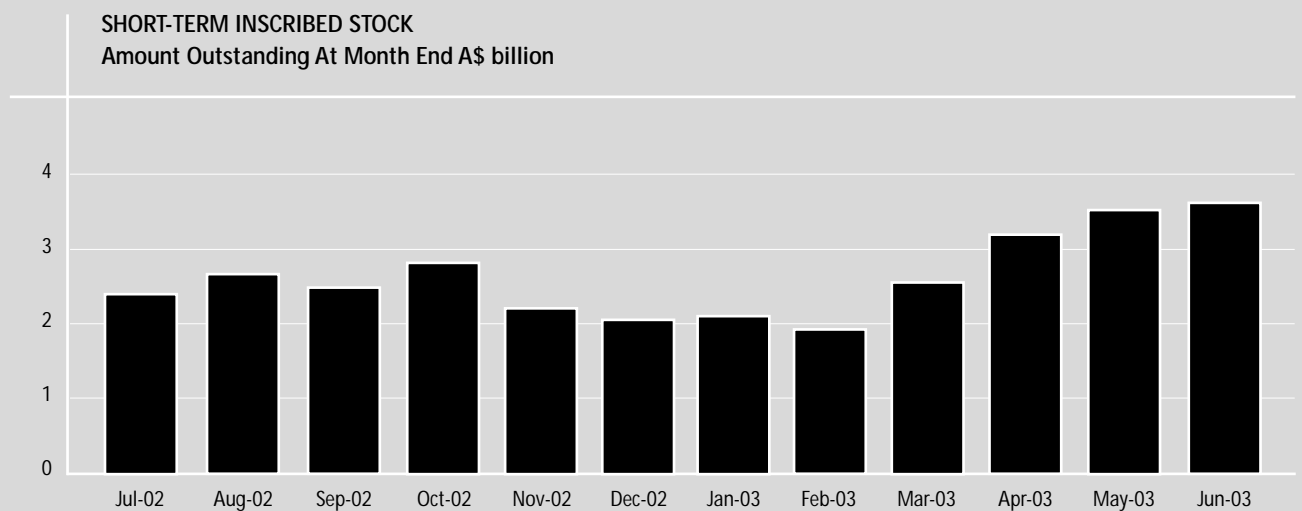
End of month outstandings of short-term inscribed stock are shown in the graph below.

RETAIL BORROWING

During 2002/03, the Corporation continued to make State Bonds available to retail investors looking for the security of a government guaranteed investment. The rates offered are set with reference to market yields and are monitored daily. The Corporation also continued to advertise State Bonds in the West Australian newspaper and the Personal Investor magazine during 2002/03.

The aggregate face value amount of funds borrowed from retail investors during 2002/03 was \$123.9 million. This amount consisted of new investments and funds reinvested by existing stockholders.

Included in this amount was \$93.2 million raised from State Bonds issued as designated investments under the Business Skills and General Skills Migration schemes administered by the Department of Immigration and Multicultural and Indigenous Affairs.



Overseas Borrowing

OVERVIEW

Through its access to international markets, the Corporation is able to:

- (i) save on the interest cost of borrowing, where it can obtain funding for the borrowing program at rates below equivalent domestic rates after hedging any foreign currency exposure;
- (ii) undertake issues in a range of currencies, with specific structures or of particular terms to meet any special portfolio or client requirements; and
- (iii) diversify its investor base.

The Corporation's ongoing strategy continues to be to tap overseas markets on an opportunistic basis through bond issues, private loans and its range of continuous note issuance facilities. These facilities include:

- US\$2,000 million Euro Medium Term Note Program;
- US\$1,500 million Eurocommercial Paper Program; and
- US\$1,000 million United States Commercial Paper Program.

EURO MEDIUM TERM NOTE PROGRAM

The Corporation's multi-currency Euro Medium Term Note ("EMTN") Program was established in 1990 and is designed to provide the Corporation with a ready and flexible means of raising its borrowing requirements in a range of currencies, maturities and interest rate bases.

Up to 30 June 2003, 32 issues had been made under the Program comprising eighteen Australian dollar denominated issues, two ECU denominated issues, two Lire denominated issues, three US dollar denominated issues and seven Yen denominated issues (including a ¥/A\$ dual currency issue). All foreign currency denominated issues were swapped into Australian dollars.

Details of the Euro Medium Term Note Program are set out below. The Program documentation also has a "reverse inquiry" facility which allows the Corporation to issue to institutions which are not dealers.

Copies of the Offering Circular for this Program are available from any of the dealers or the Corporation itself.

Japanese investors have continued to invest in Australian dollar denominated securities this year, attracted by their higher interest rates relative to Yen and US dollar denominated securities and a favourable view of the Australian dollar. The Corporation made three issues into the Japanese market during the year as shown on the opposite page.

EMTN PROGRAM DETAILS

Amount	Up to US\$2,000 million or its equivalent in other currencies
Dealers	Citigroup Global Markets Limited Commonwealth Bank of Australia Credit Suisse First Boston (Europe) Limited Daiwa Securities SMBC Europe Limited Deutsche Bank AG London Lehman Brothers International (Europe) Merrill Lynch International Mizuho International plc Nomura International plc Royal Bank of Canada Europe Limited UBS Limited
Maturities	1 month to 30 years
Fiscal Agent, Registrar and Transfer Agent	Citibank, N.A., London
Paying Agent	BNP Paribas Securities Services, Luxembourg Branch
Listing	Where listing is required, Notes will be listed on the London Stock Exchange.



	EMTN 30	EMTN 31	EMTN 32
Dealer:	Daiwa Securities SMBC Europe Limited	Mizuho International plc	Mizuho International plc
Japanese Selling Agent:	Daiwa Securities SMBC Co. Ltd	Shinko Securities Co., Ltd	Shinko Securities Co., Ltd
Issue Size:	A\$50 million	A\$70 million	A\$50 million
Coupon:	12.0% p.a	4.28% p.a.	4.05% p.a.
Term:	7 years	5 years	5 years

EUROCOMMERCIAL PAPER PROGRAM

The Eurocommercial Paper ("ECP") Program continued to provide attractive short-term overseas funding for the Corporation. At 30 June 2003, the equivalent of A\$312 million face value was outstanding under this Program.

The dealer panel for the Program comprises:

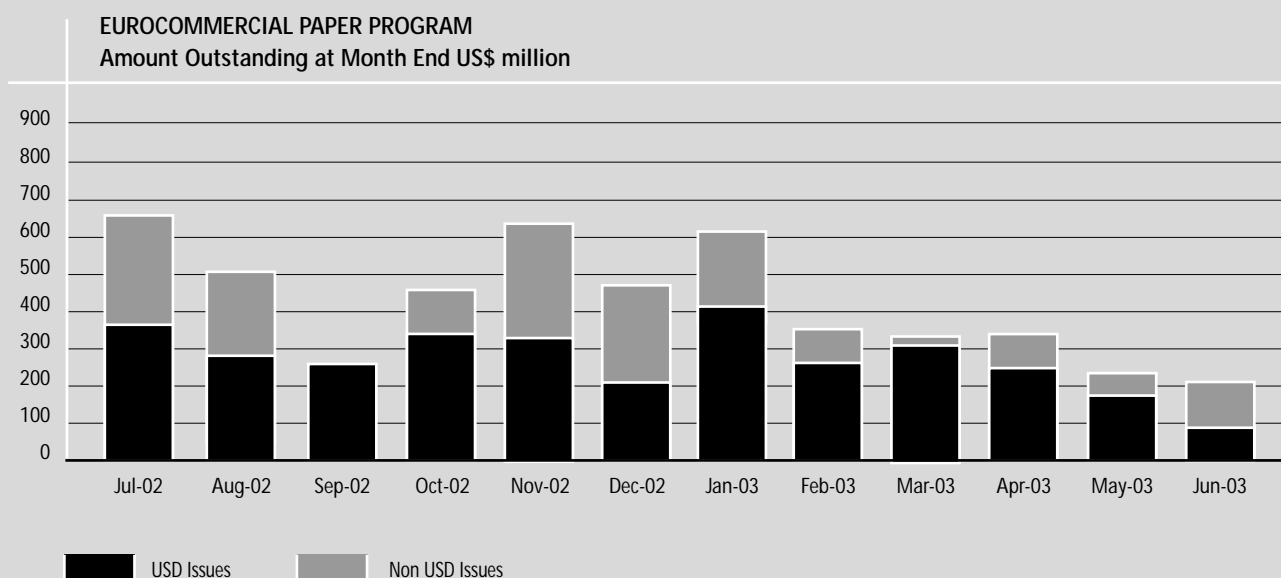
Barclays Bank plc
Citibank International plc
Commonwealth Bank of Australia, Hong Kong Branch
Deutsche Bank AG, London
Macquarie Asia Limited
National Australia Bank Limited, Hong Kong Branch
Westpac Banking Corporation, Hong Kong Branch

Citibank, N.A., London, is the Issuing and Paying Agent for the Program.

The graph below shows the level of the US dollar denominated issues and the US dollar equivalent of issues in other currencies which were outstanding under the Program at the end of each month during 2002/03, whilst the following table details some of this facility's key performance statistics.

ECP PERFORMANCE STATISTICS - 2002/03

Currency	Weighted Average Daily Balance	Total Issues (Face Value)	Weighted Average Term of Issues (Days)	Outstanding At 30 June 2003
USD	293M	1,440M	64	90M
AUD	70M	287M	54	-
CHF	31M	260M	42	-
EUR	19M	90M	102	60M
GBP	8M	30M	31	30M
HKD	646M	1,240M	117	-



Overseas Borrowing (Continued)

UNITED STATES COMMERCIAL PAPER PROGRAM

The Corporation did not issue during the year under the United States Commercial Paper Program as it was able to borrow at significantly lower rates through its ECP Program.

The dealer panel for the Program comprises:

Goldman Sachs & Co; and
Credit Suisse First Boston Corporation.

The Corporation regards the United States Commercial Paper market as an important part of its overseas borrowing strategy and is in the process of restructuring this Program by appointing Citibank, N.A. as the Issuing and Paying Agent and establishing a new Revolving Credit Facility. This Facility will be provided by Citibank, N.A. and will comprise a committed portion of US\$60 million providing same day funds and a further uncommitted portion of up to US\$40 million. These bank lines will be additional to the Corporation's overdraft facilities and other sources of funding in the international and Australian capital markets.

FOREIGN EXCHANGE MANAGEMENT

In 2002/03, all funds raised through the ECP Program were swapped into Australian dollars through the foreign exchange market.

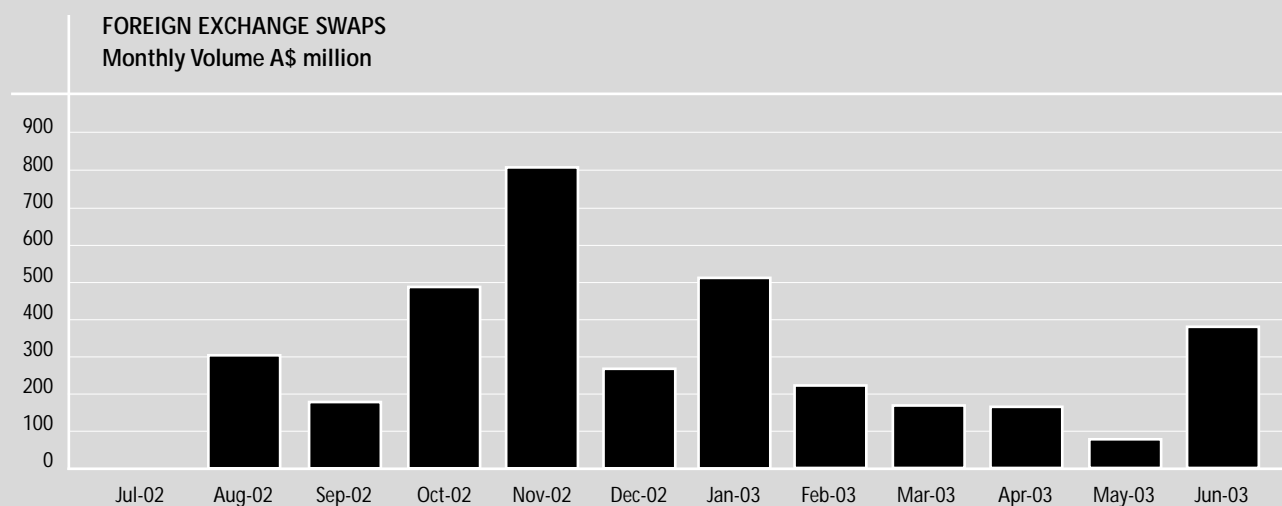
The swaps enabled the Corporation to fund its short-term borrowing requirements at levels below equivalent domestic bank bill rates.

The following table details the swaps negotiated by the Corporation during 2002/03:

SWAP DETAILS 2002/03

Proceeds From Issues		Swapped To	
Currency	Amount	Currency	Amount
USD	1,629.30M	AUD	2,806.20M
HKD	735.10M	USD	94.29M
HKD	498.29M	AUD	113.03M
EUR	29.94M	USD	34.60M
EUR	59.39M	AUD	106.18M
CHF	59.98M	USD	43.87M
CHF	199.84M	AUD	243.63M
GBP	29.97M	USD	49.30M

The following graph shows the volume of foreign exchange swap transactions undertaken on a monthly basis during the year.





Client Services

The Western Australian Treasury Corporation was formed in 1986 as Western Australia's central borrowing authority for the primary purpose of providing debt funding to Western Australian State agencies at interest rates lower than these agencies could achieve on their own. Since the Corporation's inception over seventeen years ago, the provision of competitively priced debt funding to the State of Western Australia continues to be the core focus of the Corporation's operations.

The Corporation is able to obtain funds at interest rates lower than those which the State's agencies could achieve individually by combining the borrowing requirements of these agencies and repackaging those requirements into large parcels that are attractive to investors in the financial markets. The difference between clients' required debt structures and the financial markets' preferred investment structures is quite significant, but through prudent risk management techniques, the Corporation is able to meet the needs of both clients and investors. By packaging clients' requirements into investor-preferred structures, investors are prepared to accept a lower return for their investment. The lower return required by investors is the basis of the Corporation's ability to provide loans to clients at interest rates lower than clients could achieve on their own.

The State's centralised approach to borrowing also provides additional benefits of economies of scale. By using the Corporation, clients are relieved of the financial costs associated with the provision of specialised treasury information systems, personnel and other infrastructure required to raise and maintain borrowings from the financial markets. By centralising, the State as a whole incurs these costs only once and the costs are spread over the whole of the State's debt, not just one organisation.

In addition to the provision of competitively priced debt funding to its clients, the Corporation has developed a number of unique lending products and has specialist skills in relation to debt management. These specialist skills and products are utilised by the Corporation's clients to effectively manage their borrowing requirements.

Corporation staff are also available to assist clients in a wide range of other financial matters, including risk management, financial analysis, economic advice and foreign exchange management.

The Corporation has a comprehensive range of flexible lending products that it is able to provide to clients. The wide range of lending products includes simple principal and interest loans through to multifaceted structured loans and loan portfolios. The interest rate on a loan can be fixed for terms from one day out to beyond twenty years, with funds advanced to clients at only one business day's notice.

The Corporation recognises that each client is unique and has its own individual debt and risk management requirements. By working with its clients and by gaining an understanding of their business and financing needs, the Corporation is able to provide financial solutions that satisfy each client's specific requirements.

The Corporation continues to be client focused and is committed to providing its clients with a professional and high standard of customer service. Each client is assigned a client account manager who is a member of the Corporation's Client Services Branch, which is directly responsible for facilitating loan funds and associated financial risk management services to clients. Through their client account manager, clients are able to access all the resources of the Corporation.

The positive relationships and good rapport that the Corporation has built up with clients over the years allows the Corporation to actively seek feedback on the products and services provided. The feedback received from clients has assisted in the development and enhancement of a number of the Corporation's products and services and as such, is greatly valued.

ACTIVITY

The Corporation again successfully met its clients' financing needs and continued to deliver low cost funding to clients through its comprehensive range of flexible and diversified lending products. At 30 June 2003, the Corporation had a total of \$9,058 million in face value of loans outstanding to 46 State Government trading enterprises, authorities and agencies and 127 local governments. This represents an increase of \$551 million in face value of loans outstanding to clients from a total of \$8,507 million at the end of the previous year.

Client Services (Continued)

SEMI-GOVERNMENT LENDING

The Corporation provides debt funding to a wide range of Western Australian State Government trading enterprises, authorities and agencies. This group of clients is collectively known as semi-government clients and at 30 June 2003, effectively held 98% of the Corporation's lending to clients. During 2002/03, the face value of debt outstanding to the Corporation by semi-government agencies increased by \$530 million.

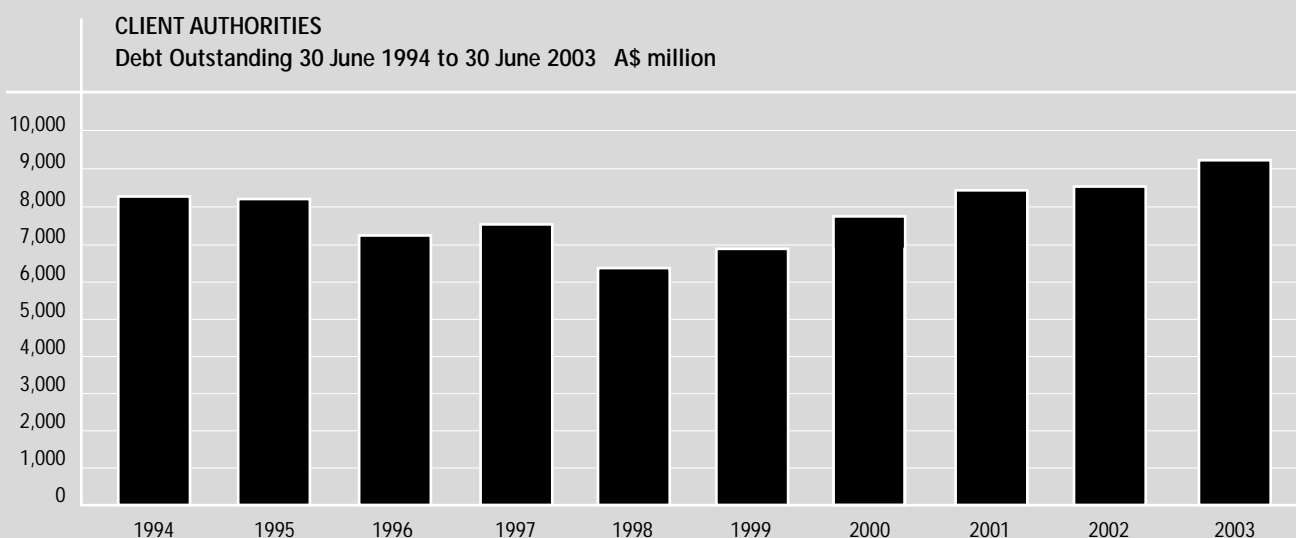
The majority of semi-government clients continue to effectively manage their borrowing requirements by a portfolio approach to debt management. The portfolio approach applies the simple principles of diversification to debt management by structuring debt as a number of smaller interest-only loans, with different maturity dates rather than one single loan. The Corporation's portfolio lending product enables clients to manage refinancing risk, while providing access to low cost funds.

The portfolio methodology provides a simple, but sensible means of managing debt for agencies with long-term debt funding requirements. The essential feature of the portfolio approach to debt management is the application of principles of diversification. The diversification of debt into a variety of maturity dates and interest rates reduces refinancing risk and the volatility of interest costs, while the average interest rate of a portfolio of debt continues to track towards current interest rates.

In addition to the portfolio approach to debt management, the Corporation is able to provide alternative loan structures. Where funds are required for a specific project and are separate to an agency's core funding strategy, the Corporation is able to tailor various loan structures to satisfy particular financing requirements. Some of the lending products utilised by semi-government clients over the past year included interest-only loans, fixed-rate principal and interest loans, forward-fixed interest rate setting, structured loans and short-term loans.

The Corporation is continually working with its clients to develop a better understanding of clients' current and emerging business and financing requirements. Its focus is on understanding and supporting its clients and to add value to their businesses. In this regard, the Corporation was able to assist a number of clients with additional risk management services.

During the year, the Corporation undertook a number of comprehensive reviews of clients' debt portfolios to ensure that each portfolio was structured at its most optimal configuration in line with client parameters and requirements. These reviews assisted clients with their strategic decision-making regarding the appropriate management of their interest rate exposures and debt profile.



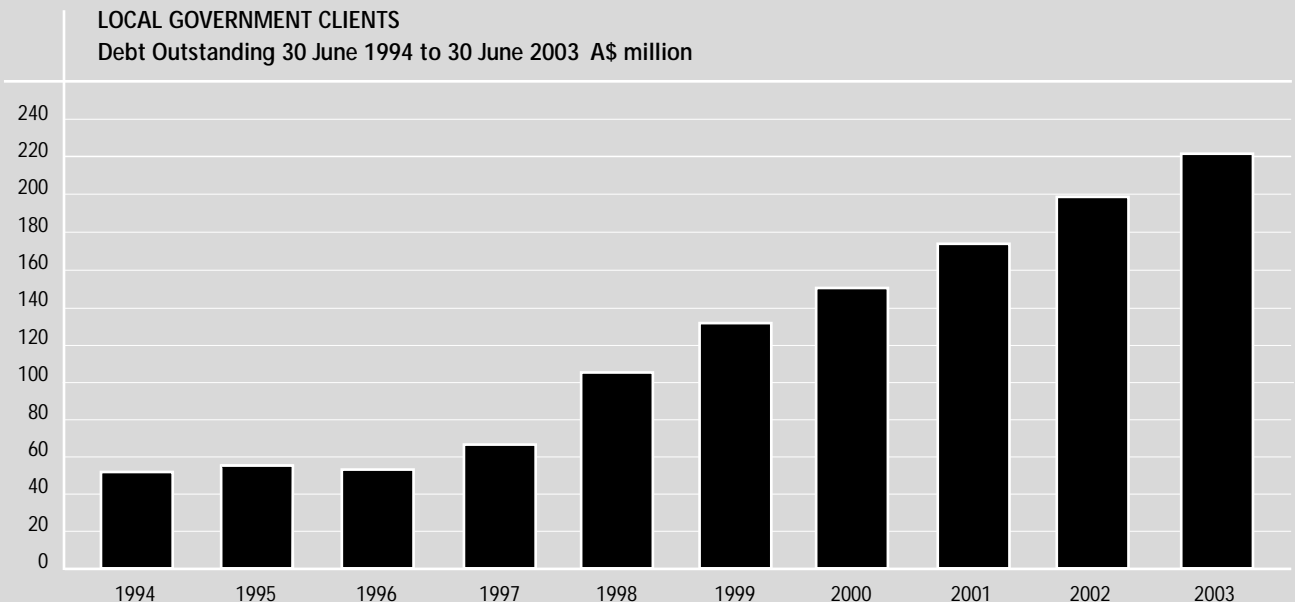


LOCAL GOVERNMENT LENDING

During the year, the Corporation continued to take a leading role in lending to local governments, consolidating its position as a major lender to this sector with an 11% increase in the face value of loans outstanding to local governments from the previous year. At 30 June 2003, the Corporation had \$220 million in face value loans outstanding to 127 different local governments. The Corporation was also pleased to welcome five new local government clients.

The Corporation continues to work closely with local governments to determine, implement and satisfy their financing and risk management requirements. The different types of lending products utilised by local government clients over the past year included interest-only loans, fixed-rate principal and interest loans, loans with the interest rate forward-fixed, structured loans and short-term liquidity loans.

In addition to the provision of funds, the Corporation was also able to assist local government clients in reviewing, refinancing and restructuring existing loans to better suit their current requirements. The Corporation also provided financial and economic information to assist local governments with their budgeting and planning decisions.



Client Services (Continued)

FINANCIAL ADVISORY SERVICES

In addition to the provision of funds and debt management, the Corporation provides a wide range of specialist financial skills and services to the Western Australian public sector. The specialist financial skills and services include liability and risk management, financial analysis, economic advice, foreign exchange management, interest rate forecasting and the valuation of debt portfolios. By providing these services, the Corporation proudly supports the Western Australian public sector in the prudent management of its financial assets and liabilities.

CONTACTS

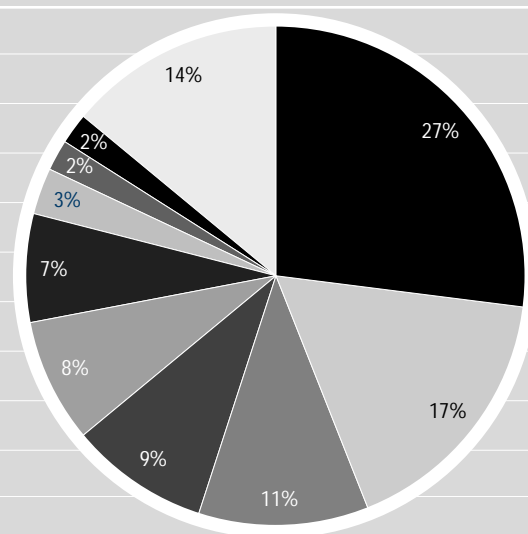
For more information on the lending products and financial services provided by the Corporation, the following officers will be pleased to assist you:

Marco Mottolini	(08) 9235 9150 mmottolini@watc.wa.gov.au
Karen Chan	(08) 9235 9153 kchan@watc.wa.gov.au
Stephen Cole	(08) 9235 9153 scole@watc.wa.gov.au
Evonne Meath	(08) 9235 9156 emeath@watc.wa.gov.au
Christopher Rinsma	(08) 9235 9152 crinsma@watc.wa.gov.au

CLIENT AUTHORITIES

Share of Debt Outstanding at 30 June 2003

Western Power Corporation	27%
State Housing Commission	17%
Water Corporation	11%
The State of Western Australia	9%
WA Government Railways Commission	8%
Government Employees Superannuation Board	7%
Minister for Planning & Infrastructure	3%
Commissioner of Main Roads	2%
Local Government Clients	2%
Other Clients	14%





Risk Management

The three main risks that the Corporation manages are market risk, credit risk and operational risk. Of these, the risk that requires most management by the Corporation is market risk and this arises primarily through the mismatch between assets and liabilities.

The Corporation has policies and management structures in place to monitor and manage these risks. A Liability Management Committee ("LMC"), comprising the Chief Executive Officer and other senior management, provides policy advice to the Board and has the primary responsibility for the formulation of strategy in managing the Corporation's assets and liabilities as well as oversight of risk management activities.

The Corporation applies the Australian Prudential Regulation Authority's Prudential Guidelines across all portfolios. Under these Guidelines, capital is set aside to cover losses arising from market risk and credit risk. The capital for market risk is determined using a Value at Risk ("VaR") model based on a 99% confidence limit and a 10 day trading period. Capital covering credit risk is based on a set of rules detailed in the Guidelines and will vary depending on the principal amount invested, the maturity of the investment and the credit standing of the counterparty. Capital is also maintained for the credit risk associated with derivatives. Specific details of these risks are included in Note 17 accompanying the Financial Statements.

MARKET RISK

Market risk is the risk that a movement in financial market prices will cause a loss. The Corporation marks to market all its financial assets and financial liabilities on a daily basis as this provides a more stringent foundation for accountability and making decisions, particularly with regard to managing risk and capital adequacy. The market risks managed by the Corporation are discussed below.

(1) Interest rate risk

The Corporation lends to authorities across the term spectrum with maturities ranging from one day to ten years and beyond. In order to obtain funds at the lowest cost, the Corporation seeks to satisfy the needs of investors and therefore must, for example, be prepared to accept maturities which do not match its lending assets. In practice, this means that the Corporation has assets spread across all maturities while the liabilities are limited to larger amounts in fewer maturity dates. As indicated above, the primary tool that the Corporation uses to control this risk is a VaR measure.

The Corporation regards the minimisation of the risk it incurs through this process as a high priority. Its philosophy is to minimise the risk inherent in its activities so that no more risk is incurred than is necessary in fulfilling its mission.

The activities of the Corporation can be broken down into two main areas for the purpose of interest rate risk management:

- (a) funding of the lending portfolio; and
- (b) market support.

(a) Funding of the lending portfolio

The Corporation adopts a portfolio approach to hedging its lending portfolio as a transaction by transaction approach is not as efficient. The underlying premise of the risk policy is that all exposures must be minimised. In addition, no new type of transaction will be considered where the risk cannot be measured and accommodated within the Corporation's hedging process and information systems.

The use of derivatives is therefore primarily limited to risk minimisation. However, derivatives may be used to add value to hedging activities provided that no additional exposure is assumed.

b) Market Support

An important role of the Corporation in minimising the cost of its debt portfolio is the support it provides to its debt paper, market making panels and investors generally. By monitoring secondary market activity and maintaining a constant presence in the market place, the Corporation seeks to minimise the impact of perceived adverse market developments.

Market support transactions are conducted on the basis that all positions, individually and in aggregate, are within all limit policies and have no material impact on overall portfolio statistics due to the Corporation's policy that all such activity must be hedged.

(2) Liquidity Risk

Liquidity risk involves the Corporation's ability to meet all financial commitments as they fall due. This policy requires that a minimum prudent level of liquid assets is held at all times. The daily average level of these assets held during the year was \$2,313 million.

Risk Management (Continued)

(3) Funding Risk

This is the risk that funding is sourced from too small or concentrated a range of sources that it may not always be available. This risk is minimised through the diversification of the Corporation's funding activity across domestic and offshore markets and across the maturity spectrum. The range of facilities and their use is discussed elsewhere in this Report.

(4) Exchange Rate Risk

Exchange rate risk is the risk of a loss due to changes in foreign exchange rates. The policy is not to take any foreign exchange risk apart from the minor exposure created by the need to maintain small balances in foreign currency bank accounts. Whereas the Corporation manages interest rate risk on a portfolio basis, it manages the exchange rate risk on foreign currency borrowings as part of the borrowing transaction. Information on this year's activity is provided under Overseas Borrowing on page 16. In instances where the Corporation advances funds to clients in a currency other than Australian dollars, the exchange rate risk is borne by the individual authority.

CREDIT RISK

Credit risk is the risk of financial loss due to a counterparty not meeting its financial obligations to the Corporation. As the Corporation lends only to the Western Australian public sector, and this restriction is laid down in the Corporation's governing legislation, credit risk is confined to its liquid assets and use of derivatives.

A Credit Committee comprising senior management appointed by the Board is responsible for advising the Board and the LMC on credit risk policy.

The Corporation's credit policy establishes limits for all counterparties based on the credit ratings assigned by the major rating agencies.

OPERATIONAL RISK

Operational risk is the risk of loss from such events as fraud, settlement errors, information system failure, etc. The Corporation does all possible to minimise this risk by, for example, ensuring the segregation of duties and maintaining a business continuity plan. The Corporation also allocates capital to this risk.

BUSINESS CONTINUITY RISK

The Corporation has in place a Business Continuity Plan to ensure the continuity of the critical activities of the Corporation in the face of a disruptive event that would otherwise prevent the continuation of business operations. The plan is subject to ongoing review and testing to reflect changes in circumstances with alternative sites, new systems and initiatives.



Corporate Governance

The Board of Directors (the "Board") of the Corporation is responsible for the performance of the functions of the Corporation under the Western Australian Treasury Corporation Act 1986, as amended, (the "Act").

In order to ensure that the Corporation carries out its functions in the best interests of the State, its clients and other stakeholders, the Board sets the strategic direction of the Corporation (with the agreement of the Treasurer) and establishes the policies and principles under which the Corporation operates.

The corporate governance processes established by the Board ensure that it is able to fulfil its statutory obligations, guide the affairs of the Corporation and oversee its performance.

The Board relies on, and holds to account, the Chief Executive Officer for the operational management of the Corporation and implementing the strategic direction.

BOARD COMPOSITION

The membership of the Board is determined in accordance with Section 5B of the Act and comprises:

- (i) the Under Treasurer as Chairperson;
- (ii) a Treasury Officer nominated by the Under Treasurer from time to time as the Deputy Chairperson;
- (iii) the Chief Executive Officer or Acting Chief Executive Officer; and
- (iv) up to three other persons with relevant commercial or financial experience appointed by the Treasurer ("appointed directors").

An appointed director may hold office for a term, not exceeding three years, as is specified in the instrument of appointment, but may be reappointed from time to time.

At 30 June 2003, the directors of the Corporation were:

BOARD OF DIRECTORS

Name	Position	First Appointed	Term Expires
John Leslie Langoulant	Chairperson	Statutory	Statutory
Anne Lesley Nolan	Deputy Chairperson	22 October 1999	Not applicable
Raymond Norman Hughes	Chief Executive Officer	Statutory	Statutory
Gregory Louis Joyce	Director	1 January 2003	31 December 2005
Gaye Marie McMath	Director	1 January 2003	31 December 2005
Catherine Anne Nance	Director	15 July 1998	31 December 2004

BOARD RESPONSIBILITIES

The Board is responsible for the performance of the functions of the Corporation under the Act. These functions are to:

- (i) borrow moneys and lend moneys to the Western Australian public sector;
- (ii) develop and implement borrowing programs for the purposes of the Act;
- (iii) manage the financial rights and obligations of the Corporation;
- (iv) advise on financial matters including debt management, asset management and project and structured financing;
- (v) manage the investments for the Treasury and other government agencies;
- (vi) assist authorities with managing their financial exposures; and
- (vii) assist the State with the management of any debt raised prior to the establishment of the Corporation.

In fulfilling this role, the Board guides and monitors the affairs of the Corporation. This includes:

- (i) reviewing and establishing (with the Treasurer's agreement) the Corporation's strategic development plan and statement of corporate intent each year;
- (ii) monitoring the performance of the Corporation; and
- (iii) ensuring that appropriate accounting, risk management, budgeting, compliance, information technology and internal control policies, systems and reporting processes are in place. These include its risk management policy and business continuity plan.

Corporate Governance (Continued)

BOARD COMMITTEES

To assist in the execution of its responsibilities, the Board has established an Audit Committee and a Remuneration Committee.

Audit Committee

The role of the Audit Committee is to give the Board additional assurance regarding the quality, integrity and reliability of information systems and the adequacy of accounting and control systems.

The Audit Committee is responsible for contact with the Corporation's external and internal auditors to ensure that significant issues and information arising from the auditors' activities are brought to the attention of the Board.

The external audit of the Corporation is conducted by the Auditor General who utilises the services of Ernst & Young to conduct the annual audit. The internal audit function is outsourced to KPMG.

The Chairperson reports to the Board after each meeting, including any findings and recommendations of the Committee.

Audit Committee at 30 June 2003

Name	Position
Catherine Anne Nance, Director	Chairperson
Gaye Marie McMath, Director	Member
Raymond Norman Hughes, Chief Executive Officer	Member

Remuneration Committee at 30 June 2003

Name	Position
John Leslie Langoulant, Chairperson of Board of Directors	Chairperson
Gregory Louis Joyce, Director	Member
Catherine Anne Nance, Director	Member
Raymond Norman Hughes, Chief Executive Officer	Member

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the employment terms and conditions of all members of the Corporation's staff, including the Chief Executive Officer, and the directors themselves.

With the approval of the Board, the Remuneration Committee uses the services of external remuneration experts to advise it on appropriate levels of remuneration and other terms and conditions of employment for Corporation staff including the Chief Executive Officer.

The remuneration and allowances payable to appointed directors is determined by the Treasurer on the recommendation of the Minister for Public Sector Management.



ATTENDANCE AT MEETINGS BY DIRECTORS

Details of attendance at the Board and Board Committee meetings by each director during the year are as follows:

Director	Board		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
J L Langoulant	11	11			4	4
A L Nolan	11	7				
R N Hughes	11	11	6	6	4	4
G L Joyce ¹	5	5			2	2
G M McMath ¹	5	5	3	3		
C A Nance	11	11	6	6	2	2
D R Eiszele ²	6	6			2	2
W C Heron ²	6	5	3	3		

Note: ¹ Mr Joyce and Mrs McMath were appointed as Directors with effect from 1 January 2003.

² Mr Eiszele and Mr Heron retired from the Board upon the expiration of their terms on 31 December 2002.

CONSTITUTION AND PROCEEDINGS OF THE BOARD

The Constitution and Proceedings of the Board are provided for in Schedule 2 to the Act.

STATUTORY CORPORATIONS (LIABILITY OF DIRECTORS) ACT 1996

The Corporation's directors are bound by the provisions of the Statutory Corporations (Liability of Directors) Act 1996. Accordingly, directors are required to comply with the same fiduciary responsibilities and duties of loyalty and good faith owed by directors of companies incorporated under the Corporations Law.

ETHICAL STANDARDS AND CODES OF CONDUCT

The Board acknowledges the need for, and the continued maintenance of, the highest standards of corporate governance practices and ethical conduct by the Corporation's directors and staff and has established codes of conduct for directors and staff respectively. These codes of conduct endorse, in principle, the code of conduct developed by the Australian Financial Markets Association.

The Corporation has adopted the Western Australian Public Sector's Code of Ethics.

PROFESSIONAL ADVICE

Directors are entitled, with the prior approval of the Chief Executive Officer, to obtain such resources and information from the Corporation, including direct access to management and professional advisers as they may require, in order to carry out their duties as directors. Directors are also entitled, with the prior approval of the Chairperson, to seek independent professional advice at the expense of the Corporation to assist them to carry out their duties as directors.

COMPLIANCE

The role of the Corporation's compliance function is to ensure that the Corporation continues to maintain its high prudential standards and has the appropriate procedures in place to comply with the Act and other relevant legislation, its policies and industry standards.

Corporate Administration

STAFFING

At 30 June 2003, the Corporation employed 32 male and 15 female staff. Details of the staffing structure and senior officers appointed to the Corporation are set out on page 65.

EMPLOYEE DEVELOPMENT

The Corporation continues to provide a training budget and actively promote the development and education of its staff. Staff are currently receiving assistance in undertaking university studies and in upgrading business skills through courses delivered by professional bodies and specialist training providers. In-house presentations are also used to advance corporate knowledge.

EQUAL OPPORTUNITY

The Corporation is an equal opportunity employer. Trained grievance officers are available to staff for counselling and dispute resolution.

EQUITY AND DIVERSITY MANAGEMENT PLAN

During 2002/03, the Corporation met the objectives under its 2002-2005 Equity and Diversity Management Plan by undertaking a review of certain human resources policies, the undertaking of a cultural survey and the inclusion of equity and diversity principles into individual job descriptions. Each member of staff was provided with a copy of the Plan and can view an electronic copy.

A review of the Plan's progress was carried out during the year and a new Plan for the 2003-2006 period was developed.

EMPLOYEE RELATIONS

The Corporation has a Joint Consultative Committee ("JCC") in place to provide a forum for discussion and action concerning staff employment conditions and to resolve any issues of concern. The JCC is comprised of representatives from management and elected staff representatives. The JCC meets on a periodic basis.

There were no industrial disputes during the year to 30 June 2003.

OCCUPATIONAL HEALTH AND SAFETY

The Corporation provides a safe environment for its staff and visitors. There were no claims for workers' compensation during the year to 30 June 2003 and no staff are currently undergoing rehabilitation.

DISABILITY SERVICES

While the Corporation has little direct contact with members of the general public, it acts to ensure that a safe environment exists for all persons entering its offices.

There were no requests received during the year to 30 June 2003 for services to be modified to meet the needs of persons with disabilities.

CODE OF CONDUCT

The Corporation has established a Code of Conduct for its staff. This Code incorporates the Western Australian Public Sector's Code of Ethics and endorses in principle the Code of Conduct developed by the Australian Financial Markets Association ("AFMA"). The Corporation is included on the public register established by AFMA.

STRATEGIC PLANNING

The Corporation's strategic Planning is carried out on a rolling three year basis and is reviewed annually.

During 2002/03, the Corporation implemented a new strategic development plan which set its objectives and operational strategies for the next three years. The Corporation's Strategic Development Plan for 2003 to 2006 has been agreed to by the Treasurer and the Minister for Government Enterprises.

A Statement of Corporate Intent, in which the Corporation reports on its progress towards meeting its functions and objectives, its dividend and accounting policies and performance targets for the 2003/04 financial year, was completed and submitted to Parliament through the Treasurer and the Minister for Government Enterprises.



QUARTERLY REPORT

With the exception of the June quarter, the Corporation submits a report on its operations during the preceding quarter to the Treasurer. This report is tabled in the Parliament by the Treasurer.

CUSTOMER SERVICE COUNCIL

The role of the Customer Service Council is to monitor and improve the level of service provided to the Corporation's clients. With its membership being drawn from throughout the Corporation, including senior management, the council provides a forum to discuss initiatives to improve the level of service that the Corporation can provide to its clients, based on client feedback.

A copy of the Corporation's Customer Services Charter is available on request.

PRICING POLICY

The Corporation operates in a dynamic market where the price of its lending to the public sector is primarily driven by the cost of its borrowings. This cost fluctuates according to the prevailing level of interest rates. The Corporation sets its lending rates at a competitive level after taking into account the cost of funds, market risk, administration and the return on capital.

The pricing for financial advice and funds management is determined on a cost recovery basis.

REGISTRY AND TREASURY OPERATIONS

The Corporation is committed to providing its stockholders with a high quality registry service. The Corporation's agent for the supply of registry services is Computershare Investor Services Pty Limited ("Computershare"). Address details of the branch offices of Computershare are shown on the last page of this Report.

The Corporation uses an electronic clearing and settlement system provided by SFE Austraclear Services to conduct the settlement of Australian dollar financial market transactions. An electronic payment system provided by Bank of America is used for settlement of transactions in other currencies. An electronic clearing and settlement system provided by Clearstream Banking, Luxembourg is used for settlement of repurchases of the Corporation's offshore issues.

ELECTORAL ACT DISCLOSURES

Under the Electoral Act, the Corporation is required to disclose any expenditures it makes to:

- advertising agencies;
- market research organisations;
- polling organisations;
- direct mail organisations; and
- media advertising organisations.

For the year ended 30 June 2003, the only disclosable expenditure incurred was in relation to advertising, where an amount of \$38,503 was spent comprising:

- \$38,192 for the advertising of State Bonds and
- \$311 for the advertising of staff vacancies.

Outlook 2003/04

ECONOMIC OVERVIEW

Interest rate markets remain finely balanced after a sharp spike in bond yields late in 2002/03. Market attention is focused on the growth performance of the US economy, which is by no means certain. While recent market activity suggests a renewed faith in official forecasts for stronger economic growth over the coming year, any emerging signs that these forecasts are not coming to fruition may place downward pressure on longer-term bond yields. With inflation removed as a threat in the near term, the Federal Reserve appears willing to cut, or leave unchanged, the Funds rate until a sustainable economic recovery is definitely underway.

Like their counterparts in the US, the RBA adopted an easing bias during 2002/03, although it did not act on that bias. While the state of the international economy alone would have warranted a cut in official interest rates in Australia during 2002/03, the RBA faces the dilemma of stagnant or declining overseas demand coupled with an overheating housing market. The RBA has thus far been unwilling to add further fuel to this market, but has also indicated that it does not view asset price inflation as a primary target of monetary policy. An easing of monetary policy in Australia may well depend on a failure of international economies to mount a sustained recovery in the coming year.

ESTIMATED BORROWING PROGRAM – 2003/04

	\$million	
Net Lending to Clients	1,087	
Projected Maturities		
Domestic Long-Term Inscribed Stock	1,425	
Domestic Short-Term Inscribed Stock	3,633	
Overseas Bonds / Medium Term Notes	67	
Overseas Commercial Paper	312	5,437
Reduction in Financial Assets	(382)	
Total Borrowing Requirement	6,142	
Proposed Borrowings*		
Domestic Long-Term Inscribed Stock	1,542	
Domestic Short-Term Inscribed Stock	3,000	
Overseas Bonds / Medium Term Notes	500	
Overseas Commercial Paper	1,100	6,142
Total Borrowing Program	6,142	

* The sourcing of the Corporation's funding is subject to conditions in the various markets and the market mix during the year may be amended as necessary to meet the Corporation's pricing, liquidity, lending and capital usage targets.

BORROWING STRATEGY

In order to meet its funding and debt management needs for 2003/04, the Corporation proposes to:

- (a) target volumes on issue of at least \$1,000 million in each of the 2005, 2007, 2009 and 2011 "hot stocks" as well as increase the volume on issue of the 2013 "hot stock" during the year;
- (b) enhance the liquidity of the existing "hot stock" lines by supporting these securities in the marketplace and by issuing through the Fixed Interest Market Making Panel, either by tender or private placement;
- (c) continue to take the opportunities to issue stocks longer than ten years to hedge specific client lendings and target the maturities to comply with the program of future "hot stocks";
- (d) continue to issue short-term inscribed stock to meet the floating rate funding needs of the Corporation;
- (e) utilize the overseas commercial paper programs to meet the floating rate funding needs of the Corporation when these facilities can provide funds at either a cheaper or an equal cost to that of alternative funding; and
- (f) borrow in overseas capital markets through bond issues, the Euro Medium Term Note Program or private loans to satisfy funding or debt management requirements where the cost is lower than that of domestic borrowings for an equivalent term and risk.



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Statement of Financial Performance For the Year Ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
REVENUE			
Revenue from ordinary activities			
Interest on Investments		120,476	72,220
Interest from Authorities		543,867	547,188
Proceeds from Sale of Property & Equipment	2	5	466
Fee Income		260	250
Net Market Value Movement	4	77,031	28,788
		741,639	648,912
EXPENSES			
Expenses from ordinary activities			
Interest on Borrowings		723,881	631,280
Depreciation		1,266	1,218
Administration Expenses		6,818	6,611
Loan Raising Expenses		1,687	1,607
Foreign Exchange Loss	3	101	19
Other Expenses		0	460
		733,753	641,195
Profit from ordinary activities before income tax equivalent		7,886	7,717
Income Tax Equivalent Expense	5	2,367	2,315
Net Profit		5,519	5,402

The Statement of Financial Performance should be read in conjunction with the accompanying notes.



Statement of Financial Position As At 30 June 2003

	Note	2003 \$'000	2002 \$'000
ASSETS			
- Cash Assets	6	1,608	3,130
- Investments	7	2,697,473	2,243,203
- Receivables	8	139,166	143,416
- Loans to Authorities	9	9,426,563	8,624,971
- Deferred Tax Assets	10	211	166
- Property and Equipment	11	1,517	1,947
TOTAL ASSETS		12,266,538	11,016,833
LIABILITIES			
- Payables	12	211,515	237,400
- Borrowings	13	11,994,013	10,718,299
- Tax Liabilities	14	844	1,834
- Provisions	15	2,709	2,661
TOTAL LIABILITIES		12,209,081	10,960,194
NET ASSETS		57,457	56,639
EQUITY			
- Retained Profits	16	57,457	56,639
TOTAL EQUITY		57,457	56,639

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the Year Ended 30 June 2003

	Note	2003 \$'000	2002 \$'000
Cash Flows from Operating Activities			
Interest received on Loans to Authorities		543,291	512,696
Interest received on Investments		109,959	78,216
Fee Income		260	250
Interest and other Cost of Finance paid		(722,381)	(668,625)
Administration and Loan Raising Expenses		(8,229)	(8,144)
Net Cash used in Operating Activities	18b	(77,100)	(85,607)
Cash Flows from Investing Activities			
Proceeds from Sale and Maturity of Investments		527,469	1,139,325
Payment for Investment Securities		(611,880)	(1,153,735)
Loans to Client Authorities		(5,290,884)	(5,111,311)
Loans repaid by Client Authorities		4,754,021	4,993,431
Payment for Property & Equipment		(836)	(395)
Proceeds from Sale of Property & Equipment		5	466
Net Cash used in Investing Activities		(622,105)	(132,219)
Cash Flows from Financing Activities			
Proceeds from Issuance of Borrowings		16,397,782	18,802,359
Repayment of Borrowings		(15,328,886)	(18,923,929)
Payment on behalf of Client Authorities		842	19
Net Cash provided by/(used in) Financing Activities		1,069,738	(121,551)
Cash Flows to Government			
Payment of Dividend		(4,701)	(12,768)
Payment of Taxation Equivalents		(3,402)	(2,325)
Net Cash provided to Government		(8,103)	(15,093)
Net Increase/(Decrease) in Cash Held		362,430	(354,470)
Cash at the Beginning of the Financial Year		2,081,827	2,436,315
Exchange Rate Adjustments to Opening Cash		(101)	(19)
Cash at the End of the Financial Year	18a	2,444,156	2,081,826

The Statement of Cash Flows should be read in conjunction with the accompanying notes.



Notes To and Forming Part of the Financial Statements For the Year Ended 30 June 2003

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been adopted in the preparation of the financial statements. Unless otherwise stated, these policies are consistent with those adopted in the preceding year.

(a) General Statement

- (i) The accrual basis of accounting is adopted.
- (ii) The financial statements constitute a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board, and Urgent Issues Group (UIG) Consensus Views as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. The Financial Administration and Audit Act and the Treasurer's Instructions are legislative provisions governing preparation of financial statements and take precedence over Australian Accounting Standards and UIG Consensus Views. The modifications are intended to fulfil the requirements of general application to the public sector, together with the need for greater disclosure and also to satisfy accountability requirements. If any such modification has a material or significant financial effect upon the reported results, details of that modification and where practicable the resulting financial effect are disclosed in individual notes to these financial statements.
- (iii) All amounts in these financial statements are rounded to the nearest thousand dollars.

(b) Market Value Accounting

The Corporation marks to market all its financial assets and financial liabilities. All other assets, including receivables and prepayments, and other liabilities, including creditors, accruals and provisions, are stated at cost. Property and equipment is also stated at cost. The Corporation manages its business daily on a market value basis as it believes it provides a better basis for making decisions and evaluating its portfolios. The external reporting of these market values was seen as a natural extension of providing more meaningful information. This basis of measurement has also been common practice amongst state central borrowing authorities in Australia. AAS 32 "Specific Disclosures by Financial Institutions" and AAS 33 "Presentation and Disclosure of Financial Instruments" are applicable to the Corporation.

(c) Fee Income

Fee Income in respect of services provided is recognised in the period in which the service is provided.

(d) Interest

Interest revenue and expense is recognised as it accrues and includes items of a similar nature realised in managing the relevant portfolios.

(e) Property and Equipment

Property and Equipment, which are stated at cost, are depreciated over their estimated useful lives using the straight line method. The depreciation rates used for each class of asset are as follows:

	2003	2002
- Computer Equipment	33.3%	33.3%
- Other Equipment	10 - 17%	10 - 17%

Notes To and Forming Part of the Financial Statements For the Year Ended 30 June 2003 (Continued)

NOTE 1 (Continued)

(f) Investments

Investments are valued at the market value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Statement of Financial Performance. Commonwealth and State Government investments are held for portfolio management purposes. Whilst these investments generally have maturity dates greater than twelve months, they are used in the ordinary course of business to provide liquidity for the Corporation's "hot stocks" and are therefore held in the expectation of being realised within twelve months.

(g) Loans to Authorities

Loans to Authorities are valued at the market value applicable at reporting date and are recorded as assets in the Statement of Financial Position. Unrealised gains or losses arising from this policy are brought to account in the Statement of Financial Performance. In normal circumstances, maturities of loans to authorities are either rolled over or refinanced.

(h) Borrowings

Borrowings are valued at the market value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Statement of Financial Performance. In normal circumstances, maturities of borrowings are either rolled over or refinanced.

(i) Derivative Financial Instruments

Derivatives are used exclusively to hedge interest rate and foreign currency exposures. Accordingly, the contracts are accounted for in a manner consistent with the accounting treatment of the underlying physical exposures, which are marked to market daily. Changes in net fair value during the year are recognised as revenues or expenses in the Statement of Financial Performance.

(j) Foreign Currency Translation

Foreign currency transactions are brought to account in Australian dollars at settlement date at the rate of exchange applying at that date. At reporting date, foreign currency transactions are translated at the exchange rates existing at 30 June 2003. Exchange gains or losses are brought to account in the Statement of Financial Performance.

(k) Employee Benefits

(i) Sick Leave

No provision is made for sick leave benefits as they are non-vesting and the sick leave taken in a financial year is not expected to exceed the benefit accruing in a year.

(ii) Annual Leave

This benefit is recognised at the reporting date in respect of employees' services up to that date and is measured at the nominal amounts expected to be paid when the liabilities are settled.



(iii) **Long Service Leave**

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provisions for employee benefits, and is measured at the nominal amounts expected to be paid when the liability is settled. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provisions for employee benefits and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given, when assessing expected future payments, to expected future salary levels including relevant on costs, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iv) **Superannuation**

Staff may contribute to the Gold State Superannuation Scheme, a defined benefit lump sum scheme now closed to new members. All staff who do not contribute to this scheme become non-contributory members of the West State Superannuation Scheme, an accumulation fund complying with the Commonwealth Government's Superannuation Guarantee (Administration) Act 1992. Both of these schemes are administered by the Government Employees Superannuation Board.

The liabilities for superannuation charges under the Gold State Superannuation Scheme and the West State Superannuation Scheme are extinguished by payment of employer contributions to the Government Employees Superannuation Board. The Corporation also has a superannuation liability as a result of prior service of current staff who were previously within the public service. This is recorded as a liability in the Statement of Financial Position.

The note disclosure required by paragraph 6.10 of AASB 1028 (being the employer's share of the difference between employees' accrued superannuation benefits and the attributable net market value of plan assets) has not been provided. State scheme deficiencies are recognised by the State in its whole of government reporting. The Government Employees Superannuation Board's records are not structured to provide the information for the Corporation. Accordingly, deriving this information for the Corporation is impractical under current arrangements and thus any benefits thereof would be exceeded by the cost of obtaining the information.

(I) **Dividend Policy**

The Corporation's dividend policy has been formulated to ensure that the Corporation pays an appropriate dividend to the State which is consistent with sound commercial practice and has regard to the financial health of the Corporation. The Corporation's policy provides for dividends to be paid to the Consolidated Fund at a level of 50% of the Corporation's after tax equivalent profit subject to adjustments which have been agreed with the Treasurer. Dividends for the current financial year will be declared by the Board and provided and paid in the subsequent financial year.

Notes To and Forming Part of the Financial Statements For the Year Ended 30 June 2003 (Continued)

NOTE 1 (Continued)

(m) Income Tax-Effect Accounting

The Corporation operates within a tax equivalent regime ("TER") whereby an equivalent amount in respect of income tax is payable to the State Department of Treasury and Finance. The calculation of the liability in respect of income tax is governed by TER guidelines and directions approved by Government.

As a consequence of participation in the TER, the Corporation is required to comply with Australian Accounting Standard AAS 3 "Accounting for Income Tax (Tax-Effect Accounting)".

Under Tax-Effect Accounting, the income tax expense is shown in the Statement of Financial Performance and is based on the pre-tax accounting profit adjusted for income and expenses that are not assessable nor deductible for income taxation purposes ("permanent differences").

Timing differences which arise due to income and expense items being recognised in different accounting periods for accounting and taxation purposes are brought to account as either a provision for deferred income tax (liability) or as a future income tax benefit (asset) at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits in relation to timing differences are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future tax benefits in relation to tax losses are not brought to account unless the benefit can be regarded as being virtually certain of realisation.

(n) Segments

The Corporation is an individual reporting entity which operates within the Capital Markets as the central financing authority within Western Australia. The Corporation operates entirely within this sector.

(o) Recoverable Amount

Assets are not carried at an amount above their recoverable amount and where carrying values exceed this recoverable amount, assets are written down.

(p) Comparative Amounts

Where necessary, comparative amounts have been adjusted in accordance with changes in presentation made in the current year.



	2003	2002
	\$'000	\$'000

NOTE 2

PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT

Freehold Land

Gross proceeds of disposed land	0	460
Book Value of disposed land	0	460
Profit on disposal of land	0	0

Computer Hardware

Gross proceeds of disposed hardware	5	6
Book Value of disposed hardware	0	0
Profit on disposal of hardware	5	6

Profit on disposal of Property and Equipment	5	6
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NOTE 3

FOREIGN EXCHANGE GAIN/LOSS

The Corporation maintains balances in its foreign currency bank accounts for the payment of expenses incurred through its overseas borrowings. At 30 June 2003, after taking account of exchange fluctuations, a loss of A\$101 thousand (2002, loss of A\$19 thousand) had resulted on this balance.

NOTE 4

NET MARKET VALUE MOVEMENT

Market Value Adjustment - Investments	6,008	(1,330)
Market Value Adjustment - Loans to Authorities	261,681	(25,406)
Market Value Adjustment - Borrowings	(190,658)	55,524
	77,031	28,788

The Corporation manages its operations on a portfolio basis to achieve its long term objective. Realised gains and losses are reflected in interest revenue and expense. The net market value movement represents unrealised market value adjustments to be realised over the term of the underlying securities.

Notes To and Forming Part of the Financial Statements For the Year Ended 30 June 2003 (Continued)

2003	2002
\$'000	\$'000

NOTE 5

INCOME TAX EQUIVALENT

The prima facie income tax equivalent expense on pre-tax accounting profit reconciles to the income tax equivalent expense in the accounts as follows:

Profit from ordinary activities before income tax equivalent	7,886	7,717
Income tax equivalent expense at 30% (2002, 30%)	2,366	2,315
Tax effect of permanent differences		
Add non deductible expenses	1	1
Deduct non assessable profit on disposal of property	0	(1)
Income tax equivalent expense attributable to profit from ordinary activities	2,367	2,315

Income tax equivalent expense comprises movements in:

Provision for income tax equivalent expense	2,410	2,406
Future income tax equivalent benefit	(45)	(91)
Provision for deferred income tax equivalent	2	0
Total income tax equivalent expense	2,367	2,315

NOTE 6

CASH ASSETS

Bank Deposits	1,397	2,421
Overseas Bank Accounts	211	709
	1,608	3,130
Average Balance	1,979	1,645
Interest Revenue	80	77
Average Interest Rate	4.04%	4.68%

Cash Assets represent only those funds held in accounts with banks and does not include money market investments.



	2003	2002
	\$'000	\$'000

NOTE 7

INVESTMENTS

Investments comprise the following:

Short Term Money Market Investments	2,442,168	2,078,174
Government Stock	255,305	138,906
Corporate Bonds	0	26,123
Total	2,697,473	2,243,203

Maturity Profile

At Call	64,400	242,800
Up to 3 Months	1,973,253	1,661,401
3 to 12 Months	382,399	132,566
1 to 5 Years	137,069	65,337
Over 5 Years	140,352	141,099
Total	2,697,473	2,243,203

Repricing Profile

At Call	64,400	242,800
Up to 3 Months	2,038,592	1,726,738
3 to 12 Months	382,399	132,566
1 to 5 Years	71,730	0
Over 5 Years	140,352	141,099
Total	2,697,473	2,243,203

Credit Exposure

Rating	%	%
AAA	28.88	23.22
AA	56.52	58.44
A	14.60	18.34
	100.00	100.00

Average Balance	2,339,387	1,769,272
Interest Revenue	120,395	72,143
Average Interest Rate	5.15%	4.08%

The Corporation invests its surplus funds in accordance with the Western Australian Treasury Corporation Act. Further information on valuation methods is shown in Note 17.

Notes To and Forming Part of the Financial Statements For the Year Ended 30 June 2003 (Continued)

	2003	2002
	\$'000	\$'000

NOTE 8

RECEIVABLES

Accrued Interest Receivable	139,166	143,416
	139,166	143,416

Accrued Interest Receivable comprises accruals relating to advances made to clients and investment sundry debtors due from financial institutions. Foreign currency receivables are discussed in more detail in Note 17. There are no foreign currency amounts included which are not effectively hedged.

NOTE 9

LOANS TO AUTHORITIES

Loans to Authorities	9,426,563	8,624,971
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Maturity Profile

Up to 3 Months	1,786,940	1,443,535
3 to 12 Months	1,457,383	1,152,501
1 to 5 Years	2,863,852	2,790,920
Over 5 Years	3,318,388	3,238,015
Total	9,426,563	8,624,971

Repricing Profile

Up to 3 Months	1,786,940	1,443,535
3 to 12 Months	1,457,383	1,152,501
1 to 5 Years	2,863,852	2,790,920
Over 5 Years	3,318,388	3,238,015
Total	9,426,563	8,624,971

Average Balance	8,908,970	8,571,519
Interest Revenue	543,867	547,188
Average Interest Rate	6.10%	6.38%

The Corporation advances funds to State Government and Local Government authorities within Western Australia. In normal circumstances, these advances are either rolled over or refinanced. State Government advances (97.6% of total (2002, 97.7%)) are guaranteed by the State whilst Local Government advances (2.4% of total (2002, 2.3%)) are secured by debenture and are charged in accordance with the provisions of the Local Government Act upon the general funds of the local government. Loans to Authorities are not readily traded on organised markets in standardised form. Further information on valuation methods is shown in Note 17.



	2003 \$'000	2002 \$'000
NOTE 10		
DEFERRED TAX ASSETS		
Future Income Tax Equivalent Benefit	211	166
NOTE 11		
PROPERTY AND EQUIPMENT		
Freehold Land (at cost)	0	0
Equipment (at cost)	6,072	5,318
Less Accumulated Depreciation	4,555	3,371
	1,517	1,947
Total Property and Equipment	1,517	1,947
Reconciliation		
Freehold Land		
Opening balance	0	460
Disposals	0	(460)
Closing balance	0	0
Equipment		
Opening balance	1,947	2,770
Additions	836	395
Disposals	(82)	(77)
Depreciation	(1,266)	(1,218)
Accumulated depreciation on disposal	82	77
Closing balance	1,517	1,947
NOTE 12		
PAYABLES		
Interest Accrued	181,420	179,992
Interest Prepayments by Lenders	10,078	10,006
Foreign Currency Payable	17,154	45,609
Other Creditors	2,863	1,793
	211,515	237,400

Payables comprises accrued interest and sundry creditors relating to debt instruments and unrepresented cheques. Interest Accrued and Interest Prepayments by Lenders are owing to financial institutions. Foreign currency payables are discussed in more detail in Note 17. There are no foreign currency amounts included which are not effectively hedged.

Notes To and Forming Part of the Financial Statements For the Year Ended 30 June 2003 (Continued)

	2003	2002
	\$'000	\$'000
NOTE 13		
BORROWINGS		
ANALYSIS OF DEBT OUTSTANDING AT 30 JUNE 2003		
Payable 12 months or less from 30 June		
- Domestic	5,057,912	2,108,394
- Overseas	373,114	1,425,185
	5,431,026	3,533,579
Payable more than 12 months from 30 June		
- Domestic	5,460,720	6,431,042
- Overseas	472,508	388,192
	5,933,228	6,819,234
Balance 30 June at face value	11,364,254	10,352,813
Balance 30 June at market value	11,994,013	10,718,299
Maturity Profile		
Up to 3 Months	3,589,391	2,514,256
3 to 12 Months	1,635,198	817,746
1 to 5 Years	3,333,661	3,803,664
Over 5 Years	3,435,763	3,582,633
Total	11,994,013	10,718,299
Repricing Profile		
Up to 3 Months	3,774,715	2,695,124
3 to 12 Months	1,647,443	818,924
1 to 5 Years	3,144,790	3,621,588
Over 5 Years	3,427,065	3,582,663
Total	11,994,013	10,718,299
Average Balance	11,127,985	10,231,987
Interest Expense	723,881	631,229
Average Interest Rate	6.51%	6.17%

The Corporation raises its funds in the domestic and offshore capital markets. Under Section 13(1) of the Western Australian Treasury Corporation Act, the financial liabilities of the Corporation are guaranteed by the Treasurer on behalf of the State of Western Australia. The Corporation's borrowings are well diversified across markets, instruments and maturities. Further information on valuation methods is shown in Note 17.



OVERSEAS BORROWINGS

Includes Australian currency and foreign currency loans. Foreign currency loans have been translated using the exchange rates applicable at 30 June 2003 and are shown below:

Foreign Currency Borrowing	Exchange Rate Translation at 30/06/03	
	Payable 12 Months or Less from 30/06/03 \$A'000	Payable More than 12 Months from 30/06/03 \$A'000
USD 89,780,810	134,523	Nil
JPY 10,000,000,000	62,508	62,508
EUR 59,577,792	102,017	Nil
GBP 29,908,047	74,066	Nil

Foreign Currency Borrowing	Exchange Rate Translation at 30/06/02	
	Payable 12 Months or Less from 30/06/02 \$A'000	Payable More than 12 Months from 30/06/02 \$A'000
USD 512,155,825	906,791	Nil
JPY 10,000,000,000	Nil	148,192
HKD 1,202,607,915	272,985	Nil
GBP 39,597,897	107,021	Nil

At reporting date, all foreign currency loans have either been hedged, swapped or covered forward specifically, invested in the foreign currency or the foreign currency proceeds lent to authorities participating in the central borrowing arrangements on a back to back basis. Consequently, any gain or loss on the translation of the overseas borrowing is matched by a corresponding loss or gain made on the foreign currency contract, the overseas investment or the back to back lending and the net exchange gain or loss is therefore zero.

Notes To and Forming Part of the Financial Statements For the Year Ended 30 June 2003 (Continued)

	2003	2002
	\$'000	\$'000
NOTE 14		
TAX LIABILITIES		
Provision for Income Tax Equivalent Expense	837	1,829
Provision for Deferred Income Tax Equivalent	7	5
	844	1,834

NOTE 15

PROVISIONS

Annual Leave	605	589
Long Service Leave	1,032	1,010
Superannuation	1,072	1,062
	2,709	2,661

The charge to the operating profit for the movement in the provision for employee benefits during the year was \$48 thousand (2002, \$283 thousand).

NOTE 16

RETAINED PROFITS

Opening Balance	56,639	64,005
Dividend Paid	(4,701)	(12,768)
Net Profit	5,519	5,402
Closing Balance	57,457	56,639

The dividend paid represents 50% of the 2001/02 after tax profit (\$2.7 million) plus \$2.0 million.

NOTE 17

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In carrying out its mission, the Corporation is a borrower from the capital markets. This necessarily involves the management of market risk because as a borrower, the Corporation's objective is the opposite to that of investors. In order to obtain funds at the lowest cost it seeks to satisfy the needs of investors and therefore must, for example, accept maturities which are unlikely to match the terms of the Corporation's lending portfolio. Derivative instruments, including swaps, forward rate agreements and futures, are used to hedge, or minimise, the risks incurred.

The amounts to be exchanged on these contracts are calculated with reference to the notional amount and other terms of the derivatives. Credit exposure represents the Corporation's estimate of its exposure at reporting date in the event of non-performance by counterparties. The Corporation has adopted the Australian Prudential Authority's "Current Exposure Method" to determine the credit exposure arising from its derivative transactions. At 30 June 2003, the Corporation is confident that all its counterparties will meet their obligations.



Details of the notional amount, net fair value and credit exposure of the derivative instruments used for managing interest rate risk are shown below together with the credit rating quality of these exposures.

As at 30 June 2003	Notional Amount \$'000	Net Fair Value \$'000	Credit Exposure \$'000
Futures	25,500	2	0
Interest Rate Swaps	3,418,250	(5,557)	63,513
Credit Exposure by Rating			%
AAA			0.00
AA			100.00
A			0.00
			100.00
As at 30 June 2002	Notional Amount \$'000	Net Fair Value \$'000	Credit Exposure \$'000
Futures	30,700	96	0
Interest Rate Swaps	2,575,665	10,078	60,439
Forward Rate Agreements	200,000	148	1,000
Credit Exposure by Rating			%
AAA			0.04
AA			99.67
A			0.29
			100.00

Interest rate swaps allow the Corporation to swap long term fixed rate borrowings into floating rate borrowings with lower rates than if the Corporation had made the floating rate borrowings directly. At times, floating to fixed swaps are used to change floating rate borrowings to fixed rate borrowings in order to match the Corporation's lending to client authorities. With interest rate swaps, the Corporation agrees with counterparties to exchange at predetermined intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional face value.

Forward rate agreements are used by the Corporation to secure a guaranteed return or cost on known cash flows as and when they fall due. These agreements establish an interest rate on a notional principal over a specified period.

Futures contracts are used essentially for the same purpose as forward rate agreements. The contracts used by the Corporation are the bank bill, 3 year and 10 year bond contracts.

Liquidity risk involves the Corporation's ability to meet all financial commitments as they fall due. The Corporation maintains a minimum prudent level of highly liquid quality assets at all times to ensure that it will always meet its commitments.

The risk to the Corporation of not being able to fund itself is minimised through the diversification of its funding activity across domestic and offshore markets and across the maturity spectrum.

Notes To and Forming Part of the Financial Statements For the Year Ended 30 June 2003 (Continued)

NOTE 17 (Continued)

With regard to foreign exchange risk, the policy is not to take any foreign exchange risk apart from the minor exposure created by the need to maintain small balances in foreign currency bank accounts. The Corporation borrows in foreign currencies when the all in cost after swapping back into Australian dollars is cheaper than the equivalent domestic borrowing. Whereas the Corporation manages interest rate risk on a portfolio basis, it manages the exchange rate risk on foreign currency borrowings as part of the borrowing transaction. In instances where the Corporation advances funds to clients in a currency other than Australian dollars, the exchange rate risk is borne by the individual client authority. At 30 June, the Corporation had not advanced any funds to its clients in a foreign currency. Foreign currency swaps and forwards amounting to \$A435,622 thousand (2002, \$A1,434,990 thousand) at 30 June 2003 have a fixed future obligation in Australian dollars of \$A452,776 thousand (2002, \$A1,480,599 thousand). Additionally, the Corporation has arranged forward foreign exchange transactions for clients amounting to \$A16,401 thousand (2002, \$A24,989 thousand). These transactions are arranged with clients on a back to back basis and therefore the Corporation does not have any exposure.

The Corporation regards the minimisation of these risks as a high priority. Accordingly, the Corporation has in place policies and management structures to monitor and manage these risks. A Liability Management Committee comprising the Chief Executive Officer and other senior management provides policy advice to the Board in respect of the Corporation's financial risk management activities and a comprehensive report on the Corporation's activities is prepared monthly for the Board.

For valuation purposes, the Corporation uses quoted market rates wherever possible to discount cash flows to present values. Those stocks without quoted market rates are valued using the Corporation's Zero Coupon Yield curves. As at 30 June, the market interest rates used by the Corporation for valuation purposes were:

	Coupon	Market Rate as at 30 June 2003	Market Rate as at 30 June 2002
Overnight	-	4.75%	4.75%
90 days	-	4.68%	5.12%
180 days	-	4.56%	5.26%
15 July 2003	8.00%	-	5.34%
15 July 2005	10.00%	4.54%	5.84%
15 October 2007	8.00%	4.82%	6.07%
15 October 2009	7.50%	5.02%	6.23%
15 April 2011	7.00%	5.16%	6.32%
15 June 2013	8.00%	5.26%	-



	2003	2002
	\$'000	\$'000

NOTE 18

NOTES TO THE STATEMENT OF CASH FLOWS

18a. Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Bank Deposits (Note 6)	1,397	2,421
Short Term Money Market Investments	2,442,548	2,078,696
Overseas Bank Accounts (Note 6)	211	709
	2,444,156	2,081,826

18b. Reconciliation of Net Cash used in Operating Activities to Net Profit

Net Profit	5,519	5,402
Depreciation	1,266	1,218
Increase in Receivables	(11,093)	(28,496)
Increase (Decrease) in Accrued Interest Payables	1,500	(37,345)
Increase (Decrease) in Other Creditors	228	(209)
Provision for income tax equivalent expense	2,410	2,406
Future income tax equivalent benefit	(45)	(91)
Provision for deferred income tax equivalent	2	0
Unrealised Foreign Exchange Gain/Loss	101	19
Profit From Sale of Equipment	(5)	(6)
Increase in Employee Benefits	48	283
Market Value Adjustment	(77,031)	(28,788)
Net Cash used in Operating Activities	(77,100)	(85,607)

18c. Financing/Lending Facilities

The Corporation holds a substantial portfolio of liquid assets that can be readily converted into cash. These assets comprise highly liquid money market investments and longer term state government and Commonwealth Government securities.

The Corporation provides a committed lending facility of \$750 million (nil drawn down as at 30 June 2003) (2002, \$750 million (nil drawn down as at 30 June 2002)) to Homeswest, a state government authority. The facility provides Homeswest with a flexible and readily accessible term-funding facility through which it can borrow Australian dollars on either a floating rate or fixed interest basis.

The Corporation also provides a committed lending facility of US\$103.4 million (nil drawn down as at 30 June 2003) (2002, US\$106.5 million (nil drawn down as at 30 June 2002)) to Western Australian Government Railways Commission (Public Transport Authority from 1 July 2003), a state government authority. The facility is to meet contingent obligations under a lease agreement that may eventuate during the life of the lease.

Notes To and Forming Part of the Financial Statements For the Year Ended 30 June 2003 (Continued)

	2003	2002
	\$'000	\$'000

NOTE 19

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Directors' Remuneration

The number of directors whose total of fees, salaries, superannuation and other benefits for the financial year fall within the following bands are:

\$		
10,001 - 20,000	4	-
30,001 - 40,000	1	3
250,001 - 260,000	-	1
260,001 - 270,000	1	-

The total remuneration of the directors of the Corporation is: **370** 352

The superannuation included here represents the superannuation expense incurred by the Corporation in respect of the directors.

No directors are members of the Pension Scheme.

Senior Officers' Remuneration

The number of Senior Officers, other than Directors, whose total fees, salaries, superannuation and other benefits for the financial year, fall within the following bands are:

\$		
160,001 - 170,000	-	2
170,001 - 180,000	1	-
200,001 - 210,000	-	1
210,001 - 220,000	2	-

The total remuneration of senior officers is: **613** 545

The superannuation included here represents the superannuation expense incurred by the Corporation in respect of Senior Officers other than senior officers reported as directors.

No Senior Officers are members of the Pension Scheme.



	2003 \$'000	2002 \$'000
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NOTE 20

AUDITOR'S REMUNERATION

94 105

Amounts paid or due and payable to the Office of the Auditor General for auditing the financial statements and performance indicators.

NOTE 21

EXPLANATORY STATEMENT

21a. ACTUAL/BUDGET COMPARISON 2002/03

	ACTUAL \$'000	BUDGET \$'000	VARIANCE \$'000	COMMENT
REVENUE				
Interest on Investments	120,476	100,000	20,476	
Interest from Authorities	543,867	613,164	(69,297)	1
Proceeds from Sale of Property & Equipment	5	0	5	
Fee Income	260	300	(40)	
Net Market Value Movement	77,031	0	77,031	2
	741,639	713,464	28,175	
EXPENSES				
Interest on Borrowings	723,881	694,164	29,717	3
Depreciation	1,266	1,500	(234)	
Administration Expenses	6,818	7,235	(417)	
Loan Raising Expenses	1,687	1,815	(128)	
Foreign Exchange Loss	101	0	101	
Other Expenses	0	0	0	
	733,753	704,714	29,039	
Profit from ordinary activities before income tax equivalent	7,886	8,750	(864)	

COMMENTS - REASONS FOR VARIATIONS FROM BUDGETED AMOUNTS

1. The decrease in Interest from Authorities compared to budget was due to lower than anticipated interest rates on lendings during the year and the unanticipated reduction in the client authority borrowing program.
2. The relationship between net market value movement and interest income and expense is discussed at Note 4. The budget does not separately identify unrealised gains or losses.
3. The increase in Interest on Borrowings compared to budget was due to an increase in debt. There was a corresponding increase in investments.

Notes To and Forming Part of the Financial Statements For the Year Ended 30 June 2003 (Continued)

NOTE 21 (Continued)

21b. COMPARISON BETWEEN 2002/03 AND THE PREVIOUS YEAR

	2003 \$'000	2002 \$'000	CHANGE \$'000	COMMENT
REVENUE				
Interest on Investments	120,476	72,220	48,256	1
Interest from Authorities	543,867	547,188	(3,321)	2
Proceeds from Sale of Property & Equipment	5	466	(461)	
Fee Income	260	250	10	
Net Market Value Movement	77,031	28,788	48,243	
	741,639	648,912	92,727	
EXPENSES				
Interest on Borrowings	723,881	631,280	92,601	3
Depreciation	1,266	1,218	48	
Administration Expenses	6,818	6,611	207	
Loan Raising Expenses	1,687	1,607	80	
Foreign Exchange Loss	101	19	82	
Other Expenses	0	460	(460)	
	733,753	641,195	92,558	
Profit from ordinary activities before income tax equivalent	7,886	7,717	169	

1. Interest on Investments has increased by \$48.256 million from the previous year due to increased levels of investment funds.
2. Interest from Authorities has decreased by \$3.321 million from the previous year as a result of lower interest rates on lendings during the year.
3. Interest on Borrowings has increased by \$92.601 million from the previous year as a result of an increase in debt.



	2003	2002
	\$'000	\$'000

NOTE 22

COMMITMENTS

Computer Software Contracted but not provided for and payable within one year.	288	0
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CERTIFICATION OF FINANCIAL STATEMENTS

The accompanying financial statements of the Western Australian Treasury Corporation have been prepared in compliance with the provisions of the Financial Administration and Audit Act 1985 from proper accounts and records to present fairly the financial transactions for the year ending 30 June 2003 and the financial position as at 30 June 2003.

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

S L LUFF, B.BUS, CPA
PRINCIPAL ACCOUNTING OFFICER
WESTERN AUSTRALIAN
TREASURY CORPORATION

15 August 2003

D V BUTLER
CHIEF EXECUTIVE OFFICER
WESTERN AUSTRALIAN
TREASURY CORPORATION

15 August 2003

J L LANGOULANT
CHAIRMAN
WESTERN AUSTRALIAN
TREASURY CORPORATION

15 August 2003

Auditor General's Opinion of Financial Statements

To the Parliament of Western Australia

**WESTERN AUSTRALIAN TREASURY CORPORATION
FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003**

Audit Opinion

In my opinion,

- (i) the controls exercised by the Western Australian Treasury Corporation provide reasonable assurance that the receipt, expenditure and investment of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the financial position of the Corporation at June 30, 2003 and its financial performance and cash flows for the year ended on that date.

Scope

The Board's Role

The Board is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing the financial statements, and complying with the Financial Administration and Audit Act 1985 (the Act) and other relevant written law.

The financial statements consist of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, and the Notes to the Financial Statements.

Summary of my Role

As required by the Act, I have independently audited the accounts and financial statements to express an opinion on the controls and financial statements. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial statements is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.



K O O'NEIL
ACTING AUDITOR GENERAL
August 29, 2003



Key Performance Indicators For the Western Australian Treasury Corporation

KEY PERFORMANCE INDICATORS FOR THE WESTERN AUSTRALIAN TREASURY CORPORATION

Mission Statement (2002/2003)

To work with our clients to satisfy their financing needs.

Key Outcome

The key outcome of this mission is that clients are able to borrow from the Corporation at a commercially competitive cost.

Key Output

The key output flowing from the pursuit of this mission is the delivery of loan funds to clients.

Glossary of Terms

A glossary of terms is provided at the end of this report to assist with the interpretation of the performance indicators.

Key Effectiveness Indicator – Estimated Interest Rate Savings

In order to gauge its effectiveness in providing competitively priced loan funds to clients, the Corporation monitors the Australian corporate bond market.

The following table shows the estimated savings to clients borrowing from the Corporation compared to the estimated cost to clients of borrowing in the corporate bond market for the past three years. A direct cost comparison is impossible because none of the Corporation's clients currently issue bonds in their own name. During 2002/2003, six entities were excluded from the list used in the calculation of this KPI. These entities included four supranational institutions, which are different to other suitable benchmarks due to their global status, and two domestic entities, which have implicit Commonwealth Government guarantees. The previous years' KPI comparators have been amended to exclude issues by these entities.

Table 1 - Estimated Interest Rate Savings to Clients by Reference Bond Credit Rating and Term to Maturity*

Term to Maturity as at 30/6/03 (Years)	AAA			AA+			AA			AA-		
	02/03	01/02	00/01	02/03	01/02	00/01	02/03	01/02	00/01	02/03	01/02	00/01
1 to 2	0.17%	0.23%	0.13%	0.63%			0.18%	0.15%	0.18%	0.22%	0.14%	0.19%
2 to 3	0.35%	0.15%	0.27%	0.63%			0.60%		0.25%	0.22%	0.13%	0.26%
3 to 4	0.20%	0.17%	0.26%		0.46%		0.20%		0.50%	0.30%	0.28%	0.26%
4 to 5	0.21%	0.27%	0.21%	0.80%		0.52%	0.97%		0.64%			0.39%
5 to 6	0.56%	0.14%	0.36%							0.50%		
6 to 7	0.64%		0.20%							0.63%		
7 to 8	0.58%											
8 to 9		0.50%							0.85%			
9 to 10			0.55%							0.74%		
11 to 12	0.18%											
12 to 13		0.41%										
13 to 14			0.37%									
16 to 17	0.28%											
17 to 18		0.47%										
18 to 19			0.47%									

* A blank entry in the table means there is no reference bond available in the corporate bond market for comparative purposes.

Key Performance Indicators For the Western Australian Treasury Corporation (Continued)

By way of example, the saving of 0.17% identified in the first row of the AAA 02/03 column represents the estimated interest rate saving to a client (able to borrow in the corporate bond market with a AAA credit rating) when borrowing from the Corporation.

The savings identified in Table 1 would be significantly greater than shown for all but the largest of the Corporation's clients due to the relatively small size of individual client borrowing requirements. In reality, most clients would be unable to borrow at the interest rates available in the corporate bond market due to this constraint. In general, the market imposes a liquidity risk premium because a small issue volume implies a small secondary market in the bond. The premium compensates for the increased difficulty of selling at fair market prices in a small secondary market. As a guide, in the current market environment, issue volumes need to be of the order of \$250 million to avoid the risk of incurring a significant liquidity risk premium.

In this regard, the Corporation's effectiveness is further demonstrated by its ability to make available competitively priced loan funds to clients, with borrowing terms from 1 day to greater than 10 years, regardless of the size of client borrowing programs. By way of contrast, only the largest of corporate bond market participants are able to issue bonds with different terms to maturity. Having multiple bond issues helps to reduce the initial interest cost of bond issues by improving the secondary market and hence liquidity of a borrower's bonds.

Cost Estimation Methodology

A number of corporate bonds were selected for the purpose of comparison to the Corporation's Portfolio Lending Arrangement ("PLA") interest rates. To be selected, a bond had to satisfy the following: -

- be rated between AAA and AA-;
- be on issue at 30 June 2002 and have at least one year until maturity at 30 June 2003.
- not be guaranteed by the Commonwealth or other central governments; and
- not be subordinated debt (ie debt issued by banks for capital adequacy purposes).

The month end traded interest rates for the selected corporate bonds were tracked over the year. The rate for each bond was compared to the rate for an equivalent term PLA bond net of the Corporation's on-cost margin. This margin was removed because it represents the loan issue and administration costs that clients would reasonably be expected to incur in arranging their own borrowing programs.

The estimated saving to the client for a given observation is defined as the observed corporate bond rate minus the net PLA rate. The savings shown in Table 1 are defined as the average of the monthly observations. Where more than one bond falls into a particular maturity category, the results are also averaged.



Key Efficiency Indicator – Administration Cost Ratio

In order to monitor its efficiency in funding client borrowing requirements over time, the Corporation monitors its administration cost ratio.

The administration cost ratio is defined as the ratio of net administration expense to average loan funds outstanding expressed as a percentage. Net administration expense is defined as administration expenses (including loan raising expenses) less non-interest revenue while average loan funds outstanding is defined as the average of the opening and closing book value of loans to clients for the relevant year. The Corporation's administration cost ratio for the previous five years is shown in Table 2.

**Table 2 - WATC Administration Cost Ratio
1998/1999 to 2002/2003**

Year	Net Administration Expense \$m	Average Loan Funds Outstanding \$m	Administration Cost Ratio
1998/1999	6.739	6,609	0.10%
1999/2000	7.170	7,387	0.10%
2000/2001	8.543	8,102	0.11%
2001/2002	9.180	8,440	0.11%
2002/2003	9.506	8,782	0.11%

Clients are able to benefit from the economies of scale that result from the centralised or pooled borrowing arrangements of the Corporation. Through this pooling, the Corporation is able to reduce the administration cost per dollar of lending to the client.

The economies of scale achieved by the Corporation generate savings to the client that would not be available to individual clients attempting to fund their borrowing requirements directly from the market. In general, the level of specialisation and expertise provided by the Corporation would not be cost effective for an individual client to maintain.

The Corporation's administration cost ratio will fluctuate from time to time due to changes in aggregate debt levels as well as direct management action. Changes in aggregate debt levels are impacted by government asset sales and debt management policy in general which is beyond the control of the Corporation.

Key Performance Indicators For the Western Australian Treasury Corporation (Continued)

Glossary of Terms

Term	Explanation
Liquidity Risk	The risk that a bond owner, wanting to sell a bond in the secondary market, is not able to find a buyer willing to pay a fair price for the bond having regard to currently observed market rates and the initial liquidity risk premium.
Liquidity Risk Premium	The increase in the interest rate required by the buyer of a bond to compensate for liquidity risk.
Maturity Date	The date on which the final bond payment is to be made.
Term to Maturity	The amount of time until the final bond payment is due.
Issue Volume	The face value amount at issue date. This is the amount that a bond issuer must repay on the maturity date of the bond.
Corporate Bond Market	The market in which bonds issued in the name of individual corporate entities are bought and sold.
Reference Bond	A corporate bond selected for comparison to the Corporation's lending rates.

CERTIFICATION OF PERFORMANCE INDICATORS

We hereby certify that the performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the performance of the Western Australian Treasury Corporation and fairly represent the performance of the Western Australian Treasury Corporation for the year ended 30 June 2003.



D V BUTLER
CHIEF EXECUTIVE OFFICER
WESTERN AUSTRALIAN
TREASURY CORPORATION

15 August 2003



J L LANGOULANT
CHAIRMAN
WESTERN AUSTRALIAN
TREASURY CORPORATION

15 August 2003



Auditor General's Opinion of Performance Indicators

To the Parliament of Western Australia

WESTERN AUSTRALIAN TREASURY CORPORATION
PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2003

Audit Opinion

In my opinion, the key effectiveness and efficiency performance indicators of the Western Australian Treasury Corporation are relevant and appropriate to help users assess the Corporation's performance and fairly represent the indicated performance for the year ended June 30, 2003.

Scope

The Board's Role

The Board is responsible for developing and maintaining proper records and systems for preparing performance indicators.

The performance indicators consist of key indicators of efficiency and effectiveness.

Summary of my Role

As required by the Financial Administration and Audit Act 1985, I have independently audited the performance indicators to express an opinion on them. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the performance indicators is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the performance indicators.

A handwritten signature in black ink, appearing to read 'K O'Neil'.

K O'NEIL
ACTING AUDITOR GENERAL
August 29, 2003

Client Authorities - Face Value Net Debt Outstanding to the Corporation at 30 June 2003

AUTHORITY NAME	BALANCE AT 1 JULY 2002 \$'000	NET ADVANCES DURING YEAR \$'000	BALANCE AT 30 JUNE 2003 \$'000
Albany City Council	4,596	4,269	8,865
Albany Port Authority	13,011	1,637	14,648
Armadale City Council	595	(88)	508
Ashburton Shire Council	1,576	835	2,412
Augusta-Margaret River Shire Council	3,786	550	4,335
Bassendean Town Council	590	(29)	561
Bayswater City Council	1,239	(698)	541
Belmont City Council	2,020	(220)	1,800
Beverley Shire Council	321	(49)	271
Boddington Shire Council	150	310	460
Boyup Brook Shire Council	508	(94)	414
Shire of Bridgetown-Greenbushes	0	96	96
Brookton Shire Council	196	(36)	160
Broome Shire Council	2,817	(133)	2,684
Broomehill Shire Council	274	(36)	238
Bunbury City Council	4,340	(231)	4,109
Bunbury Port Authority	14,695	(575)	14,120
Busselton Shire Council	2,499	638	3,136
Canning City Council	1,468	(155)	1,313
Carnamah Shire Council	26	(18)	8
Carnarvon Shire Council	2,063	(240)	1,823
Chapman Valley Shire Council	0	115	115
Chittering Shire Council	616	(48)	568
Collie Shire Council	305	(55)	251
Commissioner of Main Roads	225,673	(6,730)	218,943
Coolgardie Shire Council	701	(61)	640
Coorow Shire Council	1,034	104	1,139
Corrigin Shire Council	651	(61)	590
Cottesloe Town Council	393	(52)	341
Country High School Hostels Authority	6,423	938	7,361
Country Housing Authority	5,297	5,979	11,276
Cranbrook Shire Council	69	(7)	62
Cuballing Shire Council	176	(26)	150
Cue Shire Council	274	(40)	235
Cunderdin Shire Council	738	958	1,696
Curriculum Council	143	(9)	135
Curtin University of Technology	28,376	(466)	27,910
Dalwallinu Shire Council	797	(57)	740
Dandaragan Shire Council	2,085	106	2,191
Dardanup Shire Council	1,984	1,440	3,423
Denmark Shire Council	1,572	29	1,600
Departmental Hospitals*	18,250	(723)	17,527
Derby-West Kimberley Shire Council	3,893	(424)	3,469
Disability Services Commission	6,643	663	7,306
Donnybrook-Balingup Shire Council	477	(58)	419
Dowerin Shire Council	33	(10)	22
Dumbleyung Shire Council	462	(65)	397
Dundas Shire Council	81	(9)	73
East Fremantle Town Council	2,105	(494)	1,612
East Pilbara Shire Council	719	(148)	572
Eastern Goldfields Transport Board	722	(243)	479



AUTHORITY NAME	BALANCE AT 1 JULY 2002 \$'000	NET ADVANCES DURING YEAR \$'000	BALANCE AT 30 JUNE 2003 \$'000
Eastern Metropolitan Regional Council	1,664	(236)	1,427
Eastern Pilbara College of TAFE	827	(44)	782
Edith Cowan University	2,562	11,845	14,407
Esperance Port Authority	58,030	(1,900)	56,130
Esperance Shire Council	922	(85)	837
Exmouth Shire Council	379	(131)	248
Fire & Emergency Services Authority of Western Australia	39,808	2,306	42,114
Forest Products Commission	80,076	(6,480)	73,596
Fremantle Cemetery Board	2,230	(179)	2,051
Fremantle City Council	11,444	(1,427)	10,017
Fremantle Hospital Board	2,143	(81)	2,062
Fremantle Port Authority	20,489	(1,367)	19,122
Geraldton City Council	2,904	(253)	2,651
Geraldton Port Authority	9,220	84,573	93,793
Gingin Shire Council	904	(86)	818
Gnowangerup Shire Council	837	(113)	725
Gold Corporation	0	3,500	3,500
Goomalling Shire Council	60	(27)	32
Government Employees' Housing Authority	130,599	(6,985)	123,615
Government Employees Superannuation Board	619,063	(16,648)	602,416
Greenough Shire Council	1,383	358	1,741
Halls Creek Shire Council	509	(60)	448
Harvey Shire Council	2,838	(393)	2,445
Irwin Shire Council	227	(30)	197
Jerramungup Shire Council	606	(80)	526
Kalamunda Shire Council	797	(3)	794
Kalgoorlie-Boulder City Council	11,017	(1,295)	9,722
Katanning Shire Council	1,489	(178)	1,311
Kellerberrin Shire Council	328	(43)	285
Kent Shire Council	376	195	571
King Edward Memorial and Princess Margaret Hospitals Board	14,069	(532)	13,537
Kojonup Shire Council	810	141	951
Kondinin Shire Council	552	124	676
Kulin Shire Council	20	190	210
Kwinana Town Council	288	87	374
Lake Grace Shire Council	646	119	765
Laverton Shire Council	341	(99)	241
Library Board of Western Australia	23,959	(1,269)	22,690
Local Government Association of Western Australia and Country Shire Councils' Association of Western Australia	1,044	(85)	960
Mandurah City Council	17,790	1,611	19,401
Manjimup Shire Council	2,079	925	3,003
Meekatharra Shire Council	16	(2)	14
Melville City Council	5,218	238	5,457
Merredin Shire Council	733	110	843
Metropolitan Health Service Board	63,423	(2,107)	61,316
Midland Redevelopment Authority	11,068	9,203	20,272
Mingenew Shire Council	267	(19)	248
Minister for Education	149,170	22,492	171,661

Client Authorities - Face Value Net Debt Outstanding to the Corporation at 30 June 2003 (Continued)

AUTHORITY NAME	BALANCE AT 1 JULY 2002 \$'000	NET ADVANCES DURING YEAR \$'000	BALANCE AT 30 JUNE 2003 \$'000
Minister for Agriculture, Forestry and Fisheries	2,656	(1,274)	1,382
Minister for Planning and Infrastructure	272,454	2,661	275,115
Minister for State Development	6,976	(345)	6,630
Moora Shire Council	719	321	1,040
Morawa Shire Council	411	(111)	301
Mosman Park Town Council	147	(55)	93
Mount Magnet Shire Council	0	148	148
Mount Marshall Shire Council	790	(173)	617
Mukinbudin Shire Council	595	(172)	423
Mullewa Shire Council	419	85	504
Mundaring Shire Council	280	(132)	148
Murchison Shire Council	62	(15)	47
Murdoch University	8,474	1,586	10,060
Murray Shire Council	1,721	170	1,891
Nannup Shire Council	386	(77)	309
Narabbeen Shire Council	711	(56)	655
Narrogin Shire Council	267	(46)	222
Narrogin Town Council	3,772	791	4,563
Nickol Bay Hospital	3,287	(124)	3,163
Northam Shire Council	70	(15)	55
Northam Town Council	1,393	1,946	3,340
Northampton Shire Council	229	190	420
Nungarin Shire Council	269	(11)	258
Peppermint Grove Shire Council	69	(25)	44
Perenjori Shire Council	322	(33)	289
Perth City Council	12,134	(1,592)	10,542
Perth Dental Hospital Board	2,036	(77)	1,959
Perth Market Authority	47,790	(326)	47,464
Pingelly Shire Council	254	168	422
Plantagenet Shire Council	1,649	90	1,739
Port Hedland Town Council	3,339	895	4,234
Quairading Shire Council	252	(42)	210
Ravensthorpe Shire Council	2,656	1	2,657
Rockingham City Council	8,918	3,651	12,569
Roebourne Shire Council	819	(11)	808
Rottne Island Authority	4,986	(296)	4,691
Royal Perth Hospital Board	24,423	(923)	23,500
Sandstone Shire Council	100	(100)	0
Serpentine-Jarrahdale Shire Council	1,516	(329)	1,187
Shark Bay Shire Council	727	(70)	657
Sir Charles Gairdner Hospital Board	6,538	(247)	6,291
South Perth City Council	128	(12)	116
South West Development Commission	10,003	(766)	9,237
Southern Metropolitan Regional Council	27,349	8,577	35,926
State Housing Commission	1,219,296	276,600	1,495,896
State Supply Commission	200,000	(1,716)	198,284
Subiaco City Council	4	1,545	1,550
Subiaco Redevelopment Authority	5,901	(4,922)	979
Swan City Council	4,680	(817)	3,863
Swan River Trust	169	(8)	161



AUTHORITY NAME	BALANCE AT 1 JULY 2002 \$'000	NET ADVANCES DURING YEAR \$'000	BALANCE AT 30 JUNE 2003 \$'000
Tambellup Shire Council	175	404	579
Tammin Shire Council	79	(20)	59
The Board of the Art Gallery of Western Australia	6,409	(283)	6,126
The State of Western Australia (liability transferred from WA Meat Commission)	7,884	(435)	7,449
The State of Western Australia through the Consolidated Fund	435,744	26,235	461,979
The State of Western Australia through the Loan (Financial Agreement) Act 1991	332,096	(11,678)	320,418
Three Springs Shire Council	9	(2)	7
Toodyay Shire Council	679	(30)	649
Trayning Shire Council	53	(14)	39
Upper Gascoyne Shire Council	73	(7)	66
Victoria Park Town Council	0	1,350	1,350
Victoria Plains Shire Council	466	436	902
WA Building Management Authority	161,266	(8,498)	152,767
WA Coastal Shipping Commission	28,573	(1,900)	26,672
WA Government Railways Commission	712,543	(1,986)	710,558
WA Greyhound Racing Authority	377	(16)	361
WA Tourism Commission	27	(27)	0
Wagin Shire Council	0	54	54
Wanneroo City Council	300	0	300
Waroona Shire Council	82	(16)	66
Water and Rivers Commission	1,436	(200)	1,236
Water Corporation	909,000	78,000	987,000
West Arthur Shire Council	392	(66)	326
West Pilbara College of TAFE	219	(13)	206
Western Power Corporation	2,332,777	83,564	2,416,341
Westonia Shire Council	84	(9)	74
Wickepin Shire Council	389	46	435
Williams Shire Council	216	(25)	191
Wongan-Ballidu Shire Council	381	(62)	320
Wyalkatchem Shire Council	76	(13)	63
Wyndham-East Kimberley Shire Council	504	(129)	374
Yalgoo Shire Council	147	71	218
Yilgarn Shire Council	222	(106)	116
York Shire Council	479	52	531
Zoological Parks Authority	18,844	(375)	18,469
TOTAL	8,506,829	550,871	9,057,700

* The authority name "Departmental Hospitals" represents the Board of:

Albany Regional Hospital	Kalgoorlie Regional Hospital
Armadale-Kelmscott District Memorial Hospital	Merredin District Hospital
Augusta District Hospital	Mt Henry Hospital
Bentley Hospital	Osborne Park Hospital
Broome District Hospital	Port Hedland Regional Hospital
Esperance District Hospital	Swan Districts Hospital

Note : Due to rounding some figures do not add.

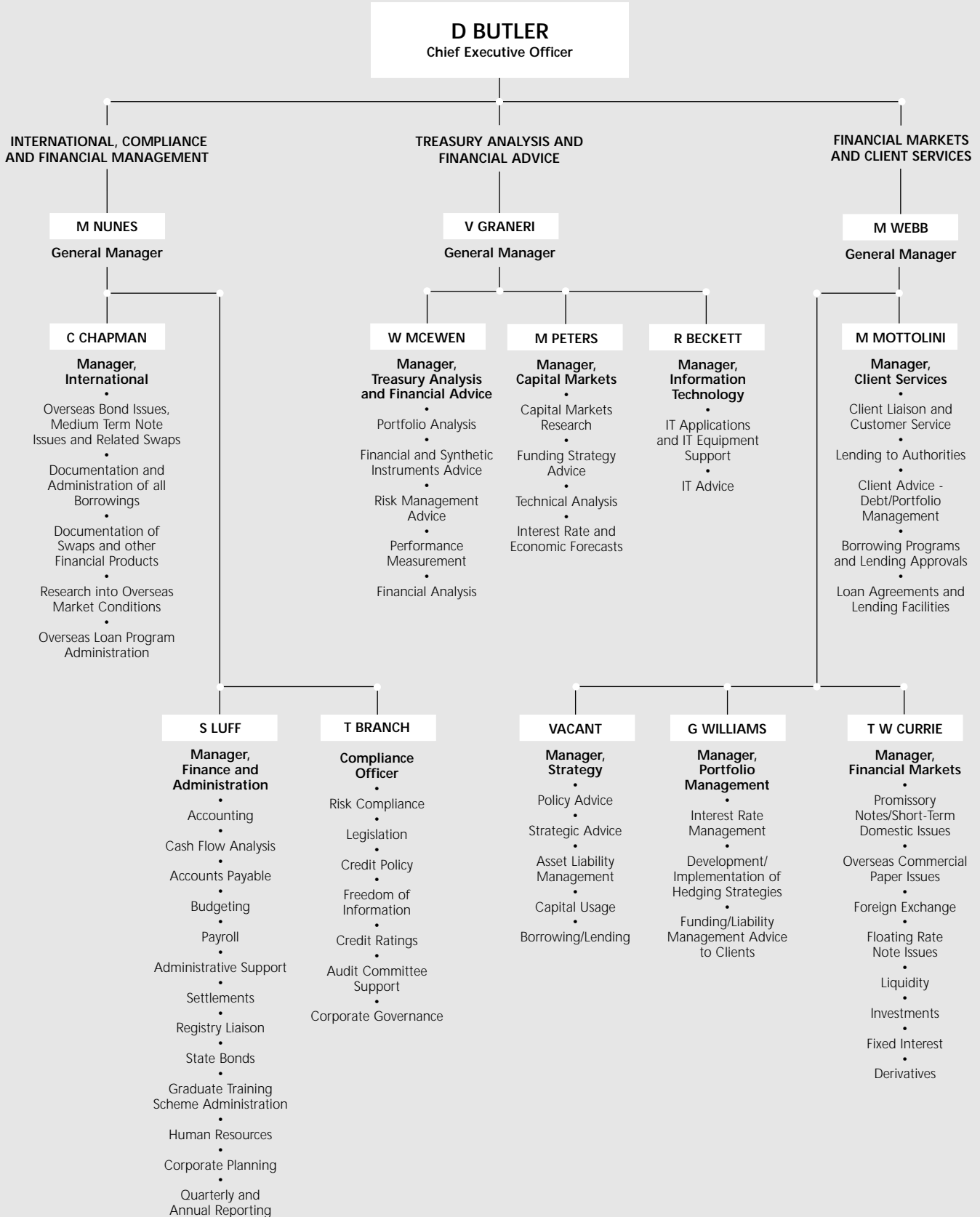
Budget 2003/04

	Estimate \$'000
REVENUE	
Revenue from ordinary activities	
Interest on Investments	98,000
Interest from Authorities	613,473
Fee Income	290
	711,763
EXPENSES	
Expenses from ordinary activities	
Interest on Borrowings	693,531
Depreciation	1,150
Loan Raising Expenses	1,849
Administration Expenses	7,569
	704,099
Profit from ordinary activities before income tax equivalent	7,664
Income Tax Equivalent Expense	2,299
Net Profit	5,365



Organisational Chart

as at 18 August 2003



Western Australian Treasury Corporation Addresses

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REGISTRY INFORMATION

Following are address details for offices of Computershare Investor Services Pty Limited:

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45 St George's Terrace
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MELBOURNE VIC 3000

NEW SOUTH WALES

Level 3
60 Carrington Street
SYDNEY NSW 2000

QUEENSLAND

Central Plaza One, Level 27
345 Queen Street
BRISBANE QLD 4000

SOUTH AUSTRALIA

Level 5
115 Grenfell Street
ADELAIDE SA 5000

STOCKHOLDING ENQUIRIES

Please ring Computershare Investor Services Pty Limited on Freecall 1800 098 828 for all stockholding enquiries.



