

OFFERING CIRCULAR



Australian Government

Export Finance and Insurance Corporation

EXPORT FINANCE AND INSURANCE CORPORATION

(A statutory corporation of the Commonwealth of Australia)

Payments of principal and interest guaranteed by the

COMMONWEALTH OF AUSTRALIA

**U.S.\$2,500,000,000
PROGRAMME FOR THE
ISSUANCE OF DEBT INSTRUMENTS**

Under the Programme for the Issuance of Debt Instruments (the "**Programme**") described in this offering circular (the "**Offering Circular**"), Export Finance and Insurance Corporation (the "**Issuer**" or "**EFIC**") may from time to time issue instruments (the "**Instruments**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The Instruments are guaranteed by The Commonwealth of Australia (the "**Guarantor**" or the "**Commonwealth**" or "**Australia**").

This Offering Circular comprises Listing Particulars and is issued in compliance with the listing rules made under Section 79(2) of the Financial Services and Markets Act 2000 (the "**FSMA**") by the United Kingdom Financial Services Authority in its capacity as competent authority under the FSMA (the "**FSA**") and for the purpose of giving information with regard to the issue of Instruments issued under the Programme during the period of twelve months from the date hereof. Applications have been made for such Instruments to be admitted during the period of twelve months after the date hereof to listing on the Official List of the UK Listing Authority ("**UKLA**") and to trading on the Professional Securities Market of the London Stock Exchange plc (the "**London Stock Exchange**"). The Professional Securities Market is not a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Instruments may also be issued under the Programme on the basis that they will not be admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system or that they will be admitted to listing, trading and/or quotation by such other or further listing authorities, stock exchanges and/or quotation systems as may be agreed between the Issuer and the relevant Dealer.

Any Instruments issued under the Programme on or after the date of this Offering Circular are issued subject to the provisions described herein. This does not affect any Instruments issued before the date of this Offering Circular.

Investing in Instruments issued under the programme involves certain risks.

The principal risk factors that may affect the ability of the Issuer and the Guarantor to fulfil their respective obligations under the Instruments are discussed under "*Risk Factors*" below.

Arranger
MORGAN STANLEY
Dealers

**BOFA MERRILL LYNCH
MORGAN STANLEY
UBS INVESTMENT BANK**

**GOLDMAN SACHS INTERNATIONAL
NOMURA**

15 April 2011

This Offering Circular has not been, nor will be, lodged with the Australian Securities and Investments Commission ("**ASIC**") and is not a 'prospectus' or other 'disclosure document' for the purposes of the Corporations Act 2001 of Australia ("**Corporations Act**"). In addition, see the selling restrictions in "*Subscription and Sale*" on pages 132 to 136 inclusive of this Offering Circular.

This Offering Circular has been prepared on the basis that any offer of Instruments in any Member State of the European Economic Area which has implemented Directive 2003/71/EC (the "**Prospectus Directive**") (each a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Instruments. Accordingly, any person making or intending to make an offer in that Relevant Member State of Instruments which are the subject of an offering contemplated in this Offering Circular as completed by Pricing Supplement in relation to the offer of those Instruments may only do so in circumstances in which no obligation arises for the Issuer, the Arranger (as defined in the "*Overview of the Programme*"), or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such an offer. None of the Issuer, the Arranger and any Dealer has authorised, nor do any of them authorise, the making of any offer of Instruments in circumstances in which an obligation arises for the Issuer, the Arranger or any Dealer to publish or supplement a Offering Circular for such offer.

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (who has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Information contained in this Offering Circular under the heading Commonwealth Disclosure set out on pages 50 to 126 of the Offering Circular was extracted from the following website: <http://www.guaranteescheme.gov.au/australia/pdf/commonwealth-australia-22112010.pdf>. This internet site address is included for reference only and the contents of such internet site are not incorporated by reference into, and do not form part of, this Offering Circular (other than as set out herein). The Issuer confirms that this information has been accurately reproduced, and so far as the Issuer is aware and is able to ascertain from information available from such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer has confirmed to the dealers named under "*Subscription and Sale*" herein (each, a "**Dealer**" and together, the "**Dealers**") that this Offering Circular is true and accurate in all material respects and not misleading; that there are no other facts in relation to the information contained or incorporated by reference herein the omission of which would, in the context of the issue of the Instruments, make any statement herein misleading in any material respect, and that all reasonable enquiries have been made to verify the foregoing.

The Offering Circular should be read and construed with any amendment or supplement hereto and, unless the context otherwise requires, be deemed to include any other documents incorporated by reference herein and, in relation to any Series (as defined herein) of Instruments, should be read and construed together with the relevant Pricing Supplement (as defined herein).

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Instruments other than as contained or incorporated by reference in this Offering Circular, in the Dealership Agreement (as defined herein), in any other document prepared in connection with the Programme or any Pricing Supplement or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Dealers or any of them.

No representation or warranty is made or implied by the Dealers or any of their respective affiliates, and neither the Dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility, as to the accuracy or completeness of the information contained herein. Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Instrument shall, in any circumstances, create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change in the current or prospective financial or trading position of the Issuer since the date hereof or thereof or, if later, the date upon which this document has been most recently amended or supplemented or that any other information supplied in

connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

THIS OFFERING CIRCULAR IS NOT FOR DISTRIBUTION OR RELEASE IN THE UNITED STATES.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Instruments in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular or any Pricing Supplement comes are required by the Issuer and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Instruments and on the distribution of this Offering Circular or any Pricing Supplement and other offering material relating to the Instruments see "*Subscription and Sale*" herein. In particular, Instruments have not been and will not be registered under the United States Securities Act of 1933 (as amended) and may include Instruments in bearer form which are subject to United States tax law requirements. Subject to certain exceptions, Instruments may not be offered, sold (directly or indirectly) or delivered within the United States or to, or for the account or benefit of, United States persons. Neither this Offering Circular nor any Pricing Supplement may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Instruments and the aforesaid should not be considered as a recommendation by the Issuer, the Dealers or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Instruments. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

Tranches of Instruments may be rated or unrated. Where a Tranche of Instruments is rated, the applicable rating(s) will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold Instruments and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

All references in this Offering Circular to "**U.S. Dollars**" or "**U.S.\$**" are to the currency of the United States of America, references to "**Sterling**" and "**£**" are to the currency of the United Kingdom, references to "**CHF**" or "**Swiss Francs**" are to the currency of Switzerland references to "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended, and references to "**A\$**" are to the currency of the Commonwealth of Australia.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF INSTRUMENTS UNDER THE PROGRAMME, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OUTSIDE AUSTRALIA AND IN A MARKET OPERATED OUTSIDE AUSTRALIA OVER-ALLOT INSTRUMENTS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE INSTRUMENTS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF INSTRUMENTS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF INSTRUMENTS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF INSTRUMENTS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the Financial Services Authority shall be incorporated in, and form part of, this Offering Circular (except for information which itself is incorporated into such documents by reference):

- the consolidated audited financial statements of the Issuer (including the auditors' report thereon and the notes thereto) in respect of the years ended 30 June 2009 and 30 June 2010; and
- the terms and conditions set out on pages 18 to 44 of the base prospectus dated 26 October 2006 relating to the Programme under the heading "Terms and Conditions of the Instruments" (the "**2006 Conditions**").

If at any time the Issuer shall be required to prepare supplementary listing particulars pursuant to section 81 of the FSMA, the Issuer will prepare and make available an appropriate amendment or supplement to this Offering Circular or a further offering circular which, in respect of any subsequent issue of Instruments to be listed on the Official List of the UKLA and admitted to trading on the Professional Securities Market of the London Stock Exchange, shall constitute supplementary listing particulars as required by the UKLA and section 81 of the FSMA.

The Issuer has undertaken that upon becoming aware that there has been a significant change affecting any matter contained in this Offering Circular or a significant new factor or matter has arisen, the inclusion of information in respect of which would have been required in this Offering Circular if it had arisen before this Offering Circular was issued, or if a material mistake or inaccuracy relating to the Information in this Offering Circular capable of affecting the assessment of the Instruments has arisen following the Programme Date, the Issuer will publish a supplementary prospectus.

For as long as the Programme remains in effect or any Instruments are outstanding, copies of this Offering Circular and the documents incorporated by reference herein may be inspected during normal business hours at the specified office of the Fiscal Agent and Principal Registrar (each as defined herein) and from the head office of the Issuer.

CONTENTS

	Page
DOCUMENTS INCORPORATED BY REFERENCE	iv
OVERVIEW OF THE PROGRAMME	1
RISK FACTORS	5
TERMS AND CONDITIONS OF THE INSTRUMENTS	10
USE OF PROCEEDS	32
FORM OF PRICING SUPPLEMENT	33
EXPORT FINANCE AND INSURANCE CORPORATION.....	44
COMMONWEALTH OF AUSTRALIA	50
TAXATION	127
SUBSCRIPTION AND SALE	132
GENERAL INFORMATION	137
INDEX OF DEFINED TERMS	139

OVERVIEW OF THE PROGRAMME

The following is a brief overview only and should be read, in relation to any Instruments, in conjunction with the relevant Pricing Supplement and, to the extent applicable, the Terms and Conditions of the Instruments set out herein.

Issuer:	Export Finance and Insurance Corporation.
Arranger:	Morgan Stanley & Co. International plc.
Dealers:	Goldman Sachs International, Merrill Lynch International, Morgan Stanley & Co. International plc, Nomura International plc and UBS Limited. The Issuer may at any time appoint additional or other dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments.
Dealers:	Goldman Sachs International, Merrill Lynch International, Morgan Stanley & Co. International plc, Nomura International plc and UBS Limited. The Issuer may at any time appoint additional or other dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments.
Fiscal Agent:	Citibank, N.A.
Principal Registrar:	Citibank, N.A.
Programme Amount:	U.S.\$2,500,000,000 (and, for this purpose, any Instruments denominated in another currency shall be translated into U.S. Dollars at the date of the agreement to issue such Instruments using the spot rate of exchange for the purchase of such currency against payment of U.S. Dollars being quoted by the Fiscal Agent on the day on which the relevant agreement in respect of the relevant Tranche (as defined below) was made or such other rate as the Issuer and the relevant Dealer may agree) in aggregate principal amount of Instruments outstanding at any one time. The maximum aggregate principal amount of Instruments which may be outstanding under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealership Agreement as defined under " <i>Subscription and Sale</i> ".
Issuance in Series:	Instruments will be issued in separate series (each, a " Series "). Each Series may comprise one or more tranches (" Tranches " and each, a " Tranche ") issued on different issue dates. The Instruments of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Instruments in bearer form and Instruments in registered form and may comprise Instruments of different denominations. The Instruments of each Series will all be subject to identical terms, whether as to currency, interest, maturity or otherwise, or terms which are identical except that the issue dates, the amount of the first payment of interest and/or the denomination thereof may be different and save that a Series may comprise Instruments in bearer form and Instruments in registered form.
Form of Instruments:	Instruments may be issued in bearer form or in registered form. In respect of each Tranche of Instruments issued in bearer form, the Issuer will deliver a temporary global Instrument or a permanent global Instrument, which will be deposited on or before the relevant issue date therefor with a depositary or a common depositary for Euroclear Bank S.A./N.V.,

("Euroclear") and/or Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and/or any other relevant clearing system. Each temporary global Instrument will be exchangeable for a permanent global Instrument or, if so specified in the relevant Pricing Supplement, for Instruments in definitive bearer form and/or (in the case of a Series comprising both bearer and registered Instruments and if so specified in the relevant Pricing Supplement) registered form, without charge, in accordance with its terms. Each permanent global Instrument will be exchangeable for Instruments in definitive bearer form and/or (in the case of a Series comprising both bearer and registered Instruments and if so specified in the relevant Pricing Supplement) registered form, without charge, in accordance with its terms. Instruments in definitive bearer form will, if interest-bearing, either have interest coupons ("Coupons") attached or have a grid for recording the payment of interest endorsed thereon and will, if the principal thereof is repayable by instalments, have a grid for recording the payment of principal endorsed thereon. Instruments in registered form may not be exchanged for Instruments in bearer form.

Currencies:

Instruments may be denominated in any currency or currencies (including, without limitation, Australian Dollars ("AUD"), Canadian Dollars ("CAD"), Danish Krone ("DKK"), euro ("EUR"), Hong Kong Dollars ("HKD"), Japanese Yen ("JPY"), New Zealand Dollars ("NZD"), Norwegian Krone ("NKR"), Pounds Sterling ("GBP"), Swedish Krona ("SEK"), Swiss Francs ("CHF") and United States Dollars ("USD")) subject to compliance with all applicable legal and/or regulatory requirements. Payments in respect of Instruments may, subject to compliance as aforesaid, be made in and/or linked to any currency or currencies other than the currency in which such Instruments are denominated.

Status:

Instruments will be issued on an unsubordinated basis only. The Instruments will constitute direct, unconditional and unsecured obligations of the Issuer.

Guarantee:

The due payment by the Issuer of any money that becomes payable by the Issuer to a person other than the Commonwealth of Australia is guaranteed by the Commonwealth of Australia.

Issue Price:

Instruments may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Pricing Supplement.

Maturities:

Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory requirements and/or central bank requirements.

If the maturity date is less than one year from the issue date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Instruments is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Instruments must have a minimum denomination of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the

purposes of their businesses or (ii) another applicable exemption from section 19 of the Financial Services and Markets Act 2000 (the "FSMA") must be available.

Redemption: Instruments may be redeemable at par or at such other redemption amount (detailed in a formula or otherwise) as may be specified in the relevant Pricing Supplement.

Optional Redemption: Instruments may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders of Instruments to the extent (if at all) specified in the relevant Pricing Supplement.

Tax Redemption: Early redemption will be permitted for taxation reasons as mentioned in "*Terms and Conditions of the Instruments – Redemption and Purchase – Early Redemption for Taxation Reasons*".

Interest: Instruments may be interest-bearing or non-interest-bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.

Denominations: No Instruments may be issued under the Programme which (a) have a minimum denomination of less than EUR1,000 (or nearly equivalent in another currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Instruments which are offered to the public in a Member State may not have a denomination of less than EUR100,000 (or at least the equivalent in another currency) unless otherwise specified in the relevant Pricing Supplement. Subject thereto, Instruments will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Taxation: Payments in respect of Instruments will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Commonwealth or any political subdivision of, or any, authority in or of, the Commonwealth having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer will (subject to customary exceptions) pay such additional amounts as will result in the holders of Instruments or Coupons receiving such amounts as they would have received in respect of such Instruments or Coupons had no such withholding or deduction been required.

Negative Pledge: None.

Cross Default: None.

Governing Law: The Instruments, all related contractual documentation and all non-contractual rights or obligations arising from or connected to them will be governed by English law.

Listing: Each Series issued under the Programme may be admitted to

listing on the Official List of the UKLA and to trading on the London Stock Exchange's Professional Securities Market and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the Issuer and the relevant Dealer and specified in the relevant Pricing Supplement or may be unlisted.

Terms and Conditions:

A Pricing Supplement will be prepared in respect of each Tranche of Instruments, a copy of which will, in the case of the Instruments to be admitted to listing on the Official List of the UKLA and to trading on the London Stock Exchange's Professional Securities Market, be delivered to the UKLA and the London Stock Exchange on or before the date of issue of such Instruments. The terms and conditions applicable to each Tranche will be those set out in "*Terms and Conditions of the Instruments*" herein as supplemented, modified or replaced by the relevant Pricing Supplement.

Enforcement of Instruments in Global Form:

In the case of Instruments in global form, the individual rights of each investor will be governed by a Deed of Covenant dated 15 April 2011 (as the same may be amended, restated, supplemented or replaced from time to time), a copy of which will be available for inspection at the specified office of the Fiscal Agent and the Principal Registrar.

Clearing Systems:

Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Instruments, any other clearing system as may be specified in the relevant Pricing Supplement.

Selling Restrictions:

For a description of certain restrictions, as at the date of this Offering Circular, on offers, sales and deliveries of Instruments and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, Japan and the Commonwealth, see under "*Subscription and Sale*". Further restrictions may be required in connection with any particular Tranche of Instruments and will be specified in the documentation relating to such Tranche.

RISK FACTORS

Each of the Issuer and the Guarantor believes that the following factors may affect its ability to fulfil its obligations under the Instruments issued under the Programme. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with Instruments issued under the Programme are also disclosed below.

Each of the Issuer and the Guarantor believes that the factors described below represent the principal risks inherent in investing in Instruments issued under the Programme, but the inability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with any Instruments may occur for other reasons and neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding any Instruments are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Words and expressions defined in "Terms and Conditions of the Instruments" below or elsewhere in this Offering Circular have the same meanings in this section. Investing in the Instruments involves certain risks. If any of the following risks actually occurs, the trading price and/or value at maturity of the Instruments of the Issuer could decline and an investor could lose all or part of its investment. Prospective investors should consider, among other things, the following risks.

Risk Relating to the Issuer

The Issuer is a statutory corporation having the power to borrow and raise funds under the Export Finance and Insurance Corporation Act 1991 (Clth) (the "**EFIC Act**"). There is no assurance that the Parliament of Australia will not introduce legislation to amend or repeal those powers and negatively affect the Issuer's borrowing and fund raising ability (including the Issuer's ability to access capital markets for new funding), or its ability to make payments on Instruments currently issued under the Programme.

The Issuer can sue and be sued in its corporate name and is not immune from suit in the courts of Australia. Any judgment debt or order against the Issuer would be capable of attaching to the Issuer's property and assets. The due payment by the Issuer of any money that becomes payable by it to a person other than the Commonwealth is guaranteed by the Commonwealth pursuant to the EFIC Act. There is no assurance that the Parliament of Australia will not introduce new legislation to amend the terms of, or remove, its legislative guarantee. The Parliament of Australia has the constitutional power to make amendments to the EFIC Act with retrospective effect.

Risk Relating to the Guarantor

The Guarantor is not immune from suit, and proceedings can be commenced against the Guarantor in the High Court of Australia under the Judiciary Act 1903 (Clth). When a judgment attaches to the Commonwealth, the Registrar of the Court issues a certificate which the Minister for Finance and Deregulation is obliged to satisfy out of moneys legally available upon receipt of the certificate. The passage of an Appropriation Bill is required to make the moneys available, however, no execution or attachment can be issued against the property or revenues of the Commonwealth to allow investors to recover all or any part of their investment in Instruments issued under the Programme.

Risks Relating to the Instruments

The Instruments may not be a suitable investment for all investors

Each potential investor in the Instruments must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Instruments, the merits and risks of investing in the Instruments and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Instruments and the impact such an investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Instruments, including Instruments with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Instruments and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Instruments may be complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase such instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Instruments which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Instruments will perform under changing market conditions, the resulting effects on the value of the Instruments and the impact this investment will have on the potential investor's overall investment portfolio.

There is no active trading market for the Instruments

Instruments issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Instruments which has already been issued). If the Instruments are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although an application has been made for the Instruments issued under the Programme to be listed on the Official List of the UKLA and to be admitted to trading on the London Stock Exchange's Professional Securities Market, there is no assurance that such applications will be accepted, that any particular Tranche of Instruments will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Instruments.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations and/or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Instruments are legal investments for it, (ii) Instruments can be used as collateral for various types of borrowing and (iii) any other restrictions apply to its purchase or pledge of any Instruments. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Instruments under any applicable risk-based capital or similar rules.

The terms and conditions of the Instruments may be modified by defined majorities of Instrument holders

The terms and conditions of the Instruments contain provisions for calling meetings of Instrument holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all such holders, including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority.

Changes of law may have an impact on the interests of the Instrument holders

The terms and conditions of the Instruments are based on English law in effect as at the date of this Offering Circular. Possible judicial decisions or changes to English law or administrative practice after the date of this Offering Circular may have an adverse impact on the interests of Instrument holders.

As the global instruments are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

Instruments issued under the Programme may be represented by one or more global Instruments. Such global Instruments will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant global Instrument, investors will not be entitled to receive Instruments in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the global Instruments which are held by them or on their behalf. While the Instruments are represented by one or more global Instruments, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Instruments are represented by one or more global Instruments, the Issuer and the Guarantor will discharge their payment obligations under the Instruments by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a global Instrument must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Instruments. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the global Instruments.

Holders of beneficial interests in the global Instruments will not have a direct right to vote in respect of the relevant Instruments. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the global Instruments will not have a direct right under the global Instruments to take enforcement action against the Issuer or the Guarantor in the event of a default under the relevant Instruments, but will have to rely upon their rights as set out in the global Instruments.

Minimum Specified Denomination and higher integral multiples

In relation to any issue of Instruments which have a denomination consisting of the minimum Specified Denomination plus a higher multiple of another smaller amount, it is possible that the Instruments may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case, a Holder of such an Instrument who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination may not receive a definitive Instrument in respect of such holding (should definitive Instruments be printed) and would need to purchase a principal amount of Instruments such that its holding amounts to the minimum Specified Denomination.

European Union Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income ("**EU Savings Tax Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence from 1 January 2010.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain dependent or associated territories in relation to payments of interest or similar income made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the EU Savings Tax Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Instrument as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Tax Directive.

Risks Relating to the Structure of a Particular Issue of Instruments

A wide range of Instruments may be issued under the Programme. A number of these Instruments may have features which contain particular risks for potential investors. Set out below is a description of the most common such features.

The Instruments may be redeemed prior to maturity

Unless, in the case of any particular Tranche of Instruments, the relevant Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Instruments as a result of any change in, or amendment to, the laws or regulations of the Commonwealth of Australia or of any political subdivision of, or any authority in or of, the Commonwealth of Australia having power to tax or any change in the application or official interpretation of any such laws or regulations which change or amendment becomes effective on or after the date of issue of such Instruments or any earlier date specified in the relevant Pricing Supplement, the Issuer may redeem all outstanding Instruments in accordance with the Terms and Conditions.

If, in the case of any particular Tranche of Instruments, the relevant Pricing Supplement specifies that the Instruments are redeemable at the Issuer's option in certain other circumstances, the Issuer may choose to redeem the Instruments at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Instruments.

The Issuer may fail to pay installments due under partly paid Instruments

The Issuer may issue Instruments where the issue price is payable in more than one installment. Any failure to pay any subsequent installment could result in an investor losing all of his investment.

Index Linked Instruments and Dual Currency Instruments

The Issuer may issue Instruments with interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**", such Instruments being "**Indexed Linked Instruments**"). In addition, the Issuer may issue Instruments with principal or interest payable in one or more currencies which may be different from the currency in which the Instruments are denominated ("**Dual Currency Instruments**"). Potential investors should be aware:

- (i) the market price of such Instruments may be volatile;
- (ii) they may receive no interest;
- (iii) payment of principal or interest may occur at a different time or in a different currency than expected;
- (iv) they may lose all or a substantial portion of their principal;
- (v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

- (vi) if a Relevant Factor is applied to Instruments in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Instruments. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Instruments and any suitability of such Instruments in light of its particular circumstances.

Variable rate Instruments with a multiplier or other leverage factor may be more volatile than other Instruments

Instruments with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors (including without limitation by reference to an index or other market reference), or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Instruments may be more volatile than other Instruments

Inverse Floating Rate Instruments have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as the London Inter-Bank Offered Rate ("**LIBOR**"). The market values of such Instruments are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms) because an increase in the reference rate not only decreases the interest rate of the Instruments, but may also reflect an increase in prevailing interest rates.

Fixed/Floating Rate Instruments carry certain risks

Fixed/Floating Rate Instruments may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of the Instruments, since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Instruments may be less favourable than then prevailing spreads on comparable Floating Rate Instruments tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Instruments. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Instruments.

Instruments issued at a substantial discount or premium carry certain risks

The market values of securities issued at a substantial discount or premium from their principal amount may fluctuate more in relation to general changes in interest rates than those for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

TERMS AND CONDITIONS OF THE INSTRUMENTS

The following are the Terms and Conditions of the Instruments which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be applicable to each Series of Instruments. A Pricing Supplement will exist for each Series. A Series may contain one or more Tranches.

The Instruments are issued in accordance with an issue and paying agency agreement (the "**Issue and Paying Agency Agreement**", which expression shall include any amendments or supplements thereto or any restatements thereof) dated 21 December 1993, as amended and restated by an (amended and restated) issue and paying agency agreement dated 15 April 2011 and made between Export Finance and Insurance Corporation (the "**Issuer**"), Citibank, N.A., acting through its London office, in its capacity as fiscal agent (the "**Fiscal Agent**", which expression shall include any successor to Citibank, N.A., acting through its London office, in its capacity as such) and as principal registrar (the "**Principal Registrar**", which expression shall include any successor to Citibank, N.A., acting through its London office, in its capacity as such), Dexia Banque Internationale à Luxembourg in its capacity as alternative registrar (the "**Alternative Registrar**", which expression shall include any successor to Dexia Banque Internationale à Luxembourg in its capacity as such) and the paying agents named therein (the "**Paying Agents**", which expression shall include the Fiscal Agent and any substitute or additional paying agents appointed in accordance with the Issue and Paying Agency Agreement). The Issuer has executed a deed of covenant (the "**Deed of Covenant**", which expression shall include any amendments or supplements thereto or any restatements or any replacements thereof) dated 15 April 2011 in relation to the Instruments. Copies of the Issue and Paying Agency Agreement and the Deed of Covenant are available for inspection at the specified office of each of the Paying Agents, the Principal Registrar and the Alternative Registrar. All persons from time to time entitled to the benefit of obligations under any Instruments shall be deemed to have notice of, and shall be bound by, all of the provisions of the Issue and Paying Agency Agreement and the Deed of Covenant insofar as they relate to the relevant Instruments.

The Instruments are issued in series (each, a "**Series**"), and each Series may comprise one or more tranches ("**Tranches**" and each, a "**Tranche**") of Instruments. Each Tranche will be the subject of a pricing supplement (each, a "**Pricing Supplement**"), a copy of which will, in the case of a Tranche in relation to which application has been made for admission to listing on the Official List of the Financial Services Authority (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, the "**FSA**") and to trading on the Professional Securities Market of the London Stock Exchange plc (the "**London Stock Exchange**"), be lodged with the UK Listing Authority and the London Stock Exchange and will be available for inspection at the specified office of the Fiscal Agent or, as the case may be, the Registrar (as defined in Condition 2.2). In the case of a Tranche of Instruments in relation to which application has not been made for admission to listing on the Official List of the UKLA or to trading on the London Stock Exchange's Professional Securities Market or for listing, trading and/or quotation on any other listing authority, stock exchange and/or quotation system, copies of the relevant Pricing Supplement will only be available for inspection by a Holder of or, as the case may be, a Relevant Account Holder (as defined in the Deed of Covenant) in respect of such Instruments.

References in these Terms and Conditions to Instruments are to Instruments of the relevant Series and any references to Coupons are to Coupons relating to Instruments of the relevant Series.

1. **Form and Denomination**

- 1.1 Instruments are issued in bearer form ("**Bearer Instruments**") or in registered form ("**Registered Instruments**"), as specified in the relevant Pricing Supplement.

Form of Bearer Instruments

- 1.2 The Pricing Supplement shall specify whether U.S. Treasury Regulation §1.163-5(c)(2)(i)(c) (the "**TEFRA C Rules**") or U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") is applicable. Each Tranche of Bearer Instruments will be represented upon issue by a temporary global instrument (a "**Temporary Global Instrument**"), if the TEFRA D Rules are applicable, or a permanent global Instrument (a "**Permanent Global Instrument**"), in either case in substantially the form (subject to amendment and completion) scheduled to the Issue and Paying Agency Agreement.

Unless the TEFRA C Rules have been specified in the relevant Pricing Supplement, interests in the Temporary Global Instrument may be exchanged for:

- (i) interests in a Permanent Global Instrument; or
- (ii) if so specified in the relevant Pricing Supplement, serially numbered definitive instruments ("**Definitive Instruments**") and/or (in the case of a Series comprising both Bearer Instruments and Registered Instruments and if so specified in the relevant Pricing Supplement) Registered Instruments in substantially the form (subject to amendment and completion) scheduled to the Issue and Paying Agency Agreement, on or after the date (the "**Exchange Date**") which is forty days after the issue date of the relevant Tranche and provided certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing systems) has been received.

If so specified in the relevant Pricing Supplement, an exchange of Bearer Instruments for Registered Instruments may be made at any time or from such date as may be specified in the Pricing Supplement, in each case without any requirement for certification.

- 1.3 If (unless the TEFRA C rules have been specified in the relevant Pricing Supplement) any date on which a payment of interest is due on the Instruments of a Tranche occurs whilst any Instrument of that Tranche is represented by a Temporary Global Instrument, the related interest payment will be made on the Temporary Global Instrument only to the extent that certification as to the beneficial ownership thereof as required by U.S. Treasury regulations (in substantially the form set out in the Temporary Global Instrument or in such other form as is customarily issued in such circumstances by the relevant clearing systems) has been received by Euroclear Bank S.A./N.V., ("**Euroclear**") or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") or any other relevant clearing system. Payments of amounts due in respect of a Permanent Global Instrument will be made through Euroclear or Clearstream, Luxembourg or any other relevant clearing system without any requirement for certification.
- 1.4 Interests in a Permanent Global Instrument will be exchanged by the Issuer in whole (or in part if the Permanent Global Instrument is held by or on behalf of Euroclear and/or Clearstream, Luxembourg and the rules of Euroclear and/or Clearstream, Luxembourg then permit), at the option of the Holder of such Permanent Global Instrument, for serially numbered Definitive Instruments and/or (in the case of a Series comprising both Bearer and Registered Instruments and if so specified in the relevant Pricing Supplement) Registered Instruments, (a) if any Instrument of the relevant Series becomes due and repayable following an Event of Default (as defined herein); or (b) if either Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of fourteen days (other than by reason of public holidays) or announces an intention to cease business permanently; or (c) if so specified in the Pricing Supplement, at the option of the Holder of such Permanent Global Instrument upon such Holder's request.
- 1.5 Interest-bearing Definitive Instruments will, if so specified in the relevant Pricing Supplement, have attached thereto at the time of their initial delivery coupons ("**Coupons**"), presentation of which will be a prerequisite to the payment of interest in certain circumstances specified below. Interest-bearing Definitive Instruments will also, if so specified in the relevant Pricing Supplement, have attached thereto at the time of their initial delivery, a talon ("**Talon**") for further coupons and the expression "**Coupons**" shall, where the context so requires, include Talons.
- 1.6 Instruments, the principal amount of which is repayable by instalments ("**Instalment Instruments**") which are Definitive Instruments, will have endorsed thereon a grid for recording the repayment of principal.

Form of Registered Instruments

- 1.7 Registered Instruments will be in substantially the form (subject to amendment and completion) scheduled to the Issue and Paying Agency Agreement. Registered Instruments will not be exchangeable for Bearer Instruments.

Denomination of Bearer Instruments

- 1.8 Bearer Instruments will be in the denomination or denominations (each of which denomination must be integrally divisible by each smaller denomination) specified in the relevant Pricing Supplement. Bearer Instruments of one denomination will not be exchangeable, after their initial delivery, for Bearer Instruments of any other denomination.

No Instruments may be issued under the Programme which (a) have a minimum denomination of less than EUR1,000 (or nearly equivalent in another currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Instruments which are offered to the public in a Member State may not have a denomination of less than EUR100,000 (or at least the equivalent in another currency) unless otherwise specified in the relevant Pricing Supplement. Subject thereto, Instruments will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Denomination of Registered Instruments

- 1.9 Registered Instruments will be in the minimum denomination specified in the relevant Pricing Supplement or integral multiples thereof. Registered Instruments of one denomination will not be exchangeable, after their initial delivery, for Registered Instruments of any other denomination.

No Instruments may be issued under the Programme which (a) have a minimum denomination of less than EUR1,000 (or nearly equivalent in another currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Instruments which are offered to the public in a Member State may not have a denomination of less than EUR100,000 (or at least the equivalent in another currency) unless otherwise specified in the relevant Pricing Supplement. Subject thereto, Instruments will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Currency of Instruments

- 1.10 Instruments may be denominated in any currency (including, without limitation, Australian Dollars ("**AUD**"), Canadian Dollars ("**CAD**"), Danish Krone ("**DKK**"), euro ("**EUR**"), Hong Kong Dollars ("**HKD**"), Japanese Yen ("**JPY**"), New Zealand Dollars ("**NZD**"), Norwegian Krone ("**NKW**"), Pounds Sterling ("**GBP**"), Swedish Krona ("**SEW**"), Swiss Francs ("**CHF**") and United States Dollars ("**USD**")), subject to compliance with all applicable legal and/or regulatory requirements.

- 1.11 For the purposes of these Terms and Conditions, references to Instruments shall, as the context may require, be deemed to be references to Temporary Global Instruments, Permanent Global Instruments, Definitive Instruments and/or, as the case may be, Registered Instruments.

2. Title and Transfer

- 2.1 Title to Bearer Instruments and Coupons passes by delivery. References herein to the "**Holders**" of Bearer Instruments or Coupons are to the bearers of such Bearer Instruments or such Coupons.

- 2.2 Title to Registered Instruments passes by registration in the register which is kept by the Principal Registrar or, as the case may be, the Alternative Registrar, as specified in the relevant Pricing Supplement. For the purposes of these Terms and Conditions, "**Registrar**" means, in relation to any Series comprising Registered Instruments, the Principal Registrar or, as the case

may be, the Alternative Registrar. References herein to the "**Holders**" of Registered Instruments are to the persons in whose names such Registered Instruments are so registered in the relevant register.

- 2.3 The Holder of any Bearer Instrument, Coupon or Registered Instrument will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest thereof or therein, any writing thereon, or any theft or loss thereof) and no person shall be liable for so treating such Holder.

Transfer of Registered Instruments and exchange of Bearer Instruments for Registered Instruments

- 2.4 A Registered Instrument may, upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement, be transferred in whole or in part only (**provided that** each of such part, and the part retained by the transferor represents an amount of at least the minimum denomination specified in the relevant Pricing Supplement) upon the surrender of the Registered Instrument to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the Registrar. A new Registered Instrument will be issued to the transferee and, in the case of a transfer of part only of a Registered Instrument, a new Registered Instrument in respect of the balance not transferred will be issued to the transferor.
- 2.5 If so specified in the relevant Pricing Supplement, the Holder of Bearer Instruments may exchange the same for the same aggregate principal amount of Registered Instruments upon the terms and subject to the conditions set forth in the Issue and Paying Agency Agreement. In order to exchange a Bearer Instrument for a Registered Instrument, the Holder thereof shall surrender such Bearer Instrument at the specified office outside the United States of the Fiscal Agent or of the Registrar together with a written request for the exchange. Each Bearer Instrument so surrendered must be accompanied by all unmatured Coupons appertaining thereto other than the Coupon in respect of the next payment of interest falling due after the exchange date (as defined in Condition 2.6) where the exchange date would, but for the provisions of Condition 2.6, occur between the Record Date (as defined in Condition 9B.3) for such payment of interest and the date on which such payment of interest falls due.
- 2.6 Each new Registered Instrument to be issued upon the transfer of a Registered Instrument or the exchange of a Bearer Instrument for a Registered Instrument will, within three Relevant Banking Days of the transfer date or, as the case may be, the exchange date, be available for delivery at the specified office of the Registrar. For these purposes, a form of transfer or request for exchange received by the Registrar or the Fiscal Agent after the Record Date (as defined in Condition 9B.3) in respect of any payment due in respect of Registered Instruments shall be deemed not to be effectively received by the Registrar or the Fiscal Agent until the day following the due date for such payment.

For the purposes of these Terms and Conditions:

- (i) "**Relevant Banking Day**" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the specified office of the Registrar is located and, in the case only of an exchange of a Bearer Instrument for a Registered Instrument where such request for exchange is made to the Fiscal Agent, in the place where the specified office of the Fiscal Agent is located;
- (ii) the "**exchange date**" shall be the Relevant Banking Day following the day on which the relevant Bearer Instrument shall have been surrendered for exchange in accordance with Condition 2.5; and
- (iii) the "**transfer date**" shall be the Relevant Banking Day following the day on which the relevant Registered Instrument shall have been surrendered for transfer in accordance with Condition 2.4 and all reasonable requirements of the Issuer and the Registrar shall have been satisfied in respect of such transfer.
- 2.7 The issue of new Registered Instruments on transfer or on the exchange of Bearer Instruments for Registered Instruments will be effected, without charge, by or on behalf of the Issuer or the

Registrar, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer or the Registrar may require in respect of) any tax, duty or other governmental charges which is imposed in relation thereto.

- 2.8 Upon the transfer, exchange or replacement of Registered Instruments bearing the private placement legend (the "**Private Placement Legend**") set forth in the form of Registered Instrument scheduled to the Issue and Paying Agency Agreement, the Registrar shall deliver only Registered Instruments that also bear such legend unless there is delivered to the Registrar an opinion reasonably satisfactory to the Issuer of counsel experienced in giving opinions with respect to questions arising under the securities laws of the United States to the effect that neither such legend nor the restrictions on transfer set forth therein are required in order to maintain compliance with the provisions of such laws. The Issuer covenants and agrees that it will not acquire any beneficial interest in any Registered Instrument bearing the Private Placement Legend unless it notifies the Registrar of such acquisition. The Registrar and all Holders of Instruments shall be entitled to rely without further investigation on any such notification (or lack thereof).
- 2.9 No Holder may require the transfer of a Registered Instrument to be registered or a Bearer Instrument to be exchanged for a Registered Instrument during the period of fifteen days ending on the due date for the payment of any principal or interest in respect of such Instrument.

3. **Status of the Instruments**

The Instruments constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and rank and will rank *pari passu*, without any preference among themselves, with all other outstanding, unsecured and unsubordinated obligations of the Issuer, present and future, other than those preferred by law and, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. **Guarantee**

Under Section 62 of the Export Finance and Insurance Corporation Act 1991 of the Commonwealth of Australia (the "**EFIC Act**"), the due payment by the Issuer of any money that becomes payable by the Issuer to a person other than the Commonwealth of Australia is guaranteed by the Commonwealth of Australia.

5. **Interest**

Instruments may be interest-bearing or non-interest-bearing, as specified in the relevant Pricing Supplement. In the case of non-interest-bearing Instruments, a reference price and accrual yield will, unless otherwise agreed, be specified in the relevant Pricing Supplement. The Pricing Supplement in relation to each Tranche of interest-bearing Instruments shall specify which of Condition 5A, 5B, 5C and/or 5D shall be applicable. Condition 5E will be applicable to each Tranche of interest-bearing Instruments as specified in the relevant Pricing Supplement save, in each case, to the extent inconsistent with the relevant Pricing Supplement. In relation to any Tranche of interest-bearing Instruments, the relevant Pricing Supplement may specify actual amounts of interest payable rather than, or in addition to, a rate or rates at which interest accrues.

5A **Interest – Fixed Rate**

Instruments in relation to which this Condition 5A is specified in the relevant Pricing Supplement as being applicable shall bear interest from their date of issue (as specified in the relevant Pricing Supplement) or from such other date as may be specified in the relevant Pricing Supplement at the rate or rates per annum (or otherwise, as specified in the relevant Pricing Supplement) specified in the relevant Pricing Supplement. Such interest will be payable in arrear on such dates as are specified in the relevant Pricing Supplement and on the date of final maturity thereof. The amount of interest payable in respect of each Instrument on each date as is specified in the relevant Pricing Supplement shall be the relevant Fixed Coupon Amount and, if the Instruments are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the Specified Denomination.

The amount of interest payable in respect of each Instrument for a period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount,

multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the relevant currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Instrument divided by the Calculation Amount.

For the purposes of these Terms and Conditions "**Calculation Amount**", "**Fixed Coupon Amount**", "**Rate of Interest**" and "**Specified Denomination**" have the meaning given to such term in the relevant Pricing Supplement, and a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

5B Interest – Floating Rate

5B.1 Instruments in relation to which this Condition 5B is specified in the relevant Pricing Supplement as being applicable shall bear interest at the rate or rates per annum (or otherwise, as specified in the relevant Pricing Supplement) determined in accordance with this Condition 5B. Condition 5E.2 shall apply to Instruments to which this Condition 5B applies.

5B.2 Such Instruments shall bear interest from their date of issue (as specified in the relevant Pricing Supplement) or from such other date as may be specified in the relevant Pricing Supplement. Such interest will be payable on each Interest Payment Date (as defined in Condition 5E.2) and on the maturity date.

5B.3 The Pricing Supplement in relation to each Series of Instruments in relation to which this Condition 5B is specified as being applicable shall specify which page (the "**Relevant Screen Page**") on the Reuters Screen or any other information vending service shall be applicable. For these purposes, "**Reuters Screen**" means the Reuter Money 3000 Service (or such other services or service as may be nominated as the information vendor for the purpose of displaying comparable rates in succession thereto).

5B.4 As used in these Conditions, the "**Calculation Agent**" means the Fiscal Agent or such other agent as may be specified in the relevant Pricing Supplement. The rate of interest (the "**Rate of Interest**") applicable to such Instruments for each Interest Period shall be determined by the Calculation Agent on the following basis:

- (i) the Calculation Agent will determine the offered rate for deposits (or, as the case may require, the arithmetic mean (rounded, if necessary, to the nearest ten thousandth of a percentage point, 0.0005 being rounded upwards) of the rates for deposits) in the relevant currency for a period of the duration of the relevant Interest Period on the Relevant Screen Page as of the time specified in the relevant Pricing Supplement (the "**Relevant Time**") on the relevant Interest Determination Date;
- (ii) if, on any Interest Determination Date, no such rate for deposits so appears (or, as the case may be, if fewer than two such rates for deposits so appear) or if the Relevant Screen Page is unavailable, the Calculation Agent will request appropriate quotations and will determine the arithmetic mean (rounded as aforesaid) of the rates at which deposits in the relevant currency are offered by four major banks in the Relevant Market, selected by the Calculation Agent, at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Market for a period of the duration of the relevant Interest Period and in an amount that is representative for a single transaction in the Relevant Market at the Relevant Time;
- (iii) if, on any Interest Determination Date, only two or three rates are so quoted, the Calculation Agent will determine the arithmetic mean (rounded as aforesaid) of the rates so quoted; or
- (iv) if only one rate is so quoted, the Calculation Agent will determine the arithmetic mean (rounded as aforesaid) of the rates quoted by four major banks in the Relevant Financial Centre (as defined in Condition 9C.3) selected by the Calculation Agent at approximately 11:00 a.m. (Relevant Financial Centre time (or local time at such other financial centre or centres as aforesaid)) on the first day of the relevant Interest Period

for loans in the relevant currency to leading European banks for a period of the duration of the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at the relevant time,

and the Rate of Interest applicable to such Instruments during each Interest Period will be the sum of the relevant margin (the "**Relevant Margin**") specified in the relevant Pricing Supplement and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of rates) so determined **provided, however, that**, if the Calculation Agent is unable to determine a rate (or, as the case may be, an arithmetic mean of rates) in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to such Instruments during such Interest Period will be the sum of the Relevant Margin and the rate (or, as the case may be, the arithmetic mean (rounded as aforesaid) of rates) determined in relation to such Instruments in respect of the last preceding Interest Period **provided always that** if there is specified in the relevant Pricing Supplement a minimum interest rate or a maximum interest rate then the Rate of Interest shall in no event be less than or, as the case may be, exceed it.

For the purposes of these Terms and Conditions:

"**Banking Day**" means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the specified city(ies);

"**Interest Determination Date**" means the date falling such number (if any) of Banking Days in such city(ies) as may be specified in the Pricing Supplement prior to the first day of the relevant Interest Period, or if none is specified:

- (a) in the case of Instruments denominated in Hong Kong Dollars or Pounds Sterling, the first day of such Interest Period; or
- (b) in the case of Instruments denominated in euro, the date falling two TARGET Settlement Days prior to the first day of such Interest Period; or
- (c) in the case of Instruments not denominated in Hong Kong Dollars, Pounds Sterling or euro, the date falling two London Banking Days prior to the first day of such Interest Period;

"**Relevant Market**" means the London interbank market or such other market as may be specified in the Pricing Supplement;

"**TARGET Settlement Day**" means any day on which TARGET2 is open; and

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

5B.5 The Calculation Agent will, as soon as practicable after determining the Rate of Interest in relation to each Interest Period, calculate the amount of interest (the "**Interest Amount**") payable in respect of each Instrument for the relevant Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the currency in which such Instruments are denominated or, as the case may be, in which such interest is payable (one half of any such sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Instrument divided by the Calculation Amount.

For the purposes of these Terms and Conditions:

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (each, a "**Calculation Period**"), such day count fraction as may be specified in the Pricing Supplement and:

- (ii) if "**Actual/Actual (ICMA)**" is so specified, means:

- (a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
- (b) where the Calculation Period is longer than one Regular Period, the sum of:
 - (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (iii) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (iv) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;
- (v) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (vi) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30";

- (vii) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and

- (viii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1) + [30 \times (M_2 - M_1)] + (D_2 - D_1)]}{360}$$

where:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30;

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period; and

"**Regular Period**" means:

- (i) in the case of Instruments where interest is scheduled to be paid only by means of regular payments, each period from (and including) the Interest Commencement Date to (but excluding) the first Interest Payment Date and each successive period from (and including) one Interest Payment Date to (but excluding) the next Interest Payment Date;
- (ii) in the case of Instruments where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from (and including) a Regular Date falling in any year to (but excluding) the next Regular Date, where

"Regular Date" means the day and month (but not the year) on which any Interest Payment Date falls; and

- (iii) in the case of Instruments where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from (and including) a Regular Date falling in any year to (but excluding) the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period.

5C **Interest – ISDA Rate Indices**

5C.1 Instruments in relation to which this Condition 5C is specified in the relevant Pricing Supplement as being applicable shall bear interest at the rates per annum determined in accordance with this Condition 5C.

5C.2 Each such Instrument shall bear interest from its date of issue (as specified in the relevant Pricing Supplement) or from such other date as may be specified in the relevant Pricing Supplement. Such interest will be payable on such dates and in such amounts as would have been payable (regardless of any event of default or termination event or tax event thereunder) by the Issuer had it entered into a swap transaction (to which a swap master agreement (the **"Agreement"**) and the 2006 ISDA Definitions (the **"ISDA Definitions"**, as amended, supplemented and updated as at the date specified in the relevant Pricing Supplement), each as published by the International Swaps and Derivatives Association, Inc., applied) with the Holder of such Instruments under which:

- (i) the Reset Date was the first day of the relevant Interest Period;
- (ii) the Fixed Rate Payer or, as the case may be, the Floating Rate Payer was the Issuer,
- (iii) the Determination Agent was the Calculation Agent (as defined in Condition 5B.4);
- (iv) the Effective Date was such date of issue or such other date as may be specified in the relevant Pricing Supplement;
- (v) the Calculation Amount (as defined in the ISDA Definitions) was the principal amount of such Instrument; and
- (vi) all other terms were as specified in the relevant Pricing Supplement.

5D **Interest – Other Rates**

Instruments in relation to which this Condition 5D is specified in the relevant Pricing Supplement as being applicable shall bear interest at the rate or rates calculated on the basis specified in, and be payable in the amounts and in the manner determined in accordance with, the relevant Pricing Supplement.

5E **Interest – Supplemental Provisions**

5E.1 Conditions 5E.2, 5E.3, 5E.4 and 5E.5 shall be applicable (as appropriate) in relation to all Instruments which are interest-bearing.

Interest Payment Date Conventions

5E.2 The Pricing Supplement in relation to each Series of Instruments to which this Condition 5E.2 is specified as being applicable shall specify which of the following conventions shall be applicable, namely:

- (i) the **"FRN Convention"**, **"Floating Rate Convention"**, or **"Eurodollar Convention"**, in which case interest shall be payable in arrear on each date (each, an **"Interest Payment Date"**) which numerically corresponds to their date of issue or such other date as may be specified in the relevant Pricing Supplement or, as the case may be, the preceding Interest Payment Date in the calendar month which is the number of months specified in

the relevant Pricing Supplement after the calendar month in which such date of issue or such other date as aforesaid or, as the case may be, the preceding Interest Payment Date occurred **provided that**:

- (a) if there is no such numerically corresponding day in the calendar month in which an Interest Payment Date should occur, then the relevant Interest Payment Date will be the last day which is a Business Day in that calendar month;
- (b) if an Interest Payment Date would otherwise fall on a day which is not a Business Day, then the relevant Interest Payment Date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the most recent preceding day which is a Business Day; and
- (c) if such date of issue or such other date as aforesaid or the preceding Interest Payment Date occurred on the last day in a calendar month which was a Business Day, then all subsequent Interest Payment Dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which such date of issue or such other date as aforesaid or, as the case may be, the preceding Interest Payment Date occurred;
- (d) the "Modified Following Business Day Convention", in which case interest shall be payable in arrear on such dates (each an "**Interest Payment Date**") as are specified in the relevant Pricing Supplement **provided that**, if any Interest Payment Date would otherwise fall on a date which is not a Business Day, the relevant Interest Payment Date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case the relevant Interest Payment Date will be the first preceding day which is a Business Day; or
- (e) such other convention as may be specified in the relevant Pricing Supplement.

Each period beginning on (and including) such date of issue or such other date as aforesaid and ending on (but excluding) the first Interest Payment Date and each period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "Interest Period".

Notification of Rates of Interest, Interest Amounts and Interest Payment Dates

5E.3 The Calculation Agent will cause each Rate of Interest, floating rate, Interest Payment Date, final day of a calculation period, Interest Amount, floating amount or other item, as the case may be, determined or calculated by it to be notified to the Issuer and the Fiscal Agent. The Fiscal Agent will cause all such determinations or calculations to be notified to the other Paying Agents and, in the case of Registered Instruments, the Registrar (from whose respective specified offices such information will be available) as soon as practicable after such determination or calculation but in any event not later than the fourth London Banking Day thereafter and, in the case of Instruments admitted to listing on the Official List of the UKLA and to trading on the Professional Securities Market of the London Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system, cause all such determinations or calculations to be notified to the UK Listing Authority and the London Stock Exchange and/or any other listing authority, stock exchange and/or quotation system on which the Instruments of the relevant Series may, for the time being, be admitted to listing, trading and/or quotation by the time required (if any) by such listing authority, stock exchange and/or quotation system **provided that**, in the case of Instruments listed on any listing authority, stock exchange and/or quotation system, the requirements of such listing authority, stock exchange and/or quotation system are complied with. The Calculation Agent will be entitled to amend any Interest Amount, floating amount, Interest Payment Date or final day of a calculation period (or to make appropriate alternative arrangements by way of adjustment) without prior notice in the event of the extension

or abbreviation of any relevant Interest Period or calculation period and such amendment will be notified in accordance with the first two sentences of this Condition 5E.3.

- 5E.4 The determination by the Calculation Agent of all items falling to be determined by it pursuant to these Terms and Conditions shall, in the absence of manifest error, be final and binding on all parties.

Accrual of Interest

- 5E.5 Interest shall accrue on the principal amount of each Instrument or, in the case of an Instalment Instrument, on each instalment of principal or, in the case of a partly paid Instrument, on the paid up principal amount of such Instrument or otherwise as indicated in the relevant Pricing Supplement. Interest will cease to accrue as from the due date for redemption therefor (or, in the case of an Instalment Instrument, in respect of each instalment of principal, on the due date for payment thereof) unless upon (except in the case of any payment where presentation and/or surrender of the relevant Instrument is not required as a precondition of payment) due presentation or surrender thereof, payment in full of the principal amount or the relevant instalment or, as the case may be, redemption amount is improperly withheld or refused or default is otherwise made in the payment thereof, in which case interest shall continue to accrue thereon (as well after as before any demand or judgment) at the rate then applicable to the principal amount of the Instruments or such other rate as may be specified in the relevant Pricing Supplement until the date on which, upon (except in the case of any payment where presentation and/or surrender of the relevant Instrument is not required as a precondition of payment) due presentation of the relevant Instrument, the relevant payment is made or, if earlier (except in the case of any payment where presentation and/or surrender of the relevant Instrument is not required as a precondition of payment), the date on which, the Fiscal Agent or, as the case may be, the Registrar having received the funds required to make such payment, notice is given to the Holders of the Instruments in accordance with Condition 14 of that circumstance (except to the extent that there is failure in the subsequent payment thereof to the relevant Holder).

6. **Redemption and Purchase**

Redemption at Maturity

- 6.1 Unless previously redeemed, or purchased and cancelled, each Instrument shall be redeemed at its maturity redemption amount (the "**Maturity Redemption Amount**") (which shall be its principal amount or such other Maturity Redemption Amount as may be specified in or determined in accordance with the relevant Pricing Supplement) (or, in the case of Instalment Instruments, in such number of instalments and in such amounts as may be specified in the relevant Pricing Supplement) on the date or dates (or, in the case of Instruments which bear interest at a floating rate of interest, on the date or dates upon which interest is payable) specified in the relevant Pricing Supplement.

Early Redemption for Taxation Reasons

- 6.2 If, in relation to any Series of Instruments, (i) as a result of any change in, or amendment to, the laws or regulations of the Commonwealth of Australia or of any political subdivision of, or any authority in or of, the Commonwealth of Australia having power to tax or any change in the application or official interpretation of any such laws or regulations which change or amendment becomes effective on or after the date of issue of such Instruments or any earlier date specified in the relevant Pricing Supplement, the Issuer would be required to pay additional amounts as provided in Condition 8 and (ii) the requirement cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may, at its option and having given no less than thirty nor more than sixty days' notice (ending, in the case of Instruments which bear interest at a floating rate, on a day upon which interest is payable) to the Holders of the Instruments in accordance with Condition 14 (which notice shall be irrevocable), redeem all (but not some only) of the outstanding Instruments comprising the relevant Series at their tax early redemption amount (the "**Early Redemption Amount (Tax)**") which shall be their principal amount (or at such other Early Redemption Amount (Tax) as may be specified in or determined in accordance with the relevant Pricing Supplement) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such

Instrument prior to the date fixed for redemption under any other Condition (which amount, if and to the extent not then paid, remains due and payable), together with accrued interest (if any) thereon **provided, however, that** no such notice of redemption may be given earlier than ninety days (or, in the case of Instruments which bear interest at a floating rate a number of days which is equal to the aggregate of the number of days falling within the then current Interest Period applicable to the Instruments plus sixty days) prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Instruments then due.

Optional Early Redemption (Call)

- 6.3 If this Condition 6.3 is specified in the relevant Pricing Supplement as being applicable, then the Issuer may, upon the expiry of the appropriate notice and subject to such conditions as may be specified in the relevant Pricing Supplement, redeem all (but not, unless and to the extent that the relevant Pricing Supplement specifies otherwise, some only) of the Instruments of the relevant Series at their call early redemption amount (the "**Early Redemption Amount (Call)**") (which shall be their principal amount or such other Early Redemption Amount (Call) as may be specified in or determined in accordance with the relevant Pricing Supplement) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable under any other Condition (which amount, if and to the extent not then paid, remains due and payable), together with accrued interest (if any) thereon.
- 6.4 The appropriate notice referred to in Condition 6.3 is a notice given by the Issuer to the Fiscal Agent, the Registrar (in the case of Registered Instruments) and the Holders of the Instruments of the relevant Series, which notice shall specify:
- (i) the Series of Instruments subject to redemption;
 - (ii) whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of the Instruments of the relevant Series which are to be redeemed;
 - (iii) the due date for such redemption which shall be a Business Day (as defined in Condition 9C.3), which shall be not less than thirty days (or such lesser period as may be specified in the relevant Pricing Supplement) after the date on which such notice is validly given and which is, in the case of Instruments which bear interest at a floating rate, a date upon which interest is payable; and
 - (iv) the Early Redemption Amount (Call) at which such Instruments are to be redeemed.

Any such notice shall be irrevocable, and the delivery thereof shall oblige the Issuer to make the redemption therein specified.

Partial Redemption

- 6.5 If the Instruments of a Series are to be redeemed in part only on any date in accordance with Condition 6.3:
- (i) in the case of Bearer Instruments, the Instruments to be redeemed shall be drawn by lot in such European city as the Fiscal Agent may specify, or identified in such other manner or in such other place as the Fiscal Agent may approve and deem appropriate and fair;
 - (ii) in the case of Registered Instruments, the Instruments shall be redeemed (so far as may be practicable) *pro rata* to their principal amounts, subject always as aforesaid and **provided always that** the amount redeemed in respect of each Instrument shall be equal to the minimum denomination thereof or an integral multiple thereof;

in each case not more than thirty days prior to the date fixed for redemption, subject always to compliance with all applicable laws and the requirements of any listing authority, stock exchange and/or quotation system on which the relevant Instruments may be admitted to listing, trading and/or quotation.

In the case of the redemption of part only of a Registered Instrument, a new Registered Instrument in respect of the unredeemed balance shall be issued in accordance with Conditions 2.4 to 2.7 which shall apply as in the case of a transfer of Registered Instruments as if such new Registered Instrument were in respect of the untransferred balance.

Optional Early Redemption (Put)

6.6 If this Condition 6.6 is specified in the relevant Pricing Supplement as being applicable then the Issuer shall, upon the exercise of the relevant option by the Holder of any Instrument of the relevant Series, redeem such Instrument on the date or the next of the dates specified in the relevant Pricing Supplement at its put early redemption amount (the "**Early Redemption Amount (Put)**") (which shall be its principal amount or such other Early Redemption Amount (Put) as may be specified in or determined in accordance with the relevant Pricing Supplement) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument under any other Condition prior to the date fixed for redemption (which amount, if and to the extent not then paid, remains due and payable), together with accrued interest (if any) thereon. In order to exercise such option, the Holder must, not less than forty-five days before the date so specified (or such other period as may be specified in the relevant Pricing Supplement), deposit the relevant Instrument (together, in the case of an interest-bearing Definitive Instrument, with any unmatured Coupons appertaining thereto) with, in the case of a Bearer Instrument, any Paying Agent or, in the case of a Registered Instrument, the Registrar together with a duly completed redemption notice in the form which is available from the specified office of any of the Paying Agents or, as the case may be, the Registrar.

Purchase of Instruments

6.7 The Issuer may at any time purchase Instruments in the open market or otherwise and at any price **provided that**, in the case of interest-bearing Definitive Instruments, all unmatured Coupons appertaining thereto are purchased therewith.

Cancellation of Redeemed and Purchased Instruments

6.8 All unmatured Instruments and Coupons redeemed or purchased in accordance with this Condition 6 will be cancelled forthwith and may not be reissued or resold.

7. Events of Default

7.1 Unless otherwise specified in the relevant Pricing Supplement, if any of the following events ("**Events of Default**") shall have occurred in relation to any Series of Instruments, any Holder of an Instrument of such Series may, by written notice to the Issuer and the Fiscal Agent, declare such Instrument and (if the Instrument is interest-bearing) all interest then accrued on such Instrument to be due and repayable whereupon, unless prior to the time when the Fiscal Agent receives such notice, all the Events of Default shall have been cured or otherwise made good, such Instrument shall (subject to Condition 7.2 below) become immediately due and repayable at its early termination amount (the "**Early Termination Amount**") (which shall be its principal amount or such other Early Termination Amount as may be specified in or determined in accordance with the relevant Pricing Supplement) less, in the case of any Instalment Instrument, the aggregate amount of all instalments that shall have become due and payable in respect of such Instrument under any other Condition prior to the date fixed for redemption (which amount, if and to the extent not then paid, remains due and payable), together with all interest accrued thereon (if any) to the date upon which the principal amount of such Instrument is made available for payment to such Holder, namely:

- (i) if the Issuer does not pay any principal due for more than fifteen days or if the Issuer does not pay any interest due for more than thirty days, in respect of the Instruments of the relevant Series, and if in each case payment is not made within a period of seven days following the service by any Holder of notice of non-payment on the Issuer requiring the payment to be made which notice of non-payment may be served at any time after the relevant payment has become due and the relevant Instrument or Coupon has been duly presented for payment; or

- (ii) if there is default in the performance of any other obligation of the Issuer under the Instruments of the relevant Series and such default shall not have been made good within a period of thirty days following the service by any Holder of notice requiring the same to be made good; or
- (iii) if there is made any governmental order, decree or enactment the effect of which is to dissolve the Issuer (otherwise than for purposes of a merger, reconstruction or amalgamation pursuant to which a new entity assumes all the obligations of the Issuer in respect of the Instruments of the relevant Series, the Coupons (if any) appertaining thereto and the Issue and Paying Agency Agreement and becomes the Issuer for the purpose thereof); or
- (iv) the Commonwealth of Australia ceases to guarantee unconditionally the repayment by the Issuer of money that is, or may at any time become, payable by the Issuer to persons other than the Commonwealth of Australia, in respect of the Instruments of the relevant Series and/or the Coupons appertaining thereto.

7.2 If either of the events specified in Condition 7.1 (ii) or (iii) shall have occurred and be subsisting, any notice declaring any Instrument due and repayable shall become effective only when the Fiscal Agent shall have received written notice from the Holders of at least ten per cent. of the aggregate principal amount of the Instruments of the relevant Series then outstanding that they wish the relevant event or events to be treated as Events of Default.

8. **Taxation**

No set-off, counterclaim or deductions

8.1 All payments in respect of the Instruments must be made in full without set-off or counterclaim, and without any withholding or deduction in respect of Taxes, unless required by law.

Withholding tax

8.2 If a law requires the Issuer to withhold or deduct an amount in respect of Taxes from a payment in respect of the Instruments such that the Holder would not actually receive on the due date the full amount provided for under the Instruments, then:

- (i) the Issuer agrees to withhold or deduct the amount for the Taxes (and any further withholding or deduction applicable to any further payment due under paragraph (b) below and to pay an amount equal to the amount deducted to the relevant authority in accordance with applicable law); and
- (ii) subject to Condition 8.3, if the amount deducted or withheld is in respect of Taxes imposed or levied by or on behalf of the Commonwealth of Australia or any political subdivision of it, an additional amount is payable so that, after making the deduction and further withholding or deductions applicable to additional amounts payable under this paragraph (b), the Holder is entitled to receive (at the time the payment is due) the amount it would have received if no withholding or deductions had been required

Withholding tax exemptions

8.3 Condition 8.2(ii) will not apply in relation to any payments in respect of any Instrument:

- (i) to a Holder (or a third party on its behalf) who is liable to such Taxes in respect of that Instrument by reason of its deriving payment in respect of it carrying on business at or through a permanent establishment of the Holder in the Commonwealth of Australia or its territories; or
- (ii) more than 30 days after the Relevant Date except to the extent that a Holder would have been entitled to additional amounts under Condition 8.2(ii) on presenting the same, or making demand, for payment on the last day of the period of 30 days; or

- (iii) on account of Taxes which are payable by reason of the Holder being an associate of the Issuer for the purposes of section 128F of the Tax Act; or
- (iv) on account of Taxes which are payable to, or to a third party on behalf of, a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to the Issuer or its agent or any tax authority where (in the case of Bearer Instruments) the relevant Instrument is presented for payment or (in the case of Registered Instruments) where the demand for payment is made; or
- (v) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (vi) which is presented for payment by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Instrument to another Paying Agent in a Member State of the European Union; or
- (vii) in such other circumstances as may be specified in the Pricing Supplement.

Interpretation

8.4 For the purposes of these Terms and Conditions:

- (i) "**Relevant Date**" means, in respect of any payment, the date on which such payment first becomes due and payable, but, if the full amount of the moneys payable has not been received by the Fiscal Agent or, as the case may be, the Registrar on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to Holders of Instruments and Coupons, notice to that effect shall have been duly given to the Holders of the Instruments of the relevant Series in accordance with Condition 14; and
- (ii) any reference to principal, redemption amount and/or interest in respect of the Instruments shall be deemed also to refer to any additional amounts which may be payable under this Condition 8.

9. Payments

9A Payments – Bearer Instruments

9A.1 This Condition 9A is applicable in relation to Instruments in bearer form.

9A.2 Payment of amounts (other than interest) due in respect of Bearer Instruments will be made against presentation and (save in the case of a partial redemption which includes, in the case of an Instalment Instrument, payment of any instalment other than the final instalment) surrender of the relevant Bearer Instruments at the specified office of any of the Paying Agents.

9A.3 Payment of amounts in respect of interest on Bearer Instruments will be made:

- (i) in the case of a Temporary Global Instrument or Permanent Global Instrument, against presentation of the relevant Temporary Global Instrument or Permanent Global Instrument at the specified office of any of the Paying Agents outside (unless Condition 9A.4 applies) the United States and, in the case of a Temporary Global Instrument, upon due certification as required therein;
- (ii) in the case of Definitive Instruments without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Definitive Instruments at the specified office of any of the Paying Agents outside (unless Condition 9A.4 applies) the United States; and

- (iii) in the case of Definitive Instruments delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Definitive Instruments, in either case at the specified office of any of the Paying Agents outside (unless Condition 9A.4 applies) the United States.
- 9A.4 Payments of amounts due in respect of interest on the Bearer Instruments and exchanges of Talons for Coupon sheets in accordance with Condition 9A.7 will not be made at the specified office of any Paying Agent in the United States (as defined in the United States Internal Revenue Code of 1986 and Regulations thereunder) unless (a) payment in full of amounts due in respect of interest on such Instruments when due or, as the case may be, the exchange of Talons at all the specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (b) such payment or exchange is permitted by applicable United States law. If paragraphs (a) and (b) of the previous sentence apply, the Issuer shall forthwith appoint a further Paying Agent with a specified office in New York City.
- 9A.5 If the due date for payment of any amount due in respect of any Bearer Instrument is not a Relevant Financial Centre Day (as defined in Condition 9C.3) in respect of a Temporary Global Instrument or a Permanent Global Instrument or both a Relevant Financial Centre Day and a Local Banking Day (as defined in Condition 9C.3) in respect of a Definitive Instrument, then the Holder thereof will not be entitled to payment thereof until the next day which is such a day and thereafter will be entitled to receive payment by cheque on any Local Banking Day or will be entitled to payment by transfer to a designated account on any day which is a Relevant Financial Centre Day in respect of a Temporary Global Instrument or a Permanent Global Instrument or which is a Local Banking Day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located in respect of a Definitive Instrument and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5E.5.
- 9A.6 Each Definitive Instrument initially delivered with Coupons attached thereto should be presented and, save in the case of partial payment which includes, in the case of an Instalment Instrument, payment of any instalment other than the final instalment, surrendered for final redemption together with all unmatured Coupons and Talons appertaining thereto, failing which:
 - (i) in the case of Definitive Instruments which bear interest at a fixed rate or rates, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the redemption amount paid bears to the total redemption amount due) (excluding, for this purpose, Talons) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the specified office of any of the Paying Agents at any time within ten years of the Relevant Date applicable to payment of such final redemption amount or, if later, five years after the date on which the Coupon would have become due;
 - (ii) in the case of Definitive Instruments which bear interest at, or at a margin above or below, a floating rate, all unmatured Coupons (excluding, for this purpose, but without prejudice to paragraph (iii) below, Talons) relating to such Definitive Instruments (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them; and
 - (iii) in the case of Definitive Instruments initially delivered with Talons attached thereto, all unmatured Talons (whether or not surrendered therewith) shall become void and no exchange for Coupons shall be made thereafter in respect of them.

The provisions of paragraph (i) of this Condition 9A.6 notwithstanding, if any Definitive Instruments which bear interest at a fixed rate or rates should be issued with a maturity date and a fixed rate or fixed rates such that, on the presentation for payment of any such Definitive Instrument without any unmatured Coupons attached thereto or surrendered therewith, the amount required by paragraph (i) to be deducted would be greater than the amount otherwise due for payment, then, upon the due date for redemption of

any such Definitive Instrument, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof) as shall be required so that, upon application of the provisions of paragraph (i) in respect of such Coupons as have not so become void, the amount required by paragraph (i) to be deducted would not be greater than the amount otherwise due for payment. Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to a Definitive Instrument to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

9A.7 In relation to Definitive Instruments initially delivered with Talons attached thereto, on or after the due date for the payment of interest on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent outside (unless Condition 9A.4 applies) the United States in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10 below. Each Talon shall, for the purpose of these Conditions, be deemed to mature on the due date for the payment of interest on which the final Coupon comprised in the relative Coupon sheet matures.

9A.8 For the purposes of these Terms and Conditions, the "**United States**" means the United States of America (including the States thereof and the District of Columbia) and its possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands).

9B *Payments – Registered Instruments*

9B.1 This Condition 9B is applicable in relation to Instruments in registered form.

9B.2 Payment of amounts (whether principal, redemption amount or otherwise and including accrued interest) due in respect of Registered Instruments on the final redemption of Registered Instruments will be made against presentation and, save in the case of partial payment of the amount due upon final redemption by reason of insufficiency of funds, surrender of the relevant Registered Instruments at the specified office of the Registrar. If the due date for payment of the final redemption amount of any Registered Instrument is not both a Relevant Financial Centre Day (as defined in Condition 9C.3) and a Local Banking Day (as defined in Condition 9C.3), then the Holder thereof will not be entitled to payment thereof until the next day which is such a day and thereafter will be entitled to receive payment by cheque on any Local Banking Day and will be entitled to payment by transfer to a designated account on any day which is a Local Banking Day, a Relevant Financial Centre Day and a day on which commercial banks and foreign exchange markets settle payments in the relevant currency in the place where the relevant designated account is located and no further payment on account of interest or otherwise shall be due in respect of such postponed payment unless there is a subsequent failure to pay in accordance with these Terms and Conditions in which event interest shall continue to accrue as provided in Condition 5E.5.

9B.3 Payment of amounts (whether principal, redemption amount, interest or otherwise) due (other than in respect of the final redemption of Registered Instruments) in respect of Registered Instruments will be paid to the Holder thereof (or, in the case of joint Holders, the first-named) as appearing in the register kept by the Registrar as at close of business on the Clearing System Business Day before the due date for such payment in respect of a Registered Instrument that is held in Euroclear or Clearstream, Luxembourg where "**Clearing System Business Day**" means a day on which each clearing system for which the Registered Instrument is being held is open for business, or as at the opening of business (local time in the place of the specified office of the Registrar) on the fifteenth Relevant Banking Day (as defined in Condition 2.6) before the due date for such payment in respect of any other Registered Instrument (the "**Record Date**").

9B.4 Notwithstanding the provisions of Condition 9C.2, payment of amounts (whether principal, redemption amount, interest or otherwise) due (other than in respect of final redemption of Registered Instruments) in respect of Registered Instruments will be made by cheque and posted to the address (as recorded in the register held by the Registrar) of the Holder thereof (or, in the case of joint Holders, the first-named) on the Relevant Banking Day (as defined in Condition 2.6) not later than the relevant date for payment unless prior to the relevant Record Date the Holder

thereof (or, in the case of joint Holders, the first-named) has applied to the Registrar and the Registrar has acknowledged such application for payment to be made to a designated account in the relevant currency.

9C ***Payments – General Provisions***

9C.1 Save as otherwise specified herein, this Condition 9C is applicable in relation to Instruments whether in bearer or in registered form.

9C.2 Payments of amounts due (whether principal, redemption amount, interest or otherwise) in respect of Instruments will be made outside the Commonwealth of Australia by (a) transfer to an account in the relevant currency specified by the payee or (b) cheque. Payments will, without prejudice to the provisions of Condition 8, be subject in all cases to any applicable fiscal or other laws and regulations in the place of payment.

9C.3 For the purposes of these Terms and Conditions:

- (i) **"Business Day"** means a day:
 - on which commercial banks are open for general business and foreign exchange markets settle payments in the Relevant Financial Centre in respect of the relevant Instruments; and, in either case,
 - on which commercial banks are open for general business and foreign exchange markets settle payments in any place specified in the relevant Pricing Supplement;
- (ii) **"Relevant Financial Centre"** means such financial centre or centres as may be specified in relation to the relevant currency for the purposes of the definition of "Business Day" in the ISDA Definitions;
- (iii) **"Relevant Financial Centre Day"** means (i) in the case of any currency other than euro, a day on which commercial banks and foreign exchange markets settle payments in the Relevant Financial Centre and in any other place specified in the Pricing Supplement and (ii) in the case of euro, a day on which TARGET2 (as defined in Condition 5B.4) is operating; and
- (iv) **"Local Banking Day"** means a day (other than a Saturday and Sunday) on which commercial banks are open for general business in the place of presentation of the relevant Instrument or, as the case may be, Coupon,

and, in the case of any of paragraphs (i) to (iv) of this Condition 9C.3, as the same may be modified in the relevant Pricing Supplement.

10. **Prescription**

10.1 Save as otherwise specified herein, claims against the Issuer in respect of Bearer Instruments and Coupons will become void unless made within ten years (or, in the case of claims in respect of interest, five years) after the Relevant Date (as defined in Condition 8.2) for payment thereof.

10.2 In relation to Definitive Instruments initially delivered with Talons attached thereto, there shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue pursuant to Condition 9A.6 or the due date for the payment of which would fall after the due date for the redemption of the relevant Instrument or which would be void pursuant to this Condition 10.

10.3 Claims against the Issuer in respect of Registered Instruments (other than in respect of the final redemption amount of Registered Instruments) will be prescribed unless made within ten years (or, in the case of claims in respect of interest, five years) after the due date for payment. Claims against the Issuer in respect of the final redemption amount of Registered Instruments will be prescribed unless made within ten years after the Relevant Date (as defined in Condition 8.2) for payment thereof.

11. **The Paying Agents and the Registrars**

11.1 The initial Paying Agents and Registrars and their respective initial specified offices are specified below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent (including the Fiscal Agent) or the Registrar and to appoint additional or other Paying Agents or another Registrar **provided that** it will at all times maintain (i) a Fiscal Agent, (ii) in the case of Registered Instruments, a Registrar with a specified office in continental Europe (but outside the United Kingdom), (iii) a Paying Agent (which may be the Fiscal Agent) with a specified office in continental Europe (but outside the United Kingdom), (iv) a Paying Agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to, such Directive, (v) so long as any Instruments are admitted to listing on the Official List of the UKLA and to trading on the Professional Securities Market of the London Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system, a Paying Agent (which may be the Fiscal Agent) and a Registrar each with a specified office in London and/or in such other place as may be required by such other listing authority, stock exchange and/or quotation system and (vi) in the circumstances described in Condition 9A.4, a Paying Agent with a specified office in New York City. The Paying Agents and the Registrar reserve the right at any time to change their respective offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of a Paying Agent or Registrar will be given promptly by the Issuer to the Holders of the Instruments in accordance with Condition 14.

11.2 The Paying Agents and Registrars act solely as agents of the Issuer and, save as provided in the Issue and Paying Agency Agreement, do not assume any obligations towards or relationship of agency or trust for any Holder of any Instrument or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon them in the Issue and Paying Agency Agreement or incidental thereto.

12. **Replacement of Instruments**

If any Instrument or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent or such Paying Agent or Paying Agents as may be specified for such purpose in the relevant Pricing Supplement (in the case of Bearer Instruments and Coupons) or of the Registrar (in the case of Registered Instruments), subject to all applicable laws and the requirements of any listing authority, stock exchange and/or quotation system by which the relevant Instruments have been admitted to listing, trading and/or quotation, upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer and the Fiscal Agent, the relevant Paying Agent or, as the case may be, the Registrar may require. Mutilated or defaced Instruments and Coupons must be surrendered before replacements will be delivered.

13. **Meetings of Holders**

The Issue and Paying Agency Agreement contains provisions (which shall have effect as if incorporated herein) for convening meetings of the Holders of Instruments of any Series to consider any matter affecting their interest, including (without limitation) the modification by Extraordinary Resolution (as defined in the Issue and Paying Agency Agreement) of these Terms and Conditions. An Extraordinary Resolution passed at any meeting of the Holders of Instruments of any Series will be binding on all Holders of the Instruments of such Series, whether or not they are present at the meeting, and on all Holders of Coupons relating to the Instruments of such Series.

14. **Notices**

To Holders of Bearer Instruments

14.1 Notices to Holders of Bearer Instruments will, save where another means of effective communication has been specified herein or in the relevant Pricing Supplement, be deemed to be validly given if published in a leading daily newspaper having general circulation in the United Kingdom (which is expected to be the *Financial Times*) or, in the case of a Temporary Global Instrument or Permanent Global Instrument, if delivered to Euroclear and Clearstream,

Luxembourg and/or any other relevant clearing system for communication by them to the persons shown in their respective records as having interests therein **provided that**, in the case of Instruments admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, the requirements of such listing authority, stock exchange and/or quotation system have been complied with. Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the first date on which publication is made) or, as the case may be, on the fourth day after the date of such delivery to Euroclear and Clearstream, Luxembourg. Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Instruments in accordance with this Condition 14.

To Holders of Registered Instruments

14.2 Notices to Holders of Registered Instruments will be deemed to be validly given if sent by first class mail (or equivalent) or (if posted to an overseas address) by air mail to them (or, in the case of joint Holders, to the first-named in the register kept by the Registrar) at their respective addresses as recorded in the register kept by the Registrar, and will be deemed to have been validly given on the fourth day after the date of such mailing or, if posted from another country, on the fifth such day.

15. Further Issues

The Issuer may from time to time without the consent of the Holders of any Instruments create and issue further instruments, bonds or debentures having the same terms and conditions as such Instruments in all respects (or in all respects except for the first payment of interest, if any, on them and/or the form and denomination thereof) so as to form a single series with the Instruments of any particular Series.

16. Governing Law and Jurisdiction

16.1 The Instruments, the Issue and Paying Agency Agreement and the Deed of Covenant and all non-contractual rights or obligations arising from or connected to them are governed by English law.

16.2 The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Instruments, the Issue and Paying Agency Agreement and the Deed of Covenant (including, without limitation, a dispute regarding the existence, validity or termination of the Instruments, the Issue and Paying Agency Agreement and the Deed of Covenant) or the consequences of those documents and the rights or obligations under them being void, voidable or otherwise unenforceable.

16.3 The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

16.4 Condition 16.2 is for the benefit of the Holders of the Instruments only. As a result, nothing in this Condition 16 prevents any Holder of an Instrument from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Holders of the Instruments may take concurrent Proceedings in any number of jurisdictions.

16.5 The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to SH Process Agents Limited at 1 St Paul's Churchyard, London, EC4M 8SH, United Kingdom or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with the Companies Act 2006. Nothing in this Condition 16 shall affect the right of any Holder of an Instrument to serve process in any other manner permitted by law. This Condition 16 applies to Proceedings in England and to Proceedings elsewhere.

16.6 The Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

- 16.7 To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.
- 16.8 No person shall have any right to enforce any term or condition of the Instruments under the Contracts (Rights of Third Parties) Act 1999.

USE OF PROCEEDS

The net proceeds of the issue of each Tranche of Instruments will be used in the general operations of the Issuer.

FORM OF PRICING SUPPLEMENT

Pricing Supplement dated [•]

EXPORT FINANCE AND INSURANCE CORPORATION
(A statutory corporation of the Commonwealth of Australia)

Payments of principal and interest guaranteed by

THE COMMONWEALTH OF AUSTRALIA

**Issue of [Aggregate Nominal Amount of Tranche]
[Title of Instruments]**

Under the U.S.\$2,500,000,000 Programme for the Issuance of Debt Instruments

Part A – Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the Offering Circular dated 15 April 2011 [and the supplemental Offering Circular dated [•]] which [together] constitute(s) listing particulars for the purposes of Chapter 4 of the FSA's Listing Rules. This document constitutes the pricing supplement of the Instruments described herein and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer, the Commonwealth of Australia and the offer of the Instruments is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. The Offering Circular [and the supplemental Offering Circular] [is] [are] available for viewing at and copies of the aforesaid may be obtained from Citibank, N.A., 21st Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom.

The following alternative language applies if the first tranche of an issue which is being increased was issued under a [base prospectus]/[offering circular] with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the [insert previous date of earlier Conditions] Terms and Conditions (the "**Conditions**") incorporated by reference in the Offering Circular dated 15 April 2011 [and the supplemental Offering Circular dated [•]] ([together,] the "**Offering Circular**"), which [together] constitute(s) listing particulars for the purposes of Chapter 4 of the FSA's Listing Rules. This document constitutes the pricing supplement of the Instruments described herein and must be read in conjunction with such Offering Circular [as so supplemented]. Full information on the Issuer, the Commonwealth of Australia and the offer of the Instruments is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. The Offering Circular [and the supplemental Offering Circular] [is] [are] available for viewing at and copies of the aforesaid may be obtained from Citibank, N.A., 21st Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom.

Include whichever of the following apply or specify as "Not Applicable" (N/A). The numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.

1. Issuer: Export Finance and Insurance Corporation
2. (i) Series Number: []
- (ii) Tranche Number: []
(If fungible with an existing Series, details of that Series, including the date on which the Instruments become fungible)
3. Specified Currency or Currencies: []
(Condition 1.10)
4. Aggregate Nominal Amount:
- (i) Series: []
- (ii) Tranche: []
5. Issue Price: [] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)]
6. (i) Specified Denominations: []
(Condition 1.8 or 1.9)
- No Instruments may be issued which have a minimum denomination of less than EUR1,000 (or nearly equivalent in another currency)*
- [Note – where multiple denominations above EUR100,000 (or equivalent) are being used and Instruments are not being issued in registered form, the following sample wording should be followed: [EUR100,000] and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]. No Instruments in definitive form will be issued with a denomination above [EUR199,000].]*
- [So long as the Instruments are represented by a Temporary Global Instrument or a Permanent Global Instrument and the relevant clearing systems so permit, the Instruments will be tradeable only in the minimum authorised denomination of [EUR100,000] and higher integral multiples of [EUR1,000], notwithstanding that no definitive Instruments will be issued with a denomination above [EUR199,000].]*
- (ii) Calculation Amount [•]
- [If there is only one Specified Denomination, insert the Specified Denomination]*
- [If there are several Specified Denominations, insert the highest common*

factor of these Specified Denominations (note: there must be a common factor of two or more Specified Denominations).]

7. (i) Issue Date: []
- (ii) Interest Commencement Date (if []
different from the Issue Date):
8. Maturity Date: [Specify date or (for Floating Rate
(Condition 6.1) Instruments) Interest Payment Date falling
in the relevant month and year]
- [If the Maturity Date is less than one year
from the Issue Date and either (a) the issue
proceeds are received by the Issuer in the
United Kingdom or (b) the activity of
issuing the Instruments is carried on from
an establishment maintained by the Issuer
in the United Kingdom, (i) the Instruments
must have a minimum denomination of
£100,000 (or its equivalent in other
currencies) and be sold only to
"professional investors" or (ii) another
applicable exemption from section 19 of
the FSMA must be available]
9. Interest Basis: Condition [5A/5B/5C/5D] is applicable
(Condition 5) [Zero Coupon]
[[•] % Fixed Rate]
[[specify reference rate] plus/minus [•] %
Floating Rate]
[ISDA Rates Indices Linked Interest]
[Other (specify)]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at Par]
[Dual Currency]
[Partly Paid]
[Instalment]
[Other (specify)]
11. Change of Interest or Redemption/Payment Basis: [Specify details of any provision for
convertibility of Instruments into another
interest or redemption/payment basis]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14. **Fixed Rate Provisions** [Applicable/Not Applicable]
(Condition 5A) *(If not applicable, delete the remaining
sub-paragraphs of this paragraph)*
- (i) Rate[(s)] of Interest: [] per cent. per annum [payable
[annually/semi-

- annually/quarterly/monthly] in arrear]
- (ii) Interest Payment Date(s): [] in each year
- (iii) Fixed Coupon Amount[(s)]: [] per [] in Nominal Amount
- (iv) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount(s)]*
- (v) Day Count Fraction: [30/360 or 30E/360 or other] *(Consider if day count fraction, particularly for euro denominated issues, should be on an Actual/Actual (ICMA) basis)*
- (vi) Other terms relating to the method of calculating interest for Fixed Rate Instruments: [Not Applicable/give details]
15. **Floating Rate Provisions** [Applicable/Not Applicable]
- (Condition 5B) *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Payment Dates (or if the Applicable Business Day Convention is the FRN Convention specify number of calendar months): []
- (ii) Calculation Agent: (Condition 5B.4) []
- (iii) Relevant Screen Page: []
- (iv) Relevant Time: *[For example 11:00 a.m. London time/Brussels time]*
- (v) Relevant Market: [Specify if not the London interbank market]
- (vi) Relevant Margin(s): [plus/minus][] per cent. per annum
- (vii) Minimum Rate of Interest: [] per cent. per annum
- (viii) Maximum Rate of Interest: [] per cent. per annum
- (ix) Day Count Fraction (if different from that specified in Condition 5B.5): []
- (x) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Instruments, if different from those set out in the Conditions: []
16. **ISDA Rate Indices Provisions** [Applicable/Not Applicable]
- (Condition 5C) *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Effective Date (if not the Issue Date): []
- (ii) Interest Payment Date(s) []
- (iii) Interest Amount(s): []
- (iv) Other terms: []
17. **Other Rates Provisions** [Applicable/Not Applicable]
- (Condition 5D) *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Basis on which interest rate(s) is calculated: []
- (ii) Other terms: []
18. **Supplemental Provisions**
- (Condition 5E)
- Applicable Business Day Convention: [FRN Convention/Modified Following Business Day Convention/Specify other applicable business day convention] (unless Condition 5C (ISDA Rate Indices Provisions) applies in which case specify "No Adjustment")
Care should be taken to match the maturity date (as well as other key dates) of the Instruments with any underlying swap transaction]
19. **Zero Coupon Provisions** [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Accrual Yield: [] per cent. per annum
- (ii) Rate of interest on overdue amounts (Condition 5.3) [*Specify, if not the Amortisation Yield*]
- (iii) Reference Price: []

PROVISIONS RELATING TO REDEMPTION

20. **Optional Early Redemption (Call)** [Applicable/Not Applicable]
- (Condition 6.3) *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Date(s) of redemption notice: []
- (ii) Early Redemption Amount (Call): [*Specify if not the principal amount*]
- (iii) Series redeemable in part: [*Specify, otherwise redemption will only be permitted of entire Series*]
- (iv) Notice period (if other than as set out in the Conditions): []
21. **Optional Early Redemption (Put)** [Applicable/Not Applicable]

(Condition 6.6) *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*

- (i) Redemption Date(s): []
- (ii) Early Redemption Amount (Put): [*Specify if not the principal amount*]
- (iii) Notice period (if other than as set out in the Conditions): []

22. **Maturity Redemption Amount** [Par/other]

[If the Maturity Redemption Amount is other than 100 per cent. of the nominal value, the instruments will constitute derivative securities for the purposes of Chapter 4 of the FSA's Listing Rules, the requirements of Annex XII to the Prospectus Directive Regulation No. 809/2004 will apply and the Issuer will prepare and publish new listing particulars pursuant to the FSA's Listing Rules.]

23. **Early Redemption Amount**

- (i) Early Redemption Amount(s) (Tax payable on redemption for taxation reasons and/or the method of calculating the same (if required or if different from that set out in Condition 6.2): []
- (ii) Date after which changes in law, etc. entitle Issuer to redeem: [*Specify, if not the Issue Date*]

24. **Events of Default**
(Condition 7.1)

- (i) Early Termination Amount: (Condition 7.1) [*Specify, if not the outstanding principal amount*]
- (ii) Any additional (or modifications to) Events of Default: [*Specify*]

GENERAL PROVISIONS APPLICABLE TO THE INSTRUMENTS

25. Form of Instruments: Bearer or Registered. [If in bearer form specify:

- (i) whether the Temporary Global Instrument is exchangeable for Instruments in definitive and/or (in the case of a Series comprising Bearer Instruments and Registered Instruments) registered form (Condition 1.2);
- (ii) whether the Permanent Global Instrument is exchangeable at the option of the bearer thereof for Instruments in definitive and/or (in the case of a Series

- comprising Bearer Instruments and Registered Instruments) registered form (Condition 1.4);
- [In relation to any Instruments issued with a denomination of EUR100,000 (or equivalent) and integral multiples of EUR1,000 (or equivalent), the Permanent Global Instrument representing such Instruments shall only be exchangeable for Definitive Instruments in the limited circumstances of (i) closure of clearing systems; (ii) event of default and enforcement events.]*
- (iii) whether any Instruments in definitive form will have Coupons attached (Condition 1.5), or whether there will be a grid for interest payments;
- (iv) whether Bearer Instruments may be exchanged for Registered Instruments (Condition 2.5);
- (v) whether any Instruments in definitive form will not be in ICMA or successors' format; and
- (vi) whether registration in the register kept by the Principal Registrar or the Alternative Registrar (Condition 2.2)]
26. Unmatured Coupon missing upon Early Redemption: *[Specify whether paragraph (i) Condition 9A.6 or paragraph (ii) Condition 9A.6 applies. If nothing is specified, paragraph (i) will apply to fixed rate or fixed coupon amount Instruments and paragraph (ii) will apply to floating or variable coupon amount Instruments]*
27. Modification of Condition 9C.3: *[Applicable/Not Applicable] (If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Business Day: []
- (ii) Relevant Financial Centre: []
- (iii) Relevant Financial Centre Day or other special provisions relating to Payment Dates: *[Not Applicable/give details. Note that this item relates to the place of payment, and not interest period end dates]*
- (iv) Local Banking Day: []
28. Talons for future Coupons to be attached to Definitive Instruments (and dates on which such Talons mature): *[Yes/No. If yes, give details]*

29. Details relating to partly paid Instruments: [Not Applicable/*give details*]
amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Instruments and interest due on late payment and accrual of interest:
(Condition 5E.5)
30. Details relating to Instalment Instruments: [Not Applicable/*give details*]
amount of each instalment, date on which each payment is to be made:
(Condition 5E.5)/(Condition 6.1)
31. Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions annexed to this Pricing Supplement apply]
32. Consolidation Provisions: [Not Applicable/[annexed to this Pricing Supplement] apply]
33. Replacement Instruments: [Specify Replacement Agent, if other than (or in addition to) the Fiscal Agent or, in the case of Registered Instruments, the Principal Registrar]
(Condition 12)
34. Notices: [Specify any other valid means of communication]
(Condition 14)
35. Other terms or special conditions: [Not Applicable/*give details*]

DISTRIBUTION

36. (i) If syndicated, names of Managers: [Not Applicable/*give names*]
(ii) Date of [Subscription] Agreement: [•]
(iii) Stabilising Manager (if any): [Not Applicable/*give name*]
37. If non-syndicated, name of Dealer: [Not Applicable/*give name*]
38. US Selling Restrictions: [Regulation S Compliance Category 1; TEFRA: Not Applicable/The [C/D] Rules are applicable]
39. Additional selling restrictions: [Not Applicable/*give details*]

[LISTING APPLICATION

This Pricing Supplement comprises the pricing supplement required to list and have admitted to trading on the [*specify relevant market*] of the issue of Instruments described herein pursuant to the U.S.\$2,500,000,000 Programme for the Issuance of Debt Instruments of Export Finance and Insurance Corporation.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [[•] has been extracted from [•]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By:
Duly authorised

Part B – Other Information

1. Listing

- (i) Listing: [Application has been made for the Instruments to be admitted to listing on the Official List of the UKLA/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Instruments to be admitted to trading on the London Stock Exchange's Professional Securities Market/None]
- (iii) Estimate of total expenses related to admission to listing and trading: []

2. Ratings

- Ratings: The Instruments to be issued have been rated:
- [S&P: [•]]
- [Moody's: [•]]
- [[Other]: [•]]
- [Need to include a brief explanation of the meaning of the ratings if this has previously been published by the rating provider.]*
- (The above disclosure should reflect the rating allocated to Instruments of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

3. [Interests of natural and legal persons involved in the [issue/offer]

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in "*Subscription and Sale*", so far as the Issuer is aware, no person involved in the offer of the Instruments has an interest material to the offer."

4. Reasons for the offer, estimated net proceeds and total expenses

- (i) Reasons for the offer []
- (See ["Use of Proceeds"] wording in Offering Circular – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here)*

[(ii)] Estimated net proceeds: []

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding)

[(iii)] Estimated total expenses: []

[Include breakdown of expenses]

(Only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above)

5. *[Fixed Rate Instruments only]* **[Yield**

Indication of yield: []

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield]

6. **Operational Information**

(i) ISIN Code: []

(ii) Common Code: []

(iii) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(iv) Delivery: Delivery [against/free of] payment

(v) [Registrar] (for Registered Instruments): []

(vi) Names and addresses of additional Paying Agent(s) (if any): []

EXPORT FINANCE AND INSURANCE CORPORATION

Formation and Status

The Export Finance and Insurance Corporation is Australia's official export credit agency and has performed this role within various statutory frameworks since 1957. EFIC was established in its current form on 1 November 1991 under the EFIC Act as a statutory corporation of the Commonwealth of Australia.

EFIC's Functions

Under the EFIC Act, EFIC has four key functions which include:

- to facilitate and encourage Australian export trade by providing insurance and financial services and products to persons involved directly or indirectly in such trade;
- to encourage banks, and other financial institutions in Australia to finance or assist in financing exports;
- to manage the Commonwealth's aid supported mixed credit program (a facility that has been discontinued, although loans are still outstanding under the program); and
- to provide information and advice regarding insurance or financial arrangements to support Australian exports.

EFIC is required to perform its functions in such a manner as will best assist the development of Australian export trade.

Duties and Accountabilities

EFIC must have regard to the desirability of improving and extending the range of insurance and other financial services and products available (whether from EFIC or otherwise) to persons involved, or likely to be involved, directly or indirectly, in Australian export trade. EFIC must also have regard to the need to provide its services and products as efficiently and economically as possible and to Australia's obligations under international agreements.

EFIC is part of the Commonwealth's Foreign Affairs and Trade portfolio and the Minister for Trade (the "**Minister**") is responsible for EFIC. The Minister has a number of powers in relation to EFIC, as set out in the EFIC Act. The Minister may give written directions to EFIC in respect of the performance of its functions or the exercise of its powers if satisfied that it is in the public interest that directions be given. The Minister may also approve, or direct, entry into transactions on the National Interest Account. EFIC is obliged to comply with any directions. In relation to the Commercial Account, the Minister cannot require EFIC to obtain his approval for a particular transaction or direct EFIC to enter into a particular transaction.

EFIC's Products and Services

EFIC provides financial and insurance products which may help Australian exporters when they are seeking to grow their businesses overseas. Those products and services include assistance in financing export activities and insurance or other products to help protect an exporter's contract payments and overseas investments.

Included amongst these products are:

- (a) buyer finance, including direct loans and export finance guarantees;
- (b) advance payment bonds, performance bonds and warranty bonds;
- (c) a US bonding line;
- (d) working capital guarantees: export working capital guarantees and EFIC Headway (a residual guarantee facility provided to an exporter's bank to guarantee the exporter's payment obligations);

- (e) documentary credit guarantees;
- (f) foreign exchange facility guarantees; and
- (g) Producer Offset loans (a bridging loan facility provided to Australian film and television producers with international distribution arrangements to fund production costs pending the payment of refundable tax rebates under the Commonwealth's producer offset grants programme).

EFIC's products may also help protect Australian businesses engaged in overseas trade or investment against a wide range of risks that are beyond their control, such as a buyer failing to pay or political events disrupting an overseas investment. Those products and services include:

- (a) medium-term export payments insurance;
- (b) unfair bond calling insurance;
- (c) political risk insurance; and
- (d) documentary credit guarantees.

EFIC operates primarily in that part of the market that is not served by the private market – the 'market gap'. Its role is to complement, not compete with, financial institutions and insurers in the commercial market. EFIC is a self-funding organisation which operates in accordance with commercial principles.

Commercial Account and National Interest Account

EFIC's Board and management make decisions to accept eligible business on the Commercial Account and the risks and financial results of that business are allocated to the Commercial Account.

The EFIC Act also provides for EFIC to enter into transactions on the Commonwealth's National Interest Account. The Minister is responsible for making the decisions regarding business in the national interest. Transactions are usually referred to the Minister for consideration on the National Interest Account where the size or risk exceeds EFIC's commercial parameters. They are subject to the Minister's consideration as to whether undertaking them would be in the national interest.

EFIC manages the day-to-day operation of National Interest Account business, but the Commonwealth is responsible for the financial consequences of these transactions. EFIC remits to the Commonwealth the revenue from its portfolio for these transactions and the Commonwealth reimburses EFIC for the costs of servicing the portfolio and for any losses arising from it.

The results of the Commercial Account and the National Interest Account are identified separately in Financial Statements.

Exposure Summary

(a) Commercial Account

As at 30 June 2010, EFIC's Commercial Account exposure was A\$968,500,000 distributed across loans, export finance guarantees (EFGs), funded EFGs, EFIC Headway, political risk insurance, bonds, medium-term export payments insurance and rescheduled credit insurance debts. The facilities vary in maturity up to 16.5 years, but typical loan and guarantee facilities are for 10 years on an amortising basis. The average remaining maturity of facilities outstanding at 30 June 2010 was 3.3 years, but it was 7.4 years on a weighted average basis.

Table 1: Commercial Account at 30 June 2010: outstanding facilities by type

Facility Type	Value (A\$m)	Value (%)
Loans.....	341.5	35.2
EFGs	331.9	34.2
Bonds	115.4	11.9
Funded EFGs	115.2	11.9
Political risk insurance	31.7	3.3
Rescheduled credit insurance debts.....	22.1	2.3
EFIC Headway	10.2	1.1

Facility Type	Value (A\$m)	Value (%)
Medium-term insurance	0.5	0.1
	968.5	100.0

(b) **National Interest Account**

As at 30 June 2010, the National Interest Account exposures (including reinsured exposures) were A\$857,900,000 consisting of mostly loans to sovereign countries or their agencies. The National Interest Account exposures arose mainly from two sources:

- (a) loans made under the Australian Government's aid-supported mixed credit program, the now discontinued Development Import Facility ("**DIFF**"). Reflecting the priorities of Australia's overseas aid program at the time, these loans include exposures of A\$663,000,000 to Indonesia, A\$35,000,000 to China and A\$14,000,000 to the Philippines (excluding reinsurance sourced from North America); and
- (b) in the mid to late 1980s and early 1990s, EFIC paid credit insurance claims on exports to Egypt. These debts are subsequently rescheduled through the Paris Club. Egypt has paid all amounts due under the rescheduling agreement in full and on time. The balance of rescheduled credit insurance debts to Egypt is A\$101,000,000.

Table 2: National Interest Account at 30 June 2010: exposures by country

Country Type	Value (A\$m)	Value (%)
Indonesia.....	663.4	77.3
Egypt.....	100.9	11.8
China.....	34.9	4.1
USA.....	33.4	3.9
Philippines.....	14.3	1.7
Cuba.....	9.7	1.1
Medium-term insurance	1.3	0.1
	857.9	100.0

EFIC's Funding and Hedging

EFIC borrows money in the domestic and international capital markets to fund its loans, rescheduled credit insurance debts and, when necessary, contingent liabilities on bonds and guarantees provided to support export contracts and Australian export trade. EFIC services and repays these borrowings from interest and principal instalments received from loans, and premiums and fees charged to customers for the provision of its products and services.

EFIC funds its loan book in matched currencies, either by borrowing in the appropriate currency or, more usually, by borrowing in another currency and using cross-currency swaps or foreign exchange markets to remove the foreign exchange exposure. Similarly, EFIC uses interest rate swaps and futures to match the interest rate profiles of its liabilities with those of its loans.

The EFIC Act specifically provides for EFIC to have the power to enter into swaps, foreign exchange agreements, forward rate agreements, options, hedge agreements and arrangements having a similar purpose or effect. EFIC confines treasury risk to investment grade counterparties (with, where appropriate, collateral posting requirements on ratings downgrades) and does not trade speculatively.

All borrowings by EFIC (other than borrowings from the Commonwealth) or raisings of money by it otherwise than by borrowing, require the written approval of the Finance Minister of the Commonwealth under section 59 of the EFIC Act. The approval for the establishment of the Programme and the initial Programme amount has been obtained. On 23 April 1999, the Treasurer of the Commonwealth approved an increase in the Programme amount to U.S.\$2,500,000,000. However, further approval will be required from the Finance Minister to borrow more than U.S.\$2,000,000,000 under the Programme. On 30 July 2008, the Minister for Finance and Deregulation affirmed the continuation of the Programme under a restatement of the conditions attaching to the approval of 23 April 1999. Approvals for further increases in the Programme amount or other changes will be obtained as and when necessary.

Pursuant to section 62 of the EFIC Act the due payment by EFIC of any money that becomes payable by EFIC to a person other than the Commonwealth is guaranteed by the Commonwealth. EFIC has never called on this guarantee. In addition, to enhance EFIC's risk based capital adequacy, the Commonwealth has provided an A\$200,000,000 callable capital facility.

EFIC Board and Corporate Governance

The EFIC Board is responsible for the corporate governance of EFIC, managing its affairs and overseeing its operations. This includes establishing EFIC's strategies, defining its risk appetite, monitoring performance, making decisions on capital usage including large exposures, and making dividend recommendations to the Commonwealth. The Board met seven times from 1 July 2009 to 30 June 2010.

The majority of the EFIC Board is from the private sectors, with the Secretary of the Department of Foreign Affairs and Trade representing the Commonwealth. Apart from the Managing Director, who is a full-time employee, all Board members are non-executive.

Members of the Board

The names and particulars of the members of the EFIC Board in office at the date of this Offering Circular are:

Board Member	Term of Appointment	Principal Outside Activities
Andrew Mohl, Chairman	9 December 2008 – 8 December 2011	Director of the Commonwealth Bank of Australia and the AMP Foundation. Member of the Board of Governors for the Committee of Economic Development of Australia, the Advisory Council of the Australian School of Business at the University of New South Wales and the Corporate Council of the European Australian Business Council.
Michael Carapiet, Deputy Chairman	28 November 2005 – 27 November 2008 9 December 2008 – 8 December 2011	Executive Chairman of Macquarie Capital and Macquarie Securities at Macquarie Group Limited. Director of Southern Cross Media Group Limited.
Angus Armour, Managing Director and Chief Executive Officer	31 October 2003 – continuing	Trustee of the Committee for Economic Development of Australia. Member of the European Australian Business Council. President of the Berne Union.
Bruce Brook, Member	1 March 2010 – 28 February 2013	Director of Lihir Gold Limited, Snowy Hydro Limited and Boart Longyear Limited. Member of the Financial Reporting Council.
David Evans, Member	9 December 2008 – 8 December 2011	Managing Partner of Evans and Partners Pty Ltd.

		Chairman of Essendon Football Club. Director of National Stroke Foundation and the Open Family Foundation
Sally Pitkin, Member and Audit Committee Member	16 July 2007 – 15 July 2010 1 August 2010 – 31 July 2013	Director of Aristocrat Leisure Limited, ASC Pty Ltd, the Committee for Economic Development of Australia and Super Cheap Auto Group Limited.
Dennis Richardson, Government Member	15 March 2010 – continuing	Secretary of the Department of Foreign Affairs and Trade.
Anthony Sherlock, Member and Audit Committee Chairman	28 November 2005 – 27 November 2008 9 December 2008 – 8 December 2011	Director IBA Health Limited and Stockland Capital Partners Limited. Chairman of the Showground Precinct Committee.
Bruce Gosper, Alternate Government Member	4 March 2011 – continuing	Deputy Secretary of the Department of Foreign Affairs and Trade.

The business address of each member of the EFIC Board is Export House, 22 Pitt Street, Sydney NSW 2000, being the office of the Issuer.

The members of the EFIC Board declare any interest in conflicts, transactions, arrangements or agreements with EFIC, other than contracts entered into, or to be entered into, in the ordinary course of EFIC's business.

Summary of Significant Accounting Policies

The following accounting policies have been adopted in EFIC's financial statements.

(a) **Basis of preparation**

The financial statements are required by clause 2 of Schedule 1 to the Commonwealth Authorities and Companies Act 1997 ("**CAC Act**") and are a general purpose financial report.

The statements have been prepared in accordance with:

- (a) the Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period;
- (b) other authoritative pronouncements of the Australian Accounting Standards Board ("**AASB**"); and
- (c) Schedule 1 of the Commonwealth Authorities and Companies Orders (Financial Statements for the periods ended on or after 1 July 2009 under subsection 48(1) of the CAC Act).

The statements have been prepared having regard to:

- (a) Statements of Accounting Concepts; and
- (b) Annexure A to the Finance Ministers Orders for Financial Reporting (Incorporating Policy and Guidance) issued by the Department of Finance and Deregulation.

(b) **Basis of accounting**

Unless otherwise indicated, all amounts are expressed in Australian dollars. Amounts are rounded to the nearest \$100,000 unless otherwise specified.

The financial statements separately identify the activities undertaken on EFIC's own account, being the Commercial Account, and those entered into on behalf of the Commonwealth, being the National Interest Account.

The Commercial Account financial statements have been prepared on the basis of fair value for all financial assets and liabilities except where transactions qualify for hedge accounting. Changes in the fair value are either taken through profit or loss or through changes to equity. The adoption of fair value results in upfront recognition of all fees, interest income and expense.

The National Interest Account financial statements have been prepared on an accrual basis for all financial assets and liabilities. The National Interest Account does not enter into derivative financial instruments (e.g. swaps, foreign exchange, borrowings with embedded derivatives).

DESCRIPTION OF THE COMMONWEALTH OF AUSTRALIA

Dated as of 22 November 2010

IMPORTANT NOTICE

The Government of the Commonwealth of Australia has prepared this Description of the Commonwealth of Australia for general information purposes only. Any reproduction of this Description of the Commonwealth of Australia or any use of any information contained in this Description of the Commonwealth of Australia for any other purpose is prohibited. The Commonwealth of Australia does not assume any responsibility or duty to any user of this Description of the Commonwealth of Australia and disclaims any liability arising out of its use or the information contained in it. This Description of the Commonwealth of Australia does not constitute an offer to sell or a solicitation of an offer to buy any securities. The Commonwealth of Australia has not consented to the use of this Description of the Commonwealth of Australia in connection with any offering of securities and does not assume any responsibility for such use nor should its content be relied on for any such purpose. No person has been authorised to make any representation to the contrary. If you have entered this web site through a hyper-link from a third-party web site that is not maintained by the Commonwealth of Australia, the Commonwealth of Australia does not take any responsibility for any information on such third party's web site. You should assume that the information given in this Description of the Commonwealth of Australia is accurate only as of the date of the Description of the Commonwealth of Australia, unless specifically stated otherwise. The financial condition and prospects of the Commonwealth of Australia may have changed. The Commonwealth of Australia assumes no obligation to update the information contained in this Description of the Commonwealth of Australia.

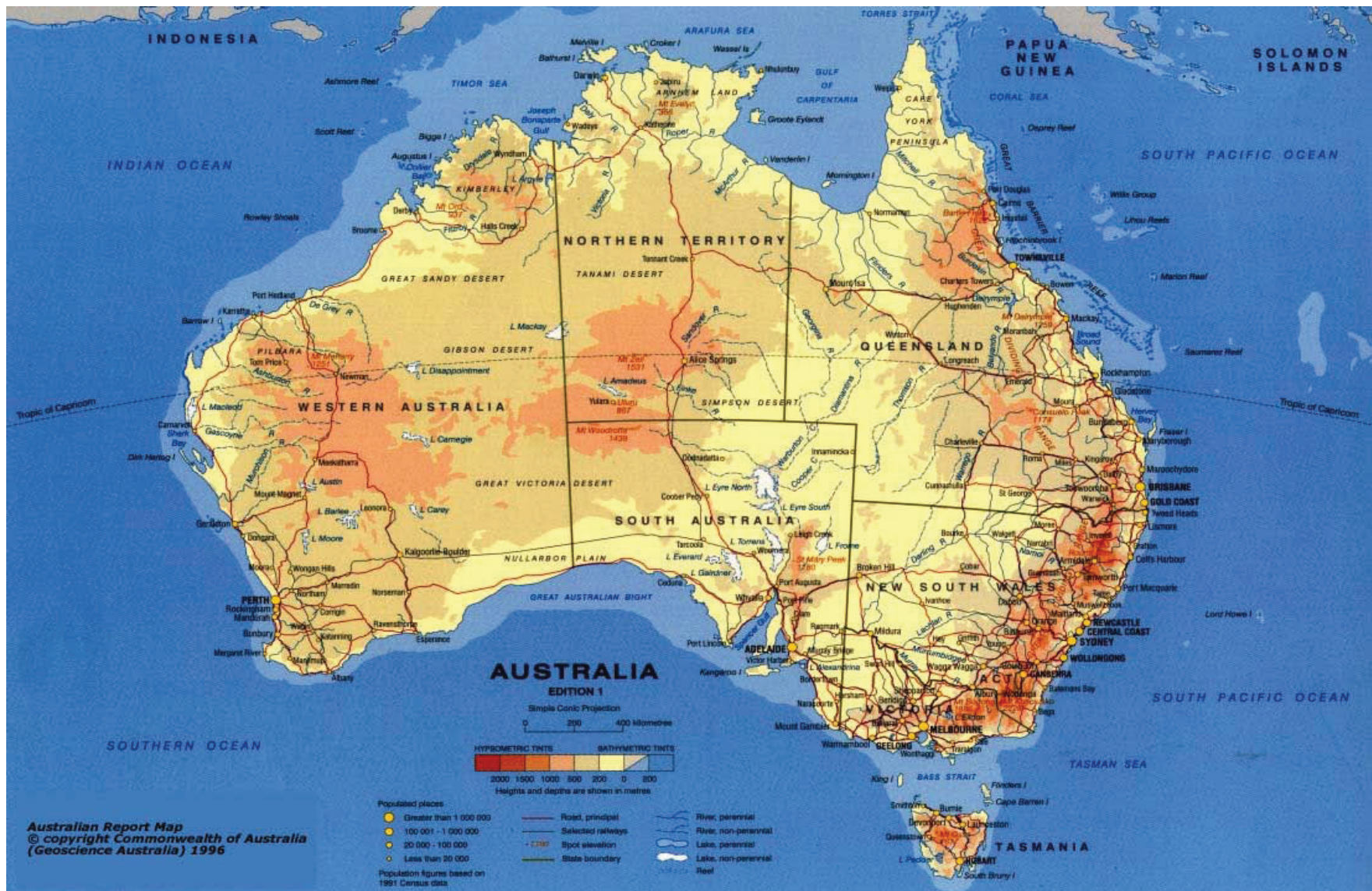


TABLE OF CONTENTS

	<u>Page</u>
ABOUT THIS DESCRIPTION OF THE COMMONWEALTH OF AUSTRALIA	ii
Official Documents and Statements	ii
Forward-Looking Statements	ii
Presentation of Financial and Other Information	iii
Certain Defined Terms and Conventions	iv
THE COMMONWEALTH OF AUSTRALIA.....	1
Population and Geography of Australia	1
Form of Government.....	2
THE AUSTRALIAN ECONOMY	5
Overview	5
Domestic Economic Conditions	7
ECONOMIC OUTLOOK.....	12
Commonwealth Responses to the Global Financial Crisis.....	12
Forecasts for the Australian Economy.....	13
MAJOR INDUSTRIES	17
EXTERNAL TRADE AND BALANCE OF PAYMENTS	26
Merchandise Trade.....	26
Balance of Payments	27
Changes in Official Reserve Assets	29
Exchange Rate.....	30
Foreign Investment Policy.....	32
Foreign Financial Relations.....	32
CURRENCY, MONETARY AND BANKING SYSTEM	34
Australian Currency	34
Monetary Conditions.....	34
Regulation of the Financial System.....	35
The Financial System Regulatory Regime	42
GOVERNMENT FINANCE	44
Federal Government Budget	44
Commonwealth Investment in the National Broadband Network.....	49
Pensions and Superannuation	50
Taxation.....	51
Commonwealth-State Financial Relations	57
Domestic Issuance of Government Bonds.....	59
Guarantees and Other Contingent Liabilities	60
PUBLIC DEBT	65
Debt Record.....	67
Credit Ratings.....	68

ABOUT THIS DESCRIPTION OF THE COMMONWEALTH OF AUSTRALIA

Official Documents and Statements

Certain financial and statistical information contained in this Description of the Commonwealth of Australia has been derived from official Australian Government sources, including:

- the Mid-Year Economic and Fiscal Outlook 2010-11 dated 9 November 2010, which we refer to as the "2010-11 MYEFO" (available at <http://www.budget.gov.au/2010-11/content/myefo/html/index.htm>);
- the Final Budget Outcome 2009-10 released on 24 September 2010, which we refer to as the "Final Budget Outcome 2009-10" (available at <http://www.budget.gov.au/2009-10/content/fbo/html/index.htm>), the Final Budget Outcome 2008-09 released on 29 September 2009, which we refer to as the "Final Budget Outcome 2008-09" (available at <http://www.budget.gov.au/2008-09/content/fbo/html/index.htm>) and the Final Budget Outcome 2007-08 released on 26 September 2008, which we refer to as the "Final Budget Outcome 2007-08" (available at <http://www.budget.gov.au/2007-08/fbo/html/index.htm>);
- the Pre-Election Economic and Fiscal Outlook 2010 dated 26 July 2010, which we refer to as the "2010 PEFO" (available at http://www.treasury.gov.au/documents/1858/PDF/PEFO_2010.pdf);
- the July 2010 Economic Statement dated 14 July 2010, which we refer to as the "July 2010 Economic Statement" (available at http://www.budget.gov.au/2010-11/content/economic_statement/html/index.htm); and
- the 2010-11 Commonwealth Budget dated 11 May 2010, which we refer to as the "2010-11 Budget" (available at <http://www.budget.gov.au>), the 2009-10 Commonwealth Budget dated 12 May 2009, which we refer to as the "2009-10 Budget" (available at <http://www.budget.gov.au>) and the 2008-09 Commonwealth Budget dated 13 May 2008, which we refer to as the "2008-09 Budget" (available at <http://www.budget.gov.au/2008-09/>).

Information available on the websites referenced above is not incorporated by reference in this Description of the Commonwealth of Australia.

Information included in this Description of the Commonwealth of Australia which is identified as being derived from a publication of the Australian Government or one of its agencies or instrumentalities is included in this Description of the Commonwealth of Australia on the authority of such publication as a public official document of the Australian Government.

The address of the Commonwealth of Australia is c/o The Treasury of the Commonwealth of Australia, Treasury Building, Langton Crescent, Parkes ACT 2600, Australia, and its phone number is +61 2 6263 2111.

Forward-Looking Statements

This Description of the Commonwealth of Australia contains forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'forecasts', 'estimates', 'projects', 'expects', 'intends', 'may', 'will', 'seeks', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology, or in relation to discussions of forecasts, policies, strategy, plans, objectives, goals, future events or intentions.

Forward-looking statements are statements that are not historical facts, including statements about the Commonwealth of Australia's beliefs and expectations. These statements are based on current plans, estimates and projections and, therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. Although the Australian Government believes that the beliefs and expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such beliefs and expectations will prove to have been correct.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those expressed in any forward-looking statement. Factors that could cause the actual outcomes to differ materially from those expressed or implied in forward looking statements include:

- the international economy, and in particular the rates of growth (or contraction) of Australia's major trading partners;
- the effects of the global financial crisis;
- changes in commodity prices and/or global demand for Australia's major export commodities;
- increases or decreases in international and domestic interest rates;
- increases or decreases in domestic consumption;
- increases or decreases in Australia's labour force participation and productivity;
- exchange rate fluctuations; and
- increases or decreases in Australia's rate of inflation.

Presentation of Financial and Other Information

The fiscal year of the Commonwealth of Australia is 1 July to 30 June. Annual information presented in this Description of the Commonwealth of Australia is based on fiscal years, unless otherwise indicated. In this Description of the Commonwealth of Australia, the fiscal year beginning on 1 July 2009 and ending on 30 June 2010 is referred to as "2009-10" and previous and subsequent fiscal years are referred to using the same convention.

Any discrepancies between totals and sums of components in this Description of the Commonwealth of Australia are due to rounding.

Statistical information reported in this Description of the Commonwealth of Australia has been derived from official publications of, and information supplied by, a number of departments and agencies of the Commonwealth of Australia, including the Treasury of the Commonwealth of Australia, the Department of Finance and Deregulation, the Reserve Bank of Australia (the "RBA") and the Australian Bureau of Statistics ("ABS"). Some statistical information has also been derived from information publicly made available by the International Monetary Fund (the "IMF") and the Organisation for Economic Co-operation and Development (the "OECD"). Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and, consequently, the resulting data may vary from source to source. In addition, statistics and data published by a department or agency of the Commonwealth of Australia may differ from similar statistics and data produced by other departments or agencies due to differing underlying assumptions or methodology. Certain historical statistical information contained in this Description of the Commonwealth of Australia is based on estimates that the Commonwealth of Australia and/or its departments or agencies believe to be based on reasonable assumptions. The Commonwealth of Australia's official financial and economic statistics are subject to review as part of a regular confirmation process. Accordingly, financial and economic information may be subsequently adjusted or revised. While the Australian Government does not expect revisions to be material, no assurance can be given that material changes will not be made. The Commonwealth of Australia adheres to the IMF's Special Data Dissemination Standards, which guide members in the dissemination of economic and financial data to the public.

The fiscal aggregates in the Federal budget are underpinned by a set of forward estimates consisting of short-term economic forecasts and projections based on medium-term assumptions. In the budget, the Australian Government usually presents two years of economic forecasts and an additional three years of projections. The forecasts are based on detailed assessments of different sectors of the economy derived from the most recent data outturns, forecasting models and information gathered from business liaison. Forecasts for the various sectors of the economy are brought together to form a coherent set of forecasts for the macroeconomy. Projections are used in the latter years and are based on long run averages of broad economic aggregates.

In the 2009-10 Budget, the projection methodology was changed from the usual practice of assuming trend GDP growth in the two projection years. This reflected the expectation that the Australian economy would experience a sustained period of below trend growth in the three-year forecast period. A corresponding period of above trend growth was assumed in the projections to return the economy to its potential level. On the basis of forecasts that the economy will return to full capacity within the three-year forecast period, the 2010-11 Budget resumed the traditional methodology of assuming trend GDP growth in the projection years.

References in this Description of the Commonwealth of Australia to "Australian dollars," "A\$," "dollars" or "\$" are to the lawful currency of the Commonwealth of Australia and references in this Description of the Commonwealth of Australia to "U.S. dollars" or "US\$" are to the lawful currency of the United States.

References in this Description of the Commonwealth of Australia to statutes followed by "(Cth)" are to legislation enacted by the Federal Parliament of the Commonwealth of Australia.

Certain Defined Terms and Conventions

The terms set forth below have the following meanings for purposes of this Description of the Commonwealth of Australia:

<i>ADI</i>	is short for Authorised Deposit-taking Institution.
<i>APRA</i>	means the Australian Prudential Regulation Authority.
<i>ASIC</i>	refers to the Australian Securities and Investments Commission.
<i>Authorised Deposit-taking Institution</i>	means a body corporate that has been granted authority by APRA to carry on banking business in Australia (under section 9 of the <i>Banking Act 1959</i> (Cth)).
<i>Basic price</i>	refers to the amount receivable by the producer from the purchaser for a unit of a good or service produced as output, minus any tax payable plus any subsidy receivable on that unit as a consequence of its production or sale; it excludes any transport charges invoiced separately by the producer.
<i>Balance of payments</i>	refers to the total of all of the amounts transacted between residents of Australia and residents of the rest of the world (non-residents) over a specific period of time.
<i>Capital account</i>	records the values of the non-financial assets that are acquired, or disposed of, by resident institutional units by engaging in transactions, and shows the change in net worth due to saving and capital transfers or internal bookkeeping transactions linked to production (changes in inventories and consumption of fixed capital).
<i>Chain volume measures</i>	refers to measures derived by linking together (compounding) movements in volumes, calculated using the average prices of the previous fiscal year, and applying the compounded movements to the current price estimates of the reference year. Chain volume measures were introduced in the national accounts in 1998 because, by annually rebasing, they provide price relativities that reflect the current situation, thereby providing better real estimates than constant price measures, especially in times of rapidly changing relative prices.
<i>Consumer price index (or headline rate of inflation)</i>	measures quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by the CPI population group (i.e., metropolitan households) and is commonly referred to as the headline rate of inflation.
<i>Current account</i>	includes the balance of trade (exports of goods and services minus imports of goods and services), net factor income (income earned by Australia from the rest of the world minus income earned by the rest of the world from Australia) and net transfer payments (including, for example, net outflows of foreign aid payments). The current account excludes capital transfers.
<i>Current prices</i>	refers to estimates valued at the prices of the period to which the observation relates. For example, estimates for 2002–03 are valued using 2002–03 prices. This contrasts to chain volume measures where the prices used in valuation refer to the prices of the previous year.
<i>Fiscal year</i>	means each year commencing 1 July and ending 30 June.
<i>Foreign ADI</i>	means a foreign corporation authorised to carry on banking business in a foreign country that has been granted authority by APRA to carry on banking business in Australia (under section 9 of the <i>Banking Act 1959</i> (Cth)).

<i>Free on board (or f.o.b.)</i>	The value of goods measured on a free on board basis includes all production and other costs incurred up until the goods are placed on board the international carrier for export. Free on board values exclude international insurance and transport costs. They include the value of the outside packaging in which the product is wrapped, but do not include the value of the international freight containers used for transporting the goods.
<i>Gross domestic product (or GDP)</i>	means the total market value of goods and services produced in Australia within a given period after deducting the cost of goods and services used up in the process of production but before deducting allowances for the consumption of fixed capital.
<i>GDP per capita</i>	means the ratio of the chain volume estimate of GDP to an estimate of the resident Australian population.
<i>Gross national income</i>	(formerly gross national product) refers to the aggregate value of gross primary incomes for all institutional sectors, including net primary income receivable from non-residents.
<i>Gross value added</i>	means the value of output at basic prices minus the value of intermediate consumption at purchasers' prices.
<i>Household saving ratio</i>	refers to the ratio of household net saving (calculated as household net disposable income less household final consumption expenditure) to household net disposable income (calculated as household gross disposable income less household consumption of fixed capital).
<i>IMF</i>	means the International Monetary Fund.
<i>Implicit price deflator</i>	is obtained by dividing a current price value by its real counterpart (the chain volume measure).
<i>Inflation</i>	refers to a continuous upward movement in the general level of prices.
<i>Labour force</i>	means, for any group, persons who were employed or unemployed.
<i>National net savings</i>	is calculated as national net disposable income less final consumption expenditure.
<i>Net domestic product</i>	is calculated as GDP less consumption of fixed capital.
<i>Net worth</i>	represents the difference between the stock of assets (both financial and non-financial) and the stock of liabilities. Because it is derived residually, it can be negative.
<i>OECD</i>	means the Organisation for Economic Co-operation and Development.
<i>Participation rate</i>	means, for any group, the labour force expressed as a percentage of the civilian population aged 15 years and over in the same group.
<i>RBA</i>	means the Reserve Bank of Australia.
<i>Real gross domestic income</i>	is calculated by: <ul style="list-style-type: none"> • taking the volume measure of gross national expenditure; • adding exports of goods and services at current prices deflated by the implicit price deflator for imports of goods and services; • deducting the volume measure of imports of goods and services; and • adding the current price statistical discrepancy for GDP, deflated by the implicit price deflator for GDP.
<i>Real gross national income</i>	is calculated by adjusting real gross domestic income for the real impact of primary income flows (property income and labour income) to and from overseas.
<i>Real net national</i>	is calculated by:

disposable income

- taking real gross domestic income;
- deducting real incomes payable to the rest of the world;
- adding real incomes receivable from the rest of the world; and
- deducting the volume measure of consumption of fixed capital.

Real incomes payable and receivable are calculated by dividing the nominal income flows by the implicit price deflator for gross national expenditure.

Real

means adjusted for the effects of inflation.

Seasonal adjustment

involves estimation of seasonal factors in data and adjustment of the data to remove the seasonal effect.

Total gross fixed capital formation

refers to expenditure on new fixed assets plus expenditure on second-hand fixed assets, whether for additions or replacements (but not including repairs), where fixed assets are produced assets that are used repeatedly or continuously in production processes for more than one year. It includes capital formation undertaken by government, public corporations and the private sector.

Unemployment rate

means, for any group, the number of unemployed persons expressed as a percentage of the labour force in the same group.

THE COMMONWEALTH OF AUSTRALIA

Population and Geography of Australia

Australia is located in the Southern Hemisphere. Excluding its external Territories, Australia has an area of nearly 7.7 million square kilometres. It is the world's sixth largest nation after Russia, Canada, China, the United States and Brazil. The major portion of Australia's population lives in the eastern and southern coastal regions. The vast central area of Australia is arid and largely unsuitable for agriculture. A map showing Australia's States and Territories, major cities and principal geographic features is included on the page following the cover page of this Description of the Commonwealth of Australia.

The preliminary estimated resident population of Australia at 31 March 2010 was 22,272,000 persons. This was an increase of 403,100 persons (1.8%) since 31 March 2009 and 106,400 persons since 31 December 2009.

The preliminary estimated resident populations of the six States, the Australian Capital Territory and Northern Territory at 31 March 2010 were as follows.

Table 1: Preliminary estimated resident population of States and Territories

State / Territory	Population (as at 31 March 2010)
New South Wales	7,220,991
Victoria	5,529,441
Queensland	4,498,900
Western Australia	2,286,057
South Australia	1,640,745
Tasmania	507,084
Australian Capital Territory	357,673
Northern Territory	228,527

Source: ABS Catalogue No. 3101.0.

The majority of the population lives in the metropolitan areas of the capital cities of the six States, and in Canberra, the national capital.

The growth of Australia's population has two components: natural increase (the number of births minus the number of deaths) and net overseas migration.

Preliminary natural increase for the year ended 31 March 2010 was estimated to be 161,700 persons, an increase of 7.0% (or 10,600 persons) on the natural increase for the year ended 31 March 2009 (151,100 persons). The preliminary estimate for births during the year ended 31 March 2010 (303,500) was 3.1% higher than the figure for the year ended 31 March 2009 (294,500). The preliminary estimate for deaths during the year ended 31 March 2010 was 141,800.

For the year ended 31 March 2010, Australia recorded a preliminary net overseas migration ("NOM") estimate of an increase of 241,400 persons. This was the difference between 482,100 overseas arrivals that were added to the population and 240,700 overseas departures that were subtracted from the population. Australia's current migration program allows people from any country to apply to migrate to Australia, regardless of their ethnicity, culture, religion or language, provided that they meet the criteria set out in law. The Australian Government views Australia's cultural diversity as a source of both social and economic wealth. The contribution made to population growth by NOM (60%) was higher than that of natural increase (40%).

The following table sets forth the estimated resident population of Australia by age group as of 30 June 2009:

Table 2: Preliminary estimated resident population by age group

Age group (years)	Population (as at 30 June 2009)	
	Males	Females
0-4	730,430	692,194
5-9	696,327	661,592
10-14	720,993	684,485
15-19	772,228	727,168
20-24	833,469	782,583
25-29	816,533	791,698
30-34	752,562	751,566
35-39	803,546	814,971
40-44	759,627	769,345
45-49	778,982	793,905
50-54	712,542	727,248
55-59	647,631	659,266
60-64	584,423	585,637
65-69	430,352	438,626
70-74	330,936	355,227
75-79	255,877	296,159
80-84	183,527	248,473
85-89	93,432	162,168
90-94	27,696	64,837
95-99	5,721	18,137
100 and over	679	2,489
All ages	10,937,513	11,027,774

Source: ABS Catalogue No. 3101.0.

Australia's estimated total fertility rate (the average number of babies that a woman could expect to bear during her reproductive lifetime, assuming current age-specific fertility rates apply) is 1.933 births per woman in the year ended 30 June 2009, a rate higher than the fertility rates in many OECD countries, including Italy, Germany, Japan and Canada, and higher than the OECD average of 1.71 in 2008. However, Australia's current total fertility rate is below those for New Zealand (2.18 in 2008) and the United States (2.09 in 2008). Based on recent age-specific fertility trends, the 2010 Intergenerational Report projected Australia's total fertility rate to fall then remain stable at 1.9 births per woman through 2050.

Average Australian mortality rates have fallen strongly over the past century. As a consequence, life expectancies have risen for both men and women. Falling mortality rates add to population growth and imply a higher proportion of aged people in the population. Mortality rates are falling across all age groups, and this trend is projected to continue for at least the next four decades.

Australia's NOM helps to reduce population ageing. However, falling fertility and mortality rates are projected to lead to an overall rise in the average age of the population. While many OECD countries share Australia's demographic challenges, Australia is in a stronger position to meet them than most.

Form of Government

The Commonwealth of Australia was formed as a federal union on 1 January 1901 when the six former British colonies—now the six States of New South Wales, Victoria, Queensland, South Australia, Western Australia and Tasmania—were united in a 'Federal Commonwealth' under the authority of the Commonwealth of Australia Constitution Act enacted by the British Parliament. In addition to the States, there are ten Territories consisting of the Australian Capital Territory, which contains the national capital (Canberra), the Northern Territory, Norfolk Island, the Ashmore and Cartier Islands, the Australian Antarctic Territory, Christmas Island, the Cocos (Keeling) Islands, the Coral Sea Islands, the Jervis Bay Territory and the Territory of Heard Island and McDonald Islands. The Northern Territory, the Australian Capital Territory and Norfolk Island have been granted forms of self-government. The remaining Territories are administered by the Commonwealth Government.

Federal legislative powers in Australia are vested in the Federal Parliament (the "Parliament"), which consists of the Queen as head of state, the Senate and the House of Representatives. The Governor-General represents the Queen throughout Australia. The Senate and the House of Representatives are both elected by the compulsory vote of all eligible persons (generally, Australian citizens aged 18 years and older). Twelve senators are elected from each of the six States for a term of six years; half the senators from each State are elected every third year. In addition, two senators are elected from each of the Australian Capital Territory and the Northern Territory and hold office until the next general election of the House of Representatives. The House of Representatives consists of 150 members, each elected for a term not exceeding three years. Each State's representation in the House of Representatives is approximately proportionate to its population. This representation is reviewed during the life of every Parliament in response to population shifts. In accordance with established practice, the election for members of the Senate is usually held on the same date as the election for members of the House of Representatives. Under certain circumstances the Governor-General may simultaneously dissolve the Senate and the House of Representatives.

The Senate has equal power with the House of Representatives except in relation to laws appropriating money or imposing taxes, which must originate in the House of Representatives. Laws imposing taxes and laws appropriating money for the ordinary annual services of the Government may not be amended by the Senate, but may be rejected or returned by the Senate to the House of Representatives with a request for amendment. Any member of the House of Representatives or the Senate may introduce a proposed law (a "bill"). To become law, bills must be passed by both the House of Representatives and the Senate.

Under the Constitution, the Parliament is empowered to make laws on certain specified matters such as defence, external affairs, interstate and overseas trade and commerce, foreign corporations and trading or financial corporations formed within the limits of Australia, borrowing money, taxation (including customs and excise taxes), postal, telegraphic and telephonic services, currency and banking, insurance, immigration, pensions and social services. Some of these powers are given to the Parliament to the exclusion of the State Parliaments. Other powers are exercised by the Parliament concurrently with the State Parliaments, but any legislation within the limits of its powers enacted by the Parliament prevails over any inconsistent laws of the States. Powers not conferred on the Parliament remain with the States, subject to certain Constitutional limitations.

The executive power of the Commonwealth of Australia under the Constitution is formally vested in the Queen and is exercisable by the Governor-General as the Queen's representative. There is a Federal Executive Council to advise the Governor-General. This Council is composed of the Prime Minister and other Federal Ministers. These Ministers are members of either the House of Representatives or the Senate and generally belong to the party or coalition of parties which has a majority in the House of Representatives. Such Ministers form the Government with the practical result that executive power is exercised by the Prime Minister and the other Ministers.

The major Australian political parties are the Australian Labor Party, the Liberal Party of Australia and the Nationals. Minor parties include the Australian Greens, the Family First Party and the Country Liberal Party. From March 1996 to November 2007, the Government was formed by a coalition of the Liberal Party of Australia and the Nationals (the "Coalition"). A federal election was held on 24 November 2007, following which the Australian Labor Party won a majority of the seats in the House of Representatives and became the Government, with the Hon. Kevin Rudd MP being elected as Prime Minister. On 24 June 2010, the Hon. Julia Gillard MP was elected federal leader of the Australian Labor Party and replaced the Hon. Kevin Rudd MP as Prime Minister. On 17 July 2010, the Prime Minister announced that a federal election would be held on 21 August 2010. As a consequence the House of Representatives was dissolved on 19 July 2010 and the Government operated in caretaker mode from 19 July 2010 until 8 September 2010, when the results of the 21 August 2010 election were clear.

In the 21 August 2010 election, the Australian Labor Party and the Coalition each won 72 seats in the House of Representatives, resulting in the first hung Parliament in Australia since World War II. On 8 September 2010, the Australian Labor Party formed a minority government with the support of three independent members and one Australian Greens member of the House of Representatives. The four members of the House of Representatives who are in alliance with the Australian Labor Party have agreed only to pass key supply, or appropriation, bills that authorise the Government to spend money and to oppose certain motions of no-confidence against the Australian Labor Party minority government. They have not committed to supporting all Australian Labor Party minority government legislation, and, as a result, there can be no assurance that legislation put forth by the Australian Labor Party minority government will be passed by the House of Representatives.

Half of the Senate was up for election in the 21 August 2010 election. The Senators elected will take office on 1 July 2011.

The following tables show the composition of the House of Representatives and the Senate as at 31 October 2010.

Table 3: House of Representatives composition

Australian Labor Party	72
Liberal Party of Australia	44
Liberal National Party	21
The Nationals	7
Independents	4
Australian Greens	1
Country Liberal Party	1
Total	150

Table 4: Senate composition

	<u>Through 30 June 2011</u>	<u>From 1 July 2011</u>
Australian Labor Party	32	31
Liberal Party of Australia	32	26
Australian Greens	5	9
The Nationals	4	4
Liberal National Party	0	3
Democratic Labor Party	1	1
Country Liberal Party	1	1
Independents	1	1
Total	76	76

Judicial power in Australia is vested in the High Court of Australia, other Federal courts and State and Territory courts. The High Court is a superior court of record and consists of the Chief Justice and six other Justices who are appointed by the Governor-General following consultations with the States. The Justices are appointed until they are 70 years of age and can be removed by the Governor-General in Council in certain circumstances on the grounds of misbehaviour or incapacity. In certain limited matters the High Court has original jurisdiction. It also has appellate jurisdiction in relation to Federal courts, including the Federal Court of Australia, and the Supreme Court of each State and the Northern Territory and other courts of the States exercising federal jurisdiction. Appeals from the Supreme Court of a Territory (other than the Northern Territory) may be taken to the Federal Court of Australia. The common law system, as developed in the United Kingdom, forms the basis of Australian jurisprudence.

THE AUSTRALIAN ECONOMY

Overview

Australia is a stable, culturally diverse and democratic society with a skilled workforce and a strong, competitive economy. Between 1990-91 and 2009-10, Australia's real economy grew by an average of around 3.4% a year. Australia's GDP in 2009-10 (in value terms) was around \$1.3 trillion. The IMF estimates that in 2009 Australia was the world's 18th largest economy by GDP (in purchasing-power-parity terms). Based on OECD data, Australia's estimated real per capita GDP (in purchasing-power-parity terms) ranked 6th among OECD nations in 2009.

Principal Economic Indicators

The following table sets forth Australia's principal economic indicators for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years.

Table 5: Principal Economic Indicators

	2005-06	2006-07	2007-08	2008-09	2009-10
GDP, Chain Volume Measure (A\$ millions) ^(a)	1,150,644	1,191,655	1,237,320	1,255,241	1,283,799
<i>Percentage change</i>	3.1	3.6	3.8	1.4	2.3
GDP per capita, Chain Volume Measure (A\$) ^(a)	56,015	57,095	58,197	57,770	57,925
<i>Percentage change</i>	1.6	1.9	1.9	-0.7	0.3
Unemployment Rate (% of labour force) ^{(b) (d)}	4.8	4.3	4.2	5.7	5.2
Consumer Price Index (% change) ^(c)	4.0	2.1	4.5	1.5	3.1
Wage Price Index (% change) ^{(c) (d)}	4.2	4.0	4.2	3.8	3.0
Exports, Chain Volume Measure (A\$ millions) ^(a)	259,847	266,361	277,125	284,441	300,142
<i>Percentage change</i>	2.2	2.5	4.0	2.6	5.5
Imports, Chain Volume Measure (A\$ millions) ^(a)	229,126	249,950	286,328	276,818	291,537
<i>Percentage change</i>	7.3	9.1	14.6	-3.3	5.3
Balance of Payments – Current Account (A\$ millions)	-54,075	-60,541	-73,980	-40,515	-56,103
Official Reserve Assets at end of period (A\$ millions)	63,814	79,682	35,857	52,309	43,737
Commonwealth Government Net Debt (A\$ millions)	-3,743	-29,150	-44,820	-16,148	-42,283

(a) Reference year for chain volume measures is 2008-09.

(b) As at the June quarter; calculated as an average over the quarter.

(c) Percentage change to the June quarter of each period from the previous June quarter.

(d) Seasonally adjusted.

Source: ABS Catalogue No. 5204.0, 6202.0, 6401.0, 5302.0, 6345.0; Final Budget Outcome 2009-10; Reserve Bank of Australia *Bulletin*; unpublished ABS and Treasury data.

GDP Growth

Australia's GDP expanded by 2.3% in 2009-10. Growth in 2009-10 was broadly-based, with total private business investment decreasing by 4.7%, general government consumption expenditure rising by 1.8% and household consumption expenditure increasing by 2.1%. The 2010-11 MYEFO forecast GDP to grow by 3¼% in 2010-11 and 3¾% in 2011-12.

Major Industries

Australia's major industries include financial and insurance services, mining, manufacturing, construction and professional, scientific and technical services. Growth during 2009-10 was recorded in most industries, including mining (6.2%), professional, scientific and technical services (3.8%), health care and social assistance (3.6%), wholesale trade (3.3%), financial and insurance services (3.0%), electricity, gas, water and waste services (2.7%), education and training (2.6%), transport, postal and warehousing (2.4%), retail trade (1.9%), rental, hiring and real estate services (1.8%), manufacturing (1.5%), administrative and support services (1.5%), information, media and telecommunications (1.2%), construction (0.5%), while flat growth was recorded in public administration and safety, and arts and recreation services. Several industries contracted during 2009-10, including other services (-1.1%), agriculture, forestry and fishing (-1.2%) and accommodation and food services (-2.1%).

During 2009-10, the industry accounting for the largest share of gross value added (at basic prices) was financial and insurance services, with a share of 11.0%. Mining was the second largest industry with a share of 10.1%. Prior to 2006-07, manufacturing was the largest industry.

Net Worth

Australia's general government sector net worth, reflecting the difference between total assets and total liabilities, as at 30 June 2010 was -\$44,848 million, a decrease of \$64,569 million since 30 June 2009. In the 2010-11 MYEFO, Australia's general government sector net worth was forecast to be -\$63,361 million in 2010-11 and -\$71,975 million in 2011-12.

Budget Balance

A sustained period of government budget surpluses in the years prior to 2008-09 enabled the Australian Government to retire large amounts of government debt. Net debt was eliminated for the Australian Government during the year ended 30 June 2006. The Australian Government general government sector net debt for 2009-10 was \$42.3 billion (3.3% of GDP). In the 2010-11 MYEFO, net debt was projected to be 5.7% of GDP in 2010-11 and to peak at 6.4% of GDP in 2011-12.

The Australian Government's underlying cash deficit was \$54.8 billion (4.2% of GDP) in 2009-10. In the 2010-11 MYEFO, Government underlying cash deficits of \$41.5 billion (-3.0% of GDP) and \$12.3 billion (-0.8% of GDP) were forecast for 2010-11 and 2011-12 respectively, and underlying cash surpluses of \$3.1 billion (0.2% of GDP) and \$3.3 billion (0.2% of GDP) were forecast for 2012-13 and 2013-14, respectively.

Trade

Australia's total trade in goods and services on an annual national accounts basis totalled \$513.8 billion in 2009-10. Australian total merchandise trade accounted for around 1.3% of total world merchandise trade in 2009. Australia's largest trading partners in 2008-09 were China, Japan, the United States, the United Kingdom and South Korea.

Domestic Economic Conditions

Gross Domestic Product

The following table shows chain volume GDP and related measures, real income measures and current price measures for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years.

Table 6: Key National Accounts Aggregates

	2005-06	2006-07	2007-08	2008-09	2009-10
Chain volume GDP and related measures^(a)					
GDP (A\$ millions)	1,150,644	1,191,655	1,237,320	1,255,241	1,283,799
GDP per capita (A\$)	56,015	57,095	58,197	57,770	57,925
GDP market sector (A\$ millions)	902,152	935,042	973,665	980,664	1,000,931
Net domestic product (A\$ millions)	983,458	1,014,287	1,048,923	1,055,682	1,073,644
Real income measures^(a)					
Real gross domestic income (A\$ millions)	1,104,830	1,161,869	1,220,079	1,255,241	1,269,447
Real gross national income (A\$ millions)	1,063,126	1,111,914	1,169,170	1,209,835	1,220,787
Real net national disposable income (A\$ millions)	894,411	933,860	980,694	1,009,281	1,010,015
Real net national disposable income per capita (A\$)	43,541	44,744	46,127	46,450	45,572
Current price measures					
GDP (A\$ millions)	1,001,440	1,091,633	1,185,740	1,255,241	1,284,670
GDP per capita (A\$)	48,752	52,303	55,771	57,770	57,965
Gross national income (A\$ millions)	963,556	1,044,634	1,136,244	1,209,835	1,235,042
National net saving (A\$ millions)	68,205	77,488	93,553	116,377	93,246
Household saving ratio	0.1	3.0	2.0	9.8	8.8

Notes: – = nil or rounded to zero.

(a) Reference year for chain volume measures and real income measures is 2008-09.

Source: ABS Catalogue No. 5204.0.

Following a fall in GDP in volume terms in 1990-91, Australia experienced 19 years of consecutive growth. In 2009-10, GDP increased by 2.3%, and GDP per capita increased by 0.3% (chain volume measures). The 2010-11 MYEFO forecast GDP to grow by 3¼% in 2010-11 and 3¾% in 2011-12.

The table below details the expenditure components of GDP on a chain volume measurement basis for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years.

Table 7: Expenditure Components of Gross Domestic Product (Chain Volume Measures^(a))

	2005-06	2006-07	2007-08	2008-09	2009-10
	(A\$ millions)				
Final consumption expenditure					
General government					
National—defence	16,578	17,940	17,884	18,893	20,061
National—non-defence	60,760	65,281	67,814	69,001	66,296
Total national	77,347	83,237	85,684	87,893	86,357
State and local	123,395	125,015	129,211	132,975	138,463
<i>Total general government</i>	<i>200,753</i>	<i>208,246</i>	<i>214,891</i>	<i>220,868</i>	<i>224,820</i>
Households	613,661	640,240	670,466	672,036	686,111
<i>Total final consumption expenditure</i>	<i>814,380</i>	<i>848,520</i>	<i>885,529</i>	<i>892,904</i>	<i>910,931</i>
Private gross fixed capital formation					
Private business investment					
Machinery and equipment					
New	75,824	78,144	93,005	89,916	85,957
Net purchases of second hand assets	-3,725	-4,028	-4,105	-4,250	-4,492
<i>Total machinery and equipment</i>	<i>72,099</i>	<i>74,116</i>	<i>88,896</i>	<i>85,666</i>	<i>81,465</i>
Non-dwelling construction					

	2005-06	2006-07	2007-08	2008-09	2009-10
	(A\$ millions)				
New building	35,165	37,844	42,256	40,031	32,728
New engineering construction	29,204	34,447	37,423	46,475	47,063
Net purchases of second hand assets	-881	-1,481	-528	-1,151	-528
<i>Total non-dwelling construction</i>	<i>63,619</i>	<i>70,934</i>	<i>79,231</i>	<i>85,355</i>	<i>79,262</i>
Cultivated biological resources	3,581	2,849	2,721	3,104	3,161
Intellectual property products					
Research and development	11,114	12,597	13,938	13,376	13,327
Mineral and petroleum exploration	2,899	4,325	5,577	6,034	5,743
Computer Software	7,890	8,672	10,019	9,920	10,811
Artistic originals	987	1,063	1,143	1,237	1,352
<i>Total intellectual property products</i>	<i>22,995</i>	<i>26,639</i>	<i>30,673</i>	<i>30,567</i>	<i>31,233</i>
<i>Total private business investment</i>	<i>162,427</i>	<i>174,194</i>	<i>201,414</i>	<i>204,693</i>	<i>195,122</i>
Dwellings					
New and used dwellings	37,660	41,147	41,382	41,160	40,854
Alterations and additions	32,406	30,247	30,905	29,746	30,843
<i>Total dwellings</i>	<i>70,061</i>	<i>71,392</i>	<i>72,284</i>	<i>70,906</i>	<i>71,697</i>
Ownership transfer costs	17,538	17,384	17,412	14,696	16,272
<i>Total private gross fixed capital formation</i>	<i>249,592</i>	<i>262,805</i>	<i>291,404</i>	<i>290,295</i>	<i>283,090</i>
Public gross fixed capital formation					
Public corporations					
Commonwealth	5,095	2,641	1,158	1,229	1,853
State and local	14,836	17,571	20,294	21,570	23,931
<i>Total public corporations</i>	<i>19,996</i>	<i>20,181</i>	<i>21,451</i>	<i>22,798</i>	<i>25,784</i>
General government					
National—defence	5,159	5,848	6,718	7,268	8,513
National—non-defence	6,466	6,249	6,943	7,224	8,329
<i>Total national</i>	<i>11,598</i>	<i>12,096</i>	<i>13,668</i>	<i>14,492</i>	<i>16,843</i>
State and local	21,678	24,204	25,818	27,730	38,608
<i>Total general government</i>	<i>33,290</i>	<i>36,263</i>	<i>39,486</i>	<i>42,223</i>	<i>55,451</i>
<i>Total public gross fixed capital formation</i>	<i>53,283</i>	<i>56,461</i>	<i>60,939</i>	<i>65,021</i>	<i>81,235</i>
<i>Total gross fixed capital formation</i>	<i>302,910</i>	<i>319,289</i>	<i>352,446</i>	<i>355,316</i>	<i>364,325</i>
<i>Domestic final demand</i>	<i>1,116,980</i>	<i>1,167,531</i>	<i>1,237,974</i>	<i>1,248,219</i>	<i>1,275,256</i>
Changes in inventories					
Private non-farm	423	3,728	3,791	231	872
Farm	717	608	1,633	150	682
Public authorities	582	47	-1,469	-983	266
<i>Total changes in inventories</i>	<i>1,481</i>	<i>4,323</i>	<i>4,338</i>	<i>-602</i>	<i>1,819</i>
<i>Gross national expenditure</i>	<i>1,119,521</i>	<i>1,174,533</i>	<i>1,245,094</i>	<i>1,247,617</i>	<i>1,277,075</i>
Exports of goods and services	259,847	266,361	277,125	284,441	300,142
less Imports of goods and services	229,126	249,950	286,328	276,818	291,537
Statistical discrepancy	0	0	0	0	-1,881
Gross domestic product	1,150,644	1,191,655	1,237,320	1,255,241	1,283,799

(a) Reference year for chain volume measures is 2008-09.
Source: ABS Catalogue No. 5204.0.

Total private business investment decreased by 4.7% in 2009-10. Investment in non-dwelling construction and machinery and equipment decreased 7.1% and 4.9% respectively in 2009-10.

Household final consumption expenditure increased 2.1% and contributed 1.1% to GDP growth in 2009-10. Within household final consumption expenditure, rent and other dwelling services (up 2.9% over 2009-10) and miscellaneous goods and services (up 2.1% over 2009-10) were the largest contributors to GDP growth in 2009-10.

General government expenditure increased by 1.8% and contributed 0.3% to GDP growth in 2009-10.

From an industry perspective, growth during 2009-10 was recorded in most industries, including mining (6.2%), professional, scientific and technical services (3.8%), health care and social assistance (3.6%), wholesale trade (3.3%), financial and insurance services (3.0%), electricity, gas, water and waste services (2.7%), education and training (2.6%), transport, postal and warehousing (2.4%), retail trade (1.9%), rental, hiring and real estate services (1.8%), manufacturing (1.5%), administrative and support services (1.5%), information, media and telecommunications (1.2%), construction (0.5%), while flat growth was recorded in public administration and safety, and arts and recreation services. Several industries contracted during 2009-10, including other services (-1.1%), agriculture, forestry and fishing (-1.2%) and accommodation and food services (-2.1%).

The following table identifies the income components of GDP on a current price basis for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years.

Table 8: Income Components of Gross Domestic Product (Current Prices)

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
	(A\$ millions)				
Compensation of employees					
Wages and salaries	432,934	477,441	518,839	537,441	548,775
Employers' social contributions ^(a)	54,223	59,796	64,726	67,022	68,607
<i>Total compensation of employees</i>	<i>487,157</i>	<i>537,237</i>	<i>583,565</i>	<i>604,463</i>	<i>617,382</i>
Gross operating surplus					
Non-financial corporations					
Private non-financial corporations	180,245	197,060	216,515	246,979	246,429
Public non-financial corporations	20,810	16,663	13,177	13,597	14,405
<i>Total non-financial corporations</i>	<i>201,055</i>	<i>213,723</i>	<i>229,693</i>	<i>260,575</i>	<i>260,834</i>
Financial corporations	39,799	47,852	60,782	62,911	61,428
<i>Total corporations</i>	<i>240,854</i>	<i>261,575</i>	<i>290,475</i>	<i>323,486</i>	<i>322,262</i>
General government	21,422	22,848	24,023	26,314	26,924
Dwellings owned by persons	60,851	64,123	71,918	83,083	91,363
<i>Total gross operating surplus</i>	<i>323,127</i>	<i>348,546</i>	<i>386,416</i>	<i>432,883</i>	<i>440,549</i>
Gross mixed income	84,484	90,584	92,714	98,592	102,528
<i>Total factor income</i>	<i>894,768</i>	<i>976,367</i>	<i>1,062,695</i>	<i>1,135,938</i>	<i>1,160,459</i>
Taxes less subsidies on production and imports	106,672	115,266	123,045	119,303	123,807
Statistical discrepancy	0	0	0	0	403
Gross domestic product	1,001,440	1,091,633	1,185,740	1,255,241	1,284,670

(a) Includes contributions to superannuation made by employers and payments of workers' compensation premiums.

Source: ABS Catalogue No. 5204.0.

For the income components of GDP in 2009-10, there was growth in compensation of employees of 2.1% and growth in gross operating surplus ("GOS") of 1.8%. The growth in GOS in 2009-10 was driven by growth in dwellings owned by persons (10.0%) and growth in public non-financial corporations GOS (5.9%).

Prices

Headline inflation was 2.8% through the year to the September quarter 2010, down from 3.1% through the year to the June quarter 2010 and 2.9% through the year to the March quarter 2010 and up from 2.1% through the year to the December quarter 2009. Over the year to the September quarter 2010, the increase in prices was mainly due to increases in the prices of housing, alcohol and tobacco, financial and insurance services and food. For further information about the Reserve Bank of Australia's medium-term inflation target, see "Currency, Monetary and Banking System—Monetary Conditions" in this Description of the Commonwealth of Australia.

The following table details the through the year change for the consumer price index and the implicit price deflator for non-farm gross domestic product to the final (June) quarter of each of the fiscal years 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10.

The implicit price deflator for non-farm gross domestic product corresponds to a broader set of prices in the economy than the consumer price index, including non-consumption goods and services, such as those used by businesses, and exports.

Table 9: Prices

Year ^(a) :	All Groups Consumer Price Index (original) ^(a)	Implicit Price Deflator for Non-farm Gross Domestic Product (original) ^(b)
2005-06	4.0	5.0
2006-07	2.1	5.3
2007-08	4.5	4.6
2008-09	1.5	4.7
2009-10	3.1	0.1

(a) Percentage change to the June quarter of each period from the previous June quarter.

(b) Percentage change on preceding year.

Source: ABS Catalogue No. 6401.0, 5204.0.

Wages

The preferred measure of wages in Australia is the wage price index, which measures changes in the price of a unit of labour unaffected by changes in the quality or quantity of work performed.

Annual wages growth has been elevated since the beginning of 2005 but has remained below 4½% throughout this period. This is despite the fact that wage growth has been strong in industries (mining and construction) and States (Western Australia and Queensland) associated with the resources boom.

The following table details the through the year change for the wage price index to the final (June) quarter of each of the fiscal years 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10.

Table 10: Wages

Year ^(a) :	Wage Price Index (Percentage change through the year, seasonally adjusted)
2005-06	4.2
2006-07	4.0
2007-08	4.2
2008-09	3.8
2009-10	3.0

(a) Percentage change to the June quarter of each period from the previous June quarter.

Source: ABS Catalogue No. 6345.0.

The 2010-11 MYEFO forecast the wage price index to rise to 3¾% through the year to June quarter 2011 and 4% through the year to the June quarter 2012.

Labour market

The Australian labour market has been remarkably resilient in the face of the global downturn and is now staging a rapid recovery. In the twelve months to June 2010, employment rose by around 311,000 persons. After peaking at 5.8% in June 2009, the unemployment rate fell to 5.1% in June 2010.

The following table identifies key labour force statistics as at the June quarter in each of the referenced years.

Table 11: Labour force statistics^(a)

	June quarter 2006	June quarter 2007	June quarter 2008	June quarter 2009	June quarter 2010
Total Employment ('000)	10,211	10,546	10,861	10,927	11,186
Total Unemployment ('000)	520	473	480	657	616
<i>Unemployment Rate (%)</i>	4.8	4.3	4.2	5.7	5.2

(a) As at the June quarter; calculated as an average over the quarter.

Source: ABS Catalogue No. 6202.0.

The 2010-11 MYEFO forecast employment growth of 2½% through the year to the June quarter 2011 and 2% through the year to the June quarter 2012. The unemployment rate is forecast to reach 4½% by the June quarter 2012. The 2010-11 MYEFO forecast the participation rate to be 65½% in the June quarter 2011 and 2012.

ECONOMIC OUTLOOK

Commonwealth Responses to the Global Financial Crisis

The Government of Australia and the Reserve Bank of Australia engaged in substantial fiscal and monetary policy responses to the global financial crisis.

Between September 2008 and April 2009, the Reserve Bank of Australia reduced its target cash rate by a cumulative 425 basis points (and since October 2009 has gradually increased its target cash rate). For further information regarding the Reserve Bank of Australia's target cash rate, see "Currency, Monetary and Banking System—Monetary Conditions" in this Description of the Commonwealth of Australia.

The Australian Government announced a number of fiscal stimulus measures, including:

- the Government's Economic Security Strategy, a \$10.4 billion discretionary fiscal stimulus package announced on 14 October 2008, focused on household consumption and dwelling investment;
- the Council of Australian Governments' \$15.2 billion job creation stimulus package announced on 29 November 2008;
- the Government's \$4.7 billion Nation Building package announced on 12 December 2008, providing for investment in road, rail and education infrastructure, as well as tax changes encouraging capital investment by Australian businesses;
- the Government's \$42 billion Nation Building and Jobs Plan announced on 3 February 2009, providing for payments to low- and middle-income Australians, investment in schools, housing, energy efficiency, community infrastructure and roads and support to small businesses; and
- the Government's \$22 billion Nation Building Infrastructure package announced on 12 May 2009, investing in the quality, adequacy and efficiency of transport, communications, energy, education and health infrastructure across Australia.

In addition, in April 2009 the Australian Government established a new company, NBN Co Limited ("NBN Co"), to build and operate a new National Broadband Network. For further information regarding the National Broadband Network, see "Major Industries—Information Media and Telecommunications—Telecommunications" and "Government Finance—Commonwealth Investment in the National Broadband Network" in this Description of the Commonwealth of Australia.

Other action the Australian Government has taken to promote financial system stability and ensure the continued flow of credit throughout the economy includes implementation of:

- the Financial Claims Scheme establishing:
 - measures under Division 2AA of the *Banking Act 1959* (Cth) to:
 - : protect account-holders' deposits made with eligible ADIs (other than foreign ADIs), and interest accrued on such deposits, to a total maximum value of \$1,000,000 per account-holder per ADI; and
 - : facilitate prompt payout of deposits protected under the Financial Claims Scheme to account-holders in the event that an ADI fails; and
 - measures under Part VC of the *Insurance Act 1973* (Cth) to facilitate the payment of moneys payable under valid claims made by eligible claimants against a general insurer that has become insolvent; and

- the Guarantee Scheme for Large Deposits and Wholesale Funding, which we refer to as the "ADI Guarantee Scheme", a voluntary scheme allowing:
 - ADIs (other than foreign ADIs) to apply to have deposit balances of greater than \$1,000,000 per customer per ADI and certain non-complex senior unsecured debt instruments with maturities of up to 60 months; and
 - foreign ADIs to apply, subject to satisfaction of certain conditions, to have certain deposits held by Australian residents at call or with maturities up to and including 31 December 2009 and certain non-complex senior unsecured short-term debt instruments having maturities up to 15 months,

in each case that satisfied the eligibility criteria set out in the scheme rules relating to the ADI Guarantee Scheme, guaranteed by the Commonwealth of Australia. The ADI Guarantee Scheme closed to new issuance of wholesale liabilities and acceptance of additional deposit funds on 31 March 2010.

For further information regarding the ADI Guarantee Scheme and the Financial Claims Scheme, see "Government Finance—Guarantees and Other Contingent Liabilities—Commonwealth Initiatives to Enhance the Stability of the Australian Financial System" and "Currency, Monetary and Banking System—Regulation of the Financial System—Australian Prudential Regulation Authority—APRA's Main Powers" in this Description of the Commonwealth of Australia.

In addition, on 24 July 2009, in order to support the capacity of Australian State and Territory governments to access credit markets, the Government of the Commonwealth of Australia implemented the Australian Government Guarantee of State and Territory Borrowing, which we refer to as the "State Guarantee Scheme". The State Guarantee Scheme will close to new issuance of guaranteed liabilities on 31 December 2010. For further information with respect to the guarantee of the liabilities of States and Territories in respect of specific debt securities issued in respect of borrowing of such State or Territory, see "Government Finance—Guarantees and Other Contingent Liabilities—Commonwealth Guarantee of State and Territory Borrowing" in this Description of the Commonwealth of Australia.

Forecasts for the Australian Economy

The Australian economy is growing solidly as a self-sustaining private sector recovery takes hold. Output and incomes growth are strengthening and unemployment is falling. However, these positive developments are taking place against the backdrop of an uncertain global economic environment. The potential for a renewed deterioration in the major advanced economies and transmission of weakness to the developing world presents considerable risks to the domestic economic outlook.

Notwithstanding these risks, the world economy is forecast to continue growing at a solid pace. While growth in the major advanced economies is expected to slow, the emerging economies of Asia are continuing to grow strongly. As a result, Australia's major trading partners are expected to grow at their fastest pace in over 20 years. This is boosting global demand for non-rural commodities and driving Australia's terms of trade to around record highs. Terms of trade are expected to increase by 15½% in 2010-11, before falling by 4½% in 2011-12. This is expected to provide substantial impetus to domestic growth, supporting rising incomes and activity, underpinned by strong growth in exports and business investment.

The Australian economy is expected to grow above trend over the forecast period and, with an already tight labour market, reach capacity within the next year or so. Consequently, inflation is forecast to rise over the forecast period, although the withdrawal of monetary and fiscal stimulus and appreciation of the Australian dollar is expected to moderate demand and inflationary pressures.

Australia's GDP is forecast to grow by 3¼% in 2010-11 and 3¾% in 2011-12, reflecting strong business investment, rising commodity exports and robust income growth supporting household consumption.

The solid growth in the economy has been reflected in strong employment growth, which is expected to continue. Employment is forecast to grow by 2½% in 2010-11 and a further 2% in 2011-12. The unemployment rate is expected to fall to 4¾% in the June quarter 2011 and 4½% in the June quarter 2012.

The high terms of trade are supporting stronger growth in real activity, driving up business investment and exports in both 2010-11 and 2011-12, particularly in the mining sector. The mining industry is planning a significant increase in investment in 2010-11, pushing business investment to near 40-year highs as a percentage of GDP. New engineering construction is expected to grow by over 16% in 2010-11 and 21% in 2011-12, underpinned by liquefied natural gas projects. The strength in the mining sector is also expected to drive higher levels of investment in new machinery and equipment. The anticipated surge in investment is expected to expand the economy's capacity over time and underpin a projected increase of around \$80 billion in the value of non-rural commodity exports over the next five years to more than \$200 billion per annum.

The tight labour market and the pick-up in aggregate demand associated with the higher terms of trade is expected to also have implications for inflation, with the Australian Government's most recent estimates of the non-accelerating inflation rate of unemployment (the rate of unemployment at which inflation pressures start to emerge) ranging between 4½% and 5%.

Headline and underlying inflation are expected to rise over the forecast period, reaching 3% in through the-year terms in the June quarter of 2012.

Demand and inflationary pressures, while building, are expected to be moderated through tighter macroeconomic policy settings and the stabilising effects of the exchange rate. The Reserve Bank of Australia has withdrawn monetary stimulus, and the Australian Government's withdrawal of the fiscal stimulus is expected to reduce GDP growth by 1 percentage point in 2010-11 and ½ of a percentage point in 2011-12. The significant appreciation of the Australian dollar is expected to be a contractionary influence on the economy, further dampening price pressures (with flow through consequences for budget revenues).

Australia's major trading partners are forecast to grow 6% in 2010 and over 4% in each of the next two years, underpinned by robust growth in China, India and other key Asian economies. This strong regional growth is expected to provide strong support for the Australian economy even as the rest of the global economy struggles.

Notwithstanding this positive domestic outlook, risks surrounding the global economy remain, particularly due to increased concerns over the durability of the US recovery, a weakening in prospects for Japan and the potential for renewed stress in the euro area.

Among some major advanced economies there is a risk that planned fiscal consolidations in 2011 could threaten recovery given that growth in these countries has largely been driven by policy stimulus, an inventory rebound, and exports. Further, the capacity of advanced economies to respond to any substantial slowing in growth is constrained by weak fiscal positions and monetary policy interest rates that are already effectively zero.

Were the global economy to falter, it is likely that Australia would be affected through both financial and trade channels, including through lower prices for key commodity exports. Australia's terms of trade and income growth are heavily influenced by the prices of several key non-rural commodities that are currently trading around record levels and are highly sensitive to demand from the Asian region. While demand from Asia is expected to remain strong, a sudden decline in these commodity prices would have major negative implications for national income and activity. Furthermore, there is considerable short-term volatility in spot commodity prices and uncertainty about the timing, pace and extent of their decline as increased global supply capacity comes on line.

Table 12: Domestic economy forecasts^(a)

	Outcomes ^(b)		Forecasts			
	2009-10	2010-11		2011-12		
		Budget	MYEFO	Budget	MYEFO	
(Percentages)						
Panel A - Demand and output^(c)						
Household consumption	2.1	3½	4	4	3½	
Private investment						
Dwellings	1.1	7½	4½	4	3	
Total business investment ^(d)	-4.7	7	8	12½	13	
Non-dwelling construction ^(d)	-7.8	8	8	14½	13½	
Machinery and equipment ^(d)	-4.4	6	7	13	15	
Private final demand ^(d)	0.7	4½	4¾	6	5¾	
Public final demand ^(d)	7.1	1	1½	-½	-¼	
Total final demand	2.2	3¾	4	4½	4¼	
Change in inventories ^(e)	0.2	½	0	0	0	
Gross national expenditure	2.4	4¼	4¼	4¾	4¼	
Exports of goods and services	5.5	5	7	6	5	
Imports of goods and services	5.3	9	11	8½	8	
Net exports ^(e)	0.1	-1	-1	-¾	-¾	
Real gross domestic product	2.3	3¼	3¼	4	3¼	
Non-farm product	2.3	3½	3¼	4	4	
Farm product	-1.5	1	10	2	-6	
Nominal gross domestic product	2.3	8½	9	5¾	5	
Panel B - Other selected economic measures						
External accounts						
Terms of trade	-4.8	14¼	15½	-3¾	-4½	
Current account balance (% of GDP)	-4.3	-3¾	-2¾	-5	-4¼	
Labour market						
Employment (labour force survey basis) ^(f)	2.4	2¼	2½	2	2	
Unemployment rate (%)(^g)	5.2	5	4¾	4¾	4½	
Participation rate (%)(^g)	65.3	65½	65½	65½	65½	
Prices and wages						
Consumer Price Index ^(h)	3.1	2½	2¾	2½	3	
Gross non-farm product deflator	0.1	5	5¾	1¾	1¼	
Wage Price Index ^(f)	3.0	3¾	3¾	4	4	

(a) Percentage change on preceding year unless otherwise indicated.

(b) Calculated using original data from ABS Catalogue No. 5204.0 unless otherwise indicated.

(c) Chain volume measures, except for nominal gross domestic product, which is in current prices.

(d) Excluding second-hand asset sales from the public sector to the private sector.

(e) Percentage point contribution to growth in GDP.

(f) Seasonally adjusted, through the year growth rate to the June quarter 2010, 2011 and 2012.

(g) Seasonally adjusted for the June quarter 2010, 2011 and 2012.

(h) Through the year growth to the June quarter 2010, 2011 and 2012.

Source: ABS Catalogue No. 5204.0, 5206.0, 5302.0, 6202.0, 6345.0, 6401.0; unpublished ABS data; Treasury.

The above estimates are based on forecasts of the economic outlook by the Treasury of the Commonwealth of Australia. Treasury generally conducts two major rounds of forecasting each year, in connection with the Budget each May and the Mid-Year Economic and Fiscal Outlook issued between October and January. Additional forecast updates, the July 2010 Economic Statement and the 2010 PEFO, were released in response to rapid changes in Australia's terms of trade and the issue of the writ for a general election, respectively.

Treasury's forecasting approach encompasses a broad range of information. The national accounts form the framework for the forecasting exercise. Insight is also gathered from liaison visits with large, medium and small businesses, industry organisations and State Treasuries and Treasury's International Economy Division's latest assessment of the world outlook. Any changes to fiscal policy are also incorporated.

The forecasts are based on several technical assumptions. It is assumed that interest rates will rise in line with market expectations over 2010-11 and 2011-12, and that exchange rates and oil prices will remain around recent average levels.

Treasury's Domestic Economy Division assesses the implications of these inputs using a mix of single-equation econometric models, partial indicators, leading indicators, business surveys and advice from specialist agencies. Forecasting judgments are informed by economic theory and assessments of recent economic analysis. Forecasts are discussed both within Treasury and with other government agencies.

MAJOR INDUSTRIES

In 2009-10, the industry with the largest share of gross value added (at basic prices) was financial and insurance services, with a share of 11.0%. Mining ranked second, with a share of 10.1%.

The following table identifies the percentage of gross value added by industry at basic prices for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years.

Table 13: Percentage of Gross Value Added (Basic Prices)

Industry	2005-06	2006-07	2007-08	2008-09	2009-10
	(Percentages)				
Agriculture, forestry and fishing	2.4	2.0	2.0	2.4	2.3
Mining	9.4	9.9	9.7	9.8	10.1
Manufacturing	10.3	10.1	10.1	9.3	9.3
Electricity, gas, water and waste services	2.3	2.2	2.1	2.2	2.2
Construction	7.2	7.4	7.6	7.7	7.5
Wholesale trade	4.8	4.8	4.7	4.7	4.8
Retail trade	4.5	4.6	4.7	4.6	4.6
Accommodation and food services	2.5	2.5	2.4	2.3	2.2
Transport, postal and warehousing	5.1	5.2	5.3	5.1	5.1
Information media and telecommunications	3.2	3.2	3.3	3.3	3.2
Financial and insurance services	10.0	10.7	11.1	10.9	11.0
Rental, hiring and real estate services ^(a)	3.3	3.0	2.8	2.8	2.8
Professional, scientific and technical services	6.5	6.3	6.3	6.4	6.5
Administrative and support services	2.5	2.6	2.6	2.5	2.5
Public administration and safety	5.2	5.2	5.0	5.2	5.1
Education and training	4.4	4.4	4.3	4.3	4.3
Health care and social assistance	5.7	5.7	5.8	6.0	6.1
Arts and recreation services	0.8	0.8	0.8	0.8	0.8
Other services	1.9	1.8	1.8	1.8	1.7
Ownership of dwellings	7.9	7.8	7.8	7.8	7.9
<i>Gross value added at basic prices</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

(a) Excludes ownership of dwellings.

Source: ABS Catalogue No. 5204.0.

The table below identifies employment share by industry for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years.

Table 14: Employment share by industry

Industry	2005-06	2006-07	2007-08	2008-09	2009-10
	(Percentages)				
Agriculture, forestry and fishing	3.5	3.4	3.3	3.3	3.3
Mining	1.3	1.3	1.4	1.6	1.6
Manufacturing	10.2	9.9	9.9	9.4	9.1
Electricity, gas, water and waste services	1.1	1.0	1.1	1.3	1.2
Construction	8.7	9.1	9.1	9.2	9.1
Wholesale trade	3.7	3.9	3.7	3.7	3.8
Retail trade	11.7	11.4	11.6	11.3	10.8
Accommodation and food services	6.7	6.7	6.6	6.6	6.8
Transport, postal and warehousing	5.0	5.0	5.2	5.5	5.2
Information media and telecommunications	2.4	2.4	2.2	2.1	1.9
Financial and insurance services	3.8	3.9	3.8	3.7	3.6
Rental, hiring and real estate services	1.9	1.9	1.9	1.8	1.7
Professional, scientific and technical services	7.1	7.2	7.3	7.2	7.6
Administrative and support services	3.5	3.4	3.3	3.2	3.4
Public administration and safety	6.1	6.2	5.9	6.2	6.2
Education and training	7.4	7.2	7.4	7.4	7.5
Health care and social assistance	10.3	10.3	10.3	10.6	11.0
Arts and recreational services	1.8	1.7	1.8	1.9	1.8
Other services	4.1	4.0	4.3	4.2	4.1
<i>Total</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>	<i>100</i>

Source: ABS Catalogue No. 6291.0.55.003.

Rental, Hiring and Real Estate Services

Rental, hiring and real estate services includes companies mainly engaged in renting, hiring, or otherwise allowing the use of tangible or intangible assets (except copyrights) and companies providing related services. The major portion of this division comprises companies that rent, hire, or otherwise allow the use of their own assets by others. The assets may be tangible, as in the case of real estate and equipment, or intangible, as in the case with patents and trademarks.

This category also includes companies engaged in providing real estate services such as selling, renting and/or buying real estate for others, managing real estate for others and appraising real estate.

Rental, hiring and real estate services contributed 2.8% of gross value added (at basic prices) in 2009-10.

Manufacturing

The manufacturing industry has historically been the largest industry in Australia. However, the gross value added contribution of manufacturing (at basic prices) has been decreasing over the past three decades. In the late 1970s, manufacturing value added contributed around 17% of gross value added (at basic prices), while in 2009-10 the manufacturing industry contributed 9.3% of gross value added (at basic prices). Although the manufacturing industry currently contributes a smaller percentage of gross value added (at basic prices) than it did twenty years ago, output in the industry has had an upward trend over the same time period.

The manufacturing sector accounted for around 9.1% of total employment in 2009-10.

The following table provides a breakdown of gross value added (chain volume measures) by the manufacturing industry for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years.

Table 15: Industry Value Added (Chain Volume Measures)

Industry Subdivision	2005-06	2006-07	2007-08	2008-09	2009-10
	(A\$ millions)				
Food, beverage and tobacco products	22,743	22,973	22,945	22,228	23,755
Textile, clothing and other manufacturing	6,153	6,096	6,381	5,720	4,704
Wood and paper products	8,309	8,080	7,768	7,176	7,442
Printing and recorded media	5,484	5,536	5,676	4,683	4,486
Petroleum, coal, chemical and rubber products	20,979	20,608	21,113	18,995	19,660
Non-metallic mineral products	5,424	5,551	5,801	5,764	5,658
Metal products	20,048	22,024	24,521	23,738	22,990
Machinery and equipment	21,671	21,659	22,375	21,099	22,361
Total	109,798	111,869	116,306	109,403	111,057

Source: ABS Catalogue No. 5204.0.

Ownership of Dwellings

Ownership of dwellings consists of landlords and owner-occupiers of dwellings. Owner-occupiers are regarded as operating a business that generates a gross operating surplus. The imputation of rent to owner-occupied dwellings enables the services provided by dwellings to their owner-occupiers to be treated consistently with the marketed services provided by rented dwellings to their tenants. Owner-occupiers are regarded as receiving rents (from themselves as consumers), paying expenses and making a net contribution to the value of production that accrues to them as owners. Ownership of dwellings contributed 7.9% of gross value added (at basic prices) in 2009-10.

Mining

In 2009-10, mining accounted for 10.1% of gross value added (at basic prices). However, in 2009-10, exports of mining (non-rural) commodities accounted for 52.7% of total exports by value.

The gross value of mine production for 2009-10 was \$133.0 billion, an 14.4% decrease over the previous year. Private mineral and petroleum exploration expenditure increased to \$5.7 billion in 2009-10 (at current prices).

In 2009, Australia was the world's largest exporter of metallurgical coal and iron ore and the second largest exporter of thermal coal. Australia's export earnings from non-rural commodities were \$133.9 billion in 2009-10 (at current prices).

Private (real) new capital expenditure in the mining sector was \$34.5 billion in 2009-10, 6.1% lower than in 2008-09. In the September quarter 2010, the mining sector, including services, employed around 198,100 people directly, around 1.6% of the work force. These sectors generate further manufacturing jobs downstream in smelting and refining, basic metal fabrication, non-metallic mineral products, petroleum, coal and basic chemical products and electricity and gas.

Over recent years strong commodity prices have provided significant stimulus to Australian economic growth and national incomes. By 2008-09, strong investment activity in the mining sector resulted in business investment reaching a four decade high as a share of GDP.

The sharp reduction in global demand as a result of the global financial crisis saw commodity prices fall substantially, with the prices for key bulk commodities declining from their records highs in mid-2008. Bulk commodity prices staged a marked recovery over the second half of 2009 and the first few months of 2010, driven by strong growth in emerging Asia. Bulk commodity spot prices have declined slightly since April 2010, but still remain at high levels.

Looking ahead, higher commodity prices are expected to elicit strong business investment growth, supported by a number of large engineering projects, such as the Gorgon LNG (liquefied natural gas) project off the coast of Western Australia. In 2011-12 business investment as a share of nominal GDP is expected to reach 17%. This compares to pre-commodity boom levels of around 13.2% from 1994-95 to 2003-04.

On 2 July 2010, the Australian Government proposed a new Minerals Resource Rent Tax ("MRRT") regime, which would apply to all existing and new iron ore and coal projects in Australia from 1 July 2012, and the extension of the existing Petroleum Resource Rent Tax ("PRRT") regime to all Australian onshore and offshore oil and gas projects, including the North West Shelf, commencing on 1 July 2012. If enacted, the proposed MRRT and the extended PRRT would provide resource entities with a credit for State and Territory royalties and resource taxes paid. For further information with respect to the proposed MRRT and the proposed extension to the PRRT, see "Government Finance—Taxation—Indirect Taxation—Resource taxes and royalties".

Construction

The construction industry contributed 7.5% of gross value added (at basic prices) in 2009-10. Over the last 20 years, value added in volume terms has grown on average by around 3.8% each year. The industry tends to experience peaks and troughs due to factors such as changing interest rates, property speculation and fiscal policy.

In 2000-01, there was a large fall in output as a substantially large amount of building activity was brought forward to avoid the introduction of the GST. Since 2001-02, value added has grown strongly, buoyed by the terms of trade boom and growth in house prices.

Employment in the construction industry was approximately 1 million persons in the September quarter 2010. Since 2000-01, employment in construction has grown strongly, with its share in total employment rising from 7.4% to 9.1% in 2009-10, making it the third largest employer among industries.

Professional, Scientific and Technical Services

Professional, scientific and technical services include scientific research, architecture, engineering, computer systems design, law, accountancy, advertising, market research, management and other consultancy services, veterinary science and professional photography. This category excludes firms mainly engaged in providing health care and social assistance services. Professional, scientific and technical services contributed 6.5% of gross value added (at basic prices) in 2009-10.

Financial and Insurance Services

Companies in the financial and insurance services industry provide a range of services, including the creation, liquidation or change in ownership of financial assets, as well as facilitating financial transactions. The sector contributed 11.0% of gross value added (at basic prices) in 2009-10, a proportion that has increased since deregulation during the 1980s.

However, the stability of the sector's share of gross value added hides rapid change within the industry. The advent of internet banking, ATM machines and credit scoring have prompted massive investment in computer software and machinery and equipment (computers), and far less construction (new branches and outlets). These innovations most likely explain a trend decline in the wage share of total finance and insurance income over the past two decades.

Key trends and developments in the insurance sector in recent years include significant improvements in the risk management capabilities of both the prudential regulator and industry participants and significant industry consolidation, with the largest four insurance groups now accounting for around 70% of insurance premiums.

Health Care and Social Assistance

The health care and social assistance industry comprises hospitals, medical and other health care services, residential care services and social assistance services. Health care and social assistance contributed 6.1% of gross value added (at basic prices) in 2009-10.

Retail Trade

Retail trade is one of the larger industries in Australia. The industry comprises firms mainly engaged in the purchase or onselling, the commission based buying and the commission based selling of goods, without significant transformation, to the general public. Retail trade contributed 4.6% of gross value added (at basic prices) in 2009-10.

Transport, Postal and Warehousing

The efficiency and competitiveness of the Australian economy is significantly influenced by the transport system, which is a strategic network industry. The transport, postal and warehousing sector accounted for approximately 5.1% of gross value added (at basic prices) in 2009-10. The Bureau of Infrastructure, Transport and Regional Economics estimates that the Australian freight task will almost double between 2005 and 2020. Passenger transport is also expected to increase significantly, particularly in urban areas. This will require investment in additional transport infrastructure and improvements in the utilisation of existing and new infrastructure.

The public sector in Australia provides those transport services (operations and infrastructure) that involve public good characteristics and generally are not commercially attractive. The public sector also provides the regulatory frameworks to support a safe, fair and efficient transport sector. The major airports have all been privatised. The private sector also has a significant infrastructure role in rail and ports sectors.

Wholesale Trade

The wholesale trade industry consists of basic materials, machinery, motor vehicles, grocery, liquor, tobacco and other goods wholesaling and commission-based wholesaling. The 1990s saw strong growth in the wholesale trade sector. This increase in value added came from substantial rationalisation within the industry, a wider uptake of technology amongst firms and the increased use of new inventory management techniques, such as 'just-in-time' processing. Wholesale trade contributed 4.8% of gross value added (at basic prices) in 2009-10.

Education and Training

The education and training services industry is a labour-intensive, service-based sector, with a large and well educated workforce. The education and training services industry's share of gross value added (at basic prices) was 4.3% in 2009-10 and has remained fairly stable over the past five years. The education industry is dominated by the public sector, with both Commonwealth and State governments responsible for key education services across the economy, including the provision of primary, secondary and tertiary education and, increasingly, early childhood education.

Administration and Support Services

The administrative and support services industry includes firms mainly engaged in performing routine support activities for the day-to-day operations of other businesses or organisations. This mainly consists of office administration, hiring and placing personnel for others, preparing documents, taking orders for clients by telephone, providing credit reporting or collecting services and arranging travel and travel tours. Other services include building and other cleaning services, pest control services, gardening services and packaging products for others. Administration and support services contributed 2.5% of gross value added (at basic prices) in 2009-10.

Public Administration and Safety

Public administration and safety includes companies mainly engaged in central, state or local government legislative, executive and judicial activities. This includes enforcing regulations as well as providing physical, social, economic and general public safety and security services. Public administration and safety contributed 5.1% of gross value added (at basic prices) in 2009-10.

Agriculture, Forestry and Fishing

The agriculture, forestry and fishing industry contributed 2.3% of gross value added (at basic prices) in 2009-10. Historically, the contribution of this industry to the Australian economy has been trending downwards, though the absolute size of the industry continues to grow. The industry is dominated by agriculture, with forestry and fishing making up 16.2% of industry output in 2009-10 based on gross value added (chain volume measures). Agricultural production has now returned to levels typical of normal seasonal conditions, after growing strongly following a period of drought. Export growth was correspondingly quite strong in response to the recovery in farm production and has since settled to more a modest pace.

The following table presents production data of Australia's principal rural commodities for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years.

Table 16: Principal Rural Commodities - Gross values and volumes of Australian production

Commodities	2005-06		2006-07		2007-08		2008-09		2009-10	
	A\$m	kt	A\$m	kt	A\$m	kt	A\$m	kt	A\$m	kt
Wool	2,054	520	2,282	502	2,309	459	1,806	420	2,124	382
Meat	11,960	3,909	12,335	4,147	12,102	4,061	12,983	3,997	13,111	3,935
Wheat	5,099	25,150	2,619	10,822	5,292	13,569	5,894	21,420	5,250	21,656
Sugar cane ^(a)	1,032	37,128	1,221	36,397	861	32,621	1,021	30,284	1,526	31,457
Cottonseed and lint	995	1,441	542	689	254	321	693	795	876	934
Milk ^(b)	3,341	10,089	3,178	9,583	4,572	9,223	3,988	9,388	3,363	9,016

Notes: kt = kilotonne.

NA = Not available.

(a) Cut for crushing.

(b) Units of measurement: ML.

Source: Australian Bureau of Agricultural and Resource Economics, Australian Commodities, Vol 17 No. 3, September quarter 2010 (pages 612, 613, 615 and 616).

Electricity, Gas, Water and Waste Services

The electricity, gas, water and waste services industry contributed 2.2% of gross value added (at basic prices) in 2009-10. Electricity is the largest part of this industry and contributes 55.6% to industry value added (chain volume measures). Water and waste services account for 37.1% of industry value added (chain volume measures) and gas contributes 7.3% to gross value added (chain volume measures). Prior to 1990, the industry was highly regulated and most utilities operated as monopolies. The electricity industry was vertically integrated in most, if not all jurisdictions, with single companies responsible for generation, transmission, distribution and retail. Significant reforms occurred in the three sectors over the 1990s. However, different jurisdictions approached deregulation on different time frames. Some of the reforms included corporatisation, privatisation and the structural separation of electricity utilities. These reforms have continued into the current decade. The electricity sector value-added in volume terms has grown by 2.1% per year on average between 1985-86 and 2009-10.

Electricity

The energy market in Australia has undergone significant reform since the 1990s, which has increased investment and improved productivity. The reforms have included: disaggregating elements of the electricity supply chain; introducing competition in electricity generation and retailing; and corporatising, and, in some States, privatising electricity assets. The creation of the National Electricity Market has also allowed electricity trading between Queensland, New South Wales, Victoria, South Australia, Tasmania and the Australian Capital Territory through a wholesale electricity pool.

In 2006, the Council of Australian Governments ("COAG") agreed to energy market reforms to enhance governance, improve transmission planning and assist the development of more effective energy financial markets. In 2007, COAG also agreed to establish a national energy market operator for electricity and gas with a national planning function.

Australia's electricity prices, although having risen in recent years, remain low by world standards largely due to substantial natural resources. In 2008, average electricity prices in capital cities were generally lower than in many OECD countries, including the United Kingdom, Spain and Italy.

Australia has about 250 large electricity generators, of which around 200 are in the National Electricity Market jurisdictions in eastern and southern Australia. The National Electricity Market supplies electricity to approximately 8.8 million residential and business customers using an extensive electricity distribution network covering approximately 750,000 kilometres. In 2008-09, the market generated around 208 terawatt hours of electricity with a turnover of \$9.4 billion. The generation sector uses a variety of fuel sources to produce electricity. Black and brown coal accounted for around 60% of registered generation capacity across the National Electricity Market in 2008-09, followed by gas-fired generation (20%) and hydroelectric generation (17%).

Electricity generation in Australia is emissions intensive due to the predominance of coal. The Government has committed to policies aimed at addressing climate change. In August 2009, the Parliament passed amendments to existing renewable energy legislation, expanding the Renewable Energy Target Scheme (the "RET") to

ensure that the equivalent of at least 20% of Australia's electricity supply will come from renewable sources by 2020. On 24 June 2010, the Parliament passed legislation to separate the RET into two parts – the Large-scale Renewable Energy Target ("LRET"), covering large-scale renewable energy projects, such as wind farms, commercial solar projects and geothermal projects, and the Small-scale Renewable Energy Scheme ("SRES"), covering small generation units and small-scale technologies, such as solar panels and solar water heaters. Under the RET legislation, from 1 January 2011 liable entities (e.g., wholesale purchasers of electricity) will need to meet obligations under both the LRET and SRES by acquiring and surrendering Renewable Energy Certificates created from both large- and small-scale renewable energy technologies or paying a shortfall charge for the relevant shortfall quantity. This policy is expected to lead to significant new investment in renewable based electricity generation and transmission.

In December 2008, the Australian Government announced its intention to introduce emissions trading through the Carbon Pollution Reduction Scheme ("CPRS") from 1 July 2010. In May 2009, the Australian Government deferred the commencement of the CPRS until 1 July 2011 to help Australian companies manage the impacts of the global recession. The Government subsequently decided that in the absence of Parliamentary support it would not be able to commence the CPRS on 1 July 2011. In September 2010, the Government formed a Multi-Party Climate Change Committee, consisting of climate change experts and Australian Labor Party, Australian Greens and independent members of Parliament, to build consensus on how Australia will tackle climate change and explore options for the introduction of a carbon price.

The Australian Government remains committed to the previously announced bipartisan target of reducing Australia's greenhouse gas emissions by 5% below 2000 levels by 2020.

Information Media and Telecommunications

The information media and telecommunications industry, which comprises publishing, broadcasting, motion picture and sound recording, internet, telecommunications and library services, contributed 3.2% of gross value added (at basic prices) in 2009-10.

Telecommunications

The Australian telecommunications market has been open to full competition since 1 July 1997. Since that time, the telecommunications sector has developed into a more dynamic and innovative market, with businesses and households benefiting from lower prices and more variety of carriers.

The telecommunications sector is subject to a number of regulatory mechanisms at the retail level. A Universal Service Obligation ("USO") is placed on the telecommunications industry to ensure that all people in Australia have reasonable access to basic telephone services, on an equitable basis. Funding of the USO is provided by all licensed telecommunications carriers. On 20 June 2010, the Australian Government announced that it intends to establish a new company, USO Co, to deliver the USO. USO Co is expected to operate from 1 July 2012. USO Co would be jointly funded by the Commonwealth and industry, including wholesale providers such as NBN Co. The establishment of USO Co may require Parliamentary approval.

Telecommunications-specific competition provisions are contained in Parts XIB and XIC of the *Trade Practices Act 1974* (Cth) (the "TPA"). These provisions are based on, but do not exactly mirror, generic competition laws.

- Part XIB of the TPA establishes an anti-competitive conduct regime for telecommunications markets, which applies in addition to the general competition provisions under Part IV of the TPA.
- Part XIC of the TPA establishes an industry specific regime for regulated access to bottleneck carriage services and provides the core access arrangements for the telecommunications industry.

This competition framework has had a number of important benefits for consumers. For example, access to Telstra Corporation Limited's copper local loop network by its competitors has been a key driver of the growth of broadband in Australia. Telstra, formerly a Government-owned monopoly, was privatised between 1997 and 2006. Tranches of approximately 33% and 16% of Telstra were sold in 1997 and 1999. In 2006, the Government sold a further 34% stake in Telstra, with the remaining 17% shareholding transferred to the Future Fund in February 2007. On 20 August 2009, the Future Fund sold 34% of its Telstra holding through an underwritten sale to institutional investors, reducing the Future Fund portfolio's holding in Telstra to 10.9% of the company. Between September and October 2010, the Board further reduced the portfolio's holding in Telstra from 10.9% of the company to 10%. The sell-down was in line with the Future Fund Board of

Guardians' previously stated plan to reduce the Future Fund's holding in Telstra in an orderly manner over the medium-term and to build a portfolio consistent with its long term mandate and strategy. For further information with respect to the Future Fund, see "Government Finance—Pensions and Superannuation" in this Description of the Commonwealth of Australia.

In April 2009, the Australian Government established a new company, NBN Co Limited ("NBN Co"), to build and operate a new super fast National Broadband Network. For further information with respect to the ownership and financing of NBN Co, see "Government Finance—Commonwealth Investment in the National Broadband Network" in this Description of the Commonwealth of Australia.

The objective is for the National Broadband Network to connect over 90% of all Australian homes, schools and workplaces with optical fibre (fibre to the premises), providing broadband services with speeds of up to 100 megabits per second. The network will enable all other premises in Australia to connect with next generation wireless and satellite technologies that will deliver broadband speeds of at least 12 megabits per second. The National Broadband Network will be Australia's first national wholesale-only, open access broadband network.

On 20 June 2010, NBN Co announced that it had reached a Financial Heads of Agreement with Telstra to provide for access to Telstra facilities and the progressive migration of Telstra traffic onto the National Broadband Network, subject to regulator approval. The agreement for these terms is estimated to have an approximate value of \$9 billion, and is subject to the passage of legislation in Parliament and Telstra shareholder approval. Combined with the Australian Government's agreed public policy reforms (including the establishment of USO Co and other regulatory reforms), Telstra estimates the agreement will deliver it a post-tax net present value of approximately \$11 billion. Telstra, NBN Co and the shareholder Australian Government agencies are now negotiating detailed Definitive Agreements, which is expected to take several months.

The Australian Government fast-tracked the rollout of a fibre to the premises network and next generation wireless services in Tasmania. The Australian Government is also implementing measures in the short-term to address backhaul 'black spots' through the timely roll out of fibre optic transmission links connecting cities, major regional centres and rural towns. On 7 September 2010, the Australian Government reached an agreement with key independent members of Parliament to prioritise regional areas in the rollout of the National Broadband Network and to ensure a uniform national wholesale price for access to the Network.

Television Services

Free to air television broadcasts reach 100% of the Australian population. Subscription television can reach 100% of Australia through a mixture of hybrid fibre coaxial cable in major cities and satellite transmission in rural areas.

The Government has announced that all free-to-air television broadcasters in Australia will complete the switch from analog transmission to digital-only transmission by the end of 2013. The switchover process commenced in 2010, and will be progressively carried out on a regional basis across the country.

Accommodation and Food Services

The accommodation and food services industry consists of firms primarily engaged in the provision of hospitality services. This includes accommodation and food and beverage services. The industry's contribution of gross value added (at basic prices) in 2009-10 was 2.2%.

Arts and Recreation Services

The arts and recreation services industry includes companies mainly engaged in the preservation and exhibition of objects and sites of historical, cultural or educational interest. It also includes the production of original artistic works and/or participation in live performances, events or exhibits intended for public viewing and the operation of facilities or the provision of services that enable patrons to participate in sporting or recreational activities or to pursue amusement interests. Arts and recreation services contributed 0.8% of gross value added (at basic prices) in 2009-10.

Other Services

The other services industry includes all firms mainly engaged in providing personal services, religious, civic, professional and other interest group services, selected repair and maintenance activities and private households employing staff. Other services contributed 1.7% of gross value added (at basic prices) in 2009-10.

EXTERNAL TRADE AND BALANCE OF PAYMENTS

Merchandise Trade

The value of goods measured on a free on board ("f.o.b.") basis includes all production and other costs incurred up until the goods are placed on board an international carrier for export from the relevant exporting country.

Australia's merchandise exports (f.o.b.) and imports (f.o.b.) for the past five fiscal years in current prices, calculated on a balance of payments basis, are shown in the table below.

Table 17: Merchandise exports and imports

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
	(A\$ millions)				
Exports					
Rural Exports					
Meat and Meat Preparations	6,709	7,080	6,542	7,454	6,360
Cereal grains and cereal preparations	4,852	4,171	4,975	6,881	5,276
Wool and Sheepskins	2,539	3,065	2,796	2,322	2,308
Other Rural	11,166	10,774	11,181	12,726	11,571
Total Rural	<u>25,266</u>	<u>25,090</u>	<u>25,494</u>	<u>29,383</u>	<u>25,515</u>
Non-rural Exports					
Metal Ores and Minerals	28,936	35,315	41,339	52,015	53,376
Mineral Fuels -	37,572	37,569	43,488	75,664	55,486
Coal, coke and briquettes	24,352	21,928	24,599	54,957	36,460
Other mineral fuels	13,220	15,641	18,889	20,707	19,026
Metals (excl non-monetary gold)	11,272	14,821	14,039	12,394	10,702
Machinery	8,066	8,391	8,750	8,900	7,985
Transport equipment	5,317	4,651	5,723	5,090	4,070
Other manufactures	15,001	16,241	16,965	17,601	16,396
Other non-rural (incl sugar and beverages)	12,001	15,113	13,126	11,077	11,984
Goods procured in ports by carriers	1,420	1,379	1,547	1,631	1,390
Total Non-Rural	<u>119,585</u>	<u>133,480</u>	<u>144,977</u>	<u>184,372</u>	<u>161,389</u>
Net exports of goods under merchandising	97	214	209	301	252
Non-monetary gold	<u>9,087</u>	<u>10,740</u>	<u>12,272</u>	<u>17,508</u>	<u>14,302</u>
Total Merchandise Exports	<u>144,851</u>	<u>158,570</u>	<u>170,471</u>	<u>213,755</u>	<u>186,904</u>
Imports					
Consumption goods	50,279	54,913	59,371	61,419	62,337
Capital goods	40,157	41,774	45,299	51,572	48,078
Intermediate and other merchandise goods	74,260	81,574	92,583	97,865	88,499
Non-monetary gold	<u>4,815</u>	<u>5,311</u>	<u>7,593</u>	<u>11,522</u>	<u>7,105</u>
Total Merchandise Imports	<u>164,696</u>	<u>178,261</u>	<u>197,253</u>	<u>210,856</u>	<u>198,914</u>
Balance on Merchandise Trade	<u>-19,845</u>	<u>-19,691</u>	<u>-26,782</u>	<u>2,899</u>	<u>-12,010</u>

Source: ABS Catalogue No. 5302.0.

The following table shows the shares of Australian exports and imports directed to and sourced from various countries and country groups for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years. These shares are calculated from values data and on a merchandise trade basis, rather than a balance of payments basis.

Table 18: Geographical distribution of Australia's recorded merchandise trade

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
	(Percentage shares)				
Exports					
China	11.9	13.6	14.9	17.0	23.2
Japan	20.4	19.4	19.3	22.9	18.5
Korea, Republic of	7.7	7.8	7.9	8.3	8.2
New Zealand	5.7	5.6	5.3	3.7	4.0
United Kingdom	5.1	3.7	4.6	5.0	3.6
United States	6.4	5.8	5.9	5.0	4.8
India	4.8	6.0	5.2	6.7	8.1
Singapore	2.8	2.8	2.9	2.4	2.5
Thailand	2.8	2.5	2.6	2.1	2.3
Indonesia	2.6	2.5	2.2	1.9	2.2
Malaysia	1.7	1.8	1.9	1.6	1.6
Other European Union ^(a)	7.3	7.7	6.7	5.4	4.4
Other ^(b)	20.8	20.7	20.7	17.9	16.8
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Imports					
China	13.9	15.0	15.3	16.9	17.9
Japan	10.3	9.6	9.7	8.1	8.7
Korea, Republic of	3.9	3.3	3.0	3.0	3.5
New Zealand	3.3	3.1	3.5	3.2	3.4
United Kingdom	3.6	4.1	4.2	4.1	2.8
United States	13.6	13.8	12.0	11.5	10.7
Singapore	6.3	5.6	6.8	6.1	5.4
Thailand	3.2	4.0	4.4	4.9	6.1
Indonesia	2.7	2.6	2.3	2.3	2.3
Malaysia	4.0	3.7	4.0	3.8	4.2
Other European Union ^(a)	18.1	17.5	17.2	16.6	16.1
Other ^(b)	17.1	17.8	17.6	19.5	18.9
Total	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

(a) Other European Union refers to trade with all current 27 member states, other than the UK.

(b) Care should be taken in interpreting the Other category, as it includes confidential items that are not classified by country. Thus it is possible that the export and import shares of the countries or country groups listed above could be understated.

Source: ABS Catalogue No. 5368.0; unpublished ABS and Treasury data.

Australia's goods and services exports on an annual national accounts basis were valued at \$254.3 billion in 2009-10. In 2009, Australia's top five export markets were China (\$48.0 billion), Japan (\$40.4 billion), India (\$18.2 billion), Korea (\$17.5 billion) and the United States (\$15.2 billion). Exports to the Asian region (ASEAN and other major Asian economies) were valued at \$163.6 billion (65.5% of Australia's exports); to the European Union, \$26.0 billion (10.4% of Australia's exports); and to North America, \$18.3 billion (7.3% of Australia's exports). Major merchandise and service exports in 2009 were coal, iron ore, education services, gold and other personal travel.

Australia's goods and services imports on an annual national accounts basis were valued at \$259.5 billion in 2009-10. In 2009, China was Australia's largest source of imports (valued at \$37.3 billion or 14.6% of Australia's imports), followed by the United States (\$32.3 billion or 12.7% of Australia's imports) and Japan (\$18.8 billion or 7.4% of Australia's imports). Australia's major import items in 2009 were personal travel services, crude petroleum, passenger motor vehicles, refined petroleum, and gold.

Balance of Payments

Australia has traditionally been a net importer of capital. This has facilitated the development of its rich endowment of natural resources at a faster pace than would have been possible if domestic saving were the only

source of investment funds. Australia has traditionally run a current account deficit, reflecting the use of a net inflow of capital to obtain real resources from the rest of the world.

The table below provides Australia's balance of payments details for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years.

Table 19: Balance of payments

	2005-06	2006-07	2007-08	2008-09	2009-10
			(A\$ millions)		
CURRENT ACCOUNT	-54,075	-60,541	-73,980	-40,515	-56,103
Goods and Services	-15,354	-13,231	-24,579	5,887	-5,965
Credits	195,676	215,480	233,597	284,437	254,004
Debits	-211,030	-228,711	-258,176	-278,550	-259,969
Goods	-15,476	-14,048	-21,894	9,186	-4,561
Credits	154,035	169,524	182,952	231,564	201,458
Debits	-169,511	-183,572	-204,846	-222,378	-206,019
Services	122	817	-2,685	-3,299	-1,404
Credits	41,641	45,956	50,645	52,873	52,546
Debits	-41,519	-45,139	-53,330	-56,172	-53,950
Primary Income	-37,884	-47,001	-49,496	-45,407	-49,224
Credits	27,937	38,318	44,217	42,823	35,901
Debits	-65,822	-85,319	-93,713	-88,231	-85,124
Secondary Income	-837	-309	95	-995	-914
Credits	5,314	6,002	6,255	6,657	6,380
Debits	-6,151	-6,311	-6,160	-7,652	-7,294
CAPITAL AND FINANCIAL ACCOUNT	54,435	61,153	72,572	39,873	56,613
Capital account	-141	281	-232	-611	-132
Capital transfers	-138	-142	-231	-367	-146
Credits	0	0	0	0	0
Debits	-138	-142	-231	-367	-146
Net acquisition/disposal of non-produced, non-financial assets	-3	423	-1	-244	14
Financial account	54,576	60,872	72,804	40,484	56,745
Direct investment	-5,675	11,507	29,117	17,665	17,398
Assets (Investment Abroad)	-29,750	-34,432	-27,291	-30,474	-17,550
Liabilities (Investment in Australia)	24,074	45,938	56,407	48,140	34,948
Portfolio investment	64,937	66,370	-4,084	49,220	68,112
Financial derivatives	-3,511	2,006	-7,043	-3,726	-5,951
Other investment	4,431	1,116	10,523	-10,779	-28,743
Reserve assets	-5,605	-20,127	44,292	-11,896	5,929
NET ERRORS AND OMISSIONS	-359	-613	1,407	642	-510

Source: ABS Catalogue No. 5302.0.

In original terms, the balance on the current account for 2009-10 was a deficit of \$56.1 billion, a 38.5% increase on the deficit of \$40.5 billion recorded for 2008-09.

The balance for goods and services for 2009-10 was a deficit of \$6.0 billion, as compared to the surplus of \$5.9 billion recorded in 2008-09. Goods credits decreased \$30.1 billion, or 13.0%, and goods debits decreased \$16.4 billion, or 7.4% during 2009-10.

The services deficit of \$1.4 billion for 2009-10 was a decrease of \$1.9 billion from the deficit of \$3.3 billion in 2008-09.

The primary income deficit for 2009-10 increased by \$3.8 billion, with a decrease in income credits of \$6.9 billion (16.2%) and a decrease in income debits of \$3.1 billion (3.5%).

The secondary income balance for 2009-10 recorded a deficit of \$0.9 billion, with a decrease in income credits of \$0.3 billion (4.2%) and a decrease in income debits of \$0.4 billion (4.7%)

The balance on the financial account recorded a net inflow of \$56.7 billion for 2009-10, with a net inflow on debt of \$65.7 billion and a net outflow on equity of \$9.0 billion. This result was an increase of \$16.3 billion on the net inflow recorded in 2009-10 as a result of:

- an increase of \$18.9 billion to a net inflow on portfolio investment;
- an increase of \$18.0 billion to a net outflow on other investment.
- a turnaround of \$17.8 billion to a net inflow on reserve assets;
- a decrease of \$2.2 billion on the net outflow on financial derivatives; and
- a decrease of \$0.3 billion on the net inflow on direct investment.

Changes in Official Reserve Assets

The Australian Government meets its foreign exchange requirements from the Reserve Bank of Australia. The RBA holds Official Reserve Assets ("ORA") primarily to facilitate foreign exchange intervention. The vast majority of Australia's reserves are held as foreign exchange and are invested primarily in high quality government securities. The value of ORA held by the RBA changes in response to transactions undertaken in the foreign exchange market by the RBA, both on its own account and on behalf of its customers (primarily Australian Government agencies), as well as fluctuations in the value of the foreign currencies and underlying assets in which the reserves are invested. ORA also includes foreign currency that has been borrowed under swap to assist the RBA to manage domestic liquidity for monetary policy purposes.

The following table shows the composition of Australia's ORA over the past five years. For several years prior to 2007-08, the RBA's gross holdings of foreign currency rose sharply as foreign currency was borrowed under foreign exchange swaps against Australian dollars. The Australian dollars lent to the market under these swaps helped to offset the domestic liquidity impact of deposits placed with the RBA by the Australian Government. Over 2007-08, the Australian Government drew down these deposits to seed the investment program of the Future Fund. As deposits were drawn down, the related swaps were unwound, and the gross level of foreign currency held by the RBA declined. Net holdings of foreign currency rose over the period between 2005-06 and 2006-07 and fluctuated over the period between 2007-08 and 2009-10, primarily due to valuation effects.

Table 20: Official Reserve Assets

	As at 30 June				
	2006	2007	2008	2009	2010
	(A\$ millions)				
Gold	2,117	1,967	2,481	2,957	3,747
Other	1,062	667	604	1,279	6,568
Foreign Currency	60,635	77,049	32,772	48,073	33,422
Total (gross)	63,814	79,682	35,857	52,309	43,737
Total (net)	30,215	32,175	35,862	43,340	46,728

Source: Reserve Bank of Australia *Bulletin*.

Exchange Rate

Australia has a free-floating dollar with substantially no exchange controls. Approved non-bank financial institutions, in addition to banks, are licensed as foreign exchange dealers. Since the floating of the Australian dollar on 12 December 1983, Australia's exchange rate has been determined by the overall supply of and demand for A\$ in the foreign exchange market. The floating of the Australian dollar was part of the deregulation of the financial system.

There has been considerable variability in the exchange rate. The RBA is prepared to accept substantial fluctuations in the exchange rate, both day-to-day and over the course of the economic cycle. Transactions to influence the exchange rate or market conditions more generally, usually known as intervention, are relatively infrequent. They are undertaken only when the value of the Australian dollar is judged to have moved to levels that are inconsistent with underlying economic developments or when conditions in the foreign exchange market are thin and disorderly. Extremely poor liquidity in the Australian foreign exchange market during the worst of the financial turmoil following the collapse of Lehman Brothers in September 2008 saw the Reserve Bank of Australia undertake intervention transactions in October and November 2008, selling foreign currency acquired earlier at a high exchange rate and purchasing Australian dollars at a lower exchange rate. As the Australian dollar exchange rate has risen, foreign currency reserves drawn down in the intervention have been replenished.

The following table sets out the Australian dollar exchange rate against the U.S. dollar for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years and each month end since June 2010.

Table 21: Units of US\$ per A\$^(a)

Period	At Period End	Average Rate	High	Low
<i>Year ended:</i>				
30 June 2006	0.7422	0.7474	0.7792	0.7013
30 June 2007	0.8486	0.7861	0.8521	0.7396
30 June 2008	0.9578	0.8964	0.9667	0.7672
30 June 2009	0.8067	0.7471	0.9849	0.6004
30 June 2010	0.8399	0.8822	0.9405	0.7700
<i>Month ended:</i>				
31 July 2010	0.9040	0.8776	0.9068	0.8314
31 August 2010	0.8906	0.9001	0.9221	0.8769
30 September 2010	0.9667	0.9385	0.9733	0.8910
31 October 2010	0.9834	0.9817	1.0003	0.9540

(a) Exchange rate data are provided by Thomson Reuters in respect of each trading day. Values refer to bid rates. Period averages are derived from these rates. Highs and lows for these periods refer to intra-day data.

Source: Thomson Reuters.

The table below details the Australian dollar exchange rate against the UK pound sterling for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years and each month end since June 2010.

Table 22: Units of £ per A\$^(a)

Period	At Period End	Average Rate	High	Low
<i>Year ended:</i>				
30 June 2006	0.4016	0.4202	0.4418	0.3971
30 June 2007	0.4223	0.4065	0.4293	0.3920
30 June 2008	0.4805	0.4475	0.4926	0.3897
30 June 2009	0.4895	0.4624	0.5078	0.3689
30 June 2010	0.5618	0.5587	0.6163	0.4764
<i>Month ended:</i>				
31 July 2010	0.5763	0.5735	0.5863	0.5509
31 August 2010	0.5800	0.5750	0.5828	0.5676
30 September 2010	0.6151	0.6025	0.6170	0.5806
31 October 2010	0.6130	0.6190	0.6342	0.6031

(a) Exchange rate data are provided by Thomson Reuters in respect of each trading day. Values refer to bid rates. Period averages are derived from these rates. Highs and lows for these periods refer to intra-day data.

Source: Thomson Reuters.

The following table displays the Australian dollar exchange rate against the Euro for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years and each month end since June 2010.

Table 23: Units of € per A\$^(a)

Period	At Period End	Average Rate	High	Low
<i>Year ended:</i>				
30 June 2006	0.5802	0.6139	0.6411	0.5759
30 June 2007	0.6265	0.6017	0.6338	0.5790
30 June 2008	0.6078	0.6096	0.6460	0.5725
30 June 2009	0.5745	0.5416	0.6170	0.4722
30 June 2010	0.6862	0.6360	0.7180	0.5520
<i>Month ended:</i>				
31 July 2010	0.6927	0.6854	0.6977	0.6657
31 August 2010	0.7016	0.6979	0.7080	0.6871
30 September 2010	0.7090	0.7169	0.7318	0.7025
31 October 2010	0.7048	0.7060	0.7121	0.6953

(a) Exchange rate data are provided by Thomson Reuters in respect of each trading day. Values refer to bid rates. Period averages are derived from these rates. Highs and lows for these periods refer to intra-day data.

Source: Thomson Reuters.

The table below details the trade-weighted index value of the Australian dollar for each of the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years and each month end since June 2010. The trade-weighted index is a weighted average of a basket of currencies of Australia's major trading partners, with the weight of each foreign currency equal to its share in trade. The most significant currencies in the trade-weighted index as re-weighted on 1 October 2009 are the Chinese renminbi, the Japanese yen, the Euro and the U.S. dollar. The trade-weighted index is often used as an indicator of Australia's international competitiveness and is a useful gauge of the value of the Australian dollar when bilateral exchange rates exhibit diverging trends.

Table 24: Trade-Weighted Index value of the A\$^{(a)(b)}

Period	At Period End	Average Rate	High	Low
<i>Year ended:</i>				
30 June 2006	62.2	63.3	65.1	59.9
30 June 2007	68.9	64.8	69.0	62.1
30 June 2008	73.4	69.7	73.4	63.3
30 June 2009	64.7	60.3	74.1	51.0
30 June 2010	67.3	68.9	72.5	62.0
<i>Month ended:</i>				
31 July 2010	69.4	68.2	69.8	66.1

31 August 2010	69.0	69.5	70.4	68.4
30 September 2010	72.9	71.5	73.0	69.6
31 October 2010	72.7	73.2	73.8	72.2

- (a) The trade-weighted index is provided by the Reserve Bank of Australia in respect of each trading day at 4pm (Sydney). Period averages are derived from these rates.
- (b) The weights for the trade-weighted index are revised annually to capture changing trade patterns. Changes to the weights are usually calculated in September, with the re-defined index joined onto the existing trade-weighted index on the first business day in October.

Source: Reserve Bank of Australia *Bulletin*.

Foreign Investment Policy

The Australian Government's policy approach to foreign investment is to encourage investment flows consistent with economic development and performance and community interests. The Government's foreign investment policy provides the framework for Government consideration of proposed foreign acquisitions of Australian businesses and real estate. The vast majority of proposals are approved, with the last proposed business acquisition that was not approved being in 2001. Where a proposal raises national interest concerns, the Government has the power under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) (the "FATA") to reject the proposal or to approve it with conditions designed to mitigate the national interest concerns. The FATA and the Foreign Acquisitions and Takeovers Regulations 1989 provide monetary thresholds below which the FATA does not apply, with separate thresholds applying for U.S. investors. Screening under the FATA is not required for acquisitions in businesses valued below the thresholds or of less than substantial or non-controlling interests.

In the majority of industry sectors smaller proposals are not subject to screening, being exempt from the FATA or notification under the policy. Specific screening requirements and limited restrictions on foreign investment apply in certain sensitive sectors such as the media, telecommunications, airlines and in relation to acquisitions of residential real estate.

The screening process is intended to provide advice to the Australian Treasurer, including from the independent advisory body, the Foreign Investment Review Board, on whether individual foreign investment proposals may be contrary to the national interest. It involves consultation with relevant Government agencies and in some cases with stakeholders. Under the FATA and the policy, the Treasurer determines what is considered 'contrary to the national interest'.

Foreign Financial Relations

Australia is a member of the International Monetary Fund (the "IMF"). As at 30 September 2010, Australia's IMF quota was 3.2 billion Special Drawing Rights ("SDR") (estimated value A\$5.1 billion as at 30 September 2010). Australia is a participant in the SDR Department and, as at 30 September 2010, had a net cumulative allocation of SDR 3.08 billion and actual holdings of SDR 3.10 billion.

The IMF is currently undertaking its fourteenth general review of quotas, covering both the size and distribution of its quota resources. The review is expected to be completed by the G-20 Leaders' Summit in Seoul in November 2010. Australia's IMF quota is expected to increase as a result of the review. Consent by Australia to an increase in its quota will require Parliamentary approval.

Australia has made a line of credit available to the IMF under its New Arrangements to Borrow ("NAB") since 1998. In line with G-20 Leaders' commitments, Australia has agreed to join with other countries to increase its credit line under an expanded NAB. Australia's contribution to the expanded NAB will be by way of a SDR4.4 billion contingent loan (estimated value A\$7.1 billion as at 30 September 2010), replacing Australia's existing SDR801.3 million commitment.

Australia is also a member of the International Bank for Reconstruction and Development ("IBRD") and its affiliates in the World Bank Group: the International Finance Corporation (the "IFC"); the International Development Association (the "IDA"); the Multilateral Investment Guarantee Agency (the "MIGA"); and the International Centre for Settlement of Investment Disputes (the "ICSID").

As at 30 September 2010, Australia held 24,464 shares in the IBRD, with the value of the paid-in portion of these shares amounting to US\$181.8 million (approximately A\$188.1 million).

The Australian Government will contribute to the IBRD's capital increase announced in April 2010. Australia's contribution of paid-in capital will be US\$51.6 million (approximately A\$53.4 million) and will be paid over a

five year period from 2011-12. Australia will also subscribe to a further US\$808.3 million (approximately A\$836.1 million) in callable capital.

Australia also held 47,329 fully paid shares in the IFC, valued at US\$47.3 million (approximately A\$49.0million), and 3,019 shares in MIGA, with the value of the paid-in portion of these shares totalling US\$6.2 million (approximately A\$6.4 million). Each member country is equally represented in the ICSID.

In December 2007, Australia committed to contribute A\$583 million to the fifteenth replenishment of the IDA. Australia will pledge its contribution over nine years from 2009-10 to 2017-18.

Australia is also a member of the Asian Development Bank (the "ADB"), holding 614,220 shares. As at 30 September 2010, the value of the paid-in portion of these shares amounted to approximately A\$446.4 million, including US\$158.1 million (approximately A\$163.5 million) still to be paid in under the ADB's fifth general capital increase. The value of the uncalled portion amounted to SDR5.8 billion (estimated value A\$9.4 billion), as at 30 September 2010. In addition, Australia contributes to the ADB's concessional lending arm, the Asian Development Fund (the "ADF"). In May 2008, Australia committed to contribute \$332.8 million to the ninth replenishment of the ADF. Australia will pledge its contribution over nine years from 2009-10 to 2017-18.

Australia is also a member of the European Bank for Reconstruction and Development (the "EBRD"), holding 21,010 shares. The Australian Government will participate in the general capital increase at the EBRD announced in May 2010 and will increase its uncalled capital subscription so that it totals €237.5 million (approximately A\$333.6 million). The Australian Government has already received an additional 1,010 shares free of charge. As at 30 September 2010, the value of the paid-in portion of these shares was €62.6 million (approximately A\$87.9 million).

Australia is a member of the Organisation for Economic Co-operation and Development (the "OECD"), the Asia-Pacific Economic Co-operation Forum ("APEC") and the East Asia Summit. Australia is also a member of the Group of Twenty ("G-20") forum.

In addition, Australia is a member of various other regional and international organisations, including the United Nations and many of its affiliated agencies.

For further information, see "Government Finance—Guarantees and Other Contingent Liabilities—Other Contingent Liabilities and Undertakings" in this Description of the Commonwealth of Australia.

CURRENCY, MONETARY AND BANKING SYSTEM

Australian Currency

Australia's unit of currency is the Australian dollar. Australia's currency comprises both coins and notes. Coins are issued by the Treasurer of the Commonwealth of Australia under the *Currency Act 1965* (Cth); those intended for circulation include denominations of 5, 10, 20 and 50 cents and \$1 and \$2. Numismatic (un-circulating collector) legal tender coins are also approved for sale by the Treasurer from time to time. Under the *Reserve Bank Act 1959* (Cth), Australia's currency notes are issued by the Reserve Bank of Australia (the "RBA") in five denominations: \$5, \$10, \$20, \$50 and \$100.

Monetary Conditions

The RBA's monetary policy operates within the framework of a medium-term inflation target of 2 to 3% on average over the cycle. Given the lags involved in the operation of monetary policy, the RBA sets monetary policy in a forward-looking manner in order to achieve its medium-term inflation target. Maintaining low inflation, and therefore low inflation expectations, is vital to ensuring that economic growth is sustained, thereby supporting productive investment and employment.

The RBA carefully monitors a range of domestic and international economic and financial indicators in gauging inflationary pressures. These indicators cover economic conditions, prices, wages, the labour market and financial conditions.

In Australia, the stance of monetary policy is expressed in terms of a target for an overnight interest rate. The rate used by the Reserve Bank of Australia is the cash rate (also known as the interbank overnight rate). The Reserve Bank of Australia's measure of the cash rate is the interest rate which banks pay or charge to borrow funds from or lend funds to other banks on an overnight unsecured basis. The Reserve Bank of Australia calculates and publishes the cash rate each day on the basis of data collected directly from banks. When the Board of the Reserve Bank of Australia determines that a change in monetary policy should occur, it specifies a new target (known as the target cash rate) for the cash rate. The Reserve Bank of Australia's open market operations are designed to ensure that the actual cash rate remains close to the target cash rate.

Movements in interest rates over the 2005-06, 2006-07, 2007-08, 2008-09 and 2009-10 fiscal years and the monthly periods since June 2010 are provided in the table below.

Table 25: Key interest rates

Period	Target Cash Rate (%)	90 Day Bank Bill Yield (%)	10 Year Bond Yield (%)
<i>Year ended:</i>			
30 June 2006	5.75	5.97	5.79
30 June 2007	6.25	6.43	6.26
30 June 2008	7.25	7.80	6.45
30 June 2009	3.00	3.20	5.52
30 June 2010	4.50	4.89	5.10
<i>Month ended:</i>			
31 July 2010	4.50	4.76	5.20
31 August 2010	4.50	4.74	4.77
30 September 2010	4.50	4.90	4.96
31 October 2010	4.50	4.78	5.21
15 November 2010	4.75	5.02	5.77

Source: Reserve Bank of Australia.

The following table sets out monetary aggregate data for each of the 2005-06, 2006-07, 2007-08 2008-09 and 2009-10 fiscal years.

Table 26: Monetary aggregates

	2005-06		2006-07		2007-08		2008-09		2009-10	
	A\$b	% ^(a)	A\$b	% ^(a)	A\$b	% ^(a)	A\$b	% ^(a)	A\$b	% ^(a)
M1 ^(b)	194.2	10.0	226.0	15.7	234.2	0.5	256.4	9.1	251.0	-3.0
M3 ^(c)	747.3	9.6	869.5	16.2	1,035.6	17.9	1,177.9	13.5	1226.8	3.9
Broad Money ^(d)	841.2	9.3	964.0	14.4	1,121.1	14.3	1,245.9	11.1	1268.3	2.9

(a) 12-month ended percentage change.

(b) M1 is defined as currency plus bank current deposits of the private non-bank sector.

(c) M3 is defined as M1 plus all other authorised deposit-taking institution deposits of the private non-ADI sector.

(d) Broad money is defined as M3 plus non-deposit borrowings from the private sector by all financial intermediaries, less the holdings of currency and bank deposits by registered financial corporations and cash management trusts.

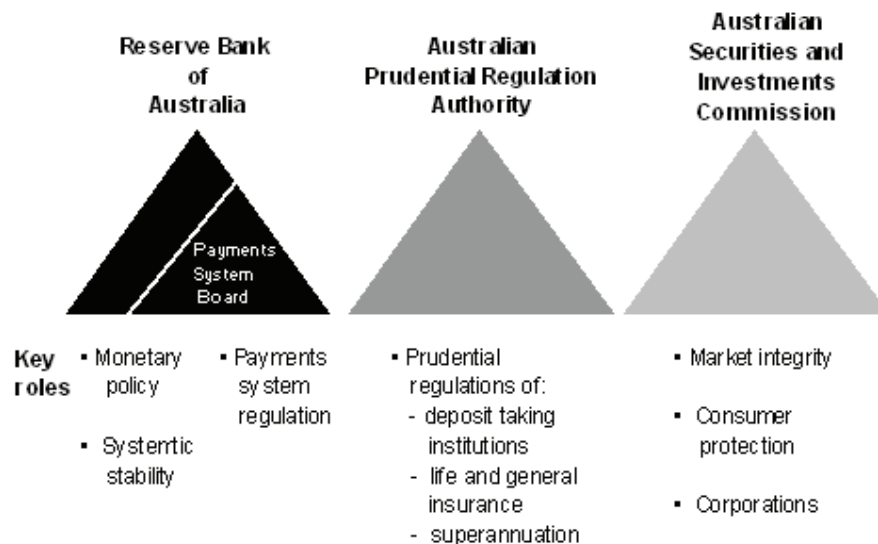
Source: Reserve Bank of Australia *Bulletin*.

Regulation of the Financial System

Australia's financial regulation framework is based on three separate agencies operating on functional lines. These institutions have prime responsibility for maintaining the safety and soundness of financial institutions, protecting consumers and promoting systemic stability through implementing and administering the regulatory regimes that apply to the financial sector. Specifically,

- the Australian Prudential Regulation Authority ("APRA") is responsible for prudential regulation and supervision of authorised deposit-taking institutions, general and life insurance companies and superannuation funds;
- the Australian Securities and Investments Commission ("ASIC") is responsible for market conduct and investor protection; and
- the Reserve Bank of Australia has responsibility for monetary policy, overseeing financial system stability and oversight of the payments system.

Figure 1: Key regulatory agencies in Australia



Responsibility for the operational or day-to-day supervision of financial institutions and markets lies with these individual regulators, while accountability for the broad framework for the regulation of the financial sector rests with the Australian Government, aided by the Council of Financial Regulators and the Australian Treasury.

The Council of Financial Regulators consists of high-level representatives of the RBA, Treasury, APRA and ASIC. Given the central role played by each of these entities in the formulation of financial sector policy, in

interacting with foreign counterparts and standard setters and in monitoring and evaluating trends in domestic and international markets, the Council of Financial Regulators is an important forum for addressing emerging trends and policy issues. This coordination is crucial especially in the event of a crisis, when the Council would serve as the key coordinating body for developing an official response. The role of the Council in crisis coordination is facilitated by a Memorandum of Understanding ("MOU") dealing specifically with financial crisis management arrangements signed in September 2008. The MOU reflects the strong commitment of Australia's regulatory agencies to the open exchange of information and to a co-ordinated response to potential threats to the stability of Australia's financial system. The MOU covers the objectives of financial distress management and the principles that guide decisions and actions during times of financial distress, and also sets out the responsibilities of the individual Council members during such times.

The regulation of the financial sector operates under the following Commonwealth legislation:

- *Australian Securities and Investments Commission Act 2001* (Cth);
- *Corporations Act 2001* (Cth);
- *Australian Prudential Regulation Authority Act 1998* (Cth);
- *Payment Systems (Regulation) Act 1998* (Cth);
- *Payment Systems and Netting Act 1998* (Cth);
- *Financial Sector (Shareholdings) Act 1998* (Cth);
- *Financial Sector (Business Transfer and Group Restructure) Act 1999* (Cth);
- *Retirement Savings Accounts Act 1997* (Cth);
- *Life Insurance Act 1995* (Cth);
- *Superannuation Industry (Supervision) Act 1993* (Cth);
- *Insurance Acquisitions and Takeovers Act 1991* (Cth);
- *National Consumer Credit Protection Act 2009* (Cth);
- *Insurance Act 1973* (Cth);
- *Banking Act 1959* (Cth); and
- *Reserve Bank Act 1959* (Cth).

In addition, the Australian Competition and Consumer Commission has responsibility for competition policy under the *Trade Practices Act 1974* (Cth). That responsibility extends across the entire economy, including the financial sector.

Reserve Bank of Australia

The RBA is responsible for maintaining stability of the overall financial system, promoting the safety and efficiency of the payments system, managing the issuance of banknotes, providing banking services for the Australian Government and managing Australia's Official Reserve Assets.

The RBA is also responsible for monetary policy, which is determined by the Board of the Bank and is set in terms of the level of the cash rate (the interest rate on unsecured overnight funds). The RBA undertakes daily operations in the short-term money markets to ensure that the actual cash rate remains close to the monetary policy target.

The RBA's market operations are very flexible, permitting it to deal daily with a wide range of counterparties across a wide range of maturities, and allowing it to respond rapidly to any tensions in the domestic money market.

In exceptional circumstances, the RBA may provide liquidity support to an individual authorised deposit-taking institution, if the institution was solvent and its failure to make payments would have serious implications for the rest of the financial system. In assessing solvency, the RBA would rely on APRA's judgment.

The statement of financial position of the Reserve Bank of Australia as of each of 30 June 2008, 2009 and 2010 is set out in the table below.

Table 27: Statement of financial position – Reserve Bank of Australia

	30 June 2008	30 June 2009	30 June 2010
	(A\$ millions)		
ASSETS			
Cash and cash equivalents	862	772	852
Australian dollar securities	54,702	47,125	36,972
Foreign exchange	42,505	51,156	43,096
Gold	2,509	2,957	3,747
Property, plant and equipment	456	443	449
Loans, advances and other	438	513	536
Total Assets	101,472	102,966	85,652
LIABILITIES			
Deposits	39,006	34,266	20,987
Distribution payable to Australian Government	1,403	5,977	750
Other	9,786	2,093	4,762
Australian notes on issue	42,064	48,087	48,759
Total Liabilities	92,259	90,423	75,258
Net Assets	9,213	12,543	10,394
Capital and Reserves			
Reserves:			
Unrealised profits reserves	80	2,332	84
Asset revaluation reserves	2,807	3,308	4,087
Reserve Bank Reserve Fund	6,286	6,863	6,183
Capital	40	40	40
Total Capital and Reserves	9,213	12,543	10,394

Source: Reserve Bank of Australia *Annual Report 2010* and *Annual Report 2009*.

Australian Prudential Regulation Authority

The Government established APRA on 1 July 1998 as the single prudential regulator in the Australian financial system. APRA oversees authorised deposit-taking institutions (including banks, building societies and credit unions), as well as life and general insurance companies (including reinsurers and friendly societies) and most members of the superannuation industry (other than self-managed superannuation funds). The aim was to create a prudential regulation framework that would not only meet safety and stability objectives, but would increase the competitiveness and efficiency of the financial system by ensuring that regulation is applied consistently for similar functions.

APRA's core mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by the institutions APRA supervises are met within a stable, efficient and competitive financial system.

APRA also acts as the national statistical agency for the Australian financial sector and plays a role in preserving the integrity of Australia's retirement incomes policy.

APRA Regulated Institutions

As detailed in the table below, APRA-regulated institutions hold approximately \$3.7 trillion in assets for 22 million Australian depositors, policyholders and superannuation fund members.

Table 28: APRA-Regulated Institutions

APRA-Regulated Institutions	Number of Institutions			Assets (A\$ billions)		
	30 June	30 June	%	30 June	30 June	%
	2009	2010	Change	2009	2010	Change
ADIs	193	182	-5.7	2,663.3	2693.2	1.1
Representative offices of foreign banks	17	17	0.0	-	-	-
General insurers	132	130	-1.5	95.2	99.2	4.2
Life insurers	32	32	0.0	212.7	227.7	7.0
Friendly societies	19	16	-15.8	6.1	6.2	1.6
Licensed trustees	277	251	-9.4	-	-	-
Superannuation entities	4,914	4,458	-9.3	613.9	722.4	17.7
Non-operating holding companies	17	21	23.5	-	-	-
Total	5,601	5,107	-8.8	3,591.2	3,748.7	4.4

Source: Australian Prudential Regulation Authority.

Funding

APRA is funded largely by the industries that it supervises through a levy on regulated entities. The Government has provided APRA with the necessary resources to enable it to manage the effects of the global financial crisis. In October 2008, the Government agreed to provide additional funding to APRA of \$9 million in 2008-09, \$18.5 million in 2009-10 and \$9 million in 2010-11 and 2011-12 to ensure that APRA continues to have sufficient resources to fulfil its role in light of global developments. This funding was provided from the 2008-09 Budget, rather than being recovered from levies on the financial sector. Before this budget measure, APRA's budget was approximately \$100 million (recovered mainly from levies on the financial sector) for around 570 staff.

Governance

APRA's governance structure comprises a full-time Executive Group of at least three and no more than five Members. The Executive Group is responsible and accountable for the operation and performance of APRA. It currently has a Chairman, a Deputy Chairman and a Member.

APRA's Main Powers

APRA's risk-based approach is underpinned by supervisory tools developed within APRA to ensure that risks are assessed rigorously and consistently, that critical warning signs are identified early and that our supervisory response is prompt and measured. APRA seeks to act pre-emptively, so that emerging threats to financial institutions are addressed before the interests of beneficiaries are damaged; where pre-emptive action is not possible, APRA's objective is to set in train appropriate wind-up or other exit strategies that minimise losses to beneficiaries.

Australian legislation provides APRA with strong powers to regulate and intervene in the operations of financial institutions to protect depositors, policy holders and fund members and to maintain the stability of the financial system.

APRA's main powers are provided by acts relating to each industry sector that it regulates: the *Banking Act 1959* (Cth), the *Insurance Act 1973* (Cth), the *Life Insurance Act 1995* (Cth) and the *Superannuation Industry (Supervision) Act 1993* (Cth). These acts provide APRA with the following main types of powers in regulating financial institutions:

- authorisation or licensing powers;
- powers to make, apply and enforce prudential standards;
- powers to collect information, to conduct on-site examinations of supervised entities and to require third-party audits; and
- powers to act in circumstances of financial difficulties to protect depositors, policy holders and superannuation fund members and to maintain the stability of the financial system, including powers related to investigating, giving directions and assuming control of supervised entities in difficulty.

APRA can appoint a statutory manager to assume full control of an authorised deposit-taking institution and can apply to the courts for the appointment of a judicial manager to assume control of a general or life insurer.

In broad terms, the powers available under each Act are similar but they vary somewhat reflecting the specific characteristics of each industry sector.

In relation to the ADI sector, APRA has wide-ranging powers under the *Banking Act 1959* (Cth) to investigate the affairs of an ADI and/or issue a direction to an ADI. For example, APRA can, in particular circumstances, direct an ADI:

- to comply with a prudential requirement;
- to conduct an audit of its affairs;
- to remove a director, executive officer or employee; or
- not to undertake transactions.

APRA has the power to revoke an ADI's authorisation if it fails to meet its authorisation requirements.

In a situation where an ADI may be unable to meet its obligations or where the interests of depositors or financial system stability are at risk, APRA has the power under the *Banking Act 1959* (Cth) to replace an ADI's Board of Directors with a statutory manager, which must manage the ADI in a manner that is consistent with interests of depositors and financial system stability. In addition to the powers of the Board, the statutory manager has powers to alter the share capital of the ADI, such as by issuing new shares, and can alter the ADI's governance arrangements including its constitution. The statutory manager can also sell or dispose of the assets of the ADI.

APRA also has the power to compulsorily transfer the business of the ADI to another entity using the *Financial Sector (Business Transfer and Group Restructure) Act 1999* (Cth). The receiving entity must consent to the transfer.

Financial Claims Scheme

APRA has responsibility for administering the Financial Claims Scheme established in October 2008 in respect of ADIs and general insurers. The Financial Claims Scheme provides protection from loss for depositors in ADIs and policyholders and other claimants in general insurers in the event an ADI or general insurer becomes insolvent. The Financial Claims Scheme establishes:

- measures under Division 2AA of the *Banking Act 1959* (Cth) to:
 - protect account-holders' deposits made with eligible ADIs (other than foreign ADIs), and interest accrued on such deposits, to a total maximum value of \$1,000,000 per account-holder per ADI; and
 - facilitate prompt payout of deposits protected under the Financial Claims Scheme to account-holders in the event that an ADI fails; and
- measures under Part VC of the *Insurance Act 1973* (Cth) to facilitate the payment of moneys payable under valid claims made by eligible claimants against a general insurer that has become insolvent.

Prudential Regulation

APRA has developed a regulatory framework for ADIs that is based on the banking supervision principles published by the Basel Committee on Banking Supervision. The framework for prudential regulation includes requirements regarding capital adequacy, credit risk, market risk, securitisation, liquidity, credit quality, large exposures, associations with related entities, outsourcing, business continuity management, risk management of credit card activities, audit and related arrangements for prudential reporting, governance and fit and proper standards.

Prudential regulation is concerned fundamentally with the quality of a financial institution's systems for identifying, measuring and managing the various risks in its business and, in most cases, with the adequacy of its capital as a buffer against unexpected losses. It promotes prudent behaviour by regulated entities with the objective of reducing the likelihood of institutional insolvency and consequential losses to policyholders, depositors or members and financial system instability.

Implementation of Basel II in Australia

APRA implemented the Basel II framework on 1 January 2008. This new framework is designed to strengthen risk management and provide more risk-sensitive capital requirements for authorised deposit-taking institutions.

All ADIs in Australia are subject to Basel II. Subject to APRA approval, ADIs can choose to implement the standard approaches or more advanced approaches for credit risk and operational risk. The great majority of ADIs have chosen to use the standardised Basel II approaches in determining their regulatory capital charge. The largest ADIs have chosen more sophisticated approaches under Basel II, which allow them to use some of their own quantitative risk estimates in calculating regulatory capital.

The new prudential rules under Basel II provide the Australian banking system with an enhanced regulatory framework for the protection of depositors and the maintenance of systemic stability.

Although the intention of the Basel Committee on Banking Supervision ("BCBS") was to maintain consistency of capital adequacy regulation across countries and avoid a significant source of competitive inequality among internationally active banks, international comparisons need to take into account the particularities of the implementation of the Basel II framework in each country. These include:

- the use of national discretions within the Basel Framework;
- the implementation of advanced models;
- supervisory adjustments imposed under Pillar 2 by local regulators;
- other regulatory requirements (e.g., accounting or tax); and
- transitional arrangements.

In implementing Basel II, APRA has exercised a number of discretions to make the framework more robust and relevant in the Australian market. These discretions include:

- The risk-weights for residential mortgage lending in the standardised approach were made considerably more granular, adding to the risk-sensitivity of capital. The Basel II approach is that home loans are subject to a 35% risk weight. APRA instead introduced a grid of risk-weights based upon loan to value ratio, lenders' mortgage insurance status and product type (e.g., whether the loan is a standard or non-standard housing loan), which starts at 35% and runs to 100%.
- APRA chose not to adopt a lower risk-weight for 'other retail assets' under the standardised approach, believing it would not provide a sufficient buffer against credit risk and concentration risk.
- For banks using the advanced approaches to measure capital adequacy, APRA has established a minimum capital requirement for interest rate risk in the banking book under Pillar 1.

In July 2009, the BCBS released a package of measures to enhance the Basel II Framework, as part of a broader work program to strengthen regulatory capital, risk management and supervision requirements. The measures aim to ensure that the risks inherent in banks' portfolios related to trading activities, securitisations and exposures to off-balance sheet vehicles are better reflected in minimum capital requirements, risk management practices and accompanying disclosures to the public. In December 2009, APRA released a discussion paper, accompanied by proposed amendments to relevant prudential standards and prudential practice guides, in response to the measures published by the BCBS in July 2009. In May 2010, APRA also released draft reporting requirements related to these measures. In June 2010, the Basel Committee announced two further adjustments to the July 2009 package. APRA will consult on these adjustments with a view to releasing a final package of standards, guidance and reporting requirements for implementation on 1 January 2012.

In December 2009, the Basel Committee published a consultation package of proposals to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector. Following a review of the consultation responses and the results of the global quantitative impact study, in which Australian ADIs participated, the Basel Committee is expected to deliver a complete package of capital and liquidity reforms, including design and calibration, in time for the November 2010 G20 Leaders Summit in Seoul. The Basel Committee intends that the implementation of the capital reforms will begin on 1 January 2013 and that after a period of observation, the liquidity reforms will begin to be implemented from 1 January 2015. Once the Basel Committee releases its final standards, APRA will consult publicly on proposed revisions to prudential standards, guidance and reporting requirements to appropriately implement these changes.

Collection of data

APRA is the national statistical agency for the Australian financial sector, having assumed the role of seven predecessor statistical collection units across the Commonwealth and State governments. Around 80% of APRA's data collections are shared with or collected on behalf of other agencies, in particular the Reserve Bank of Australia and the Australian Bureau of Statistics. This single collection point provides substantial efficiency benefits for reporting institutions. To ensure that collections appropriately balance cost and value, APRA meets regularly on a tripartite basis with the RBA and ABS to review the collections; APRA also consults regularly with industry.

International Awareness

Consistent with its aim of being a world-class integrated prudential supervisor, APRA retains an active role in international groups and forums for banking, insurance and pensions. This involvement allows APRA to stay in tune with international developments and to bring an Australian perspective to global efforts to harmonise the international prudential supervision framework. Constructive relationships with senior people in overseas prudential regulators also assist us in our prudential oversight of APRA-regulated institutions and operating internationally.

APRA is regarded as a leading supervisory agency in the Asia and Pacific regions, and more broadly, and it provides a range of technical and other assistance to prudential supervisors in these regions.

Early release of superannuation benefits

APRA plays a role in preserving the integrity of Australia's retirement income policy by approving early release of superannuation benefits on specified compassionate grounds. These grounds are defined in the Superannuation Industry (Supervision) Regulations.

Australian Securities and Investments Commission

ASIC is an independent statutory body established under the *Australian Securities and Investments Commission Act 2001* (Cth).

ASIC administers the *Corporations Act 2001* (Cth) (the "Corporations Act"), including the provisions governing the operation of companies in Australia, corporate fundraising, financial reporting, takeovers and compulsory buy outs and external administration/insolvency.

ASIC is also responsible for registering and supervising the operation of managed investment schemes. The regulatory framework governing collective investment vehicles was reformed in 1998 through the passage of the *Managed Investments Act 1998* (Cth).

ASIC has responsibility for the investor protection regime that applies to the provision of financial services. The regime includes licensing, conduct and disclosure provisions that apply to financial services providers, as well as product disclosure provisions applicable to financial products.

Financial markets and clearing and settlement facilities are licensed by the relevant Minister. ASIC is responsible for monitoring compliance by market and clearing and settlement facility licensees with the relevant legislative frameworks. On 24 August 2009, the Government announced that ASIC will become responsible for supervision of real time trading on all of Australia's domestic licensed markets. ASIC commenced performing this function on 1 August 2010. The RBA is responsible for issuing financial stability standards for clearing and settlement facilities and it monitors compliance with those standards. Australia's major licensed financial markets and clearing and settlement facilities are operated by ASX Limited and its subsidiaries.

ASIC is also responsible for administering the market misconduct provisions of the Corporations Act, which cover market manipulation, insider trading and misleading or deceptive conduct.

In line with the Council of Australian Governments' 2008 commitment to transfer credit regulation to the Commonwealth Government, ASIC became responsible for national credit regulation on 1 July 2010, which includes licensing of all credit providers and credit service providers.

Other Regulatory Entities

Australian Competition and Consumer Commission

The Australian Competition and Consumer Commission (the "ACCC") has responsibility for competition policy under the *Trade Practices Act 1974* (Cth) (the "TPA"). This responsibility extends across the entire economy, including the financial sector.

The TPA prohibits anti-competitive arrangements between competitors, such as price fixing, market sharing and boycotts.

Industry regulation

The Australian Bankers' Association (the "ABA") is the national organisation of licensed banks in Australia. Any body corporate duly authorised to carry on banking business in Australia and carrying on such banking business may become a member of ABA.

ABA is funded by its 23 member banks ranging from traditional retail, trading bank-style organisations to regional banks, foreign bank and wholesale banks. Contributions to its operational expenditure are based on individual member bank's liabilities in Australia.

The ABA's revised Code of Banking Practice is the banking industry's customer charter on best banking practice standards. The Code sets out the banking industry's key commitments and obligations to customers on standards of practice, disclosure and principles of conduct for banking services. The Code applies to personal and small business bank customers.

Abacus–Australian Mutuals, the industry association for Australian credit unions, mutual building societies and friendly societies, also keeps industry codes to which its members are signatories. Abacus members subscribe to codes establishing standards of service to customers. Abacus developed a consolidated Mutual Banking Code of Practice that has applied to building societies and credit unions since 1 July 2009.

Signatories to the codes are obliged to respond to complaints about non-compliance, and the relevant external dispute resolution scheme can also hear and resolve such complaints.

The Financial System Regulatory Regime

The Australian Government is committed to increasing competition and contestability across the broad spectrum of financial products, without sacrificing the basic goals of safety and stability in the financial system. The regulatory system enables the non-bank deposit-taking sector to provide a more effective source of competition for the banks in the retail market by operating under the same regulatory framework as banks. These institutions are able to maintain commercial flexibility by retaining different corporate structures, including mutuality, and the terms 'building society' and 'credit union'. The Government is also paving the way for greater future participation by non-traditional suppliers in financial services markets, where there is demonstrable congruity between financial and non-financial activities. One example of this is 2002 reforms to credit card schemes, which established a new category of ADI, broadening the range of organisations authorised to provide credit card services. This increased competition on incumbents from both credit card specialists and large payments-processing institutions. Prudential controls, to ensure these new players do not increase systemic risk, apply.

Australia maintains a stable, competitive and efficient financial system that is not only positioned to compete strongly in the global economy, but also offers opportunities for those seeking to do business in Australia or to use Australia as a focal point for regional activities.

There is no restriction on the number of foreign banks that may apply for banking licenses. The blanket ban on the takeover of domestic institutions has been removed although such applications are still assessed on a case by

case basis under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) and the *Financial Sector (Shareholdings) Act 1998* (Cth).

Foreign banks wishing to establish a retail bank in Australia may enter as a licensed subsidiary, subject to full prudential supervision. They may also establish as a licensed foreign bank branch to conduct wholesale banking, as branches are restricted from accepting retail deposits below \$250,000. They may also establish as an unlicensed money market corporation or merchant bank. As at 31 October 2010, there were 43 foreign owned banks operating in Australia, comprising 9 locally incorporated subsidiaries and 34 branches of foreign banks.

GOVERNMENT FINANCE

The basic provisions relating to the receipt and payment of public moneys of the Australian Government are set out in the Constitution and the *Financial Management and Accountability Act 1997* (Cth) (the "FMA Act"). The FMA Act sets out requirements relating to the collection and custody of public money; accounting, reporting and audit; and borrowing and investment. The *Commonwealth Authorities and Companies Act 1997* (Cth) sets out separate financial and corporate governance requirements for corporations controlled by the Australian Government. The general administration of Australian Government finances is the responsibility of the Minister for Finance and Deregulation.

Under the Constitution, all moneys or revenues received by the Australian Government form one Consolidated Revenue Fund, to be appropriated for the purposes of the Commonwealth of Australia. All disbursements made from the Consolidated Revenue Fund must be made under appropriation made by the Parliament.

The financial statements and accounting records of each Australian Government agency and the consolidated financial statements of the Government must be audited by the Australian Auditor-General. The Australian National Audit Office ("ANAO") supports the Auditor-General in conducting financial statement and performance audits. All financial statements must be tabled in the Parliament by the responsible Minister within the relevant agency's annual report. These financial statements are audited by the Auditor-General, who may also report to the Parliament on a wide range of other matters relating to public administration.

Federal Government Budget

As part of each annual budget, the Treasurer presents annual Appropriation Bills to the Parliament. The Bills detail the purposes for which funds are to be expended by Government agencies. Additional Appropriation Bills may be enacted by Parliament during the course of a fiscal year to provide funds for new expenditures approved by the Government after the passage of the annual budgetary Appropriation Bills.

The major part of the budget is appropriated under 'special' or 'standing' appropriations contained in special legislation that does not require annual re-enactment. For example, the payment of social security benefits and pensions are provided for in this manner.

The Australian Government's main fiscal indicators are the 'underlying cash balance' and the 'fiscal balance' (respectively cash and accrual measures of government finance statistics net lending), with the predominant focus on the underlying cash balance for assessing the Government's fiscal strategy. The move to accrual budgeting now means that the budget papers contain a complete set of accrual financial statements (i.e., an operating statement, a statement of assets and liabilities, and a statement of cash flows).

The framework within which fiscal policy is conducted is set out in the *Charter of Budget Honesty Act 1998* (Cth). The Charter provides a framework for the conduct of Government fiscal policy. The purpose of the Charter is to improve fiscal policy outcomes. The Charter provides for this by requiring fiscal strategy to be based on principles of sound fiscal management and by facilitating public scrutiny of fiscal policy and performance.

The key elements of the Australian Government's medium-term fiscal strategy are:

- achieving budget surpluses, on average, over the medium-term;
- keeping taxation as a share of GDP, on average, below the level for 2007-08; and
- improving the Government's net financial worth over the medium-term.

Allowing the budget to vary in line with economic conditions is a key element of the fiscal strategy and makes an important contribution to macroeconomic policy.

To ensure that growth is supported in a way that is consistent with medium-term fiscal strategy, the Government committed in the February 2009 Updated Economic and Fiscal Outlook Statement released on 3 February 2009 ("2009 UEFO") to a two-stage fiscal strategy. This was extended in the 2010-11 Budget to maintain continued expenditure restraint once the budget returns to surplus.

1. Support the economy during the global recession

During the economic slowdown, the Government will continue to support the economy and jobs by:

- allowing the variations in receipts and payments, which are naturally associated with slower economic growth, to drive a temporary underlying cash budget deficit; and
- using additional spending to deliver timely, targeted and temporary stimulus, with the clear objective of other budget priorities and new policy proposals being met through a reprioritisation of existing policies.

2. Deficit exit strategy as the economy recovers

As the economy recovers and grows above trend the Government will take action to return the budget to surplus by:

- holding real growth in spending to 2% a year until the budget returns to surplus; and
- allowing the level of tax receipts to recover naturally as the economy improves, while maintaining the Government's commitment to keep taxation as a share of GDP below the 2007-08 level on average.

3. Continuing budget surpluses

Once the budget returns to surplus, and while the economy is growing at or above trend, the Government will maintain expenditure restraint by retaining a 2% annual cap on real spending growth, on average, until budget surpluses are at least 1% of GDP.

In 2007-08 and 2008-09, the underlying cash balance was \$19.7 billion and -\$27.1 billion, respectively. The Australian Government's underlying cash deficit was \$54.8 billion (-4.2% of GDP) in 2009-10. In the 2010-11 MYEFO, Government underlying cash deficits of \$41.5 billion (-3.0% of GDP) and \$12.3 billion (-0.8% of GDP) were forecast for 2010-11 and 2011-12 respectively, and underlying cash surpluses of \$3.1 billion (0.2% of GDP) and \$3.3 billion (0.2% of GDP) were forecast for 2012-13 and 2013-14, respectively.

The Australian Government general government sector net debt for 2009-10 was -\$42.3 billion (-3.3% of GDP). The 2010-11 Budget projected net debt to total \$41.8 billion (3.2% of GDP) in 2009-10. In the 2010-11 MYEFO, net debt was projected to be 5.7% of GDP in 2010-11 and to peak at 6.4% of GDP in 2011-12.

The Government will finance the projected budget deficits by issuing Commonwealth Government Securities. See "Government Finance—Domestic Issuance of Government Bonds" in this Description of the Commonwealth of Australia.

Commonwealth Budget Position as at 30 June 2010

In 2009-10, the Australian Government general government sector recorded an underlying cash deficit of \$54.8 billion, or -4.2% of GDP. The fiscal balance was in deficit by \$52.9 billion, or -4.1% of GDP.

The following table sets out general government sector budget aggregates for each of the 2007-08, 2008-09 and 2009-10 fiscal years.

Table 29: Australian Government general government sector budget aggregates

	2007-08 ^(a)	2008-09 ^(a)	2009-10
<u>Accrual aggregates</u>			
Revenue (A\$ billions)	303.7	298.9	292.8
Per cent of GDP	25.7	23.8	22.5
Expenses (A\$ billions)	280.1	324.6	339.2
Per cent of GDP	23.7	25.9	26.1
Net operating balance (A\$ billions)	23.6	-25.6	-46.5
Net capital investment (A\$ billions)	2.6	4.1	6.4
Fiscal balance (A\$ billions)	21.0	-29.7	-52.9
Per cent of GDP	1.8	-2.4	-4.1
<u>Cash aggregates</u>			
Underlying cash balance (A\$ billions)	19.7	-27.1	-54.8
Per cent of GDP	1.7	-2.2	-4.2
<u>Balance sheet measures</u>			
Net debt (A\$ billions)	-44.8	-16.1	42.3
Per cent of GDP	-3.8	-1.3	3.3
Net worth (A\$ billions)	71.2	19.7	-44.8
Per cent of GDP	6.0	1.6	-3.4

(a) Data for 2007-08 and 2008-09 fiscal years has been adjusted for accounting changes to ensure consistency where relevant. For further information on these adjustments, see the following: 2009-10 Budget, Budget Paper No. 1, Statement 10; Final Budget Outcome 2009-10, Appendix B; MYEFO 2009-10, Appendix D; 2009-10 Budget, Budget Paper No. 1, Statement 10; 2010-11 Budget, Budget Paper No. 1, Statement 10.

Source: Final Budget Outcome 2009-10 and 2010-11 Budget.

Total Australian Government general government sector net worth declined by \$64.5 billion in 2009-10 to around -\$44.8 billion, largely reflecting the budget deficit. Net debt increased by \$58.4 billion in 2009-10 to around \$42.3 billion or 3.3% of GDP (from -\$16.1 billion or -1.3% of GDP in 2008-09).

The following table sets out general government sector revenue for each of the 2007-08, 2008-09 and 2009-10 fiscal years.

Table 30: Australian Government general government sector revenue

	2007-08	2008-09	2009-10
	(A\$ millions)		
Individuals and other withholding taxes			
Gross income tax withholding	114,700	117,086	119,922
Gross other individuals income tax	31,036	32,260	27,287
<i>less: Individuals refunds</i>	19,601	23,569	24,390
Total individuals and other withholding taxes	<u>126,135</u>	<u>125,777</u>	<u>122,820</u>
Fringe benefits tax	<u>3,796</u>	<u>3,581</u>	<u>3,523</u>
Company tax	<u>64,790</u>	<u>60,705</u>	<u>53,193</u>
Superannuation funds	<u>11,988</u>	<u>9,227</u>	<u>6,182</u>
Petroleum resource rent tax	<u>1,871</u>	<u>2,099</u>	<u>1,297</u>
Total income taxation revenue	<u>208,579</u>	<u>201,389</u>	<u>187,016</u>
Sales taxes	45,486	43,716	47,800
Excise duty			
Petroleum and diesel	13,633	13,148	13,225
Other excise	9,893	11,171	11,323
Total excise duty	<u>23,526</u>	<u>24,319</u>	<u>24,547</u>
Customs duty	<u>6,070</u>	<u>6,276</u>	<u>5,748</u>
Other indirect taxes	<u>2,567</u>	<u>2,954</u>	<u>2,889</u>
Total indirect taxation revenue	<u>77,650</u>	<u>81,389</u>	<u>80,984</u>
Total taxation revenues	<u>286,229</u>	<u>278,653</u>	<u>268,000</u>
Interest income	<u>5,558</u>	<u>5,124</u>	<u>4,430</u>
Dividends, sales of goods and services and other non-taxation revenue	11,942	15,155	20,337
Total non-taxation revenue	<u>17,500</u>	<u>20,280</u>	<u>24,767</u>
Total revenue	<u>303,729</u>	<u>298,933</u>	<u>292,767</u>

Source: Data for 2007-08 and 2008-09 fiscal years sourced from 2010-11 Budget, Budget Paper No. 1, Statement 5, Table C1, adjusting for accounting changes to ensure consistency where relevant, and unpublished Treasury data. Data for 2009-10 fiscal year sourced from Final Budget Outcome 2009-10.

Total accrual revenue in 2009-10 was around \$292.8 billion.

The table below provides information on general government sector expenses by function for each of the 2007-08, 2008-09 and 2009-10 fiscal years.

Table 31: Australian Government general government sector expenses by function

	2007-08	2008-09	2009-10
	(A\$ millions)		
General public services			
Legislative and executive affairs	961	728	840
Financial and fiscal affairs	6,102	6,331	6,845
Foreign affairs and economic aid	3,881	4,763	4,869
General research	2,146	2,237	2,358
General services	925	995	818
Governmental superannuation benefits	2,600	2,142	3,472
Defence	17,670	19,190	20,150
Public order and safety	3,506	3,558	3,593
Education	18,433	22,601	34,889
Health	44,397	49,146	51,426
Social security and welfare	97,842	124,581	109,197
Housing and community amenities	2,910	5,080	9,029
Recreation and culture	3,207	3,107	3,280
Fuel and energy	5,361	5,806	8,473
Agriculture, forestry and fishing	3,834	2,723	2,816
Mining, manufacturing and construction	1,410	1,911	1,630
Transport and communications	4,129	6,941	6,641
Other economic affairs			
Tourism and area promotion	207	192	162
Labour and employment affairs	3,404	3,764	4,694
Other economic affairs	1,213	1,275	2,200
Immigration	1,102	1,276	1,571
Other purposes			
Public debt interest	3,544	3,946	6,303
Nominal superannuation interest	6,011	6,715	6,687
General purpose intergovernmental transactions	45,277	45,248	47,157
Natural disaster relief	28	312	136
Contingency reserve ^(a)	8	0	0
Total expenses	280,109	324,569	339,239

(a) Asset sale related expenses are treated as a component of the contingency reserve.

Source: Data for 2007-08 fiscal year sourced from Final Budget Outcome 2007-08, adjusting for accounting changes to ensure consistency where relevant. Data for 2008-09 fiscal year sourced from Final Budget Outcome 2008-09. Data for 2009-10 fiscal year sourced from Final Budget Outcome 2009-10.

Total accrual expenses were around \$339.2 billion in 2009-10.

General government sector net capital investment by function is set out in the table below.

Table 32: Australian Government general government sector net capital investment by function

	2007-08	2008-09	2009-10
	(A\$ millions)		
General public services	372	223	590
Defence	1,478	3,028	4,136
Public order and safety	139	109	103
Education	4	5	26
Health	46	73	249
Social security and welfare	175	52	60
Housing and community amenities	159	-36	219
Recreation and culture	53	27	110
Fuel and energy	2	11	2
Agriculture, forestry and fishing	49	443	748
Mining, manufacturing and construction	9	-2	0
Transport and communications	5	13	35
Other economic affairs	99	114	154
Other purposes	2	4	0
Total net capital investment	2,593	4,064	6,433

Source: Data for 2007-08 fiscal year sourced from Final Budget Outcome 2007-08, adjusting for accounting changes to ensure consistency where relevant. Data for 2008-09 fiscal year sourced from Final Budget Outcome 2008-09. Data for 2009-10 fiscal year sourced from Final Budget Outcome 2009-10.

Total net capital investment for 2009-10 was around \$6.4 billion.

Commonwealth Investment in the National Broadband Network

NBN Co Limited ("NBN Co") was created on 7 April 2009 to build and operate a new National Broadband Network. For further information regarding the specifications of the National Broadband Network, see "Major Industries—Information Media and Telecommunications—Telecommunications" in this Description of the Commonwealth of Australia. NBN Co is a wholly-owned Australian Government company that has been prescribed as a Government Business Enterprise. NBN Co is established and operating; however, certain of its operating arrangements will be clarified and guided by the passage of legislation in Parliament.

In August 2009, the Government commissioned McKinsey/KPMG to conduct an implementation study examining a range of issues relating to the National Broadband Network, including operating and governance arrangements for NBN Co, network design, ownership caps and scope for private sector investment. The implementation study concluded that the National Broadband Network can be constructed within the \$43 billion envelope identified by the Government in April 2009, even assuming the network does not have access to existing infrastructure. The study also indicated that NBN Co will have a positive business case, and that NBN Co can expect to generate a rate of return that allows the Government to cover its cost of capital.

The implementation study recommended that private equity should not be introduced prior to privatisation, in order to allow the Government to retain policy and regulatory flexibility before introducing private sector equity investment.

The Government made provision in the 2010-11 Budget of \$18.3 billion over the forward estimates (including \$18.1 billion in equity) for the roll-out of the National Broadband Network, based on the recommendations of the implementation study. On 20 June 2010, NBN Co announced that it had reached a Financial Heads of Agreement with Telstra to provide for access to Telstra facilities and the progressive migration of Telstra traffic onto the National Broadband Network, subject to regulator approval. Telstra, NBN Co and the shareholder Australian Government agencies are now negotiating detailed Definitive Agreements.

The exact timing and quantum of Government funding for the National Broadband Network, including payments by the Government and NBN Co in relation to the agreement with Telstra on the rollout of the National Broadband Network, will be determined in the Government's response to the implementation study, and costs could arise as part of settlement of the Definitive Agreements between NBN Co and Telstra.

The Government has also committed to providing to Telstra, in conjunction with the Definitive Agreements, a guarantee for the financial obligations of NBN Co until NBN Co is fully capitalised.

For further information, see "Major Industries—Information Media and Telecommunications—Telecommunications".

Budget implications

NBN Co was established as a Government Business Enterprise and operates as a Public Non-Financial Corporation ("PNFC") charging economically significant prices. Financial investments by the Commonwealth of Australia in PNFCs do not have a direct impact on the underlying cash balance. However, investments funded from borrowings have an indirect impact through public debt interest costs, which the Australian Government took into account in preparation of its 2010-11 Budget.

Pensions and Superannuation

Australia's Retirement Income System

Australia's retirement income system consists of three 'pillars':

- a taxpayer-funded means-tested age pension for people who are unable to fully support themselves in retirement;
- a minimum level of compulsory employer superannuation contributions made in respect of those in the workforce; and
- voluntary private superannuation and other savings.

The age pension has been the cornerstone of Australia's retirement income system since 1909. The age pension provides a modest retirement for those people who are unable to fully support themselves. On 20 September 2009, the maximum single rate age pension increased by \$32.50 per week and the maximum couple rate age pension increased by \$10.15 per week. The maximum pension payment to single pensioners, including supplements and indexation, has increased from \$601.08 per fortnight on 1 July 2009 to \$716.10 a fortnight from 20 September 2010. Across the same period the maximum combined fortnightly pension payment to couple pensioners, including supplements and indexation, has increased from \$983.08 to \$1079.60. The actual amount an eligible person receives depends on their other income and assets.

Employers are required to provide a prescribed minimum level of superannuation support each year for each of their eligible employees. The prescribed minimum level of support is currently 9% of the employee's earnings. This minimum prescribed amount is known as the Superannuation Guarantee. Payments under the Superannuation Guarantee are contributed to a complying superannuation fund or retirement savings account to be accessed by the employee upon retirement.

Voluntary superannuation savings are encouraged through concessional taxation treatment and other incentives.

As of 30 June 2010, APRA estimated that total Australian superannuation assets amounted to \$1.23 trillion.

On 2 May 2010, the Government announced its intention to introduce a number of superannuation reforms, which are subject to the passage of legislation in Parliament. Under the reforms, from 1 July 2013, the Government would gradually increase the Superannuation Guarantee rate from 9 to 12%, in increments of 0.25 percentage points on 1 July 2013 and 1 July 2014, followed by increases of 0.5 percentage points every year thereafter until the rate reaches 12% by 1 July 2019. The Government also announced its intention to extend the age limit for Superannuation Guarantee contributions from 70 to 75, with effect from 1 July 2013.

To provide greater flexibility for those nearing retirement, from 1 July 2012, the Government intends to increase the annual concessional contributions cap to \$50,000 for workers aged 50 and over with total superannuation balances below \$500,000. This would double the \$25,000 cap that was to apply from 1 July 2012, when the transitional arrangements end. To support low income earners, the Government intends to provide a new superannuation contributions tax rebate of up to \$500 annually for individuals on adjusted taxable incomes up to \$37,000 from 1 July 2012, which is in addition to the co-contribution for low to middle income earners. The Government anticipates that these changes to superannuation will increase the retirement incomes of Australians, and add \$85 billion to Australia's pool of superannuation savings over the next ten years.

Superannuation for Commonwealth Employees

The Commonwealth of Australia operates and administers three main civilian superannuation schemes for Commonwealth sector employees. The current scheme is the Public Sector Superannuation Accumulation Plan (the "PSSAP"), which was established by a trust deed under the provisions of the *Superannuation Act 2005* (Cth). PSSAP is a fully funded accumulation scheme. PSSAP commenced on 1 July 2005 upon the closure of the Public Sector Superannuation Scheme (the "PSS") to new entrants.

The PSS commenced on 1 July 1990 upon the closure of the Commonwealth Superannuation Scheme (the "CSS") to new entrants.

At 30 June 2010, there were 17,941 contributors to the CSS and 117,835 contributors to the PSS and benefits were being paid to 115,258 CSS and 21,084 PSS pensioners.

The Commonwealth of Australia's estimated unfunded liability at 30 June 2010 for the CSS and PSS schemes was \$91.1 billion.

In 2006, the Commonwealth established an investment fund known as the Future Fund to assist future Australian governments meet the cost of public sector superannuation liabilities by delivering investment returns on contributions to the Fund. As of 30 September 2010, the value of the assets held by the Future Fund was \$69.31 billion.

Taxation

Commonwealth, State and Local Governments levy taxes in Australia. Australia has no estate or gift taxes, or separate social security levy, although taxpayers pay a Medicare levy of 1.5% of taxable income (and may also be subject to an additional Medicare levy surcharge if they exceed certain income thresholds and do not take out complying private health insurance (see "Government Finance—Taxation—Personal Income Tax" in this Description of the Commonwealth of Australia)).

Australia's Future Tax System

On 13 May 2008, the Treasurer announced a review of Australia's tax and transfer system to recommend how Australia could deal with the demographic, social, economic and environmental challenges of the 21st century. The Australia's Future Tax System ("AFTS") review encompassed Australian Government and state taxes and interactions with the transfer system, while reflecting Government policy not to increase the rate or broaden the base of the goods and services tax ("GST").

The Government asked the review panel to bring forward its consideration of retirement income to March 2009 and report to Government. The report, which was publicly released with the 2009-10 Budget, recommended an increase to the qualifying age for the age pension. Legislation gradually increasing the qualifying age for the age pension from age 65 to age 67 by 1 January 2024 came into force on 29 June 2009. For further information with respect to Australia's retirement income system, see "Government Finance—Pensions and Superannuation—Australia's Retirement Income System" in this Description of the Commonwealth of Australia.

The AFTS review panel delivered its report to the Treasurer in December 2009. The Government publicly released the report and its response on 2 May 2010. The Government announced adjustments to some elements of the Government's response in respect of resource taxes and the company tax rate on 2 July 2010. The measures that the Government has announced it intends to adopt, subject to the passage of legislation in Parliament, are noted in the sections "—Business Tax Arrangements", "Indirect Taxation—Resource taxes and royalties", "Government Finance—Pensions and Superannuation—Australia's Retirement Income System" and "Major Industries—Mining" in this Description of the Commonwealth of Australia.

Personal Income Tax

The Australian Government levies personal income tax, generally using the individual as the unit of assessment. Income subject to tax assessment includes salary and wage income, allowances, dividends, interest, capital gains, business income, certain pension payments, rents, royalties, partnership income and distributions from trusts.

The period of assessment is generally 1 July to 30 June. Income is assessed and deductions are allowed in the year they arise, although special rules apply for allowable capital expenditures.

Tax rate thresholds are not indexed. Income tax rates and thresholds vary for 2009-10 and 2010-11 (Table 33).

Table 33: Personal income tax rates and thresholds for residents

1 July 2009 to 30 June 2010		From 1 July 2010	
Taxable income (A\$)	Rate (%)	Taxable income (A\$)	Rate (%)
0 - 6,000	0	0 - 6,000	0
6,001 – 35,000	15	6,001 – 37,000	15
35,001 – 80,000	30	37,001 – 80,000	30
80,001 – 180,000	38	80,001 – 180,000	37
180,001 +	45	180,001 +	45

Source: 2009-10 Budget, Budget Paper No. 1.

The personal income tax system is based on self assessment. The tax system utilises a pay-as-you-go approach, where individuals generally pay instalments of their expected tax liability on their income from employment, business, or investment for the current income year through withholdings and instalment payments. Australian residents for tax purposes pay tax on income derived from within Australia and overseas. Income earned overseas and already taxed in the overseas jurisdiction is either exempt from Australian tax or attracts a tax offset.

Residents have access to the benefits of Medicare, and consequently most residents pay a Medicare levy of 1.5% of taxable income. Residents may also be subject to an additional Medicare levy surcharge of 1.0% of adjusted taxable income if they exceed certain income thresholds and do not take out complying private health insurance.

Australian resident taxpayers may be eligible for the low income tax offset (the "LITO") to reduce tax paid by low- and middle-income earners. From 1 July 2010, the LITO increased from \$1,350 to \$1,500. Taxpayers eligible for the full LITO will not pay income tax until their annual income exceeds \$16,000 from 1 July 2011.

Taxpayers ineligible for the full LITO also benefit from its increase. The LITO begins to phase out at a rate of four cents for each dollar of income over \$30,000 so taxpayers with income over \$30,000 may still benefit from some LITO. For example, taxpayers will be able to receive some LITO on income up to \$67,500 from 1 July 2010.

Similarly, the Government provides targeted taxation relief to senior Australians through the senior Australian tax offset (the "SATO"). Senior Australians who would, apart from the income test requirements, qualify for the Australian Age Pension (65 years for men and 64 years for women in 2010-11) may qualify for the SATO. The SATO, when combined with the LITO, ensures that eligible single older Australians can have an income up to \$30,685 from 1 July 2010 without paying income tax or the Medicare levy.

In general, employers also pay tax (at 46.5%) on the grossed-up (i.e., tax inclusive) value of fringe benefits they provide to employees.

Foreign residents are taxed differently to Australian residents. See "Government Finance—Taxation—Australia's jurisdiction to tax: source and residence" in this Description of the Commonwealth of Australia.

Business Tax Arrangements

Corporate tax rate

The corporate tax rate is currently 30%. This applies also to the corporate profits of a branch of an overseas company. As part of its response to the AFTS review, on 2 July 2010 the Government announced its intention to reduce Australia's company tax rate to 29% from the 2013-14 income year and to allow small business companies to be eligible for this new rate in the 2012-13 income year. See "—Small businesses".

Dividend imputation

The dividend imputation system ensures company income distributed to resident individual shareholders is not double taxed. Franked dividends, effectively paid from previously taxed company income, carry an imputation credit for shareholders. As part of its response to the AFTS review, the Government has indicated that it does not intend to remove the benefits of dividend imputation.

Capital gains tax

Where assets are held for at least 12 months, capital gains tax applies to 50% of capital gains on the assets for individuals and trusts, and 66⅔% for superannuation funds. A range of business restructure roll-overs, including scrip-for-scrip takeovers between companies and between trusts, provide for the roll-over of capital gains arising from the restructure. Several capital gains tax concessions apply to capital gains on the disposal of active small business assets. The capital gains tax discount does not apply to gains made on assets that are held on revenue account or as trading stock. Following the release of the AFTS review, the Government indicated that it does not intend to reduce the capital gains tax discount or change capital gains grandfathering arrangements.

Research and development

Eligible research and development ("R&D") expenditure attracts a 125% deduction and, for eligible companies, a 175% tax concession for additional R&D expenditure undertaken above the average level for the previous three years.

On 12 May 2009 the Government announced its intention to replace the existing R&D tax concession with a new R&D tax incentive based on a standard 40% tax offset and a refundable 45% tax offset for firms with annual turnover below \$20 million. Legislation to this effect is currently before Parliament.

Primary production

Special provisions for primary producers include income averaging.

Capital allowances

A uniform capital allowance system, based on the effective life of assets, applies except where specific treatments apply (for example, for primary producers, Australian films, computer software and R&D).

Amortisation at 4% per year applies to the capital costs of income-producing buildings for eligible industrial activities; hotels, motels and guest houses containing at least ten bedrooms; and apartments, units or flats where the taxpayer owns at least nine other units in the building.

Amortisation at 2.5% per year applies to the capital cost of other income-producing buildings and structural improvements, including roads, dams, bridges and buildings used for R&D activities.

Investment allowance

A temporary investment allowance referred to as the Small Business and General Business Tax Break is available for investments in new tangible depreciating assets costing at least \$10,000 (or at least \$1,000, in the case of small businesses). The investment allowance provides an additional tax deduction where the taxpayer starts to hold or starts to construct the asset between 13 December 2008 and 31 December 2009 and has the asset installed ready for use by 31 December 2010. The investment allowance is also available for expenditure incurred to modify or improve existing assets, provided this expenditure satisfies the other eligibility criteria.

Small businesses can claim an additional tax deduction equal to 50% of the cost of the asset. For other businesses, a deduction of 30% or 10% of the cost of the asset is available. The 30% deduction applies where the taxpayer starts to hold or construct the asset before 30 June 2009 and has the asset installed ready for use by 30 June 2010. The 10% deduction is available where the taxpayer starts to hold or construct the asset between 1 July 2009 and 31 December 2009, and has the asset installed ready for use by 31 December 2010.

The legislation to implement the investment allowance, contained in the *Tax Laws Amendment (Small Business and General Business Tax Break) Act 2009* (Cth), became law on 22 May 2009.

Small businesses

Small businesses, with an aggregated annual turnover of less than \$2 million, can access concessions covering income tax (including capital gains tax and simplified capital allowances rules), goods and services tax, pay-as-you-go instalments and fringe benefits tax. See "—Corporate tax rate". Small businesses can also claim the temporary investment allowance discussed under "—Investment allowance" above at the 50% rate.

Under the Government's response to the AFTS review, from the 2012-13 income year, the Government intends that small business companies would be eligible for the new 29% corporate tax rate. From the 2012-13 income year, small businesses would also be permitted to immediately write off assets valued at under \$5,000 and write off most other assets in a single depreciation pool at a rate of 30%.

Superannuation

On 2 May 2010, the Government announced its intention to raise the Superannuation Guarantee gradually from 9% to 12%. In 2013-14 and 2014-15, the Government intends to raise the Superannuation Guarantee by 0.25 percentage points. These increases would be followed by increases of 0.5 percentage points each year until the Superannuation Guarantee reaches 12% in 2019-20.

From 1 July 2012, the Government intends to provide a contribution of up to \$500 for workers with incomes up to \$37,000 to ensure that no tax would be paid on superannuation guarantee contributions for those with incomes up to that amount in 2012-13.

Taxation of Financial Arrangements Stages 3 and 4

The Taxation of Financial Arrangements ("TOFA") Stages 3 and 4, which was enacted by the *Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009* (Cth), covers, among other matters, accruals and other tax-timing rules as well as character-hedging rules.

Indirect tax

Goods and Services Tax

Goods and services tax ("GST") is a broad based value-added tax on most goods and services consumed in Australia. It applies at a uniform rate of 10% on the supply or importation of taxable goods and services, based on the selling price.

The Australian Government collects GST revenue and distributes it to the States and Territories. The GST rate and base can only be changed with unanimous support from State and Territory governments.

GST is levied on businesses at all stages of the production process. Businesses are generally able to claim a credit for GST paid on business inputs.

Exemptions from GST include health, education and basic food. GST is not levied on residential rents and financial services, but suppliers of these products and services generally cannot claim a credit for GST paid on production inputs.

Excise and customs duty

Excises are specific taxes on goods, including fuel, alcohol (except wine products) and tobacco.

An excise-equivalent customs duty applies to imports of excisable goods and is collected at the border usually from importers or owners of the goods. Additionally, customs tariffs apply to a range of imported textiles, clothing and footwear, passenger motor vehicles and other imported goods including foods, chemicals, industrial supplies, machinery and equipment, and household electrical items. Businesses are not credited for tariffs paid on their imports.

Excise rates for tobacco and alcohol (except wine products) are indexed twice a year to the consumer price index.

Tobacco is taxed on a per stick basis for cigarettes and cigars with a tobacco content up to and including 0.8 grams, or by overall weight of tobacco for other products. Beer and spirits are taxed on alcohol volume, with

different rates applying to beer depending upon alcohol-strength and packaging. Spirits attract a higher rate than beer, while beer is also subject to a low alcohol threshold of 1.15% that does not attract duty.

Fossil fuels, primarily petrol and diesel, currently attract an excise of 38.143 cents per litre, which is not indexed. Aviation fuel currently attracts a rate of 2.854 cents per litre. Fuel tax credits currently apply to fuel used for certain off-road uses and for on-road use in heavy vehicles (vehicles with gross vehicle mass greater than 4.5 tonnes).

Wine equalisation tax

Wine is not subject to excise, but attracts a separate wine equalisation tax ("WET"), which applies as a percentage of the value of wine products. The producer, importer or wholesaler normally pays 29% of the last wholesale price of wine.

A \$500,000 WET producer rebate reduces the WET paid by small wine producers to zero.

Luxury car tax

The luxury car tax generally applies to the GST-exclusive value of a domestic or imported passenger vehicle exceeding a threshold, \$57,180 (in the year ending 30 June 2010), at a rate of 33%.

Luxury car tax concessions are available to certain fuel efficient cars and four wheel drives acquired by primary producers and eligible tourist operators. In response to the release of the AFTS review, the Government has indicated that it does not intend to abolish the luxury car tax.

Resource taxes and royalties

Specific resource taxes and royalties currently apply to the extraction of oil and gas.

On 2 July 2010, the Australian Government proposed a new Minerals Resource Rent Tax ("MRRT") regime, which would apply to all existing and new iron ore and coal projects in Australia from 1 July 2012, and the extension of the existing Petroleum Resource Rent Tax ("PRRT") regime to all Australian onshore and offshore oil and gas projects, including the North West Shelf, commencing on 1 July 2012. The implementation of the MRRT and the extension of the existing PRRT regime would require the passage of legislation through the Parliament.

Under the proposed MRRT, Australian iron ore and coal projects would be subject to a 30% tax on assessable profits calculated based on the value of the commodity, determined at its first saleable form, less all costs to that point. The MRRT would provide a 25% extraction allowance, reducing taxable profits subject to the MRRT in recognition of the value added through mining expertise. The MRRT would provide for transferability of deductions and the carrying forward of unutilised losses under specified conditions. Investment following 1 July 2012 would be subject to immediate write off, rather than depreciation over a number of years, meaning that a new project would only become liable for MRRT after sufficient profits to pay off the up front investment have been realised. The MRRT would recognise past investments through either a credit calculated based on the market value of the investment written down over a period of up to 25 years, or the current written down book value of project assets, excluding the value of the resource, written off over 5 years and uplifted at the long term bond rate plus 7%. Taxpayers with resource profits below \$50 million per annum would not have an MRRT liability.

The proposed extension of the PRRT, which currently only applies to offshore petroleum projects, to all oil, gas and coal seam methane projects onshore and offshore Australia would ensure equitable treatment for all oil and gas projects. The extended PRRT would apply a headline tax rate of 40%. Existing features of the PRRT, including a range of uplift allowances for unutilised losses and capital write offs, immediate expensing for expenditure and limited transfer of the tax value of losses, would continue to apply. Transition provisions would be provided for oil and gas projects moving into the PRRT regime, allowing for utilisation of either market value or written down book value as the starting base for project assets.

The proposed MRRT and the extended PRRT would provide resource entities with a credit for State and Territory royalties and resource taxes paid.

On 2 July 2010, the Australian Government also announced the establishment of a Policy Transition Group to oversee the development of the detailed technical design parameters and implementation of the MRRT and the extended PRRT.

Other taxes

A range of Australian government departments administer a broad range of smaller taxes, including charges for notional cost recovery, penalties, levies and licence fees.

Agricultural products attract more than 60 separate levies; this revenue funds services and research in specific agricultural industries.

Australia's jurisdiction to tax: source and residence

The taxation of income in Australia is principally determined on the basis of whether the entity is an Australian resident or a foreign resident for tax purposes. Australian residents are taxed on their worldwide income whereas foreign residents are taxed only on income sourced in Australia.

Double taxation

Double taxation is caused by overlapping tax jurisdictions arising from the application of the source and residence principles noted above. For example, two countries may seek to tax the same income. Relief from double taxation is typically provided under domestic law by either: (i) exempting the income from domestic tax, or (ii) crediting the foreign tax paid on that income against domestic tax. Australia also allows a deduction for foreign tax paid under certain limited circumstances. In addition to domestic law, bilateral tax treaties contain rules designed to eliminate double taxation.

Australia's tax treaties allocate taxing rights between the residence (of the person) and source (of the income) countries and require the former to eliminate double taxation when there are competing taxing rights. They also provide an agreed basis for allocating the income and expenses of multinational groups operating in both countries. In addition, they authorise administrative cooperation to prevent fiscal evasion and to assist in the collection of tax debts. Australia has signed 44 comprehensive bilateral tax treaties, based on the *OECD Model Tax Convention on Income and on Capital*.

Integrity rules

Thin capitalisation

Thin capitalisation rules aim to prevent undue exploitation by Australian and foreign multinational enterprises of the different tax treatment that applies to the payment of interest versus dividends; taxpayers can deduct interest but not dividends. The rules prevent excessive debt financing (as opposed to equity financing) of Australian entities, by disallowing the interest expense if the debt finance exceeds certain limits. The rules apply to:

- Australian entities that operate internationally and some of their associates;
- Australian entities that are foreign controlled; and
- foreign entities that operate in Australia.

The rules do not apply to entities: (i) with an annual debt deduction of \$250,000 or less; (ii) that are outward investing Australian entities at least 90% of whose assets are Australian assets; or (iii) that are qualifying special purpose (securitisation) entities.

Transfer pricing

The transfer pricing rules are designed to ensure that Australian and foreign multinational enterprises price their related party international dealings in accordance with the arm's length principle. The aim is to prevent profit shifting between associated enterprises located in different jurisdictions to ensure taxable Australian profits are commensurate with the economic value added in Australia.

Foreign source income anti-tax-deferral (attribution) regimes

Australia's attribution regimes consist of:

- the controlled foreign company rules; and
- the transferor trust rules.

These rules are designed to ensure residents cannot defer or avoid Australian tax by accumulating income offshore. They tax residents on an accruals basis on their share of income accumulating offshore.

On 12 May 2009, the Australian Government announced its intention to reform the foreign source income attribution rules. The reforms are intended to better balance the integrity objective of the rules with other objectives such as efficiency, equity, simplicity and low compliance costs. As part of these reforms, the Government has announced its intention to introduce a narrow anti-avoidance rule targeting roll-up of accumulation funds.

Tax information exchange agreements

A tax information exchange agreement ("TIEA") is a bilateral agreement to establish a legal basis for the exchange of taxpayer information, for both civil and criminal tax purposes. Australia has signed 25 TIEAs with low-tax jurisdictions.

Commonwealth-State Financial Relations

Commonwealth-State financial relations involve the provision of Australian Government financial assistance to the States and Territories and oversight by the Australian Loan Council of government borrowings.

The States and Territories receive significant financial support from the Commonwealth of Australia. As at the 2010-11 MYEFO, Commonwealth payments to the States and Territories for 2010-11 were estimated to total \$95.3 billion, comprising general revenue assistance, including GST payments, of \$48.0 billion and payments for specific purposes of \$47.3 billion. Payments to the States and Territories in 2010-11 are estimated to decrease by \$1.9 billion (-2.0%) compared with the payments the States and Territories received in 2009-10. This decrease is primarily due to the staged withdrawal of the Government's economic stimulus package spending. See "Economic Outlook—Commonwealth Responses to the Global Financial Crisis" in this Description of the Commonwealth of Australia.

General revenue assistance is a broad category of payments that are provided to the States and Territories without conditions to spend according to their own budget priorities. The Commonwealth of Australia also provides payments to the States and Territories for specific purposes in order to pursue important national policy objectives in areas that may be administered by the States and Territories.

As agreed by the Council of Australian Governments in the *Intergovernmental Agreement on Federal Financial Relations*, GST payments, which were estimated as at the 2010-11 MYEFO to total \$47.0 billion in 2010-11, are distributed among the States and Territories in accordance with the principle of horizontal fiscal equalisation. Under this principle, States and Territories receive funding from the Commonwealth of Australia such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services and the associated infrastructure at the same standard level.

On 20 April 2010, the Council of Australian Governments, with the exception of Western Australia, announced the establishment of a National Health and Hospitals Network. The Commonwealth is continuing discussions with Western Australia in relation to its participation in the National Health and Hospitals Network. The implementation of the National Health and Hospitals Network would require the passage of legislation through the Parliament.

The proposed National Health and Hospitals Network combines reforms to the financing of the Australian health and hospital system with major changes to the governance arrangements between the Commonwealth and the States and Territories to deliver better health and hospital services.

Under the National Health and Hospitals Network, the Commonwealth, rather than the States and Territories, would become the majority funder of the Australian public hospital system. The Commonwealth would fund:

- 60% of the efficient price of every public hospital service provided to public patients;
- 60% of recurrent expenditure on research and training functions undertaken in public hospitals;
- 60% of capital expenditure, on a "user cost of capital" basis where possible; and
- over time, up to 100% of the efficient price of "primary health care equivalent" outpatient services provided to the public.

The Commonwealth would also take on full policy and funding responsibility for primary health care and aged care (other than in Victoria).

The Commonwealth intends to fund its increased responsibilities through a combination of:

- funding sourced from the current National Healthcare Specific Purpose Payment;
- the Commonwealth retaining an agreed amount of GST to be dedicated to health and hospital services; and
- from 2014-15, an additional top-up payment to be paid by the Commonwealth, reflecting its greater responsibility for financing growth in health costs.

Under the proposal, from 2011-12 to 2013-14, the amount of GST dedicated to health and hospital services will be the amount required in addition to the funding sourced from the existing National Healthcare Specific Purpose Payment in each State or Territory to fund 60% of the efficient price of public hospitals, take full funding responsibility for general practitioner and primary health care services undertaken by States and Territories, and the net additional cost to the Commonwealth from changes in roles and responsibilities for the Home and Community Care program and related programs. The amount of GST retained by the Commonwealth, and dedicated to health and hospital services, will be fixed in 2014-15, based on 2013-14 costs, and indexed at the rate of overall GST growth.

From 2014-15, an additional Commonwealth top-up payment would be provided, reflecting that hospital costs have been growing at close to 10% per annum and are expected to grow at around 8% per annum over the medium term. This means that hospital costs are expected to outpace growth in GST by around 6% per annum, as well as growth in the existing National Healthcare Specific Purpose Payment.

Under the proposal, the Commonwealth has agreed to pay no less than \$15.6 billion in top-up payments between 2014-15 and 2019-20. If the amount required to fund the Commonwealth's hospital and primary care commitments is less than \$15.6 billion, the residual amount would be paid to the States and Territories to fund any health services that will assist in ameliorating the growth in demand for public hospital services.

In addition, the Commonwealth would also provide the States with funding of up to \$3.4 billion through the National Health & Hospitals Network—Improving Public Hospital Services National Partnership Agreement.

The Australian Loan Council

The Australian Loan Council is a Commonwealth-State ministerial council that coordinates public sector borrowing. The Loan Council consists of the Prime Minister of Australia and the Premier/Chief Minister of each State and Territory. However, in practice each member is represented by a nominee, usually the Treasurer of that jurisdiction, with the Commonwealth Treasurer as Chair.

Current Loan Council arrangements operate on a voluntary basis and emphasise transparency of public sector financing rather than adherence to strict borrowing limits. These arrangements are designed to enhance financial market scrutiny of public sector borrowing and facilitate informed judgments about each government's financial performance.

The Loan Council traditionally meets annually in March to consider jurisdictions' nominated borrowings for the forthcoming year. As part of the agreed arrangements, the Loan Council considers these nominations, having regard to each jurisdiction's fiscal position and the macroeconomic implications of the aggregate figure.

Since 2009-10, the role of the Loan Council has expanded to include reporting on the macroeconomic implications of proposed expenditure from the Building Australia Fund, the Health and Hospitals Fund and the Education Investment Fund.

The Loan Council also provides an additional level of scrutiny regarding the use of the Australian Government Guarantee of State and Territory Borrowing.

In March 2010, the Commonwealth Government nominated, and the Loan Council endorsed, a Loan Council Allocation deficit for 2010-11 of \$51.0 billion. In the 2010-11 MYEFO, the Commonwealth Government updated the 2010-11 estimate to a deficit of \$51.7 billion.

Domestic Issuance of Government Bonds

While persistent fiscal surpluses in years prior to 2008-09 removed the need to borrow for budget funding purposes, the Australian Government continued to issue Treasury Bonds in order to maintain an active Treasury Bond market and to support the market in Treasury Bond futures contracts. These two markets are used in the pricing and hedging of a wide range of financial instruments and in the management of interest rate risks by market participants. These markets provide additional diversity to the financial system and contribute to a lower cost of capital in Australia.

On 3 February 2009, the Australian Government released the 2009 UEFO. Consistent with the forecasts contained in the 2009 UEFO, on 4 February 2009 the Australian Office of Financial Management ("AOFM") increased its issuance of Treasury Bonds.

Since the release of the 2009 UEFO, the AOFM has conducted two Treasury Bond tenders most weeks (generally on a Wednesday and a Friday). Between the release of the 2009 UEFO and the 2009-10 Budget, the amount offered at each tender was in the range of \$500 million to \$700 million. On 12 May 2009, updated economic and fiscal forecasts were released by the Government in its 2009-10 Budget. In line with the release of this publication, the Treasury Bond tenders offered by the AOFM over the remainder of 2008-09 were for up to \$800 million each. In selecting bond lines to be offered at tender the AOFM has consulted with bond market participants.

The total face value amount of Treasury Bonds on issue at end-September 2010 was \$131.4 billion, an increase of around \$45.1 billion on end-September 2009.

Issuance of Treasury Bonds in the 2009-10 financial year totalled approximately \$52 billion in face value terms.

Treasury Bond issuance in 2010-11 is expected to be between \$50 billion and \$55 billion. After accounting for maturities of \$18.8 billion this represents a net increase of between \$31 billion and \$36 billion in the face value amount of Treasury Bonds on issue. The face value amount of Treasury Bonds on issue at end-June 2011 is expected to be between \$156 billion and \$161 billion.

In 2010-11 tenders are expected to be held on Wednesdays and Fridays, with details of the bond lines and amounts to be offered in a particular week announced at noon on the Friday of the preceding week. The face value amount offered at each tender is projected to be in the range of \$500 million to \$1.2 billion.

Issuance in 2010-11 has featured two new Treasury Bond lines maturing in 2014 and 2016 and is expected to also include additional new Treasury Bond lines maturing in 2018 and 2025.

There is expected to be a large within-year financing requirement as a result of differences in the timing of Budget receipts and expenditures. In the period ahead, Treasury Notes are planned to be used to assist with the management of short-term financing requirements. In addition, the AOFM may also use repurchase arrangements on its holdings of term financial assets for this purpose.

Treasury Note issuance was recommenced by the AOFM on 5 March 2009. The total face value amount of Treasury Notes on issue at end-September 2010 was \$17.1 billion, an increase of \$5.2 billion on end-September 2009.

The volume of Treasury Notes on issue varies depending on the flows of Australian Government receipts and expenditures. The Government plans to keep at least \$10 billion of Treasury Notes on issue at all times so as to maintain a liquid market.

As at 30 June 2010 the volume of Treasury Notes on issue was \$11 billion. The volume on issue at the end of 2010-11 is now projected to be broadly comparable to this, in which case Treasury Notes will not contribute substantially to overall funding for the financial year as a whole.

On 7 August 2009, following consultations with financial market participants, the AOFM announced that it would resume the issuance of Treasury Indexed Bonds, which were last issued in 2003. Between September 2009 and 30 September 2010, \$7.8 billion of Treasury Indexed Bonds were issued.

The total face value amount of Treasury Indexed Bonds on issue at end-September 2010 was \$12.3 billion, an increase of \$6.3 billion on end-September 2009.

Issuance of Treasury Indexed Bonds in 2010-11 is expected to be between \$3 billion and \$3.5 billion. A new line maturing in 2030 was issued via a syndicated offering in September 2010.

The face value amount of Treasury Indexed Bonds on issue at end-June 2011 is expected to be around \$14 billion.

As at 30 September 2010, the Australian Government had not borrowed directly in foreign currencies since 1987, and had only \$6.3 million of outstanding borrowings denominated in foreign currencies.

On 7 April 2009, the Government announced that its investment in NBN Co would be partly funded through the issuance of Aussie Infrastructure Bonds to both Australian household and institutional investors. In 2010-11, \$300 million of this investment will be financed by Aussie Infrastructure Bonds.

The component of this funding to be provided by institutional and other wholesale investors will be through the issue of Commonwealth Government Securities as part of the Government's overall debt issuance program. These bonds will not be separately identified from other Commonwealth Government Securities at the time of issue, but will be reported in the annual budget statements.

Consideration is currently being given to offerings of Aussie Infrastructure Bonds for Australian household investors.

Guarantees and Other Contingent Liabilities

Loan Guarantees by the Commonwealth

It is current practice for Commonwealth-owned instrumentalities to borrow directly rather than for the Australian Government to borrow on their behalf. The *Financial Management and Accountability Act 1997* (Cth) (the "FMA Act") allows all Government Ministers to issue loan guarantees on behalf of the Australian Government using executive authority under the Australian Constitution, subject to the authorisation of the Minister for Finance and Deregulation. However, the governing legislation of some Commonwealth statutory authorities provides the Treasurer specifically with the discretionary power to guarantee their borrowings, reflecting legislative arrangements prior to the introduction of the FMA Act.

The number of new loan guarantees provided by the Australian Government has declined in recent years, reflecting a policy that Commonwealth instrumentalities engaged in business enterprises should approach capital markets on a basis more comparable with private businesses.

The Australian Government guarantees the due payment by Australia's export credit agency, the Export Finance and Insurance Corporation ("EFIC"), of money that is, or may at any time become, payable by EFIC to any body other than the Australian Government. The Australian Government also has in place a \$200 million callable facility available to EFIC on request to cover liabilities, losses and claims.

The following table shows, in summary form, information relating to borrowings supported by specific Commonwealth guarantee and other indemnities and contingencies as at 30 June 2007, 2008 and 2009.

Table 34: Quantifiable Contingent Losses

	<u>At 30 June 2007</u>	<u>At 30 June 2008</u>	<u>At 30 June 2009</u>
	(A\$ millions)		
Guarantees	302	285	277
Indemnities	581	588	555
Uncalled shares/capital subscriptions	6,462	5,720	6,766
Claims for damages/costs	417	148	232
Other contingencies	96	117	123
Total quantifiable contingent losses	7,858	6,858	7,953
<i>Less</i> quantifiable contingent gains	77	80	166
Net quantifiable contingencies	7,781	6,788	7,787

Source: Commonwealth Consolidated Financial Statements for the years ended 30 June 2008 and 30 June 2009.

Commonwealth Initiatives to Enhance the Stability of the Australian Financial System

In order to promote financial system stability and ensure the continued flow of credit throughout the economy at a time of heightened turbulence in the international capital markets, the Australian Government implemented:

- the Financial Claims Scheme establishing:
 - measures under Division 2AA of the *Banking Act 1959* (Cth) to:
 - : protect account-holders' deposits made with eligible ADIs (other than foreign ADIs), and interest accrued on such deposits, to a total maximum value of \$1,000,000 per account-holder per ADI; and
 - : facilitate prompt payout of deposits protected under the Financial Claims Scheme to account-holders in the event that an ADI fails; and
 - measures under Part VC of the *Insurance Act 1973* (Cth) to facilitate the payment of moneys payable under valid claims made by eligible claimants against a general insurer that has become insolvent; and
- the Guarantee Scheme for Large Deposits and Wholesale Funding, a voluntary scheme allowing:
 - ADIs (other than foreign ADIs) to apply to have deposit balances of greater than \$1,000,000 per customer per ADI and certain non-complex senior unsecured debt instruments with maturities of up to 60 months; and
 - foreign ADIs to apply, subject to satisfaction of certain conditions, to have certain deposits held by Australian residents at call or with maturities up to and including 31 December 2009 and certain non-complex senior unsecured short-term debt instruments having maturities up to 15 months,

in each case that satisfied the eligibility criteria set out in the scheme rules relating to the ADI Guarantee Scheme, guaranteed by the Commonwealth of Australia.

The ADI Guarantee Scheme closed to new issuance of wholesale liabilities and acceptance of additional deposit funds on 31 March 2010.

The key elements of the schemes are as follows:

Financial Claims Scheme

- The Commonwealth of Australia is:
 - guaranteeing new and existing deposits in eligible ADIs (other than foreign ADIs), and interest accrued on such deposits, up to a limit of \$1,000,000 per account-holder per ADI; and
 - facilitating prompt payout of deposits protected under the Financial Claims Scheme to account-holders in the event that an ADI fails

for a period of three years ending 12 October 2011 with no direct charge to account holders;

- The Commonwealth of Australia is facilitating the payment of moneys payable under valid claims made by eligible claimants against a general insurer that has become insolvent;

Guarantee Scheme for Large Deposits and Wholesale Funding

- The Commonwealth of Australia guaranteed new and existing deposits in ADIs (other than foreign ADIs) of greater than \$1,000,000 during the continuance of the ADI Guarantee Scheme upon application and for a fee;
- The Commonwealth of Australia guaranteed on an issue by issue basis certain non-complex senior unsecured short-term (maturities up to 15 months) and term funding (maturities of 15 months up to 60 months) debt instruments of ADIs (other than foreign ADIs) upon application and for a fee;
- With respect to foreign ADIs, subject to satisfaction of certain conditions, the Commonwealth of Australia guaranteed certain deposits held by Australian residents at call or with maturities up to and including 31 December 2009 and certain non-complex senior unsecured short-term debt instruments having maturities up to 15 months upon application and for a fee.

On 7 February 2010, the Australian Government announced:

- 24 March 2010 as the final date on which ADIs could apply for Eligibility Certificates under the ADI Guarantee Scheme in respect of eligible debt instruments and eligible deposits (the "ADI Guarantee final application date"); and
- 31 March 2010 as the final date on which ADIs could issue debt instruments guaranteed under the ADI Guarantee Scheme and the final date on which further guaranteed deposits could be accepted (the "ADI Guarantee final issuance date").

Guaranteed liabilities existing on the ADI Guarantee final issuance date remain guaranteed in accordance with their terms.

The announcement with respect to the ADI Guarantee Scheme does not affect the Financial Claims Scheme, which will continue to protect account holders' eligible deposits of up to \$1,000,000 until the cap is reviewed in October 2011.

Reporting under the Guarantee Scheme for Large Deposits and Wholesale Funding

The Reserve Bank of Australia has established and maintains a website, currently www.guaranteescheme.gov.au, to provide information with respect to the operations of the ADI Guarantee Scheme by identifying guaranteed liabilities by ADI, issue size, date of extension of the guarantee, liability class, currency, program/product name, security identifier and maturity. The contents of the website are not incorporated by reference into this Description of the Commonwealth of Australia. The Reserve Bank of Australia prepares monthly reports with respect to the operations of the ADI Guarantee Scheme. The Government also provides six-monthly reports to the Australian Parliament detailing:

- the aggregate amount of guaranteed liabilities;

- any calls made under the ADI Guarantee Scheme for payment; and
- any payments by the Commonwealth of Australia under the ADI Guarantee Scheme.

As at 30 September 2010, total average daily guaranteed liabilities of all ADIs under the ADI Guarantee Scheme were estimated at \$153.9 billion. This comprised an estimated \$4.8 billion of large deposits and an estimated \$149.2 billion of wholesale funding.

Commonwealth Guarantee of State and Territory Borrowing

On 24 July 2009, in order to support the capacity of Australian State and Territory governments to access credit markets, the Government of the Commonwealth of Australia implemented the Australian Government Guarantee of State and Territory Borrowing.

The key elements of the State Guarantee Scheme are as follows:

- The Commonwealth of Australia will guarantee the liabilities of each relevant State or Territory in relation to certain non-complex, Australian dollar-denominated debt securities issued in respect of borrowing of such State or Territory (and not in support of borrowing for non-government owned entities) having maturities of up to 180 months upon application and for a fee;
- The States and Territories will be able to apply for a guarantee of both existing stock of eligible State and Territory securities and future issuances;
- States and Territories whose liabilities in respect of specific debt securities issued in respect of borrowing of such State or Territory (either directly or through a guarantee of the liabilities of a relevant Issuing Entity, to the extent a separate Issuing Entity is utilised) are guaranteed under the State Guarantee Scheme will provide a counter-indemnity deed indemnifying the Commonwealth of Australia against all liabilities, costs and expenses that it may incur in consequence of or arising from the guarantee;
- A fee will be payable by the State or Territory to the Commonwealth for the provision of the guarantee. The fee for new issuances will be set at 30 basis points for States and Territories with a AAA credit rating and 35 basis points for States and Territories with a AA+ credit rating. The fee for existing stock will be set at 15 basis points for States and Territories with a AAA credit rating and 20 basis points for States and Territories with a AA+ credit rating. The Commonwealth of Australia can vary the fee;
- The States and Territories have approximately \$148 billion worth of existing securities on issue.
- The deed of guarantee relating to the State Guarantee Scheme will terminate at midnight on the date which is 186 calendar months after 31 December 2010, the final issuance date notified by the Commonwealth of Australia to the States and Territories as the last day on which State and Territory securities subject to the State Guarantee Scheme may be issued (unless such date of termination is extended by the Commonwealth of Australia in accordance with the scheme rules relating to the State Guarantee Scheme), but without prejudice to the rights of any beneficiary in respect of a valid claim under the State Guarantee Scheme lodged prior to that time.

On 7 February 2010, the Australian Government announced the closure of the State Guarantee Scheme. The State Guarantee Scheme will close to new issuance of guaranteed liabilities on 31 December 2010.

The Government has set 31 December 2010 as the final day on which an Issuing Entity can issue debt securities the liabilities of the relevant State or Territory in respect of which are guaranteed under the State Guarantee Scheme (the "State Guarantee Final Issuance Date").

Guaranteed liabilities under the State Guarantee Scheme which exist on the State Guarantee Final Issuance Date will remain guaranteed in accordance with their terms.

Reporting under the Guarantee of State and Territory Borrowing

The Reserve Bank of Australia has established and maintains a website, currently www.stateguarantee.gov.au, to provide information with respect to the operations of the State Guarantee Scheme by identifying guaranteed

liabilities by issuing entity and State or Territory, issue size, date of extension of the guarantee, liability class, program/product name, security identifier and maturity. The Reserve Bank of Australia prepares monthly reports with respect to the operations of the State Guarantee Scheme.

As at 30 September 2010, guaranteed liabilities of all States and Territories under the State Guarantee Scheme totalled approximately \$62.0 billion.

Other Contingent Liabilities and Undertakings

The Australian Government has contingent liabilities with various international financial institutions. As at 30 September 2010, Australia's uncalled capital subscriptions totalled US\$2.8 billion (approximately A\$2.9 billion) for the IBRD, SDR 5.8 billion (estimated value A\$9.4 billion) for the ADB, US\$26.5 million (approximately A\$27.4 million) for the MIGA and €147.5 million (approximately A\$207.1 million) for the EBRD. In addition, the undrawn portion of promissory notes issued and payable on demand in respect of maintenance-of-value obligations to the capital of the IBRD amounted to US\$42.6 million (approximately A\$44.0 million) as at 30 September 2010. Promissory notes have also been issued by the Australian Government as successive quota subscriptions to the IMF and in order to maintain the value of the IMF's holdings of Australian dollars in SDR terms. At 30 September 2010, the undrawn portion of lodged promissory notes issued for these purposes amounted to A\$4.1 billion.

Australia has made a line of credit available to the IMF under its New Arrangements to Borrow ("NAB") since 1998. In line with G-20 Leaders' commitments, Australia has agreed to join with other countries to increase its credit line under an expanded NAB. Australia's contribution to the expanded NAB will be by way of a SDR4.4 billion contingent loan (estimated value A\$7.1 billion as at 30 September 2010), replacing Australia's existing SDR801.3 million commitment. This will help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The funds would be drawn upon by the IMF only if needed to supplement the IMF's usual quota resources and would be repaid in full with interest.

The Australian Government will contribute to the IBRD's capital increase announced in April 2010. Australia's contribution of paid-in capital will be US\$51.6 million (approximately A\$53.4 million) and will be paid over a five year period from 2011-12. Australia will also subscribe to a further US\$808.3 million (approximately A\$836.1 million) in callable capital.

The Australian Government has committed to contributing to the ADB's fifth general capital increase. Australia will contribute total paid-in capital of US\$197.6 million (approximately A\$204.4 million) over a ten year period. Australia has made its first payment towards this general capital increase, with the remaining amount outstanding as at 30 September 2010 being US\$158.1 million.

The Australian Government will participate in the general capital increase at the EBRD announced in May 2010 and will increase its uncalled capital subscription so that it totals €237.5 million (approximately A\$333.6 million).

As at 30 September 2010, the Australian Government had liabilities of A\$1.2 billion to existing replenishments of the ADF, the IDA (including with respect to the Heavily Indebted Poor Countries initiative) and the Global Environment Facility. These liabilities are covered by the instruments of commitment that were signed at the time of pledging. Promissory notes will be lodged regularly over the life of the replenishment to enable the draw-downs to occur in line with the agreement timetable for cash disbursements.

The Australian Government has also made up to US\$1 billion available to the Government of Indonesia in 2010 in the form of a standby loan facility, to be drawn down should Indonesia be unable to raise sufficient funds on global capital markets due to the impact of the global recession. Possible drawdown of the facility will be dependent on a request from the Indonesian Government and subject to applicable criteria being satisfied. Any funds provided would be repayable in full with interest.

PUBLIC DEBT

The following table provides an account of all Commonwealth Government Securities on issue as of 30 September 2010.

Table 35: Government securities on issue in Australian dollars

<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate (%) Per Annum</u>	<u>Outstanding 30 September 2010 (A\$ '000)</u>
<u>Treasury Fixed Coupon Bonds^(a)</u>			
From Aug 1998	15 Jun 2011	5.75	11,198,687
From Dec 2006	15 Apr 2012	5.75	14,055,000
From Feb 2010	15 Nov 2012	4.75	6,100,000
From May 2000	15 May 2013	6.50	15,498,400
From Jun 2010	15 Dec 2013	5.50	5,100,000
From Jul 2008	15 Jun 2014	6.25	11,299,000
From Oct 2010	15 Oct 2014	4.50	1,250,000
From May 2002	15 Apr 2015	6.25	13,348,000
From Jul 2010	15 Jun 2016	4.75	4,600,000
From Jun 2004	15 Feb 2017	6.00	13,248,000
From Jul 2006	15 Mar 2019	5.25	11,397,500
From Apr 2009	15 Apr 2020	4.50	9,947,000
From Sep 2007	15 May 2021	5.75	10,100,000
From June 2010	15 Jul 2022	5.75	4,300,000
<i>Total Treasury Fixed Coupon Bonds^(b)</i>			131,441,587
<u>Treasury Indexed Bonds</u>			
1994 – 2003; From Feb 2010	20 Aug 2015	4.00	2,995,800
1996 – 2002; From Nov 2009	20 Aug 2020	4.00	3,473,200
From Sep 2009	20 Sep 2025	3.00	4,610,000
From Sep 2010	20 Sep 2030	2.50	1,260,000
<i>Total Treasury Indexed Bonds</i>			12,339,000 ^(c)
<u>Treasury Notes^(a)</u>	Various	Various ^(d)	17,100,000
<u>Miscellaneous Securities^(e)</u>	Various	Various	15,181
Total on issue in Australian Dollars			160,895,768

(a) Treasury Bonds and Treasury Notes issued since 1 July 1984 are available only as Inscribed Stock; before then Commonwealth securities were also available in bearer form.

(b) Since 5 August 1982, Treasury Bonds have been sold by a tender system.

(c) Original face value.

(d) Treasury Notes are issued at a discount and are redeemed at par on maturity.

(e) Includes tax free and overdues.

Source: Australian Office of Financial Management.

The tables below show the external debt of the Australian Government, on issue at 30 September 2010. The bonds issued by Australia which are listed below require the Australian Government, in accordance with their terms, to secure such bonds *pari passu* with new bonds, loans or borrowings which would otherwise rank in priority to such bonds.

Table 36: Government securities repayable in Pounds Sterling

Date of Issue	Date of Final Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2010 (£ Sterling '000)
Commonwealth Government issues			
Various	Matured—bonds not yet presented for payment ^(a)	Nil	53
State Government issues			
Various	At Treasurer's option	3.0	414
Total Repayable in Pounds Sterling			467

(a) Elapsed bonds reclaimed from fiscal agent.

Source: Australian Office of Financial Management.

Table 37: Government securities repayable in United States Dollars

Date of Issue	Date of Final Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2010 (US\$ '000)
March 1987	15 Mar 2017	8.375	5,321
Total Repayable in United States Dollars			5,321

Source: Australian Office of Financial Management.

Table 38: Government securities repayable in Euro

Date of Final Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2010 (Euro '000)
Matured – Bonds not yet presented for payment ^(a)	Nil	5
Total Repayable in Euro^(b)		5

(a) Elapsed bonds reclaimed from fiscal agent.

(b) Bonds originally repayable in Deutsche Marks, converted to Euro at the 31 December 1998 rate of 1.95583 Deutsche Marks = 1.0 Euro irrevocably fixed by the European Central Bank.

Source: Australian Office of Financial Management.

Table 39: Government securities repayable in Japanese Yen

Date of Final Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2010 (¥ '000)
Matured – Bonds not yet presented for payment ^(a)	Nil	416
Total Repayable in Japanese Yen		416

(a) Elapsed bonds reclaimed from fiscal agent.

Source: Australian Office of Financial Management.

Table 40: Government securities repayable in Swiss Francs

Date of Final Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2010 (SF '000)
Matured – Bonds not yet presented for payment ^(a)	Nil	51
Total Repayable in Swiss Francs		51

(a) Elapsed bonds reclaimed from fiscal agent.

Source: Australian Office of Financial Management.

The following table shows estimated payments of principal (including contractual prepayments and payments at maturity) to be made on the direct debt of the Australian Government outstanding on 30 June 2010.

Table 41: Summary of funded debt payment (as at 30 June 2010)

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u> <u>- 2013-14</u>	<u>2014-15</u> <u>- 2017-18</u>	<u>2018-19</u> <u>- 2025-26</u>
	(A\$ millions)				
Repayable:					
In Australian Dollars	30,973	14,055	35,897	29,347	40,385
Repayable overseas: ^(a)					
In United States Dollars	<u>0</u>	<u>0</u>	<u>0</u>	<u>7</u>	<u>0</u>
Total	<u>30,973</u>	<u>14,055</u>	<u>35,897</u>	<u>29,354</u>	<u>40,385</u>

(a) Converted into Australian dollars at rates of exchange prevailing on 30 June 2010.

Source: Australian Office of Financial Management; unpublished AOFM data.

On 4 February 2009, the Australian Office of Financial Management increased its issuance of Treasury Bonds. The total face value amount of Treasury Bonds on issue at end-September 2010 was \$131.4 billion, an increase of around \$45.1 billion on end-September 2009.

Issuance of Treasury Bonds in the 2009-10 financial year totalled approximately \$52 billion in face value terms.

Treasury Bond issuance in 2010-11 is expected to be between \$50 billion and \$55 billion. After accounting for maturities of \$18.8 billion this represents a net increase of between \$31 billion and \$36 billion in the face value amount of Treasury Bonds on issue. The face value amount of Treasury Bonds on issue at end-June 2011 is expected to be between \$156 billion and \$161 billion.

In 2010-11 tenders are expected to be held on Wednesdays and Fridays, with details of the bond lines and amounts to be offered in a particular week announced at noon on the Friday of the preceding week. The face value amount offered at each tender is projected to be in the range of \$500 million to \$1.2 billion.

Issuance in 2010-11 has featured two new Treasury Bond lines maturing in 2014 and 2016 and is expected to also include additional new Treasury Bond lines maturing in 2018 and 2025.

Treasury Note issuance was recommenced by the AOFM on 5 March 2009. The total face value amount of Treasury Notes on issue at end-September 2010 was \$17.1 billion, an increase of \$5.2 billion on end-September 2009.

The volume of Treasury Notes on issue varies depending on the flows of Australian Government receipts and expenditures. The Government plans to keep at least \$10 billion of Treasury Notes on issue at all times so as to maintain a liquid market.

As at 30 June 2010 the volume of Treasury Notes on issue was \$11 billion. The volume on issue at the end of 2010-11 is now projected to be broadly comparable to this, in which case Treasury Notes will not contribute substantially to overall funding for the financial year as a whole.

The total face value amount of Treasury Indexed Bonds on issue at end-September 2010 was \$12.3 billion, an increase of \$6.3 billion on end-September 2009.

Issuance of Treasury Indexed Bonds in 2010-11 is expected to be between \$3 billion and \$3.5 billion. A new line maturing in 2030 was issued via a syndicated offering in September 2010.

The face value amount of Treasury Indexed Bonds on issue at end-June 2011 is expected to be around \$14 billion.

See "Government Finance—Domestic Issuance of Government Bonds" in this Description of the Commonwealth of Australia.

Debt Record

The Commonwealth of Australia has paid promptly, when due, the full amount of principal and interest on every direct external obligation issued by it and has met every indirect external obligation on which it has been

required to implement its guarantee in the lawful currency, and in the country where payable, at the time of payment.

Credit Ratings

The Australian Government has the highest possible rating for both foreign and domestic currency denominated debt from Standard and Poor's and Moody's. Fitch rates Australia's domestic currency borrowings as AAA and foreign currency borrowings as AA+. The Australian Government issues Commonwealth Government Securities to finance the current Budget cash deficit and finance within year funding requirements as a result of differences in the timing of receipts and payments. Maintenance of the Australian Government's credit rating is important in order to minimise the Australian Government's borrowing costs. Following the release of the 2010-11 Budget, Standard and Poor's, Moody's and Fitch maintained their respective ratings for Australia.

TAXATION

Australian Taxation

The following is a general summary of the certain Australian tax consequences under the Income Tax Assessment Acts of 1936 and 1997 of Australia (together, "**Australian Tax Act**") and any relevant regulations, rulings or judicial or administrative pronouncements, at the date of this Offering Circular, of payments of interest and certain other amounts on the Instruments to be issued by the Issuer under the Programme and certain other matters.

This summary is not exhaustive and should be treated with appropriate caution. In particular, the summary does not deal with the position of certain classes of Holders of Instruments (including, dealers in securities, custodians or other third parties who hold Instruments on behalf of other persons). Prospective Holders of Instrument should also be aware that particular terms of issue of any Series of Instruments may affect the tax treatment of that and other Series of Instruments.

This summary is not intended to be, nor should it be construed as legal or tax advice to any particular investor. Prospective Holders of Instruments should consult their professional advisers on the tax implications of an investment in the Instruments for their particular circumstances.

1. Introduction

The Australian Tax Act characterises securities as either "debt interests" (for all entities) or "equity interests" (for companies) including for the purposes of interest withholding tax ("**IWT**") and dividend withholding tax. IWT is payable at a rate of 10% of the gross amount of interest paid by the Issuer to a non-resident of Australia (other than a non-resident acting at or through a permanent establishment in Australia) or a resident acting at or through a permanent establishment outside Australia unless an exemption is available. For these purposes, interest is defined in section 128A(1AB) of the Australian Tax Act to include amounts in the nature of, or in substitution for, interest and certain other amounts.

The Issuer intends to issue Instruments which will be characterised as both "debt interests" and "debentures" for these purposes. If Instruments are issued which are not so characterised, further information on the material Australian tax consequences of payments of interest and certain other amounts on those Instruments will be specified in the relevant Pricing Supplement (or another relevant supplement to this Offering Circular).

2. Interest Withholding Tax

The requirements for an exemption from Australian IWT under section 128F of the Australian Tax Act in respect of the Instruments are as follows:

- (a) the Issuer is a company as defined in section 128F(9) of the Australian Tax Act and is a resident of Australia when it issues those Instruments and when interest is paid;
- (b) those Instruments are issued in a manner which satisfies the public offer test. There are five principal methods of satisfying the public offer test, the purpose of which is to ensure that lenders in capital markets are aware that the Issuer is offering those Instruments for issue. In summary, the five methods are:
 - (i) offers to 10 or more unrelated financiers or securities dealers;
 - (ii) offers to 100 or more investors;
 - (iii) offers of listed Instruments;
 - (iv) offers via publicly available information sources; and
 - (v) offers to a dealer, manager or underwriter who offers to sell those Instruments within 30 days by one of the preceding methods.

In addition, the issue of any of those Instruments (whether in global form or otherwise) and the offering of interests in any of those Instruments by one of these methods should satisfy the public offer test;

- (c) the Issuer does not know, or have reasonable grounds to suspect, at the time of issue, that those Instruments or interests in those Instruments were being, or would later be, acquired, directly or indirectly, by an "associate" of the Issuer, except as permitted by section 128F(5) of the Australian Tax Act; and
- (d) at the time of the payment of interest, the Issuer does not know, or have reasonable grounds to suspect, that the payee is an "associate" of the Issuer, except as permitted by section 128F(6) of the Australian Tax Act.

Compliance with section 128F of the Australian Tax Act

Unless otherwise specified in any relevant Pricing Supplement (or another supplement to this Offering Circular), the Issuer intends to issue the Instruments in a manner which will satisfy the requirements of section 128F of the Australian Tax Act.

Exemptions under recent tax treaties

The Australian government has signed or announced new or amended double tax conventions ("**New Treaties**") with a number of countries (each a "**Specified Country**"). In broad terms once implemented, the New Treaties effectively prevent IWT applying to interest derived by:

- the government of the relevant Specified Country and certain governmental authorities and agencies in the Specified Country; and
- a "financial institution" which is a resident of a "Specified Country" and which is unrelated to and dealing wholly independently with the Issuer. The term "financial institution" refers to either a bank or any other form of enterprise which substantially derives its profits by carrying on a business of raising and providing finance. (However, interest under a back-to-back loan or an economically equivalent arrangement will not qualify for this exemption.)

The Australian Federal Treasury maintains a listing of Australia's double tax conventions which provides details of country, status, withholding tax rate limits and Australian domestic implementation which is available to the public at the Federal Treasury's Department's website at: www.treasury.gov.au/contentitem.asp?pageId=&ContentID=625. This internet site address is included for reference only and the contents of such internet site are not incorporated by reference into, and do not form part of, this Offering Circular.

Bearer Debt Instruments - section 126 of the Australian Tax Act

Section 126 of the Australian Tax Act imposes a type of withholding tax at the rate of 45% on the payment of interest on Bearer Instruments if the Issuer fails to disclose the names and addresses of the Holders of Bearer Instruments to the Australian Taxation Office, but is limited in its application to persons in possession of Bearer Instruments who are residents of Australia or non-residents who are engaged in carrying on business in Australia at or through a permanent establishment in Australia. Where interests in the relevant Bearer Instruments are held through Euroclear or Clearstream, Luxembourg, the Issuer intends to treat the operators of those clearing systems as the Instrument Holder for the purposes of section 126 of the Australian Tax Act.

Payment of additional amounts

As set out in more detail in the applicable Pricing Supplement of the Instrument and unless expressly provided to the contrary in the Pricing Supplement or (or another relevant supplement to this Offering Circular), if the Issuer is at any time compelled or authorised by law to deduct or withhold an amount in respect of any Australian withholding taxes imposed or levied by Australia or any political subdivision or taxing authority in Australia in respect of the Instruments, the Issuer must, subject to certain exceptions, pay such additional amounts as may be necessary in order to ensure that the net amounts received by the holders of the Instrument after such deduction or withholding are equal to the respective amounts which would have been received had no such deduction or withholding been required. If the Issuer is compelled

by law in relation to any Instrument to deduct or withhold an amount in respect of any withholding taxes, the Issuer will have the option to redeem those Instruments in accordance with the applicable Pricing Supplement.

Payments under the Guarantee

It is unclear whether or not any payment by the Guarantor under the Guarantee would be subject to Australian IWT. The Australian Taxation Office has published a Taxation Determination stating that payments by a guarantor in respect of debentures (such as the Instruments) are entitled to the benefit of the exemption contained in section 128F of the Australian Tax Act if payments of interest in respect of those debentures by the issuer are exempt from Australian IWT. However, there is some doubt as to whether the Taxation Determination applies in the context of the Guarantee and whether the reasoning adopted in the Taxation Determination is strictly correct.

If the reasoning adopted in the Taxation Determination does not apply, IWT at the rate of 10% would be payable on payments of interest (as defined in Section 128B(1AB) of the Australian Tax Act), or interest paid on an overdue amount, by the Guarantor to non-residents (other than non-residents holding the Instruments in the course of carrying on a business at or through a permanent establishment in Australia) or residents of Australia holding the Instruments in the course of carrying on a business at or through a permanent establishment outside Australia.

It is unclear whether any payment under the Guarantee in respect of the Instruments would constitute a payment of interest so defined, but the better view is that such payments (other than interest paid on an overdue amount) do not constitute interest as so defined and, therefore, should not, in any event, be subject to the IWT provisions of the Australian Tax Act.

3. Other Australian tax matters

Under Australian laws as presently in effect:

- (a) ***income tax - offshore Holders*** - assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to the Instruments, payment of principal and interest to a Holder who is a non-resident of Australia and who, during the taxable year, does not hold the Instruments in the course of carrying on business at or through a permanent establishment in Australia, will not be subject to Australian income taxes;
- (b) ***income tax - Australian Instruments Holders*** - Australian residents or non-Australian residents who hold the Instruments in the course of carrying on business at or through a permanent establishment in Australia ("Australian Holders") will generally be assessable for Australian tax purposes on income either received or accrued due to them in respect of the Instruments. Whether income will be recognised on a cash receipts or accruals basis will depend upon the tax status of the particular Holder and the terms and conditions of the Instruments. Special rules apply to the taxation of Australian residents who hold the Instruments in the course of carrying on business at or through a permanent establishment outside Australia, which vary depending on the country in which that permanent establishment is located;
- (c) ***gains on disposal or redemption of Instruments - offshore Holders*** - a Holder who is a non-Australian resident will not be subject to Australian income tax on gains realised during that year on the sale or redemption of the Instruments, provided:
 - (i) if the non-Australian resident is not a resident of a country with which Australia has entered into a double tax treaty - such gains do not have an Australian source; or
 - (ii) if the non-Australian resident is a resident of a country with which Australia has entered into a double tax treaty - the non-Australian resident does not hold the Instruments in the course of carrying on business at or through a permanent establishment in Australia.

A gain arising on the sale of Instruments by a non-Australian resident Holder to another non-Australian resident where the Instruments are sold outside Australia and all negotiations are conducted, and documentation executed outside Australia would not generally be regarded as having an Australian source;

- (d) ***gains on disposal or redemption of Instruments - Australian Holders*** - Australian Holders will generally be required to include any gain or loss on disposal or redemption of the Instruments in their taxable income. Special rules apply to the taxation of Australian residents who hold the Instruments in the course of carrying on business at or through a permanent establishment outside Australia, which vary depending on the country in which that permanent establishment is located;
- (e) ***deemed interest*** - there are specific rules that can apply to treat a portion of the purchase price of Instruments as interest for IWT purposes when certain Instruments originally issued at a discount or with a maturity premium or which do not pay interest at least annually are sold to an Australian resident (who does not acquire them in the course of carrying on trade or business at or through a permanent establishment outside Australia) or a non-resident of Australia who acquires them in the course of carrying on trade or business at or through a permanent establishment in Australia. These rules do not apply in circumstances where the deemed interest would have been exempt under section 128F if the Instruments had been held to maturity by a non-resident of Australia;
- (f) ***stamp duty and other taxes*** - no ad valorem stamp, issue, registration or similar taxes are payable in Australia on the issue or transfer of any Instruments;
- (g) ***TFN withholding taxes on payments in respect of Instruments*** - section 12-140 of Schedule 1 to the Taxation Administration Act 1953 of Australia ("**Taxation Administration Act**") imposes a type of withholding tax at the rate of (currently) 46.5% on the payment of interest on certain registered securities unless the relevant payee has quoted an Australian tax file number ("**TFN**"), (in certain circumstances) an Australian Business Number ("**ABN**") or proof of some other exception (as appropriate).

Assuming the requirements of section 128F of the Australian Tax Act are satisfied with respect to the Instruments, then the requirements of section 12-140 do not apply to payments to a holder of Instruments in registered form who is not a resident of Australia and not holding those Instruments in the course of carrying on business at or through a permanent establishment in Australia. Payments to other classes of Holders of Instruments in registered form may be subject to a withholding where the Holder of those Instruments does not quote a TFN, ABN or provide proof of an appropriate exemption (as appropriate);

- (h) ***goods and services tax (GST)*** - neither the issue nor receipt of the Instruments will give rise to a liability for GST in Australia on the basis that the supply of Instruments will comprise either an input taxed financial supply or (in the case of an offshore subscriber) a GST-free supply. Furthermore, neither the payment of principal or interest by the Issuer, nor the disposal or redemption of the Instruments, would give rise to any GST liability in Australia;
- (i) ***additional withholdings from certain payments to non-residents*** - section 12-315 of Schedule 1 to the Taxation Administration Act gives the Governor-General power to make regulations requiring withholding from certain payments to non-residents of Australia. However, section 12-315 expressly provides that the regulations will not apply to interest and other payments which are already subject to the current IWT rules or specifically exempt from those rules. Further, regulations may only be made if the responsible Minister is satisfied the specified payments are of a kind that could reasonably relate to assessable income of foreign residents. The regulations promulgated prior to the date of this Offering Circular are not relevant to any payments in respect of the Instruments. Any further regulations should also not apply to repayments of principal under the Instruments as, in the absence of any issue discount, such amounts will generally not be reasonably related to assessable income. The possible application of any future regulations to the proceeds of any sale of the Instruments will need to be monitored; and
- (j) ***taxation of foreign exchange gains and losses*** - Divisions 775 and 960 of the Australian Tax Act contain rules to deal with the taxation consequences of foreign exchange transactions.

These rules are complex and may apply to any Holders who are Australian residents, or non-Australian residents that hold Instruments in the course of carrying on business at or through a permanent establishment in Australia, in respect of Instruments that are not denominated in Australian dollars. Any such Holders should consult their professional advisors for advice as to

how to tax account for any foreign exchange gains or losses arising from their holding of those Instruments.

4. **Taxation of financial arrangements**

The Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009 of Australia (the "**TOFA Act**") has recently been enacted. The TOFA Act contains new rules which represent a new code for the taxation of receipts and payments in relation to "financial arrangements". The new rules contain a number of different methods for bringing to account gains and losses in relation to "financial arrangements" (including fair value, accruals, retranslation, realisation, hedging and financial records).

The new rules apply from the commencement of the first tax year beginning on or after 1 July 2010 (although taxpayers may be able to make an election to apply the rules for a tax year commencing on or after 1 July 2009 if they wish to do so). Further, the new rules are not to apply to "financial arrangements" which are current as at the commencement date. In relation to current "financial arrangements" at that time, taxpayers may elect to apply the proposed new rules if they wish, but certain tax adjustments would need to be made if such an election is made.

The TOFA Act does not affect the provisions relating to the imposition of IWT. In particular, the new rules do not apply in a manner which overrides the exemption available under section 128F of the Australian Tax Act.

European Union Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income ("**EU Savings Tax Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence from 1 January 2010.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain dependent or associated territories in relation to payments of interest or similar income made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 13 November 2008 the European Commission published a proposal for amendments to the EU Savings Tax Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

SUBSCRIPTION AND SALE

The initial dealers are Goldman Sachs International, Merrill Lynch International, Morgan Stanley & Co. International plc, Nomura International plc and UBS Limited (the "**Dealers**"). The Issuer may at any time appoint additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Instruments. Instruments may be sold from time to time by the Issuer to any one or more of the Dealers. The arrangements under which Instruments may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a dealership agreement dated 21 December 1993 as amended and restated by an (amended and restated) dealership agreement dated 15 April 2011 (the "**Dealership Agreement**", which expression shall include any amendments or supplements thereto or any restatements thereof) and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and the terms and conditions of the relevant Instruments, the price at which such Instruments will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers.

United States of America

Regulation S Category 1; TEFRA D unless TEFRA C is specified in the relevant Pricing Supplement; Rule 144A Eligible if so specified in the relevant Pricing Supplement

Instruments have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Terms used in the preceding sentence have the meanings given to them by Regulation S under the Securities Act. Instruments in registered form may be offered or sold to qualified institutional buyers (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Instruments in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the United States Internal Revenue Code of 1986, as amended, and regulations thereunder.

In addition, until forty days after the commencement of the offering of Instruments comprising any Tranche, any offer or sale of Instruments within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

The Instruments will be issued in accordance with the provisions of United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**"), unless the relevant Pricing Supplement specifies that the Instruments will be issued in accordance with the provisions of United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**").

- 1.1 Accordingly, in respect of Instruments issued in accordance with the TEFRA D Rules:
- (a) except to the extent permitted under the TEFRA D Rules, each Dealer (i) has represented that it has not offered or sold, and has agreed that during the restricted period it will not offer or sell, Instruments to a person who is within the United States or its possessions or to a United States person and (ii) has represented that it has not delivered and has agreed that during the restricted period it will not deliver in definitive form within the United States or its possessions any Instruments that are sold during the restricted period;
 - (b) each Dealer has represented that it has and has agreed that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Instruments are aware that such Instruments may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the TEFRA D Rules;
 - (c) if it is a United States person, each Dealer has represented that it is acquiring the Instruments for purposes of resale in connection with their original issue and, if it retains

Instruments for its own account, it will only do so in accordance with the requirements of U.S. Treasury Regulation paragraph 1.163-5(c)(2)(i)(D)(6); and

- (d) with respect to each affiliate that acquires from it Instruments for the purpose of offering or selling such Instruments during the restricted period, each Dealer has either (i) repeated and confirmed the representations and agreements contained in paragraphs (a), (b) and (c) on its behalf or (ii) agreed that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in paragraphs (a), (b) and (c).

Terms used in this paragraph 1.1 have the meanings given to them by the United States Internal Revenue Code, as amended, and regulations thereunder, including the TEFRA D Rules.

- 1.2 In respect of Instruments issued in accordance with the TEFRA C Rules, the Instruments must be issued and delivered outside the United States and its possessions in connection with their original issuance. Accordingly, each Dealer has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Instruments within the United States or its possessions in connection with the original issuance. Further, each Dealer has represented and agreed in connection with the original issuance of the Instruments, that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such Dealer or such purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of Instruments. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code, as amended, and regulations thereunder, including the TEFRA C Rules.
- 1.3 Each Dealer (or, in the case of a sale of a Tranche of Instruments to or through more than one Dealer, each of such Dealers as to Instruments of such Tranche purchased by or through it, in which case the Fiscal Agent or the Issuer shall notify each such Dealer when all such Dealers have certified as provided in this paragraph) who has purchased Instruments of any Tranche in accordance with the Dealership Agreement shall determine and certify to the Fiscal Agent or the Issuer the completion of the distribution of such Tranche of Instruments as aforesaid. In order to facilitate compliance by each Dealer with the foregoing, the Issuer has agreed that, prior to such certification with respect to such Tranche, it will notify each Dealer in writing of each acceptance by the Issuer of an offer to purchase, and of any issuance of, Instruments or other debt obligations of the Issuer which are denominated in the same currency or composite currency and which have substantially the same interest rate and maturity date as the Instruments of such Tranche.

Each Tranche of Instruments will also be subject to such further United States selling restrictions as the Issuer and the relevant Dealer(s) may agree and as indicated in the relevant Pricing Supplement.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Instruments which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Instruments to the public in that Relevant Member State:

- (a) *Approved Prospectus*: if the Pricing Supplement in relation to the Instruments specify that an offer of those Instruments may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Instruments which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, **provided that** any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as

applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

- (b) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (c) *Fewer than 100 offerees*: at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) *Other exempt offers*: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Instruments referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Instruments to the public**" in relation to any Instruments in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Instruments to be offered so as to enable an investor to decide to purchase or subscribe the Instruments, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed that:

- (a) in relation to any Instruments having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Instruments other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,where the issue of the Instruments would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Instruments in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Instruments in, from or otherwise involving the United Kingdom.

Japan

The Instruments have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended; the "**FIEL**"). Each of the Dealers have represented and agreed that they have not offered or sold and will not offer or sell any Instruments, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEL and any other applicable laws, regulations and ministerial guidelines of Japan.

The Commonwealth of Australia

No base prospectus or other disclosure document (as defined in the Corporations Act) in relation to the Programme or the Instruments has been or will be lodged with ASIC. Each Dealer has represented and agreed, and each further dealer appointed under the Programme will be required to represent and agree, that (unless the relevant Pricing Supplement provides otherwise):

- (a) it has not offered or sold or invited applications, and will not offer or invite applications for the issue, sale or purchase of any Instruments directly or indirectly in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) it has not distributed or published and will not distribute or publish the Offering Circular or any draft or offering memorandum, advertisement or other offering material relating to the Instruments in Australia or to any resident of Australia,

unless (i) the minimum aggregate consideration payable by each offeree is at least A\$500,000 (or its equivalent in other currencies) (disregarding moneys lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or 7.9 of the Corporations Act, (ii) such action complies with all applicable laws, regulations and directives in Australia (including without limitation the licensing regulations in Chapter 7 of the Corporations Act), (iii) the offer or invitation is not made to a person in Australia who is a "**retail client**" for the purposes of Section 761G of the Corporations Act, and (iv) such action does not require any document to be lodged with ASIC.

In this paragraph, an "**offer**" constitutes an offer of Instruments for issue or sale and an invitation to subscribe for or buy Instruments, and is taken to occur in Australia if received by any person in Australia; and references to "**Instruments**" include any right to or interest in an Instrument.

In addition, and unless the Pricing Supplement otherwise provides, each Dealer has agreed that, in connection with the primary distribution of the Instruments, it will not sell Instruments to:

- (a) any person who has been notified in writing by the Issuer to be an associate of the Issuer for the purpose of section 128F(5) of the Income Tax Assessment Act 1936 of Australia (as amended or announced to be amended); or
- (b) any other person if, at the time of such sale, the employees of the Dealer aware of, or involved in, the sale knew or had reasonable grounds to suspect that, as a result of such sale, any Instruments or an interest in any Instruments were being, or would later be, acquired (directly or indirectly) by such an associate of the Issuer.

General

Each Dealer has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Instruments or possesses, distributes or publishes this Offering Circular or any Pricing Supplement or any related offering material, in all cases at its own expense. Other persons into whose hands the Offering Circular or any Pricing Supplement comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Instruments or have in their possession or distribute such offering material, in all cases at their own expense.

The Dealership Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, in applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in this paragraph headed "*General*" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification will be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Tranche of Instruments) or (in any other case) in a supplement to this document.

GENERAL INFORMATION

1. In accordance with an Instrument of Delegation approved on 20 August 1993 and sealed on 2 September 1993, the establishment of the Programme was authorised by delegates of the Issuer on 26 November 1993. The establishment of the Programme in an initial Programme amount of U.S.\$1,500,000,000 (or its approximate equivalent in any other currency outstanding at the date of the agreement to issue any Tranche of Instruments) has been authorised by the Treasurer of the Commonwealth. On 23 April 1999, the Treasurer of the Commonwealth approved an increase in the Programme amount to U.S.\$2,500,000,000. On 30 July 2008, the Minister for Finance and Deregulation affirmed the continuation of the Programme under a restatement of the conditions attaching to the approval of 23 April 1999. However, further approval will be required from the Finance Minister of the Commonwealth to borrow more than U.S.\$2,000,000,000 under the Programme. Approval for further issues will be obtained as and when necessary.
2. The Issuer and the Guarantor are not and have not been party to any governmental, legal or arbitration proceedings, including any such proceedings which are pending or threatened of which the Issuer and the Guarantor are aware during the twelve months prior to the date of this Offering Circular which are likely to have, or have had in the recent past, significant effects on the financial position of the Issuer or the Guarantor.
3. Admission to listing of the Programme on the Official List of the UKLA and admission to trading on the London Stock Exchange's Professional Securities Market is expected to be granted on or about 20 April 2011. Any Tranche of Instruments intended to be admitted to listing on the Official List of the UKLA and admitted to trading on the London Stock Exchange's Professional Securities Market will be so admitted to listing and trading upon submission to the UKLA and the London Stock Exchange of the relevant Pricing Supplement and any other information required by the UKLA and the London Stock Exchange, subject in each case to the issue of the relevant Instruments. Prior to the admission to such official listing and trading, dealings will be permitted by the London Stock Exchange in accordance with its rules. However, Instruments may be issued pursuant to the Programme which will not be admitted to listing, trading and/or quotation by the UKLA or the London Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authorities, stock exchange, and/or quotation system, as the Issuer and the relevant Dealer(s) may agree.
4. Since 30 June 2010, the last day of the financial period in respect of which the most recent audited financial statements of the Issuer have been prepared, there has been no significant change in the financial or trading position nor any material adverse change in the financial position or prospects of the Issuer.
5. There has been no significant change in the information relating to public finance and trade which is disclosed in pages 102 to 126 (inclusive) of this Offering Circular in respect of the Guarantor since 30 June 2010.
6. For the period of 14 days after the date of this Offering Circular and for so long as the Programme remains in effect or any Instruments shall be outstanding, copies of the following documents may be inspected during normal business hours at the head office of the Issuer and the specified office of the Fiscal Agent and the Principal Registrar, namely:
 - (a) the Export Finance and Insurance Corporation Act 1991 of the Commonwealth of Australia;
 - (b) a copy of this Offering Circular, together with any amendments or supplements thereto and any document incorporated therein by reference;
 - (c) the Issue and Paying Agency Agreement;
 - (d) the Deed of Covenant;
 - (e) the published audited financial statements of the Issuer for the years ended 30 June 2009 and 30 June 2010 and the most recent publicly available unaudited financial statements (if any) of the Issuer;

- (f) the Final Budget Outcome 2008 – 09 and the Final Budget Outcome 2009 – 10 of the Guarantor for the years ended 30 June 2009 and 30 June 2010; and
 - (g) any Pricing Supplement. In the case of a Tranche of Instruments in relation to which application has not been made for admission to listing on the Official List of the UKLA or to trading on the London Stock Exchange's Professional Securities Market or for admission to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, copies of the relevant Pricing Supplement will only be available for inspection by a Holder of or, as the case may be a Relevant Account Holder (as defined in the Deed of Covenant) in respect of, such Instruments.
7. The Instruments have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and International Securities Identification Number in relation to the Instruments of each Series and any other clearing system as shall have accepted the relevant Instruments for clearance together with any further securities clearance code(s) will be specified in the Pricing Supplement relating thereto. Settlement arrangements will be agreed between the Issuer, the relevant Dealer and the Fiscal Agent or, as the case may be, the Registrar in relation to each Tranche of Instruments.
 8. Bearer Instruments (other than Temporary Global Instruments) and any Coupon, appertaining thereto will bear a legend substantially to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

The sections referred to in such legend provide that a United States person who holds a Bearer Instrument or Coupon generally will not be allowed to deduct any loss realised on the sale, exchange or redemption of such Bearer Instrument or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.
 9. Under the Banking (Foreign Exchange) Regulations 1959 Australian residents are not permitted, without the permission of the Reserve Bank of Australia to enter into transactions involving the transfer of funds or payments to, by the order of, or on behalf of certain specified persons.¹ No such permission has been sought or obtained in connection with the Programme.
 10. In relation to any Instruments which are restricted securities (as defined in Rule 144(a)(3) under the Securities Act), the Issuer is not subject to the information requirements of Rule 144A under the Securities Act pursuant to Rule 144A(d)(4).
 11. The Issuer is not permitted to provide its services to certain countries as set out in its most recent Annual Report.
 12. The Australian National Audit Office, which supports the Audit-General under the Auditor-General Act 1997 has audited the financial statements of the Issuer for the years ended 30 June 2009 and 30 June 2010.
 13. The Issuer does not intend to provide any post-issuance information in relation to any issue of Instruments.

¹ The consolidated list of specified persons identified by the RBA are set out at <http://www.rba.gov.au/mkt-operations/fin-sanctions/index.html>, accessed 14 April 2011. The website and the contents thereof do not form part of this Offering Circular.

INDEX OF DEFINED TERMS

£	iii	FRN Convention	19
30/360	17	FSA	i, 10
30E/360	17	FSMA	i, 2
30E/360 (ISDA)	18	GBP	2, 12
A\$	iii	Guarantor	i
AASB	48	HKD	2, 12
ABN	130	Holder	12, 13
Actual/360	17	Instalment Instruments	11
Actual/365 (Fixed)	17	Instruments	i, 135
Actual/Actual (ICMA)	16	Interest Amount	16
Actual/Actual (ISDA)	17	Interest Payment Date	19, 20
Agreement	19	ISDA Definitions	19
Alternative Registrar	10	Issue and Paying Agency Agreement	10
ASIC	ii	Issuer	i, 10
AUD	2, 12	IWT	127
Australia	i	JPY	2, 12
Australian Tax Act	127	LIBOR	9
Banking Day	16	Local Banking Day	28
Bearer Instruments	10	London Stock Exchange	i, 10
Business Day	28	Maturity Redemption Amount	21
CAC Act	48	Minister	44
CAD	2, 12	New Treaties	128
Calculation Agent	15	NKR	2
Calculation Amount	15	NKW	12
Calculation Period	16	NZD	2, 12
CHF	iii, 2, 12	offer	135
Clearing System Business Day	27	Offering Circular	i, 33
Clearstream, Luxembourg	1, 11	Paying Agents	10
Conditions	33	Permanent Global Instrument	10
Corporations Act	ii	Pricing Supplement	10
Coupons	1, 11	Principal Registrar	10
Day Count Fraction	16	Private Placement Legend	14
Dealer	ii	Proceedings	30
Dealers	ii, 132	Programme	i
Dealership Agreement	132	Prospectus Directive	ii
Deed of Covenant	10	Rate of Interest	15
Definitive Instruments	11	Record Date	27
DIFF	46	Registered Instruments	10
Dispute	30	Registrar	12
DKK	2, 12	Regular Date	19
Early Redemption Amount (Call)	22	Regular Period	18
Early Redemption Amount (Put)	23	Relevant Banking Day	13
Early Redemption Amount (Tax)	21	Relevant Financial Centre	28
Early Termination Amount	23	Relevant Financial Centre Day	28
EFIC Act	5, 14, 44	Relevant Margin	16
EU Savings Tax Directive	7, 131	Relevant Market	16
EUR	iii, 2, 12	Relevant Member State	ii
euro	iii	Relevant Screen Page	15
Eurobond Basis	17	Relevant Time	15
Euroclear	1, 11	retail client	135
Eurodollar Convention	19	Reuters Screen	15
Events of Default	23	Securities Act	132
exchange date	13	SEK	2
Exchange Date	11	Series	1, 10
FIEL	135	SEW	12
Fiscal Agent	10	Specified Country	128
Fixed Coupon Amount	15	Specified Denomination	15
Floating Rate Convention	19	Sterling	iii

sub-unit.....	15	TFN.....	130
Swiss Francs.....	iii	TOFA Act.....	131
Talon.....	11	Tranche.....	1, 10
TARGET Settlement Day.....	16	Tranches.....	1, 10
TARGET2.....	16	transfer date.....	13
Taxation Administration Act.....	130	U.S. Dollars.....	iii
TEFRA C Rules.....	10, 132	U.S.\$.....	iii
TEFRA D Rules.....	10, 132	United States.....	27
Temporary Global Instrument.....	10	USD.....	2, 12

HEAD OFFICE OF THE ISSUER

Export Finance and Insurance Corporation

Export House
22 Pitt Street
Sydney NSW 2000
Australia
Tel: +61 2 9201 2111

ARRANGER

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

DEALERS

Goldman Sachs International

Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

Merrill Lynch International

2 King Edward Street
London EC1A 1HQ
United Kingdom

Morgan Stanley & Co. International plc

25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Nomura International plc

Nomura House
1 St Martin's-le-Grand
London EC1A 4NP
United Kingdom

UBS Limited

1 Finsbury Avenue
London EC2M 2PP
United Kingdom

**FISCAL AGENT AND PRINCIPAL
REGISTRAR**

Citibank, N.A.
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

ALTERNATIVE REGISTRAR

Dexia Banque Internationale à Luxembourg
69, route d'Esch
L-2953 Luxembourg
Luxembourg

PAYING AGENT

Dexia Banque Internationale à Luxembourg

69, route d'Esch
L-2953 Luxembourg
Luxembourg

LEGAL ADVISERS

To the Dealers as to English Law

Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
London E14 5JJ
United Kingdom

To the Issuer as to Australian law and English law

Mallesons Stephen Jaques
Level 61 Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000
Australia

AUDITORS

Australian National Audit Office
GPO Box 707
Canberra
ACT 2601
Australia