

Port pricing

Price determination

Pursuant to the *Port Services Act 1995*, the port industry in the Port of Melbourne is a regulated industry. The prices charged by the Corporation for the provision of prescribed services are subject to regulation by the Essential Services Commission (ESC). Prescribed services provided by the Corporation included the provision of channels for use by shipping, the provision of berths in connection with the berthing of vessels and the provision of short-term storage or cargo marshalling facilities in connection with the loading or unloading of vessels.

In June 2000, pursuant to the *Port Services Act 1995*, the Office of the Regulator-General (now the ESC) issued separate price determinations covering land and channel-based prescribed services in the Port of Melbourne. These determinations required an average reduction in prices for prescribed services in real terms during the five-year period starting 1 July 2000. The Commission has determined that land-based prescribed services should reduce by 5.2% per annum in real terms including a minimum of 0.5% per annum real reduction in wharfage charges. Channel-based prescribed services should also be reduced by 2.1% per annum in real terms, according to the ESC.

During 2003/04 the Corporation sought an amendment to the price determination relating to land-based prescribed services as a result of changes to the regulatory provisions of the *Port Services Act 1995* and additional security costs resulting from the Commonwealth *Maritime Transport Security Act 2003*.

From 1 July 2004, a new security charge was introduced to enable the port to meet the stringent guidelines of the Commonwealth Government's *Maritime Transport Security Act 2003*. Wharfage charges increased by an average of 10.5% effective from 17 July 2004. Tonnage charges remained unchanged.

The ESC in its June 2004 inquiry report *The Regulation of Victorian Ports: Final Report* presented recommendations for a price monitoring regulatory framework to apply from 1 July 2005. The ESC implemented the recommendations through its Price Monitoring Determination for the Victorian Ports dated 30 March 2005. The key features of the framework are:

- Port operators are to determine and publish reference tariff schedules to set out standard terms and conditions.
- Port operators and users may negotiate prices that differ from the reference tariff.
- Prices are subject to monitoring by the ESC.

- The ESC will publish an annual monitoring report.
- The ESC has a reserve power to inquire if there is evidence of a significant abuse of market power.

The Corporation has published a Pricing Policy Statement which specifies the economic and commercial rationale and principles that will govern the derivation of its Reference Tariffs.

From 1 July 2005 the Corporation's Reference Tariff Schedule will become effective. It provides for:

- wharfage prices to be increased by 3.5% across the majority of services
- reintroduction of a wharfage charge on the movement of most empty containers
- separate charges for usage of the shared and Melbourne channels.

Charges

The Corporation's principal charges comprised land and infrastructure rental, wharfage, tonnage, and berth hire, area hire and security as follows:

- Land and infrastructure rental – the leasing fee charged to port tenants based on market values as per standard property industry practices.
- Wharfage – charged in dollars per TEU (twenty-foot equivalent unit), or FEU (forty-foot equivalent unit) for containerised cargo, or per tonne or cubic metre for non-containerised cargo.
- Tonnage – charged to shipping lines based on the vessel's gross tonnage.
- Hourly berth hire – charged to shipping lines for the use of liquid bulk facilities.
- Area hire – charged to ships' agents or cargo owners based on the time cargo is stored at common user facilities before onward transport.
- Security – charge for the provision of security services related to prescribed services within the Melbourne port area.

The Corporation's Pricing Policy Statement and Reference Tariff Schedule are available on the Corporation's website.

Additional information

Port Services Act 1995

The Corporation has specific objectives, functions and powers under section 12, 13 and 14 of the *Port Services Act 1995*. These are:

Section 12. Objectives

The objectives of the Port of Melbourne Corporation are:

- (a) to manage and develop the port of Melbourne in an economically, socially and environmentally sustainable manner;
- (b) to ensure that essential port services of the port of Melbourne are available and cost effective;
- (c) to ensure, in co-operation with other relevant responsible bodies, that the port of Melbourne is effectively integrated with other systems of infrastructure in the State;
- (d) to facilitate, in co-operation with other relevant responsible bodies, the sustainable growth of trade through the port of Melbourne;
- (e) to establish and manage channels in port of Melbourne waters for use on a fair and reasonable basis;

Section 13. Functions

(1) The Functions of the Port of Melbourne Corporation are:

- (a) to plan for the development and operation of the port of Melbourne;
- (b) to provide land, waters and infrastructure necessary for the development and operation of the port of Melbourne;
- (c) to develop, or enable and control the development by others of, the whole or any part of the port of Melbourne;
- (d) to manage, or enable and control the management by others of, the whole or any part of the port of Melbourne;
- (e) to provide, or enable and control the provision by others of, services for the operation of the port of Melbourne;
- (f) to promote and market the port of Melbourne;
- (g) to facilitate the integration of infrastructure and logistics systems in the port of Melbourne with relevant systems outside the port:
 - (ga) to manage and, in accordance with standards developed by the Director of Marine Safety, to dredge and maintain channels in port of Melbourne waters;
 - (gb) to provide and maintain, in accordance with the standards developed by the Director of Marine Safety, navigation aids in connection with the navigation in the port of Melbourne waters;
 - (gc) generally, to direct and control, in accordance with the *Marine Act 1988*, the movement of vessels in port of Melbourne Waters;
- (h) any other functions that are conferred on the Corporation by or under this or any other Act.

(2) The Port of Melbourne Corporation must carry out its functions under sub-section (1) in a manner that:

- (a) is safe and secure; and
- (b) is environmentally sustainable; and
- (c) is effective and efficient; and
- (d) is commercially sound; and
- (e) has regard for the persons living or working in the immediate neighbourhood of the port of Melbourne.

Section 14. Powers of the Port of Melbourne Corporation

The Port of Melbourne Corporation:

- (a) subject to section 15, may acquire or dispose of real or personal property;
- (b) may enter into contracts, agreements, leases or licences;
- (c) may employ agents or contractors;
- (d) may act as an agent of another person;
- (e) may form, or participate in the formation of, or be a member of, companies;
- (f) may form, participate in the formation of, and may participate in, partnerships, trusts, unincorporated joint ventures and other arrangements for sharing profits;
- (g) may act as trustee;
- (h) may engage in any business, undertaking or activity incidental to the performance of its functions;
- (i) may act as a committee of management under the *Crown Land (Reserves) Act 1978*;
- (j) may do all things necessary or convenient to be done for, or in connection with, the carrying out of its functions.

Consultancies commissioned

During 2004/2005, the Corporation engaged consultancies to provide professional advice in relation to operations and capital activities for a total sum of \$8.4 million.

Freedom of information

The *Freedom of Information Act 1982* enables members of the public to obtain information held by the Corporation. The Chief Executive Officer was the principal officer for the purpose of administering the requirements of the Act. Initial requests for documents under the Freedom of Information legislation are made in writing to the delegated officer, Ms Sandra Gatehouse, Corporate Counsel and Manager Corporate and Legal Services. Requests and responses had to comply with the provision of the Act. The Corporation reserves the right to charge the appropriate gazetted fee for request processing and photocopying.

During 2004/05, there were four applications made to the Corporation under Freedom of Information legislation. Access was granted in full for two of these requests. One request was not proceeded with, and at 30 June 2005 the other request had not been finalised.

Significant legislative changes

The most significant legislative change affecting Port of Melbourne Corporation in 2004/05 relates to the transfer of Station Pier management responsibilities from the Department of Infrastructure to Port of Melbourne Corporation. This transfer was effected under the *Transport Legislation (Amendment) Act 2004* (Vic), which commenced on 1 February 2005, and amended the *Port Services Act 1995* (Vic). According to the Explanatory Memorandum, the amendments:

- (a) prescribe Port of Melbourne Corporation as an incorporated committee under the *Crown Land (Reserves) Act 1978* (Vic) (CLRA)

- (b) prescribe that Station Pier is temporarily reserved under the CLRA
- (c) prescribe that the Port of Melbourne Corporation is the committee of management for Station Pier under the CLRA
- (d) empower Port of Melbourne Corporation to grant leases or licences in respect of any Crown land for which it is the Committee of Management for periods of up to 25 years.

The *Essential Services Commission (Amendment) Act 2004* (Vic), assented to on 9 November 2004, amends the *Port Services Act 1995* (Vic). According to the Explanatory Memorandum, the amendments aim to clarify that certain determinations made under the *Port Services Act 1995* in relation to licences and the obligations of a channel operator are not determinations under the *Essential Services Commission Act 2001* (Vic).

The *Maritime Transport Security Amendment Act 2005* (Cwlth), assented to on 26 June 2005, amends the *Maritime Transport Security Act 2003* (Cwlth). According to the Explanatory Memorandum, the two main objects of the amendments are to:

- (a) extend the coverage of the principal Act to Australia's offshore oil and gas facilities
- (b) allow for the introduction of the Maritime Security Identification Card for unmonitored personnel required to be in maritime security zones and offshore security zones.

The *Occupational Health and Safety Act 2004* (Vic) will come into operation on 1 July 2005. This Act repeals the *Occupational Health and Safety Act 1985* (Vic), and has the following main objectives:

- (a) to secure the health, safety and welfare of employees and other people at work

- (b) to eliminate risks to the health, safety and welfare of employees and other persons at work
- (c) to ensure that the health and safety of members of the public is not placed at risk by the conduct of undertakings by employers and self-employed persons
- (d) to provide for the involvement of employees and employers in the formulation and implementation of health, safety and welfare standards.

Availability of additional information

The following information relating to the Corporation, relevant to the period 2004/05, has been prepared and is available to the Minister, Members of Parliament and the public on request.

- Declarations of pecuniary interests duly completed by relevant officers.
- Details of publications produced by the Corporation about the Port of Melbourne and the places where publications can be obtained.
- Details of changes in prices, fees and levies charged by the Corporation.
- Details of any major external reviews carried out on the Corporation.
- Details of major research and development activities undertaken by the Corporation.
- Details of overseas visits undertaken including a summary of the objectives and outcomes of each visit.
- Details of major promotional, public relations and marketing activities undertaken by the Corporation to develop community awareness of the Corporation and the services it provides.
- Details of assessments and measures undertaken to improve the occupational health and safety of employees.
- A general statement on industrial relations within the Corporation and details of time lost through industrial accidents or disputes.
- List of committees sponsored.



Photography by Alison Pouliot

National Competition Policy

The Corporation complied with the Victorian Government's requirements in respect of the National Competition Policy by adopting the following behaviours and principles:

- clear and non-conflicting objectives
- managerial responsibility, authority and autonomy
- independent and objective performance monitoring
- performance-based rewards and sanctions;
- competitive neutrality in input and output markets
- clear delineation of commercial and non-commercial activities
- clearly defined financial reporting requirements
- separate accounting for, and funding of, non-commercial activities
- appropriate return on assets used in the commercial activity
- application of a tax equivalent regime.
- debt guarantee fees
- arrangements for allocation of profits from commercial activities.

Whistleblowers' protection

The *Whistleblowers Protection Act 2001* (WPA) (Vic) provides for the protection of people who make disclosures about improper conduct by public bodies or public officers. The Corporation has procedures for managing any such disclosure about the Corporation or any of its officers. These procedures provide for appropriate receipt, assessment and investigation of disclosures and appropriate action to be taken after investigation. They also provide for managing the welfare of the whistleblower and the person against whom a disclosure had been made.

Any disclosures about the Corporation can be made by letter, telephone, facsimile or email to the Corporation's delegated Protected Disclosures Coordinator. The Protected Disclosures Coordinator is required to liaise with the Chief Executive Officer of the Corporation on these matters.

During 2004/05 there were:

- a) no disclosures made to the Corporation
- b) no disclosures referred by the Corporation to the Ombudsman for determination as to whether they are public interest disclosures
- c) no disclosed matters referred to the Corporation by the Ombudsman
- d) no disclosed matters referred by the Corporation to the Ombudsman to investigate
- e) no investigations of disclosed matters taken over by the Ombudsman from the Corporation
- f) no requests made under Section 74 of the WPA to the Ombudsman to investigate disclosed matters
- g) no disclosed matters that the Corporation declined to investigate
- h) no disclosed matters that were substantiated on investigation and therefore there was no action taken on completion of investigation
- i) no recommendation of the Ombudsman under the WPA that related to the Corporation.

The Corporation's procedures for managing disclosures made pursuant to the *Whistleblowers Protection Act 2001* are available on the Corporation's internet site www.portofmelbourne.com

Assets

All assets of the Corporation were noted on a register maintained by the Corporation in accordance with the *Financial Management Act 1994*.

Building and maintenance compliance

Corporation buildings were maintained in accordance with the relevant building and maintenance provisions in the *Building Act 1993* (Vic) and Building Regulations 1994.

The fire sprinkler systems in the warehouses at 2 Sommerville Road were maintained and upgraded, and a new fire main and hydrants were installed at the building at 115 Coode Road.

All Corporation-owned buildings were audited in accordance with Part II of the Building Regulations 1994.

Statement of Corporate Intent

The Port of Melbourne is Australia's largest container and general cargo port and a major strategic asset of the Victorian economy. The port handles nearly \$70 billion worth of trade each year and contributes more than \$5.4 billion to the state's economy, annually.

The port also plays a significant role in the national economy, handling 38% of the nation's container trade.

Melbourne is the natural transport hub for south-eastern Australia with more than 3400 commercial ship visits annually and excellent road and rail connections to South Australia, regional New South Wales and the east coast of the Australian mainland. It is also the primary mainland port for the transfer of Tasmanian cargo and passenger trade.

In its *Victorian Ports Strategic Framework*, released in November 2004, the State Government strongly emphasised the importance of the Port of Melbourne to the State's economic performance, and outlined the Government's overall framework for all of the State's commercial ports and the challenges they face.

Port of Melbourne Corporation has developed its 2005/06 – 2007/08 Corporate Plan within the context of the directions and challenges in that document and this Statement of Corporate Intent provides a synopsis of the plan.

The Corporation's high-level strategies (Customer focus, Logistics network, Economic and financial performance, Licence to operate, and People) provide direction for the Corporation and the best means of achieving its vision for the Port of Melbourne. These high-level strategies also indicate the broad nature of the organisation's activities and the need to ensure a balanced approach is taken in the pursuit, achievement and reporting of the Corporation's many activities and objectives.

The Corporation will continue to build on the successes already achieved in delivering the Government's objectives for the strategic management and development of the port. The Channel Deepening Project, an imperative for the future growth of the port, will be a major focus and progressed in accordance with Government requirements.

Investment in port infrastructure by the Corporation and private sector operators will continue, Security, safety and environmental requirements will be proactively applied and the Port Development Plan and a new pricing policy implemented. And all while maintaining the port's pricing competitiveness over its competitors. In addition, new projects will be undertaken to meet the challenges presented by the port's dynamic and changing environment.

A set of priority outcomes has been established for 2005/06 which includes the following: channel deepening, implementation of trade growth strategies including a cruise ships strategy, improved land transport connections, the implementation of the Port Development Plan, improved community relations, risk management and further development of the Corporation's people.

Significantly, in 2005/06 the Corporation will introduce a new pricing regime under the Essential Services Commission's 'light-handed regulation' determination. This will form part of the Corporation's long-term financial strategy and will ensure that an appropriate return is made for our shareholder (the Victorian Government), funding is available for the Corporation's major capital expenditure programs, and an environment is provided in which capital investment in port-related infrastructure by the Corporation and the private sector is optimised.

This suite of strategies will ensure that the port can continue to accommodate current and future trade throughput at appropriate service levels in a financially, socially and environmentally sustainable manner.

It is imperative that both the Corporation and the port are able to adapt to meet the changing needs of port users, provide an internationally competitive gateway for the import and export of traded goods, and continue to contribute to Victoria's economic development.



strategic direction

The Corporation's vision is that *'The Port of Melbourne is a key driver of sustainable economic growth by being the best performing and best connected port in Australia.'*

The Port is a critical link in a network of competing transport logistics chains that transfer both domestic and international trade within, from and to Australia. The Corporation, as strategic manager of the port, supports and provides value-added services to the maritime and land-based freight and logistics operators involved in the transfer of this trade. It also acts as an active agent of influence on the efficiency and effectiveness of, and across, these logistics systems.

To achieve this strategic purpose, the Corporation has adopted five key strategies to provide direction for the Corporation over the 2005/06 to 2007/08 period.

Strategy 1 Customer focus

Making Melbourne the port of choice for cargo owners and service providers.

Strategy 2 Logistics network

Championing the innovative development and support of world class facilities, systems and services.

Strategy 3 Economic and financial performance

Operating a profitable and financially independent organisation, which achieves financial returns in accordance with the shareholder's requirements and has the capacity to fund long-term port-related infrastructure and services necessary to support economic growth.

Strategy 4 Licence to operate

Managing and developing the Port of Melbourne in a way which provides a high level of physical security and economically, socially and environmentally sustainable outcomes.

Strategy 5 People

Valuing and investing in the Corporation's employees to encourage them to reach their full potential so as to contribute to meeting the Corporation's objectives.

priority outcomes

The Corporation has established ten priority outcomes to be achieved in 2005/06. These form the basis of the Corporation's one-year business plan and are listed below.

These outcomes have been prioritised on their potential to develop the business in line with the five high-level corporate strategies and their effectiveness in treating the risks identified by the Corporation.

The priority outcomes cover all aspects of the Corporation's activities - the strategic development of the port's maritime and land infrastructure needs, trade growth, security requirements, community relations and improved internal efficiencies.

- **Channel deepening**
Complete the channel deepening trial dredging program, undertake post-trial dredging analysis and develop recommendations for the Supplementary Environment Effects Statement (SEES), and prepare SEES documentation.
- **Trade growth**
Develop and implement strategies to take advantage of the opportunities and mitigate the risks associated with the ongoing changes in the port's transport logistics supply chains.
- **Port rail share task**
Develop an understanding of what is the optimal rail/road share balance for the port, what infrastructure systems (both inside and outside the port) are required, and what commercial strategies are needed to ensure the port achieves this optimal rail/road share.
- **Port road-traffic management plan**
Develop a clearly understood and comprehensive road-traffic management strategy for the port's internal road system and external access.
- **Security, safety and environment requirements**
Ensure proactive compliance in all of these areas together with the implementation of a revised and enhanced compliance framework.
- **Cruise shipping strategy**
Develop and implement a cruise shipping strategy for 2006/07 and beyond, including options for the future maintenance, usage and development of Station Pier.
- **Port Development Plan implementation**
Implement initial projects to accommodate the current and future growth in the port's trade.
- **Community relations strategy**
Implement a revised and enhanced program of relationship building activities.
- **The Corporation's people**
Implement learning and development plans which are linked to the performance management system for all staff.
- **Knowledge management and information systems strategies**
Implement technology and process initiatives to improve information flows within the Corporation, between the Corporation and port users, and to enhance decision making processes.



services provided

The Corporation's key services involve the planning, development and provision of:

- safe and efficient shipping control in the port waters of Melbourne
- safe navigation for shipping
- the provision of channels with adequate depth, through and from Port Phillips Heads to the Port
- specialised, high quality port facilities in the form of berths and storage facilities for both cargo trade and passenger vessels
- road, rail and associated transport infrastructure within the Port
- value added services, including trade development, customised port facilities and logistics advice on cost effective transport
- oversight of the implementation of Port of Melbourne security and security procedures that fully comply with legislation and international standards
- a whole-of-port response to the coordinated delivery of an emergency response and the integrated management of port safety and environmental risks.

customers and stakeholders

The Corporation's customer groups are broadly defined as those with whom the Corporation has some contractual, transactional or statutory relationships relating to the use of port facilities:

- **Import and export cargo owners** whose trade activities generate the demand for shipping, port facilities and logistics.
- **Shipping lines** which provide links to world and domestic ports through fixed schedule services as well as customised charter services.
- **Terminal operators (tenants)**, who provide stevedoring services and operate dedicated ship loading and cargo handling equipment.
- **Shipping lines and shipping agents** who use the 'common user' facilities.
- **Port service providers** who provide essential services to vessels calling at the port (pilotage, towage, mooring, bunkering, security, cleaning and maintenance etc.).
- **Third party service providers** including freight forwarders and transport operators who participate in the logistics chain.
- **Cruise ship, passenger ferries and visiting vessel operators.**
- **Geelong Port interests** - who access the section of channel shared by Melbourne and Geelong.
- **Other tenants.**

The Corporation's major stakeholders are defined by those groups that have an interest in how the port as a whole and the organisation as a State entity performs:

- The Victorian Government (as owner, shareholder, policy setter and regulator).
- The Victorian community.
- Producers and consumers.
- Adjacent local Governments and neighbouring communities.
- Recreational, commercial and tourism boat operators.
- State and Federal Government agencies and authorities.
- Business and industry groups and peak bodies.
- Suppliers, consultants and contractors.

key performance indicators

Selected key performance indicators for each of the five key strategies.

KPI	2004/05 Targets	2005/06 Targets	2006/07 Targets	2007/08 Targets
Customer Focus				
• Customer satisfaction with performance of Port of Melbourne Corporation	Survey completed by Q2	Establish benchmarks	n.a	10% rating increase
• Trade Revenue Growth				
- Containers (Full) (TEU)	8.9%	11.8%	9.4%	9.4%
- General (Rev. Tonnes (R/T))	7.1%	7.4%	4.5%	4.5%
- New Motor Vehicles (R/T)	9.1%	7.6%	7.0%	7.1%
- Liquid Bulk (R/T)	-4.8%	3.9%	0.9%	1.3%
- Dry Bulk (R/T)	5.9%	5.0%	8.0%	8.3%
• Cruise ship arrivals per season	16	31	33	34
• Number of cruise passenger and crew days	34,300	66,000	~66,000	~66,000
Logistics Network				
• Investment expended by Port of Melbourne Corporation on infrastructure	\$18.2m	\$9.9m	\$19.2m	\$37.0m
• Investment committed by major private operators under new agreements to infrastructure	\$80.0m	Major long term commitments over this period negotiated in 2004/05 for an estimated expenditure of \$500m over the next 12 years.		
• Channel Deepening Project				
- Trial dredging undertaken	New	Complete		
- Post trial dredging analysis is undertaken	New	Complete	Targets for these years to be developed in 2005/06.	
- Prepare SEES documentation	New	Complete		
• Average TEUs per truck visit to Port	1.05	1.07	1.09	1.10
• Number of container ships delayed - per cent due to non-availability of berth.	<12%	<12%	<11%	<10%
• Per cent of port container throughput carried by rail	20%	18%	20%	22%
• Per cent of total port throughput (mass tonnes) carried by rail	20%	18%	20%	22%
• Container capacity/container throughput ratio (SDE and SDW)	New	>1.15	>1.15	>1.15
Economic and Financial Performance				
• Rate of return on capital employed	6.8%	2.2%	3.0%	3.9%
• Operating Profit (after Income Tax)	\$18.2m	\$16.1m	\$22.3m	\$29m
• Leverage ratio	1.8	1.8	3.7	5.5
• Gearing ratio	12.2%	12.2%	27%	42.2%
• Interest cover ratio	8.3	8.3	5.7	3.4
Licence to Operate				
• Formal non-compliances with security, environmental and safety regulations.	Zero	Zero	Zero	Zero
• Accidental workplace deaths within port boundaries	Zero	Zero	Zero	Zero
• Stakeholder/community survey		Establish benchmarks	10% increase	10% increase
• Response to reported emergency incidents within prescribed time		100%	100%	100%
• Navigation aids availability				
- Vital	New	99.8%	99.8%	99.8%
- Major	New	99%	99%	99%
- Minor	New	98%	98%	98%
People				
• All permanent staff have a Performance Report and Learning and Development Plan completed	100%	100%	100%	100%
• % of salary expenditure spent on employee training.	New	>1%	>1%	>1%
• Employee satisfaction survey		Q3	Q3	Q3

The Corporation's target capital structure for the next three years is set out below.

	2004/2005 Actual \$m	2005/2006 Budget \$m	2006/2007 Forecast \$m	2007/2008 Forecast \$m
Total assets	943.4	993.7	1196.2	1508.1
Total liabilities	218.3	254.2	443.8	739.5
Shareholder equity	725.1	739.5	752.4	768.6
Equity/total assets	77%	74%	63%	51%



key business policies

Basis of accounting

The Corporation's financial statements are prepared as a general purpose financial report in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views, other mandatory reporting requirements and the *Financial Management Act 1994*.

Income tax

Pursuant to the *State Owned Enterprise Act 1992*, the Corporation is subject to the National Income Tax Equivalent Regime. In accordance with this legislation, the Corporation is required to pay to the Victorian Government's Consolidated Fund, an amount determined to be equivalent to the amount that would be payable by the Corporation if it was subject to the Commonwealth *Income Tax Assessment Act 1936*.

Dividend provision

The *Port Services Act 1995* provides for the payment of a dividend by the Corporation, as determined by the Treasurer of Victoria after consultation with the Corporation's Board and the Minister for Transport. A dividend payout ratio of 50% has been allowed in our Financial Forecasts.

Pricing regulation

The Corporation's business is subject to price regulation by the State Government's Essential Services Commission (ESC). A new light-handed regulatory regime commenced on 1 July 2005. During the period 2005/06 to 2007/08 the Corporation will adjust its prices in accordance with the pricing policy established and agreed with the ESC.



Financial statements

Statement of financial performance for the year ended 30 June 2005

	<u>Note</u>	<u>2005</u> \$000	<u>2004</u> \$000
Revenues from ordinary activities	2	124,644	101,826
Expenses from ordinary activities, excluding borrowing costs	3	(87,670)	(82,240)
Borrowing costs	4	(4,228)	(4,785)
Profit from ordinary activities before income tax expense		32,746	14,801
Income tax expense	5	(11,169)	(6,743)
Profit from ordinary activities after income tax expense		21,577	8,058
Net increase in asset revaluation reserve	16	33,810	17,608
Total changes in equity other than those resulting from changes in contributed capital		55,387	25,666

The statement of financial performance is to be read in conjunction with the accompanying notes.

Statement of financial position as at 30 June 2005

	<u>Note</u>	<u>2005</u> <u>\$000</u>	<u>2004</u> <u>\$000</u>
Current Assets			
Cash assets	6	27,788	21,157
Receivables	7	8,161	6,576
Other financial assets	8	898	768
Other	9	2,851	2,853
		<hr/>	<hr/>
		39,698	31,354
Non-Current Assets			
Infrastructure, property, plant and equipment	10	904,226	812,865
Tax assets	5	5,632	7,933
Other financial assets	8	7,911	8,809
Other	9	38	80
		<hr/>	<hr/>
		917,807	829,687
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Total Assets		957,505	861,041
Current Liabilities			
Payables	11	14,857	16,623
Interest bearing liabilities	12	6,000	5,000
Tax liabilities	5	7,753	1,590
Provisions	13	8,056	4,013
Other	14	9,378	9,780
		<hr/>	<hr/>
		46,044	37,006
Non-Current Liabilities			
Interest bearing liabilities	12	56,356	62,393
Tax liabilities	5	11,260	12,300
Provisions	13	2,900	2,974
Other	14	-	21
		<hr/>	<hr/>
		70,516	77,688
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Total Liabilities		116,560	114,694
NET ASSETS		<hr/> <hr/>	<hr/> <hr/>
		840,945	746,347
Equity			
Contributed capital	15	765,772	726,561
Asset revaluation reserve	16	51,418	17,608
Retained profits	17	23,755	2,178
		<hr/>	<hr/>
TOTAL EQUITY		840,945	746,347
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The statement of financial position is to be read in conjunction with the accompanying notes.

Statement of cash flows for the year ended 30 June 2005

	<u>Note</u>	<u>2005</u> <u>\$000</u>	<u>2004</u> <u>\$000</u>
Cash flows from operating activities			
Receipts from customers		134,084	113,587
Interest received		2,135	2,874
Payments to suppliers and employees		(76,235)	(65,751)
Borrowing costs		(4,433)	(5,421)
Goods and services tax paid		(5,060)	(5,971)
Income taxes paid		(3,746)	(11,474)
Net cash provided by operating activities	18	<u>46,745</u>	<u>27,844</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(45,122)	(22,456)
Proceeds from sale of property, plant and equipment		419	250
Net cash (used in) investing activities		<u>(44,703)</u>	<u>(22,206)</u>
Cash flows from financing activities			
Repayments of borrowings		(5,000)	-
Proceeds from equity transfer		9,589	21,399
Dividends paid		-	(5,880)
Net cash provided by financing activities		<u>4,589</u>	<u>15,519</u>
Net increase in cash held		6,631	21,157
Cash at the beginning of the year		<u>21,157</u>	<u>-</u>
Cash at the end of the year	6	<u>27,788</u>	<u>21,157</u>

The statement of cash flows is to be read in conjunction with the accompanying notes.

Notes to the financial statements for the year ended 30 June 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

The financial report of Port of Melbourne Corporation is a general purpose financial report that consists of a statement of financial performance, statement of financial position, statement of cash flows and notes accompanying these financial statements.

This general purpose financial report complies with Australian Accounting Standards, Urgent Issues Group Consensus Views, other mandatory reporting requirements and the *Financial Management Act 1994*. This financial report has been prepared on the accrual and going concern basis. All accounting policies have been consistently applied during the year. The statements have been prepared in accordance with the historical cost convention, except for certain assets and liabilities which, as noted, are at valuation. Where practicable, comparative amounts are presented and classified on a basis consistent with the current year.

For reporting periods ending on or after 30 June 2005, AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards (A-IFRS)* requires disclosure of any known or reliably estimable information about the impacts on the financial report had it prepared using the A-IFRS or if the impacts are not known or reliably estimable, a statement to that effect. Refer to Note 28 for further information.

(b) Income tax

The Corporation is subject to the National Tax Equivalent Regime. In accordance with this legislation, the Corporation is required to pay to the Consolidated Fund, amounts determined to be equivalent to the amounts that would be payable by the Corporation if it was subject to the Commonwealth *Income Tax Assessment Act 1936*.

Tax effect accounting has been applied using the liability method whereby income tax is regarded as an expense and calculated on the operating profit before income tax adjusted for any permanent differences between taxable and accounting income.

The tax effect of timing differences which occur when items of revenue and expenses are brought to account in different accounting periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account as an asset unless the realisation of the benefit is considered to be virtually certain. The amount of benefit brought to account which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Corporation will derive sufficient assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by tax legislation.

The income tax expense for the year is calculated using an income tax rate of 30% (2004: 30%).

(c) Receivables

Trade debtors are carried at amounts due. Collectability of trade debtors is reviewed on an ongoing basis and a specific provision is made for doubtful debts. A provision is made for doubtful debts based on a review of all outstanding receivables at balance date. Bad debts are written off in the period in which they are recognised.

(d) Payables

Liabilities are recognised for amounts payable in the future for goods and services received, whether or not they have been billed to the Corporation. The amounts are unsecured and are usually paid within 60 days of recognition.

(e) Leases

(i) Finance lease

Leases, which effectively transfer substantially the entire risks and benefits incidental to ownership of the leased property of the Corporation, are capitalised at the present value of the minimum lease payments receivable and are recognised as an investment. The investment is reduced by the principal component of lease receipts. The interest component is credited to operating profit.

(ii) Operating lease

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the years in which they are incurred. This reflects the pattern of benefits derived by the Corporation.

(f) Infrastructure, property, plant and equipment

(i) Revaluations

The Corporation undertakes annual formal revaluations by an independent valuer of its land values to ensure that the carrying amounts of land assets reflect their fair value.

Buildings and improvements are carried at the written down replacement cost of equivalent or identical assets. Consistent with the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, all land and building and improvement assets were transferred from the Melbourne Port Corporation to Port of Melbourne Corporation at fair value on 1 July 2003. The Corporation took over the management responsibilities and assets of Station Pier from the Department of Infrastructure on 1 February 2005. Refer to notes 10 and 27 for further details.

Notes to the financial statements for the year ended 30 June 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as expense in the net result, the increment is recognised as revenue in the net result. Revaluation decrements are recognised as expenses in the net result, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve. In revaluing infrastructure, property, plant and equipment, the Corporation has not taken into account in determining the carrying amounts of these assets, the potential impact of capital gains tax on the grounds that such assets are an integral part of the Corporation's operations and there is no intention to sell the assets.

(ii) Recoverable amount

The carrying amounts of the class of plant and equipment are reviewed annually to determine whether they are in excess of their recoverable amount at balance date. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to the lower amount. Where net cash flows are derived from a group of assets working together, the recoverable amount is determined on the basis of the relevant group of assets. In assessing recoverable amounts of assets, the expected cash flows have not been discounted to their present value.

(iii) Depreciation

Infrastructure, property, plant and equipment assets having limited useful lives are systematically depreciated over their estimated useful lives to the Corporation, in a manner which reflects consumption of the service potential embodied in those assets. Depreciable assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

The remaining useful lives of all depreciable assets are reviewed on an annual basis to reflect technical and economic developments and depreciation rates adjusted accordingly. Straight line depreciation is charged based on the residual useful life as determined each year. The expected useful lives of depreciable assets are as follows:

Buildings and improvements	7 – 55 years
Plant and equipment	2 – 11 years
Channel assets	40 years
Major maintenance dredging (capitalised)	4 years

A review of the lives of depreciable assets during the year resulted in a reduction to the depreciation expense for the year of \$0.765 million (2004: nil).

(iv) Acquisition

The purchase method of accounting is used for all acquisitions of assets, being the fair value of the assets provided as consideration at the date of acquisition plus any incidental costs attributable to the acquisition. Where assets are constructed by the Corporation, the costs at which they are recorded included the appropriate share of overheads.

Infrastructure, property, plant and equipment represent non-current assets comprising land, buildings and improvements, channel assets, plant and equipment used by the Corporation in its operations. Items with a cost or value in excess of \$500 and a useful life of more than one year are recognised as assets. All other assets acquired are expensed.

(v) Repairs and maintenance

Routine maintenance, repair costs and minor renewal costs are expensed as incurred. Where the repair relates to the replacement of a component of an asset and the cost exceeds the capitalisation threshold, the cost is capitalised and depreciated.

(vi) Major maintenance dredging costs

The shipping channels in port waters are subject to deterioration through siltation, which reduces the depth of water available to commercial shipping. The channels are restored to proper depths by routine maintenance dredging which is systematically carried out at three to four yearly intervals. Dredging and associated costs include all costs incurred under the dredging contract to restore the channels to proper depths. These costs are capitalised to the statement of financial position and amortised over a four year period.

(vii) Channel assets

On 3 November 2003, all channel assets managed by the Corporation were transferred from the former Victorian Channel Authority (VCA) by way of statutory allocation under the *Port Services Act 1995*. The allocation statement included the fair value of the channel assets to be adopted. The basis of valuation of the channel assets is fair value calculated at the net present value of future cash flows over the channel assets' effective economic life of 40 years (refer note 10).

Notes to the financial statements for the year ended 30 June 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) **Cash assets**

For the purposes of the statement of cash flows, cash includes deposits at call and other highly liquid investments held with financial institutions. These deposits and investments are readily convertible to cash and are subject to an insignificant risk of changes in value.

(h) **Borrowing costs**

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest on bank overdrafts and interest on borrowings.

(i) **Employee benefits**

(i) Wages, salaries and sick leave

Liabilities for wages and salaries, expected to be settled within 12 months of the reporting date, are measured at their nominal amounts (including on costs) in respect of employees' services up to the reporting date. The nominal basis of measurement uses employee rates that the Corporation expects to pay as at each reporting date and does not discount cash flows to their present value. No liability is recognised for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting leave will not be utilised.

(ii) Annual leave

Annual leave entitlements (including on costs) are accrued on a pro rata basis in respect of services provided by employees up to the reporting date, having regard to rates expected to apply when the liabilities are settled.

(iii) Long service leave

Long service leave expected to be paid within 12 months of the reporting date is recognised in the provision for employee benefits and is recorded as a current liability in the statement of financial position at its nominal value. Long service leave expected to be paid beyond 12 months is recognised in the provision for employee benefits and is measured at the present value of the estimated future cash outflows to be made for those entitlements and recorded as a non-current liability. Consideration is given to expected future employee remuneration rates, employee related on-costs and other factors including experience of employee departures and periods of service. Commonwealth bond rates are used for discounting future cash flows.

(iv) Superannuation

The Corporation's employees are covered for superannuation benefits as members of defined benefit superannuation schemes being the Port of Melbourne Superannuation Fund, the State Superannuation Scheme and the Transport Superannuation Scheme and various accumulation schemes including the Victorian Superannuation Scheme.

Contributions to defined benefit schemes are based on a fixed percentage of members' annual salary as actuarially determined. Contributions to accumulation schemes are in accordance with the Commonwealth *Superannuation Guarantee (Administration) Act 1992*. Contributions are charged as an expense as the contributions are paid or become payable. Any deficiency in the net assets of a defined benefit scheme is recognised as a liability when it arises (refer to note 23 *Superannuation*).

(j) **Revenue recognition**

With the exception of wharfage charges (charges on goods), revenue is recognised at the time the service to which the revenue relates is provided or work is undertaken and the revenue is receivable. Wharfage charges are levied on cargo passing through the port and recognised as revenue at the time of the related vessel's departure from a berth.

(k) **Environmental restoration costs**

The Corporation's land and channel assets are subject to varying degrees of contamination. Environmental restoration costs are progressively charged as part of expenses from ordinary activities when incurred. Environmental restoration costs which will probably result in a future sacrifice of economic benefits and can be measured reliably are charged as expenses from operating activities and recognised as a provision. Environmental restoration costs which will possibly result in a future sacrifice of economic benefits are recognised as contingent liabilities.

(l) **Dividend policy**

The Corporation pays dividends in accordance with a determination of the Treasurer of Victoria under the *Port Services Act 1995*. The obligation to pay a dividend arises after consultation between the Corporation's Board, the Minister for Transport and the Treasurer of Victoria. Following this consultation process, the Treasurer makes a formal determination.

Notes to the financial statements for the year ended 30 June 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Contributed capital

Consistent with applicable Australian reporting requirements and the *Financial Management Act 1994*, transfers and appropriations for additions to net assets from the former Victorian Channels Authority, Melbourne Port Corporation and Station Pier have been designated as contributed capital.

(n) Derivative financial instruments

Forward exchange contracts

The Corporation has entered into forward exchange contracts where it agrees to buy specified amounts of foreign currency in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from purchases in foreign currencies, to protect the Corporation against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are for no longer than 12 months.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains and losses on forward exchange contracts are recognised in the statement of financial performance.

(o) Rounding of amounts

Unless otherwise stated, amounts in the financial report have been rounded to the nearest thousand dollars or in certain cases to the nearest dollar.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of GST except where the amount of GST incurred is not recoverable, in which case it is recognised as part of the cost of acquisition of an asset or part of an item of expense. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as part of receivables or payables in the statement of financial position. The GST component of a receipt or payment is recognised on a gross basis in the statement of cash flows.

Notes to the financial statements for the year ended 30 June 2005

NOTE 2. REVENUES FROM ORDINARY ACTIVITIES

	<u>2005</u> <u>\$000</u>	<u>2004</u> <u>\$000</u>
Revenues from operating activities		
Charges on goods	60,908	47,900
Rent and licence fees	30,131	30,158
Channel usage charges	17,555	11,641
Land tax recovered from tenants	6,002	6,065
Charges for berth and area hire	1,936	975
Recoverable works	1,287	520
Other charges for services	2,072	948
Total revenues from operating activities	<u>119,891</u>	<u>98,207</u>
Revenues from non-operating activities		
Interest received	2,850	2,868
Proceeds from sale of property, plant and equipment	423	254
Other revenue	1,480	497
Total revenues from non-operating activities	<u>4,753</u>	<u>3,619</u>
Total revenues from ordinary activities	<u>124,644</u>	<u>101,826</u>

NOTE 3. EXPENSES FROM ORDINARY ACTIVITIES

	<u>2005</u> <u>\$000</u>	<u>2004</u> <u>\$000</u>
Contractor and consultant expenses	30,335	28,151
Depreciation and amortisation expenses	21,434	19,294
Salaries and employee benefits expenses	16,738	16,924
Land tax expense	10,148	10,458
Operating lease expenses	1,868	1,722
Written down value of property, plant and equipment disposed	807	682
Other expenses	6,340	5,009
Total expenses from ordinary activities	<u>87,670</u>	<u>82,240</u>

NOTE 4. BORROWING COSTS

	<u>2005</u> <u>\$000</u>	<u>2004</u> <u>\$000</u>
Loan and interest expenses	4,265	5,105
Amortisation of discount/premium on borrowings	(37)	(320)
Total borrowing costs expense	<u>4,228</u>	<u>4,785</u>

Notes to the financial statements for the year ended 30 June 2005

NOTE 5. INCOME TAX

	<u>2005</u>	<u>2004</u>
	<u>\$000</u>	<u>\$000</u>
Income tax expense		
The prima facie tax payable on profit from ordinary activities differs from the income tax attributable to these items. The difference is reconciled as follows:		
Profit from ordinary activities before income tax expense	32,746	14,801
Prima facie income tax payable calculated at 30%	9,824	4,440
Tax effect of permanent differences:		
Non-deductible depreciation and amortisation	2,030	2,307
Other net non-deductible/(assessable) items	22	(4)
Under /(over) provision in previous year	(707)	-
Total income tax expense	<u>11,169</u>	<u>6,743</u>
Income tax expense comprises:		
Current tax liabilities	9,180	5,670
Deferred tax liabilities	1,040	339
Deferred tax assets	949	734
Income tax expense	<u>11,169</u>	<u>6,743</u>
Tax assets and liabilities		
Tax liabilities – current	7,753	1,590
Tax liabilities – non-current	11,260	12,300
Tax assets – non-current	5,632	7,933

NOTE 6. CASH ASSETS

	<u>2005</u>	<u>2004</u>
	<u>\$000</u>	<u>\$000</u>
Cash at bank and on hand	2,805	1,253
Deposits	24,983	19,904
Total cash assets	<u>27,788</u>	<u>21,157</u>

Cash at bank earns interest at a rate of 5.00% (2004: 4.75%) at 30 June 2005.

Deposits earn interest at rates ranging from 5.45% to 5.60% (2004: 5.20% to 5.41%) at 30 June 2005.

NOTE 7. RECEIVABLES

	<u>2005</u>	<u>2004</u>
	<u>\$000</u>	<u>\$000</u>
Trade debtors	8,537	6,952
Less: Provision for doubtful debts	(376)	(376)
Total receivables	<u>8,161</u>	<u>6,576</u>

Notes to the financial statements for the year ended 30 June 2005

NOTE 8. OTHER FINANCIAL ASSETS

	<u>2005</u> <u>\$000</u>	<u>2004</u> <u>\$000</u>
Current		
Direct finance leases	898	768
Non-current		
Direct finance leases	7,911	8,809

Leasing arrangements

Direct finance leases have a discount rate of 16% (2004: 16%) and a lease term of 6.5 years (2004: 7.5 years) with rentals payable quarterly.

Minimum direct finance leases payments receivable

– within one year	2,256	2,256
– one year to five years	11,277	11,277
– over five years	564	2,819
	<u>14,097</u>	<u>16,352</u>
Future finance lease revenue	(5,288)	(6,775)
Net direct finance lease asset	<u>8,809</u>	<u>9,577</u>

NOTE 9. OTHER ASSETS

	<u>2005</u> <u>\$000</u>	<u>2004</u> <u>\$000</u>
Current		
Prepayments	2,656	2,677
Other assets	195	176
Total current other assets	<u>2,851</u>	<u>2,853</u>
Non-current		
Other assets	<u>38</u>	<u>80</u>

Notes to the financial statements for the year ended 30 June 2005

NOTE 10. INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT

(a) Classes of infrastructure, property, plant and equipment

	2005 \$000	2004 \$000
Land		
Freehold – at independent valuation 2004 ⁽¹⁾	-	519,206
Crown – at independent valuation 2004 ⁽¹⁾	-	1,061
Freehold – at independent valuation 2005 ⁽¹⁾	562,302	-
Crown – at independent valuation 2005 ⁽¹⁾	1,175	-
Total land	<u>563,477</u>	<u>520,267</u>
Buildings and improvements		
At independent valuation 2003 ⁽²⁾	53,628	53,628
At independent valuation 2004 ⁽¹⁾	122,474	122,838
At cost	41,793	17,078
Accumulated depreciation	<u>(27,770)</u>	<u>(13,663)</u>
Total buildings and improvements	190,125	179,881
Plant and equipment		
At cost	27,084	23,215
Accumulated depreciation	<u>(9,357)</u>	<u>(6,521)</u>
Total plant and equipment	17,727	16,694
Channel assets		
At fair value ⁽³⁾	67,700	67,700
Accumulated depreciation	<u>(2,807)</u>	<u>(1,114)</u>
Total channel assets	64,893	66,586
Capital works in progress		
At cost	64,489	23,710
Major maintenance dredging		
At cost ⁽⁴⁾	7,188	7,188
Accumulated amortisation	<u>(3,673)</u>	<u>(1,461)</u>
	3,515	5,727
Total infrastructure, property, plant and equipment	<u>904,226</u>	<u>812,865</u>

(1) The basis of valuation of land and building assets is fair value, being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in a similar location and condition. The independent valuations of land as at 30 June 2004 and 30 June 2005 were performed by the firm FPD Savills Property Consultants. During 2004, the asset class of buildings and improvements was independently valued by Worley Pty Ltd and Maunsell McIntyre Pty Ltd.

(2) The wharf assets (part of buildings and improvements) were independently valued by the firm Maunsell McIntyre Pty Ltd as at 30 June 2003.

(3) The value of the channel assets was initially recorded in the financial statements of the Victorian Channels Authority (VCA) in June 2000 as the equivalent of the book value of capitalised dredging costs in the financial statements of its various predecessor port authorities less accumulated depreciation. In 2001 and subsequent years, the fair value of the channel assets was determined by the VCA as the net present value of future cash flows over the channels effective economic life of 40 years. The channel assets were transferred to the Corporation from the Victorian Channels Authority on 3 November 2003 by way of Statutory Allocation under the Port Services Act 1995. The Statutory Allocation, together with a supporting Allocation Statement, was ratified by the Treasurer and the Minister for Transport under Section 166 of the Port Services Act 1995 (as amended).

The valuation of \$67.7 million in these financial statements accords with the fair value attributed by the Treasurer and Minister for Transport to the channel assets in the Allocation Statement referred to above and has been adopted by the Corporation as the appropriate valuation for reporting purposes for the 2005 annual financial report.

(4) Major maintenance dredging includes all costs incurred under the dredging contract to restore the channels to proper depths. These costs are capitalised to the statement of financial position and amortised over a four year period.

Notes to the financial statements for the year ended 30 June 2005

NOTE 10. INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT (continued)

(b) Reconciliations

	<u>2005</u> \$000	<u>2004</u> \$000
Land		
Carrying amount at start of year / transfer from the predecessor entity – refer note 27 (a)	520,267	498,743
Transfer from another entity – refer note 27	9,400	-
Additions	-	3,916
Net amount of revaluation increments less decrements	33,810	17,608
Carrying amount at end of year	<u>563,477</u>	<u>520,267</u>
Buildings and improvements		
Carrying amount at start of year / transfer from the predecessor entity – refer note 27 (a)	179,881	177,181
Transfer from another entity – refer note 27	20,112	-
Transfer from capital works in progress	4,602	17,117
Disposals	(316)	(219)
Depreciation expense	(14,154)	(14,198)
Carrying amount at end of year	<u>190,125</u>	<u>179,881</u>
Plant and equipment		
Carrying amount at start of year / transfer from the predecessor entity – refer note 27 (a)	16,694	5,005
Transfer from capital works in progress	4,895	1,049
Transfer from another entity – refer notes 27 and 27(b)	7	13,625
Disposals	(493)	(464)
Depreciation expense	(3,376)	(2,521)
Carrying amount at end of year	<u>17,727</u>	<u>16,694</u>
Channel assets		
Carrying amount at start of year / transfer from another entity – refer note 27 (b)	66,586	67,700
Depreciation expense	(1,693)	(1,114)
Carrying amount at end of year	<u>64,893</u>	<u>66,586</u>
Capital works in progress		
Carrying amount at start of year / transfer from the predecessor entity – refer note 27 (a)	23,710	17,628
Additions	50,276	24,248
Transfer to buildings and improvements	(4,602)	(17,117)
Transfer to plant and equipment	(4,895)	(1,049)
Carrying amount at end of year	<u>64,489</u>	<u>23,710</u>
Major maintenance dredging		
Carrying amount at start of year / transfer from another entity – refer note 27 (b)	5,727	7,188
Amortisation expense	(2,212)	(1,461)
Carrying amount at end of year	<u>3,515</u>	<u>5,727</u>

NOTE 11. PAYABLES

	<u>2005</u> \$000	<u>2004</u> \$000
Trade creditors	2,039	1,109
Accrued expenditure	12,747	15,514
Hedging foreign currency payable	71	-
Total payables	<u>14,857</u>	<u>16,623</u>

Notes to the financial statements for the year ended 30 June 2005

NOTE 12. INTEREST BEARING LIABILITIES

	<u>2005</u>	<u>2004</u>
	\$000	\$000
Current		
Treasury Corporation of Victoria borrowings	6,000	5,000
Total interest bearing liabilities (refer to note 24)	<u>6,000</u>	<u>5,000</u>
Non-current		
Treasury Corporation of Victoria borrowings	56,300	62,300
Unamortised discount/premium on borrowings	56	93
Total interest bearing liabilities (refer to note 24)	<u>56,356</u>	<u>62,393</u>

Interest bearing liabilities are secured by a Victorian Government guarantee. The interest rates relating to interest bearing liabilities are at fixed rates, ranging from 5.65% to 9.21% (2004: 5.65% to 9.21%), with the effective weighted average rate 6.44% (2004: 6.44%). Non-current interest bearing liabilities have a weighted average maturity of 4.39 years (2004: 4.95 years) and are payable on or before 15 April 2014.

The Corporation has available an overdraft facility of \$1 million (2004:\$1 million) which was not utilised at 30 June 2005. All other facilities are fully utilised at 30 June 2005.

On 15 June 2005, the Department of Treasury and Finance advised that the Victorian Treasurer approved the Corporation obtaining new borrowings of \$60.2 million and the refinancing of maturing financial accommodation of \$6.0 million during the following financial year.

NOTE 13. PROVISIONS

	<u>2005</u>	<u>2004</u>
	\$000	\$000
Current		
Employee benefits	2,756	3,013
Environmental restoration costs	5,300	1,000
Total provisions	<u>8,056</u>	<u>4,013</u>

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

<i>Environmental restoration costs</i>		
Carrying amount at start of year	1,000	4,403
Additional provisions recognised	4,432	1,000
Amounts utilised during the year	(132)	(4,403)
Carrying amount at end of year	<u>5,300</u>	<u>1,000</u>
Non-current		
Employee benefits	<u>2,900</u>	<u>2,974</u>

NOTE 14. OTHER LIABILITIES

	<u>2005</u>	<u>2004</u>
	\$000	\$000
Current		
Income in advance	8,165	8,711
Other liabilities	1,213	1,069
Total current other liabilities	<u>9,378</u>	<u>9,780</u>
Non-current		
Income in advance	<u>-</u>	<u>21</u>

Notes to the financial statements for the year ended 30 June 2005

NOTE 15. CONTRIBUTED CAPITAL

	<u>2005</u> <u>\$000</u>	<u>2004</u> <u>\$000</u>
Balance at the beginning of the reporting period	726,561	-
Net assets transferred from the Melbourne Port Corporation - refer to note 27(a)	-	631,110
Net assets transferred from the Victorian Channels Authority - refer to note 27(b)	-	95,451
Net assets transferred from Station Pier (1)	31,507	-
Capital contribution to Channel Deepening Project by Victorian State Government (1)	7,500	-
Capital contribution to Station Pier infrastructure by Victorian State Government (1)	204	-
Balance at the end of the reporting period	<u>765,772</u>	<u>726,561</u>

(1) refer to note 27

NOTE 16. ASSET REVALUATION RESERVE

	<u>2005</u> <u>\$000</u>	<u>2004</u> <u>\$000</u>
Balance at the beginning of the reporting period	17,608	-
Revaluation increment on land assets	33,810	17,608
Balance at the end of the reporting period	<u>51,418</u>	<u>17,608</u>

NOTE 17. RETAINED PROFITS

	<u>2005</u> <u>\$000</u>	<u>2004</u> <u>\$000</u>
Retained profits at the beginning of the reporting period	2,178	-
Net profit	21,577	8,058
Total available for appropriation	23,755	8,058
Dividend paid (1)	-	(5,880)
Retained profits at the end of the reporting period	<u>23,755</u>	<u>2,178</u>

(1) A provision for dividend is not recognised unless the dividend is declared, determined or recommended on or before the reporting date (refer to note 1(i)).

Notes to the financial statements for the year ended 30 June 2005

NOTE 18. CASH FLOW DISCLOSURES

Reconciliation of profit from ordinary activities after income tax expense to net cash provided by operating activities:

	<u>2005</u>	<u>2004</u>
	\$000	\$000
Profit from ordinary activities after income tax expense	21,577	8,058
Adjustments for non-cash income and expense items:		
Depreciation and amortisation	21,434	19,294
Net loss on disposal of property, plant and equipment	384	428
Amortisation of discount on borrowings	(37)	(320)
Net foreign currency losses	71	-
Changes in operating assets and liabilities:		
(Increase) / decrease in receivables	(489)	1,449
Increase in current other financial assets	(130)	(137)
(Increase) / decrease in other current assets	2	(234)
(Increase) / decrease in non-current tax assets	2,301	(4,526)
Decrease in non-current other financial assets	898	941
Decrease in other non-current assets	42	42
Increase / (decrease) in payables	(7,961)	1,406
Decrease in current tax liabilities	6,163	(3,657)
Increase / (decrease) in current provisions	3,983	(1,383)
Increase / (decrease) in other current liabilities	(417)	1,402
Increase / (decrease) in non-current tax liabilities	(1,040)	3,823
Increase / (decrease) in non-current provisions	(15)	1,391
Decrease in other non-current liabilities	(21)	(133)
Net cash provided by operating activities	<u>46,745</u>	<u>27,844</u>

NOTE 19. AUDITORS' REMUNERATION

	<u>2005</u>	<u>2004</u>
	\$	\$
Victorian Auditor General's Office for the audit of the financial statements	<u>58,400</u>	<u>56,900</u>

NOTE 20. RESPONSIBLE PERSONS' DISCLOSURES AND REMUNERATION

Responsible persons

The names of persons who were responsible persons of the Corporation at any time during the financial year were:

Responsible Ministers:

The Hon P Batchelor MP *Minister for Transport*
The Hon J M Brumby MP *Treasurer*

Directors:

Mr N R Edwards *Chairman*
Mr D B Cranwell
Dr M A Doig
Ms M Hartley
Ms P R Marriott
Mr B N Nicholls
Ms E H Parkin
Mr D Powell
Mr F Williamson

Accountable Officer:

Mr S G Bradford

Notes to the financial statements for the year ended 30 June 2005

NOTE 20. RESPONSIBLE PERSONS' DISCLOSURES AND REMUNERATION (continued)

	<u>2005</u>	<u>2004</u>
	\$	\$
Responsible persons' remuneration (1)		
Total remuneration paid or payable (including superannuation) during the year to all responsible persons by the Corporation	772,150	664,818
Number of responsible persons whose annual remuneration from the Corporation fell within the following bands:	<u>No.</u>	<u>No.</u>
\$30,000 to \$39,999	8	8
\$100,000 to \$109,999	-	1
\$190,000 to \$199,999	1	-
\$260,000 to \$269,999	-	1
\$290,000 to \$299,999	1	-
Responsible persons' retirement benefits		
The superannuation paid by the Corporation in connection with the retirement of responsible persons amounted to:	<u>136,663</u>	<u>141,819</u>

Loans

There were no loans in existence by the Corporation to responsible persons or related parties at the date of this report.

(1) The responsible Ministers' remuneration is reported separately in the financial statements of the Department of Premier and Cabinet.

Other transactions of responsible persons and their related entities

Ms E H Parkin was an employee and then a consultant of an entity which provided consulting services to the Corporation during the year.

Mr F Williamson is a director of an entity which paid charges to the Corporation during the year in respect of cargo movements within and vessel visits to the Port of Melbourne.

Mr D Powell's son is employed by an entity which provided consulting services to the Corporation during the year.

The terms and conditions of these transactions with the responsible persons' related entities occurred within a normal customer and supplier relationship on terms and conditions no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related persons' related entities on an arm's length basis.

The aggregate amount of transactions with responsible persons' related entities were as follows:

	<u>2005</u>	<u>2004</u>
	\$	\$
Revenues from ordinary activities		
Charges on cargo	741,441	363,585
Charges for berth hire	-	836
	<u>741,441</u>	<u>364,421</u>
Expenses from ordinary activities		
Contractor and consultant expenses	<u>354,279</u>	<u>109,237</u>

Notes to the financial statements for the year ended 30 June 2005

NOTE 21. EXECUTIVE OFFICER'S REMUNERATION

	<u>2005</u>	<u>2004</u>
	\$	\$
Total remuneration, including bonuses, paid or payable during the year by the Corporation to executive officers whose remuneration exceeded \$100,000	747,418	1,726,010
Bonuses paid or payable during the year pursuant to employment contracts included in the above remuneration	45,689	137,080
Termination payments during the year included in the above remuneration	-	155,815

The number of executive officers whose annual remuneration, including bonuses, from the Corporation fell within the following bands:

	<u>No.</u>	<u>No.</u>
\$110,000 to \$119,999	-	1
\$120,000 to \$129,999	-	1
\$130,000 to \$139,999	-	2
\$140,000 to \$149,999	1	-
\$150,000 to \$159,999	-	3
\$160,000 to \$169,999	-	1
\$170,000 to \$179,999	1	1
\$180,000 to \$189,999	1	1
\$210,000 to \$219,999	-	1
\$240,000 to \$249,999	1	-

NOTE 22. COMMITMENTS FOR EXPENDITURE

	<u>2005</u>	<u>2004</u>
	\$000	\$000
Capital expenditure commitments		
Commitments for the construction and acquisition of property, plant and equipment contracted for at balance date but not recognised as liabilities:		
- within one year	19,674	5,858
- one to five years	-	38
	<u>19,674</u>	<u>5,896</u>

On 5 July 2004, the Corporation entered into an Alliance Agreement with Boskalis Australia Limited to progress the Channel Deepening Project. All amounts due and payable under this contract have been included in trade creditors (note 11), accrued expenditure (note 11) and capital expenditure commitments (note 22).

The Alliance Agreement includes three consecutive stages - establishment, project development and dredging.

The project is currently in the project development stage which will be completed upon delivery of a project development report and upon all authorisations for the dredging phase being obtained. Project development will define the proposed work scope, direct cost estimates, total alliance budget and the attaining of all necessary approvals for completion of the project. The trial dredging project is included in the development stage.

The amounts disclosed in these financial statements as payables, accrued expenditure and commitments for expenditure are inclusive of all commitments made prior to 30 June 2005, on the assumption that the project will complete the development phase. No amounts have been included in relation to the dredging stage or for the reimbursement of other costs incurred by the contractor in the event of an earlier cessation of the project.

Notes to the financial statements for the year ended 30 June 2005

NOTE 22. COMMITMENTS FOR EXPENDITURE (continued)

Operating expenditure commitments (excluding lease commitments)

Commitments for the payment of operating expenditure excluding lease commitments contracted for at balance date but not recognised as liabilities:	<u>2005</u>	<u>2004</u>
	<u>\$000</u>	<u>\$000</u>
– within one year	36	1,374

Operating lease expenditure commitments

Commitments in relation to operating leases contracted for at balance date but not recognised as liabilities:

– within one year	1,324	1,617
– one to five years	651	2,317
	<u>1,975</u>	<u>3,934</u>

NOTE 23. SUPERANNUATION

Defined benefit superannuation schemes

The accrued employee benefits, net market value of assets and vested benefits at balance date relating to defined benefit superannuation schemes of which the Corporation's employees are members are as follows:

	Present Value of Employees' Accrued Benefits	Net Market Value of Assets held by the Schemes	Excess of Liabilities over Accrued Benefits	Vested Benefits
	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Port of Melbourne Superannuation Fund	10,601	9,394	1,207	7,420
Transport Superannuation Scheme	N/A	N/A	–	3,689
State Superannuation Scheme	N/A	N/A	–	5,487
			<u>1,207</u>	<u>16,596</u>

	Present Value of Employees' Accrued Benefits	Net Market Value of Assets held by the Schemes	Excess of Liabilities over Accrued Benefits	Vested Benefits
	<u>2004</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>
Port of Melbourne Superannuation Fund	10,054	8,162	1,892	7,220
Transport Superannuation Scheme	N/A	N/A	–	3,026
State Superannuation Scheme	N/A	N/A	–	4,968
			<u>1,892</u>	<u>15,214</u>

The accrued and vested benefits have been actuarially assessed as at 30 June 2005. Vested benefits are benefits which are not conditional upon continued membership of the scheme (or any other factor other than resignation from the scheme) and include benefits which members were entitled to receive had they terminated their scheme membership at balance date.

The deficiency in the net assets of the Port of Melbourne Superannuation Fund was \$1,207,000 as at 30 June 2005 (2004: \$1,892,000). The Department of Treasury and Finance has an obligation to recognise any surplus or deficit in the Transport and State Superannuation Schemes.

Notes to the financial statements for the year ended 30 June 2005

NOTE 23. SUPERANNUATION (continued)	<u>2005</u>	<u>2004</u>
	<u>\$000</u>	<u>\$000</u>
Employer contributions to superannuation schemes		
Employer contributions during the year to defined benefit and accumulation superannuation schemes of which the Corporation's employees are members are as follows:		
Port of Melbourne Superannuation Fund	(88)	2,199
Transport Superannuation Scheme	157	75
State Superannuation Scheme	143	96
Various Accumulation Schemes	720	605
	<u>932</u>	<u>2,975</u>

The average contribution rate to these superannuation funds was 9% (2004: 9%). At reporting date, there were no outstanding contributions payable to these funds.

NOTE 24. FINANCIAL INSTRUMENTS

Credit risk

The credit risk relating to the Corporation's financial assets which are recognised in the statement of financial position is the carrying amount of such assets, net of any provisions for doubtful debts.

Derivative financial instruments

General hedges

The Corporation is a party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations to foreign exchange rates. In particular, the Corporation has entered into forward exchange contracts to purchase Euro dollars designed as a hedge for the anticipated purchases of goods for the financial year ending 30 June 2006.

This hedge is not considered to have the level of specificity required to classify it as a specific hedge. As a result, an unrealised loss of \$71,000 (2004: \$nil) has been included in the profit from ordinary activities for the year relating to the forward exchange contract.

Interest rate risk

The exposure to interest rate risks and the effective weighted average interest rates for financial assets and financial liabilities at the reporting date are as follows:

	Floating Interest	Fixed Interest Maturing in			Non- Interest Bearing	Total
	1 year or less	over 1 to 5 years	more than 5 years			
	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	
	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	
Financial assets:						
Cash assets (note 6)	27,788	-	-	-	27,788	
Receivables (note 7)	-	-	-	8,161	8,161	
Other financial assets (note 8)	-	898	6,299	1,612	8,809	
	<u>27,788</u>	<u>898</u>	<u>6,299</u>	<u>1,612</u>	<u>44,758</u>	
Weighted average interest rate	5.0%	16.0%	16.0%	16.0%		
Financial liabilities:						
Payables (note 11)	-	-	-	14,857	14,857	
Interest bearing liabilities (note 12)	-	6,000	25,356	31,000	62,356	
Other liabilities (note 14)	-	-	-	1,211	1,211	
	<u>-</u>	<u>6,000</u>	<u>25,356</u>	<u>31,000</u>	<u>78,424</u>	
Weighted average interest rate		6.5%	6.9%	6.0%		
Net financial assets/(liabilities)	<u>27,788</u>	<u>(5,102)</u>	<u>(19,057)</u>	<u>(29,388)</u>	<u>(7,907)</u>	
	<u>(33,666)</u>					

Notes to the financial statements for the year ended 30 June 2005

NOTE 24. FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

	Floating Interest	Fixed Interest Maturing in			Non-Interest Bearing	Total
		1 year or less	over 1 to 5 years	more than 5 years		
	2004 \$000	2004 \$000	2004 \$000	2004 \$000	2004 \$000	2004 \$000
Financial assets:						
Cash assets (note 6)	21,157	–	–	–	–	21,157
Receivables (note 7)	–	–	–	–	6,576	6,576
Other financial assets (note 8)	–	768	6,299	2,510	–	9,577
	21,157	768	6,299	2,510	6,576	37,310
Weighted average interest rate	5.0%	16.0%	16.0%	16.0%		
Financial liabilities:						
Payables (note 11)	–	–	–	–	16,623	16,623
Interest bearing liabilities (note 12)	–	5,000	25,393	37,000	–	67,393
Other liabilities (note 14)	–	–	–	–	1,027	1,027
	–	5,000	25,393	37,000	17,650	85,043
Weighted average interest rate		6.4%	6.9%	6.1%		
Net financial assets/(liabilities)	21,157	(4,232)	(19,094)	(34,490)	(11,074)	(47,733)

As it is the Corporation's intention to hold its fixed rate liabilities to maturity, the Corporation's interest rate risk exposure arises from assets and liabilities which are subject to floating interest rates.

	2005 \$000	2004 \$000
Reconciliation of net financial liabilities to net assets		
Net financial liabilities	(33,666)	(47,733)
Non-financial assets & liabilities:		
Other assets	2,889	2,933
Infrastructure, property, plant & equipment	904,226	812,865
Tax assets	5,632	7,933
Tax liabilities	(11,260)	(12,300)
Provisions	(18,708)	(8,576)
Other liabilities	(8,168)	(8,775)
Net assets	840,945	746,347

Notes to the financial statements for the year ended 30 June 2005

NOTE 24. FINANCIAL INSTRUMENTS (continued)

Net fair value of financial assets and liabilities

The net fair value of the Corporation's cash and deposits and non-interest bearing financial assets and liabilities approximates their carrying value. The net fair value of the Corporation's interest bearing financial liabilities is determined with reference to market prices where a market exists or the net present value of expected future cash flows using a discount factor of the current interest rate applicable to liabilities with a similar risk profile.

The carrying amount and the net fair value of the Corporation's recognised financial assets and liabilities are as follows:

	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	<u>2005</u> \$000	<u>2005</u> \$000	<u>2004</u> \$000	<u>2004</u> \$000
Financial assets:				
Cash assets	27,788	27,788	21,157	21,157
Receivables	8,161	8,161	6,576	6,576
Other financial assets	8,809	8,809	9,577	9,577
	<u>44,758</u>	<u>44,758</u>	<u>37,310</u>	<u>37,310</u>
Financial liabilities:				
Payables	14,857	14,857	16,623	16,623
Interest bearing liabilities	62,356	65,588	67,393	69,549
Other liabilities	1,211	1,211	1,027	1,027
	<u>78,424</u>	<u>81,656</u>	<u>85,043</u>	<u>87,199</u>

With the exception of borrowings, the Corporation's financial assets and liabilities are not readily traded on an organised market in a standardised form.

NOTE 25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

Certain claims have been lodged against the Corporation seeking compensation in relation to contractual disputes which are yet to be resolved. The Corporation is defending these claims and in one instance has made a counterclaim. Other events have occurred that may also give rise to a claim against the Corporation. At the certification date of the financial statements, the Corporation is unable to assess the probability of success of these claims. The Corporation is aware of possible contamination in relation to its land and channel assets and has made a provision for restoration costs where sufficient information is available [refer to Note 1(k)]. As at the certification date of the financial statements, the Corporation is unable to determine the total extent of potential contamination or restoration costs.

The Corporation is not able to reliably measure its liability in respect of the above matters based on present circumstances or information. Consequently, except as indicated above, no provision has been included in the financial statements nor has a contingent liability been quantified.

Contingent assets

In determining land tax liabilities, the State Revenue Office utilises land valuations prepared by the Melbourne City Council. The Corporation has lodged an objection against the basis upon which land tax liabilities have been assessed. The Valuer General is defending this claim on behalf of the Melbourne City Council.

At the date of certification date of these financial statements, the Corporation is unable to assess the probability of success of this objection.

Notes to the financial statements for the year ended 30 June 2005

NOTE 26. EVENTS OCCURRING AFTER BALANCE DATE

The Corporation has commenced a trial dredging program for the Channel Deepening Project. This program was recommended by the Environment Effects Statement Panel in its report released on 31 March, 2005, assessing the Channel Deepening Project.

Trial dredging is to test that the proposed technology can safely and effectively deepen the entrance to Port Phillip Bay by testing a small section. The trial is to contribute to an understanding of turbidity resulting from dredging, especially in the south of the bay.

On 11 July 2005, the Victorian Government gave consent under the *Coastal Management Act 1995* (Vic). This consent requires an independent auditor to monitor the operation and a comprehensive Environmental Management Plan to ensure the trial is subject to strict environmental controls.

On 15 July 2005, the Federal Department of Environment and Heritage advised the Corporation that the Federal Minister for Environment determined that the trial dredging project is not a controlled action under the *Environment Protection and Biodiversity Conservation Act 1999* (Cwlth).

The trial dredging project is expected to cost approximately \$32 million and will take place from August to October 2005. The Corporation has secured the *Queen of the Netherlands* to carry out the trial.

This Project is governed by the Alliance Agreement between Boskalis and the Port of Melbourne Corporation.

NOTE 27. ASSETS AND LIABILITIES TRANSFERS BETWEEN PUBLIC SECTOR ENTITIES

2005

Station Pier assets and liabilities transferred from the Department of Infrastructure

Port of Melbourne Corporation took over the management responsibilities and assets of Station Pier from the Department of Infrastructure (DoI) on 1 February 2005. An allocation statement and its subsequent amendment certified by the Minister for Transport transferred from DoI to the Corporation \$31,507,000 of assets. The assets transferred at their fair value to the Port of Melbourne Corporation were as follows:

	2005 \$000
Assets	
Cash assets	1,988
Infrastructure, property, plant and equipment	29,519
Total assets	<u>31,507</u>
Net assets transferred from DoI (refer to note 15)	<u><u>31,507</u></u>

Prior to the transfer of Station Pier, DoI approved capital works necessary to upgrade facilities in line Department of Transport and Regional Services' security requirements amounting to \$14,680,000. The Corporation has taken over the responsibility for the completion of these works and DoI will provide funding via equity contributions. During the year, DoI contributed \$204,000 for the funding of works completed as at 30 June 2005 (refer to note 15).

Channel Deepening Project

In accordance with the Premier of Victoria's *Economic Statement of April 2004*, the Victorian Government contributed \$7,500,000 towards the acceleration and completion of the Channel Deepening Project (refer to note 15).

Notes to the financial statements for the year ended 30 June 2005

NOTE 27. ASSETS AND LIABILITIES TRANSFERS BETWEEN PUBLIC SECTOR ENTITIES (continued)

2004

(a) Assets and liabilities transferred from the Melbourne Port Corporation (MPC)

Due to amendments to the *Port Services Act 1995* and as part of the Victorian Government's port reform process, the Melbourne Port Corporation was abolished on 1 July 2003 and all rights, property, assets, debts, liabilities and obligations of the Corporation were vested in a new entity, Port of Melbourne Corporation. Port of Melbourne Corporation has been established with broader powers than the Melbourne Port Corporation including a capacity to manage both the landside and waterside functions of the port of Melbourne.

The assets and liabilities transferred to Port of Melbourne Corporation on 1 July 2003 were as follows:

	<u>2004</u> <u>\$000</u>
<i>Assets</i>	
Cash assets	12,399
Receivables	6,888
Other financial assets	10,381
Infrastructure, property, plant and equipment	698,556
Tax assets	3,407
Other	2,741
Total assets	<u>734,372</u>
<i>Liabilities</i>	
Payables	6,313
Interest bearing liabilities	67,713
Tax liabilities	13,724
Provisions	6,979
Other	8,533
Total liabilities	<u>103,262</u>
Net assets transferred from the MPC (refer to note 15)	<u>631,110</u>

(b) Assets and liabilities transferred from the Victorian Channels Authority (VCA)

During 2003, pursuant to Section 166 of the *Port Services Act 1995*, an allocation statement and its subsequent amendment certified by the Treasurer and the Minister for Transport, transferred from the VCA to the Corporation \$95,451,000 of net assets effective from 3 November 2003.

The assets and liabilities transferred to Port of Melbourne Corporation on 3 November 2003 were as follows:

	<u>2004</u> <u>\$000</u>
<i>Assets</i>	
Cash assets	9,000
Property, plant & equipment	13,625
Channel assets	67,700
Major maintenance dredging	7,188
Tax assets	3,827
Other	199
Total assets	<u>101,539</u>
<i>Liabilities</i>	
Tax liabilities	4,162
Employee benefits	1,926
Total liabilities	<u>6,088</u>
Net assets transferred from the VCA (refer to note 15)	<u>95,451</u>

Notes to the financial statements for the year ended 30 June 2005

NOTE 28. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Following the adoption of Australian equivalents to International Financial Reporting Standards (A-IFRS), the Corporation will report for the first time in compliance with A-IFRS when results for the financial year ended 30 June 2006 are released.

An A-IFRS compliant financial report will comprise a new statement of changes in equity in addition to the three existing financial statements, which will all be renamed. The statement of financial performance will be renamed as the operating statement, the statement of financial position will revert to its previous title as the balance sheet and the statement of cash flows will be simplified as the cash flow statement. However, for the purpose of disclosing the impact of adopting A-IFRS in the 2004-05 financial report, which is prepared under existing accounting standards, existing titles and terminologies, will be retained.

With certain exceptions, an entity that has adopted A-IFRS must record transactions that are reported in the financial report as though A-IFRS had always applied. This requirement also extends to any comparative information included within the financial report. Most accounting policy adjustments to apply A-IFRS retrospectively will be made against retained profits at the 1 July 2004 opening balance sheet date for the comparative period.

The Corporation has taken the following steps in managing the transition to A-IFRS and has achieved the following scheduled milestones:

- established an A-IFRS project team to oversee the transition to and implementation of the new accounting standards, identify key issues and the likely impacts resulting from the adoption of A-IFRS and any relevant Financial Reporting Directions as issued by the Minister for Finance; and
- participated in an education and training process to raise awareness of the changes in reporting requirements and the processes to be undertaken.

Under A-IFRS, AASB 116 *Property, Plant and Equipment* and AASB 140 *Investment Properties* permit property, plant and equipment and investment properties to be measured either using the cost or fair value model. However, the Department of Treasury and Finance's (DTF) Financial Reporting Directions (FRDs) have restricted this measurement option and has mandated the use of fair value unless the Corporation has received the prior written approval of the Minister for Finance to measure these assets at cost.

The Corporation has been determined to be a 'for profit' entity under A-IFRS and is required to use discounted cash flow (DCF) methodology to fair value assets and test for impairment. The Corporation has received the Minister for Finance's temporary exemption from applying the fair value model requirements of FRD 103 *Non-Current Physical Assets*, for the 2005-06 and 2006-07 reporting periods in relation to port infrastructure assets (including shipping channel assets, piers, wharfs, buildings, land, berths, land tracks, roadways, sewer, plumbing, electrical and lighting systems that form part of the infrastructure assets of the port). This will enable the Corporation to value its assets at cost, provided that cost exceeds the present value of future cash flows.

Land and buildings held by the Corporation to provide a port facility to facilitate trade and commerce will be accounted for as infrastructure assets under AASB 116 notwithstanding that the land and buildings are leased to port operators.

Land and buildings that are not integral or associated with port activities and are leased with the principal objective of earning rentals or for capital appreciation, or both, are to be accounted for as investment properties under AASB140.

This financial report has been prepared in accordance with current Australian accounting standards and other financial reporting requirements (Australian GAAP). A number of differences between Australian GAAP and A-IFRS have been identified as potentially having a material impact on the Corporation's financial position and financial performance following the adoption of A-IFRS. The following tables outline the best estimated significant impacts on the financial position as at 30 June 2005 and the likely impact on the current year result had the financial statements been prepared using A-IFRS.

Notes to the financial statements for the year ended 30 June 2005

NOTE 28. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Table 1: Reconciliation of net result as presented under Australian GAAP and that under A-IFRS

	2005
	\$'000
Net result as reported under Australian GAAP	21,577
<u>Estimated A-IFRS impact on expenses</u>	
Employee benefits	166
Depreciation	(917)
Other expenses	(1,076)
Total estimated A-IFRS impact on result	(1,827)
Net result under A-IFRS	19,750

Table 2: Reconciliation of total assets and total liabilities as presented under Australian GAAP and that under A-IFRS

	2005
	\$'000
Total assets under Australian GAAP	957,505
<u>Estimated A-IFRS impact on assets</u>	
Property, plant and equipment	(38,078)
Intangible assets	527
Investment properties	17,002
Tax assets	6,415
Total estimated A-IFRS impact on assets	(14,134)
Total assets under A-IFRS	943,371
Total liabilities under Australian GAAP	116,560
<u>Estimated A-IFRS impact on liabilities</u>	
Interest bearing loans	3,232
Superannuation	3,368
Tax liabilities	95,100
Total estimated A-IFRS impact on liabilities	101,700
Total liabilities under A-IFRS	218,260

Table 3: Reconciliation of equity as presented under Australian GAAP and that under A-IFRS

	2005
	\$'000
Total equity under Australian GAAP	840,945
<u>Estimated A-IFRS impact on equity</u>	
Contributed capital	(89,262)
Asset revaluation reserves	(51,418)
Retained profits	24,846
Total estimated A-IFRS impact on equity	(115,834)
Total equity under A-IFRS	725,111

Notes to the financial statements for the year ended 30 June 2005

NOTE 28. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Defined benefit superannuation schemes

The Corporation currently recognises an asset or liability for the net position of the defined benefit superannuation schemes based on the assets of the schemes and the underlying obligations arising from the services of employees who are members of such schemes. The present value of the underlying obligation of the Port of Melbourne Superannuation Fund is currently calculated using the expected long-term earning rate of investments held by the superannuation funds. AASB 119 *Employee Benefits* requires the present value of the underlying obligation to be calculated using a long-term bond rate. These two rates are different, leading to a difference in the calculation of the defined benefit superannuation obligation. The resulting initial adjustment is made against opening retained profits as at 1 July 2004, and will be based on actuarially determined valuations of each scheme made at that date in accordance with AASB 119.

Consistent with existing accounting policy, the Corporation has elected to recognise all movements in the net asset or liability of the defined benefit superannuation schemes, including actuarial gains and losses, in the statement of financial performance. It is expected that the impact on the statement of financial performance as a result of changes in the recognised net asset or liability will be more volatile in future because the long-term bond rate is expected to be more volatile than the long-term earning rate of the funds.

The effect of the above requirement on the statement of financial position as at 30 June 2005 will be an estimated increase in the superannuation liability of \$3,367,868. Superannuation expense is expected to decrease by \$166,000 for the financial year ended 30 June 2005. Under AASB 119 *Employee Benefits*, employers are required to recognise the net surplus or deficit in their employer sponsored defined benefit funds as an asset or liability. The Department of Treasury and Finance (DTF) has an obligation to recognise any surplus or deficit in the Transport and State Superannuation Schemes.

Investment property

Land and buildings that are integral to port activities are to be classified as port infrastructure assets (part of property, plant and equipment) and measured at cost. Where land and buildings are not integral to port activities, these are classified as investment properties and measured at fair value. There is a small proportion of land that has been purchased for future port related uses, which is currently under lease for non-port related activities. These parcels of land will be treated as investment properties until they form a port infrastructure asset and are used for port services.

Previously, land and buildings had been valued at fair value using market value for land and depreciated replacement cost for buildings. Changes in the fair values of such properties have previously been recognised through the asset revaluation reserve under Australian GAAP. Subsequent to initial A-IFRS recognition, land and buildings will be carried at cost less any accumulated depreciation and any impairment losses.

Other than a change in disclosure of these assets (\$17,002,000) from property, plant and equipment to investment properties, this change in accounting policy is not expected to result in an adjustment to the statement of financial position as at 30 June 2005. There will be no impact in the statement of financial performance for the year ended 30 June 2005.

Property, plant and equipment

AASB 116 *Property, Plant and Equipment* permits such assets to be measured either using the cost or fair value model. However, DTF's FRD 103 *Non-Current Physical Assets* has restricted this measurement option and has mandated the use of fair value. As referred to above, the Corporation has received the Minister for Finance's approval for an exemption from the requirements to fair value certain non-current assets under the A-IFRS framework. Subsequent to their initial recognition, port infrastructure assets will be carried at cost less any accumulated depreciation and any impairment losses.

The Corporation has elected to value the channel assets at depreciated historical cost and all other property, plant and equipment at cost. In addition, there will be a change in disclosure of some assets from property, plant and equipment to investment properties. The impact of these changes is expected to result in a decrease to the carrying amounts of assets of \$38,078,000. As a result of the channel assets being carried at depreciated historical cost, a transitional adjustment of \$20,549,000 will be taken to retained earnings. Accordingly, depreciation expense is expected to increase by \$917,000 for the year ended 30 June 2005. In addition, some land and buildings will be classified as investment properties (\$17,002,000) and computer software will be disclosed as intangible assets (\$527,000).

Notes to the financial statements for the year ended 30 June 2005

Income tax

Under AASB 112 *Income Taxes*, the Corporation will be required to use a balance sheet liability method, rather than the current income statement which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base.

Current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity. This has resulted in the recognition of a deferred tax liability in relation to the revalued assets. Under AGAAP, the tax effects of asset revaluations are not recognised. An expected increase of \$95,100,470 in deferred tax liabilities attributable to recognising deferred taxes on revalued assets will result in an adjustment to the statement of financial position.

An expected increase of \$6,415,000 in deferred tax assets has resulted in an adjustment to the statement of financial position as at 30 June 2005. This increase is attributable to:

- the recognition of deferred taxes relating to defined benefit superannuation scheme obligations; and
- instances where the carrying amount of assets is less than their tax base.

Impairment of Assets

AASB 136 *Impairment of Assets* requires assets to be assessed for indicators of impairment each year. This standard applies to all assets, other than investment properties, regardless of whether they are measured on a cost or fair value basis. If indicators of impairment exist, the carrying value of an asset will need to be tested to ensure that the carrying value does not exceed its recoverable amount, which is the higher of its value-in-use and fair value less costs to sell. The recoverable amount for assets is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

The Corporation conducted impairment tests on transition date, 1 July 2004 and 30 June 2005 which indicated that the carrying amount of total assets of \$861,041,000 and \$957,505,000 respectively were supported by the present value of future cash flows. It is not practicable to determine the impact of the change in accounting policy for future financial reports, as any impairment or reversal thereof will be affected by future conditions.



Certification of Financial Statements

We certify that the attached financial statements for the Port of Melbourne Corporation have been prepared in accordance with the Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian accounting standards and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the statement of financial performance, statement of financial position, statement of cash flows and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2005 and financial position of the Port of Melbourne Corporation as at 30 June 2005.

We are not aware of any circumstances which would render any particulars included in the financial statement to be misleading or inaccurate.



Mr N R Edwards
Chairman of the Board
Date: 25 August 2005



Mr S G Bradford
Chief Executive Officer
Accountable Officer
Date: 25 August 2005



Mr J F Johnson
Executive General Manager Corporate Services
Chief Finance and Accounting Officer
Date: 25 August 2005

Auditor-General's Report



AUDITOR GENERAL
VICTORIA

INDEPENDENT AUDIT REPORT

Port of Melbourne Corporation

To the Members of the Parliament of Victoria and Members of the Board of the Corporation

Matters Relating to the Electronic Presentation of the Audited Financial Report

This audit report for the financial year ended 30 June 2005 relates to the financial report of the Port of Melbourne Corporation included on its web site. The Members of the Board of the Port of Melbourne Corporation are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The audit report refers only to the statements named below. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Scope

The Financial Report

The accompanying financial report for the year ended 30 June 2005 of the Port of Melbourne Corporation consists of the statement of financial performance, statement of financial position, statement of cash flows, notes to and forming part of the financial report, and the supporting declaration.

Members' Responsibility

The Members of the Board of the Port of Melbourne Corporation are responsible for:

- the preparation and presentation of the financial report and the information it contains, including accounting policies and accounting estimates
- the maintenance of adequate accounting records and internal controls that are designed to record its transactions and affairs, and prevent and detect fraud and errors.

Audit Approach

As required by the *Audit Act 1994*, an independent audit has been carried out in order to express an opinion on the financial report. The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement.

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Auditing in the Public Interest



AUDITOR GENERAL
VICTORIA

Independent Audit Report (continued)

The audit procedures included:

- examining information on a test basis to provide evidence supporting the amounts and disclosures in the financial report
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the members
- obtaining written confirmation regarding the material representations made in conjunction with the audit
- reviewing the overall presentation of information in the financial report.

These procedures have been undertaken to form an opinion as to whether the financial report is presented in all material respects fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, so as to present a view which is consistent with my understanding of the Corporation's financial position, and its financial performance and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers are to be exercised. The Auditor-General and his staff and delegates comply with all applicable independence requirements of the Australian accounting profession.

Audit Opinion

In my opinion, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, the financial position of the Port of Melbourne Corporation as at 30 June 2005 and its financial performance and cash flows for the year then ended.

MELBOURNE
25 August 2005

J.W. CAMERON
Auditor-General

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