



Financial statements

Financial statements for the year ended 30 June 2011

Port of Melbourne Corporation
Comprehensive Operating Statement
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
Continuing operations			
Revenue	3	242,165	218,424
Expenses	4	(149,695)	(145,571)
Finance costs	9	(38,249)	(36,642)
Profit before income tax		54,221	36,211
Income tax expense	5	(15,254)	(8,749)
Profit after income tax	21(b)	38,967	27,462
Other comprehensive income			
Asset revaluation reserve movement	21	6,848	400,683
Cash flow hedge reserve movement	21	4,308	2,013
Income tax relating to components of other comprehensive income	5	(4,997)	(138,635)
Other comprehensive income/(loss) for the year, net of tax		6,159	264,061
Total comprehensive income for the year		45,126	291,523

The above Comprehensive Operating Statement should be read in conjunction with the accompanying notes.

Port of Melbourne Corporation
Statement of Financial Position
As at 30 June 2011

	Notes	2011 \$'000	2010 \$'000
Current assets			
Cash and cash equivalents	10	41,147	45,932
Receivables	11	14,783	16,553
Other assets	12	1,629	2,734
Assets classified as held for sale	13	-	405
		<u>57,559</u>	<u>65,624</u>
Non-current assets			
Receivables	11	-	2,104
Property, plant and equipment	14	2,265,203	2,289,340
Deferred tax assets	7	17,434	20,742
Intangible assets	15	3,302	2,360
		<u>2,285,939</u>	<u>2,314,546</u>
Total assets		<u>2,343,498</u>	<u>2,380,170</u>
Current liabilities			
Payables	16	21,470	24,020
Interest bearing liabilities	17	34,661	72,308
Provisions	18	22,476	34,166
Current tax liabilities	6	4,495	1,648
Other liabilities	19	2,962	1,043
		<u>86,064</u>	<u>133,185</u>
Non-current liabilities			
Interest bearing liabilities	17	455,488	490,149
Deferred tax liabilities	8	326,820	332,794
Provisions	18	454	250
		<u>782,762</u>	<u>823,193</u>
Total liabilities		<u>868,826</u>	<u>956,378</u>
NET ASSETS		<u>1,474,672</u>	<u>1,423,792</u>
Equity			
Contributed capital	20	849,706	830,582
Reserves	21(a)	511,527	506,159
Retained profits	21(b)	113,439	87,051
TOTAL EQUITY		<u>1,474,672</u>	<u>1,423,792</u>

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

Port of Melbourne Corporation
Statement of Changes in Equity
For the year ended 30 June 2011

	Notes	Contributed capital \$'000	Cash flow hedge reserve \$'000	Asset revaluation reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2009		830,582	(14,567)	257,001	127,013	1,200,029
Profit for the year		-	-	-	27,462	27,462
Other comprehensive income	21(a) (b)	-	947	263,114	-	264,061
Total comprehensive income for the year		-	947	263,114	27,462	291,523
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	20	-	-	-	-	-
Dividends paid	21(b)	-	-	-	(67,760)	(67,760)
Transfers from asset revaluation reserve	21(a) (b)	-	-	(336)	336	-
		-	-	(336)	(67,424)	(67,760)
Balance at 30 June 2010		830,582	(13,620)	519,779	87,051	1,423,792
Balance at 1 July 2010		830,582	(13,620)	519,779	87,051	1,423,792
Profit for the year		-	-	-	38,967	38,967
Other comprehensive income	21(a) (b)	-	3,016	3,143	-	6,159
Total comprehensive income for the year		-	3,016	3,143	38,967	45,126
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	20	19,124	-	-	-	19,124
Dividends paid	21(b)	-	-	-	(13,370)	(13,370)
Transfers from asset revaluation reserve	21(a) (b)	-	-	(791)	791	-
		19,124	-	(791)	(12,579)	5,754
Balance at 30 June 2011		849,706	(10,604)	522,131	113,439	1,474,672

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Port of Melbourne Corporation
Statement of Cash Flows
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Receipts from customers		241,495	219,161
Payments to suppliers and employees		(78,249)	(78,159)
Interest received		2,370	4,184
Interest paid		(39,332)	(33,583)
Income taxes paid		(20,075)	(28,302)
Net cash inflow from operating activities	31	106,209	83,301
Cash flows from investing activities			
Payments for property, plant and equipment		(29,796)	(223,628)
Proceeds from sale of property, plant and equipment		1,181	4,225
Cash acquired on integration of Port of Hastings	33	2,896	-
Payments to related parties		(3,905)	(1,562)
Net cash outflow from investing activities		(29,624)	(220,965)
Cash flows from financing activities			
Proceeds from borrowings		-	156,000
Repayment of borrowings		(68,000)	(6,000)
Dividends paid	21(b)	(13,370)	(67,760)
Net cash (outflow)/inflow from financing activities		(81,370)	82,240
Net decrease in cash and cash equivalents		(4,785)	(55,424)
Cash and cash equivalents at the beginning of the financial year		45,932	101,356
Cash and cash equivalents at end of the financial year	10	41,147	45,932

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

1 Summary of significant accounting policies

(a) Corporate information

Port of Melbourne Corporation (PoMC) is a Government Business Enterprise established by the Victorian Government under the *Port Management Act 1995* (Vic) (formerly *Port Services Act 1995* (Vic)). These financial statements cover PoMC as an individual reporting entity. The Board of PoMC is directly accountable to the Victorian Government through the Minister for Ports, and the Treasurer.

PoMC is responsible for the strategic management and development of the ports of Melbourne and Hastings including facilitating trade and trade-related businesses. The trade and trade-related businesses in port of Melbourne are container and general cargo and in port of Hastings, steel and petroleum products.

These financial statements incorporate all activities of PoMC.

On 1 September 2010, the management and operations of the port of Hastings was integrated with PoMC.

To effect this, the *Transport Legislation Amendment (Ports Integration) Act 2010* (Vic) (PIA) amended the *Transport Integration Act 2010* (Vic) and the *Port Management Act 1995* (Vic) on 1 September 2010.

The PIA abolished the Port of Hastings Corporation (PoHC) and transferred PoHC's assets, functions and liabilities to PoMC, and altered PoMC's functions and powers to manage the port of Hastings.

PoHC was a 'public body' under the *Financial Management Act 1994* (Vic), and as such was required to prepare an Annual Report for the period 1 July 2010 – 31 August 2010. By virtue of the amendment to the legislation, PoMC is responsible for preparing this.

In order to avoid preparing a separate set of stand alone PoHC Annual Report (including the Report of Operations the Financial Statements) for 1 July 2010 – 31 August 2010, PoMC has sought and received an exemption from the Minister for Finance. This exemption permits a summary of PoHC's financial results for the period 1 July – 31 August 2010 to be included as a note in PoMC's Financial Statements for the financial year ended 30 June 2011 (refer to note 33).

(b) Statement of compliance

The financial statements of PoMC are general purpose financial statements which have been prepared on an accrual basis in accordance with the *Financial Management Act 1994* (Vic) and applicable Australian Accounting Standards and Interpretations (AAS). PoMC has been designated a "for profit" entity.

The annual financial statements were authorised for issue by the Board of PoMC on 10 August 2011.

1 Summary of significant accounting policies (continued)

(c) Basis of preparation

The financial statements have been prepared on an accruals and a historical cost basis, except for the revaluation of Property, plant and equipment. Cost is based on the fair values of the consideration given in exchange for assets. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Compliance with International Financial Reporting Standards (IFRS)

The Board of PoMC is of the view that the financial statements of PoMC also comply with IFRS as issued by the International Accounting Standards Board (IASB).

(d) Foreign currency translation

(i) Functional and presentation currency

Both the functional and presentation currency of PoMC is Australian dollars (\$).

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

(e) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

PoMC recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of PoMC's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the income have been resolved. PoMC bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Charges on goods (wharfage)

Wharfage charges are levied on cargo passing through the port and are recognised as revenue at the time of the related vessel's departure from its designated berth.

1 Summary of significant accounting policies (continued)

(e) Revenue (continued)

(ii) Charges on channel usage (tonnage)

Tonnage fees are charged for the provision of channels for use by vessels in Melbourne port waters and the provision of associated services. Channel fees are levied on the gross tons of vessels using the channels or in other manners specified for the provision of channel related services.

(iii) Rental income

Revenue from operating leases is recognised in accordance with PoMC's accounting policy outlined in note 1(g).

(iv) Interest revenue

Interest revenue is recognised as the interest accrues to the net carrying amount of the financial asset using the effective interest rate method.

(v) Other revenue

All other revenue from major business activities is recognised at the time the service to which the revenue relates is provided or work is undertaken and the revenue is receivable.

(f) Income tax

PoMC is subject to the National Tax Equivalent Regime. In accordance with this legislation, PoMC is required to pay to the State Government Consolidated Fund, amounts determined to be equivalent to the amounts that would be payable by PoMC if it was subject to the *Income Tax Assessment Act 1936* (Cwlth) and *Income Tax Assessment Act 1997* (Cwlth).

Income tax expense comprises current and deferred tax expense. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

1 Summary of significant accounting policies (continued)

(f) Income tax (continued)

(ii) Deferred tax (continued)

No deferred tax assets and liabilities will be recognised from the initial recognition of an asset or liability, excluding a business combination where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and PoMC intends to settle its current tax assets and liabilities on a net basis.

The Taxation of Financial Arrangements (TOFA) legislation became effective on 1 July 2010 which aligned the tax and accounting treatments of gains and losses arising from financial arrangements.

PoMC is required to adopt TOFA and consequently, it is anticipated that there will be reduced deferred taxes associated with financial arrangements. The deferred tax balance relating to accrued interest income that existed at 1 July 2010 will reverse over a four year period.

(g) Leases

(i) Finance lease

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased property to the lessee. All other leases are classified as operating leases.

Income as lessor

Amounts due from lessees under finance leases are recorded as 'Receivables' in the Statement of Financial Position. Finance leases of PoMC, are initially capitalised to an amount equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. The amount is reduced by the principal component of lease receipts. The interest component is credited to profit or loss.

(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 year in which they are incurred. This reflects the pattern of benefits derived by PoMC.

Income as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

1 Summary of significant accounting policies (continued)

(g) Leases (continued)

(ii) Operating lease (continued)

Expense as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(h) Impairment of assets

All assets are assessed annually for indications of impairment (i.e. as to whether their carrying value exceeds their recoverable amount), except for other financial assets (refer note 1(k)).

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off by a charge to profit or loss except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that specific asset. The recoverable amount for an asset 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.

(i) Cash and cash equivalents

For the Statement of Cash Flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 15 to 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that PoMC may not be able to collect the receivable. Financial difficulties of the debtor or debts more than 120 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

1 Summary of significant accounting policies (continued)

(k) Other financial assets

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest rate basis for debt instruments.

(l) Property, plant and equipment

All non-current physical assets are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment.

Non-current physical assets measured at fair value are revalued in accordance with FRD 103D. This revaluation process occurs every five years, based upon the asset's classification under the Government Purpose Classification, but may occur more frequently if fair value assessments indicate material changes in values. Revaluation increments or decrements arise from differences between an asset's carrying value and fair value.

In 2010, a valuation of PoMC's non-current physical assets were performed to determine fair value as follows:

Class	Method	Valuer
Channel assets	Discounted cash flows	Valuer-General Victoria
Land	Market based evidence	Valuer-General Victoria
Buildings and improvements	Depreciated replacement cost	Valuer-General Victoria
Plant and equipment (except for office equipment and motor vehicles)	Depreciated replacement cost	Valuer-General Victoria
Office equipment and motor vehicles	Indexed depreciated replacement cost	Management Assessment

The valuations were effective at 30 June 2010.

If an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity under the heading of asset revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease previously recognised in profit or loss in respect of that asset.

1 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is debited directly to equity under the heading of asset revaluation reserve to the extent of any credit balance existing in the revaluation reserve in respect of that asset.

Gains and losses on disposals of assets are determined by comparing proceeds from sale with the carrying amount and selling costs. These are included in profit or loss. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold or written off is transferred to retained profits.

(i) Depreciation

Land held by PoMC is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives (or, in the case of leasehold improvements and certain leased plant and equipment, the lease term if shorter) as follows:

	2011	2010
Channel assets	40 years	40 years
Buildings and improvements	2 - 85 years	2 - 85 years
Plant and equipment	1 - 25 years	1 - 25 years

(ii) Change in accounting estimates

The estimated useful lives, residual values and depreciation method are reviewed at the end of each financial reporting period and, where changed, are accounted for as a change in an accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method.

(iii) 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 PoMC, the costs at which they are initially recorded include an appropriate share of labour costs incurred directly in the construction of the asset.

Property, plant and equipment represent non-current assets comprising land, buildings and improvements, channel assets, and plant and equipment used by PoMC in its operations.

All items with a cost or value in excess of \$1,000 (2010: \$1,000) and having a useful life greater than one year are recognised as assets. All items within the threshold of \$91 to \$1,000 and having a useful life greater than one year are grouped and recognised as assets within the Low Value Asset Pool. All other items are expensed as acquired.

(iv) Recoverable amount

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to note 1(h)).

1 Summary of significant accounting policies (continued)

(l) Property, plant and equipment (continued)

(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. Dredging and associated costs (including all costs incurred under the dredging contract to restore the channels to proper depths) are capitalised and amortised.

(m) Assets classified as held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

For an asset in the disposal group to be so classified, it must be available for immediate sale in its present condition and its sale must be highly probable.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale are recognised.

Non-current assets classified as held for sale are presented separately from the other assets in the Statement of Financial Position.

(n) Intangible assets

Intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to PoMC.

	2011	2010
Software and systems	4 years	4 years

(o) Payables

Trade and other payables are carried at amortised cost. Due to their short term nature they are not discounted. They represent liabilities for goods and services provided to PoMC prior to the end of the financial year that are unpaid as at year end. The amounts are unsecured and are usually paid within 30 days of recognition.

1 Summary of significant accounting policies (continued)

(p) Interest bearing liabilities

Interest bearing liabilities are fixed rate facility loans and are recorded at amortised cost.

Interest bearing liabilities are classified as current liabilities unless PoMC has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(q) Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are expensed rather than added to the cost of the assets on the basis that PoMC's Property, plant and equipment are recognised at fair value.

All other finance costs are recognised as expenses in the period in which they are incurred.

(r) Provisions

Provisions are recognised when PoMC has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Environmental restoration feasibility studies and remediation costs

The direct costs of land remediation are included in the cost of the land (where it is expected to enhance the value of the land by providing future economic benefits) and a corresponding liability or provision is recognised when the obligation for remediation arises and can be reliably estimated.

Estimated costs of environmental assessment, management and restoration of assets are recognised as a liability when the obligation is identified and the costs can be reliably estimated.

PoMC's land and channel assets may be subject to varying degrees of contamination. On-going environmental assessment and restoration costs are progressively charged as part of expenses from ordinary activities when incurred.

Environmental assessment, management and restoration costs for which an obligation will possibly arise in the future or which cannot be reliably measured are recognised as contingent liabilities.

1 Summary of significant accounting policies (continued)

(s) 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) using the remuneration rates expected to apply at the time of the settlement and are recognised as current liabilities. 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 used.

(ii) Annual leave

Annual leave entitlements 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. The entire obligation has been recognised as a current liability as PoMC does not have an unconditional right to defer settlement.

(iii) Long service leave

Long service leave entitlements are assessed at balance date having regard to expected employees' remuneration rates on settlement, employment related oncost and other factors including expected accumulated years of employment on settlement and past experience. Commonwealth bond rates are used for discounting future cash flows.

Unconditional long service leave is disclosed as a current liability even when the liability is not expected to settle within 12 months as PoMC does not have an unconditional right to defer the settlement. The component of leave expected to be settled within 12 months is measured at nominal value and the component expected to be settled beyond 12 months is measured at present value.

Conditional long service leave is disclosed as a non-current liability as there is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. Conditional long service leave is disclosed as a non-current liability measured at present value.

(iv) Superannuation

Some PoMC employees are members of defined benefit superannuation schemes, being the Port of Melbourne Superannuation Fund and the State Superannuation Scheme. These defined benefit funds are closed to new members. PoMC does not recognise any defined benefit liability in respect of the State Superannuation Scheme. The Department of Treasury and Finance recognises and discloses the defined benefit liabilities for the State Superannuation Scheme in its financial report. PoMC has no legal or constructive obligation to pay future benefits relating to its employees in the State Superannuation Scheme as its only obligation is to pay superannuation contributions as they fall due.

A liability in respect of the Port of Melbourne Superannuation Fund is recognised in the Statement of Financial Position in the provision for employee benefits, and is determined using the Projected Unit Cost Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in full in profit or loss in the period in which they occur.

1 Summary of significant accounting policies (continued)

(s) Employee benefits (continued)

(iv) Superannuation (continued)

Past service cost is recognised immediately to the extent that the benefits are already vested, otherwise it is amortised on a straight-line basis over the average period until the benefits become vested.

The net liability recognised in the Statement of Financial Position represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reduction in future contributions to the plan.

Contributions to defined benefit schemes are based on a percentage of members' annual salary as actuarially determined and reviewed annually. Any deficiency in the net assets of a defined benefit scheme is recognised as a liability when it arises (note 22).

Contributions to defined contribution funds are made in accordance with the *Superannuation Guarantee (Administration) Act 1992* (Cwlth). Contributions are charged as an expense as the contributions are paid or become payable.

(t) Contributed capital

Consistent with applicable Australian reporting requirements and the *Financial Management Act 1994* (Vic), transfers and appropriation for additions of net assets between PoMC and State Government Departments designated as contributed capital, are recognised as capital transactions.

(u) Dividend policy

PoMC pays dividends in accordance with a determination of the Treasurer of Victoria under the *Transport Integration Act 2010* (Vic). The obligation to pay a dividend arises after consultation between PoMC's Board, the Minister for Ports and the Treasurer of Victoria. Following this consultation process, the Treasurer makes a formal determination. Only dividends declared on or before reporting date are recognised as a liability.

(v) 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 is included as part of receivables or payables in the Statement of Financial Position. Receipts and payments in the Statement of Cash Flows are presented inclusive of GST.

(w) 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.

1 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations applicable but not operative

At the date of this financial report the following standards and interpretations which are applicable to PoMC, have been issued but are not yet operative. A discussion of their future requirements and their impact on PoMC follows:

Reference	Summary	Application date (financial years beginning)	Impact on PoMC's financial statements
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] [Superseded by AASB 2010-7] and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	Addresses the classification, measurement and de-recognition of financial assets and financial liabilities.	1 January 2013	No impact.
AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] and AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project - Reduced Disclosure Requirements [AASB 101 & AASB 1054]	Introduces a revised differential reporting framework consisting of two tiers with reduced reporting requirements for applicable entities.	1 July 2013	Applicable to PoMC. Application of the standard may be subject to an FRD released by the Department of Treasury and Finance.
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	Amendments generally clarify the disclosure requirements of other Australian Accounting Standards.	1 July 2011	Clarification of disclosures. Minor impact.

1 Summary of significant accounting policies (continued)

(x) New accounting standards and interpretations (continued)

Reference	Summary	Application date (financial years beginning)	Impact on PoMC's financial statements
AASB 2010-5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	Makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the International Accounting Standards Board.	1 July 2011	No impact.
AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113]	Harmonises Australian and New Zealand Standards by removing guidance and definitions from some Australian Accounting Standards, without changing their requirements.	1 July 2011	No impact.

(y) New accounting standards and interpretations that became operative during the year

In 2009 the AASB issued an omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the amendments did not have any impact on the financial position or performance of PoMC.

2 Critical accounting estimates and judgements

In the application of AASs, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that may have a financial or disclosure impact on PoMC and are believed to be reasonable under the circumstances.

(a) Critical accounting judgements

Critical judgements that management has made in the process of applying PoMC's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are:

(i) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise these temporary differences.

(ii) Impairment of non-financial assets

PoMC assesses impairment of all assets at each reporting date by evaluating conditions specific to PoMC and to the particular asset that may lead to impairment. These include obsolescence or physical damage, technology, economic and political environments and future income expectations. If an impairment trigger exists, the recoverable amount of the asset is determined.

(iii) Fair value of property, plant and equipment

All non-current physical assets are measured initially at cost and subsequently revalued at fair value in accordance with FRD 103D. In 2010, the fair values were determined through independent valuations undertaken by the Valuer-General Victoria (except for office equipment and motor vehicles which were determined by a managerial assessment). In 2011 a fair value assessment was undertaken and determined that the carrying amount of all non-current physical assets reasonably approximated fair value. Further details of the estimates and assumptions used by management are provided in note 14.

(b) Key sources of estimation uncertainty

(i) Remediation of contaminated land

A provision has been made for the present value of anticipated costs of future restoration of contaminated land. The provision is based on estimates and time frames provided by external consultants. The estimates include future costs associated with remediation. The calculation of this provision requires estimations such as degree of contamination and contaminated land area compared with past experiences. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the Statement of Financial Position by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 18.

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

2011 **2010**
\$'000 **\$'000**

3 Revenue

Operating revenues

Charges on goods (wharfage)	155,952	137,249
Rent and licence fees	43,801	41,164
Channel usage charges (tonnage)	27,298	23,453
Land tax recovered from tenants	4,407	4,067
Charges for berth and area hire	3,446	2,673
Recoverable works	779	3,318
Other charges for services	3,036	1,972
	<u>238,719</u>	<u>213,896</u>

Other incomes

Interest received	2,370	4,326
Revaluation decrement reversal - Property, plant and equipment	908	-
Other revenue	168	202
	<u>3,446</u>	<u>4,528</u>

Total revenues

242,165 218,424

4 Expenses

Operating expenses

Contractors and consultant expenses	34,693	35,636
Depreciation and amortisation expenses	65,892	56,103
Salaries and employee benefits expenses	31,547	27,318
Land tax expenses	1,390	5,227
Operating lease expenses - minimum lease payments	2,652	2,405
Write-off of receivables from Department of Transport *	5,468	-
Other expenses	8,052	7,097
	<u>149,694</u>	<u>133,786</u>

Other expenses

Loss on disposal of Property, plant and equipment	1	1,136
Revaluation decrements - Property, plant and equipment	-	10,649
	<u>1</u>	<u>11,785</u>

Total expenses

149,695 145,571

* Relates to the Freight Infrastructure Charge

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
5 Income tax expense			
(a) Income tax expense			
Current tax		22,580	20,035
Movement in deferred tax		(6,918)	(10,333)
Over provided in prior year		(408)	(953)
		<u>15,254</u>	<u>8,749</u>
Deferred income tax (benefit)/expense included in income tax expense comprises:			
Increase in deferred tax assets	7	(1,069)	(450)
Decrease in deferred tax liabilities	8	(5,849)	(9,883)
		<u>(6,918)</u>	<u>(10,333)</u>
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit from continuing operations before income tax expense		54,221	36,211
Tax at the Australian tax rate of 30% (2010 - 30%)		16,266	10,863
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:			
Over provided in prior year		(408)	(1,427)
Tax effect of sundry amounts which are not deductible/(taxable) in calculating taxable income		(604)	(687)
Income tax expense		<u>15,254</u>	<u>8,749</u>
(c) Tax expense/(income) relating to items of other comprehensive income			
Asset revaluation reserve	21(a)	3,705	137,569
Cash flow hedge reserve	21(a)	1,292	1,066
		<u>4,997</u>	<u>138,635</u>

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
6 Current tax liabilities			
Income tax		4,495	1,648
Movement in current tax liabilities:			
Carrying amount 1 July		1,648	10,871
Charged to income tax expense	5(a)	22,580	20,035
Under/(over) provision in prior year		342	(956)
Payments made		(20,075)	(28,302)
Carrying amount 30 June		4,495	1,648

7 Deferred tax assets

The balance comprises temporary differences attributable to:

Employee benefits		5,118	5,050
Derivative financial instruments		4,545	5,837
Provision for restoration		1,758	5,275
Income received in advance		3,814	3,453
Project costs		1,752	630
Accrued expenses		447	497
		17,434	20,742

Movement in deferred tax assets:

Carrying amount 1 July		20,742	16,838
Credited/(charged) to Comprehensive Operating Statement	5(a)	1,689	450
Credited/(charged) to Statement of Equity		(4,997)	3,454
Carrying amount 30 June		17,434	20,742

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
8 Deferred tax liabilities			
The balance comprises temporary differences attributable to:			
Depreciation		94,183	78,228
Capitalised research and development		2,338	450
Prepayments		46	61
Other temporary differences		5	9
Revalued Property, plant and equipment		230,248	254,046
		<u>326,820</u>	<u>332,794</u>

Movement in deferred tax liabilities:

Carrying amount 1 July		332,794	200,588
(Credited)/charged to Comprehensive Operating Statement	5(a)	(5,974)	(9,883)
(Credited)/charged to Statement of Equity		-	142,089
Carrying amount 30 June		<u>326,820</u>	<u>332,794</u>

9 Finance costs

Interest expense		34,339	32,801
Other financing charges		3,910	3,841
		<u>38,249</u>	<u>36,642</u>

10 Cash and cash equivalents

Cash at bank and in hand (i)		7,196	3,841
Deposits (ii)		33,951	42,091
		<u>41,147</u>	<u>45,932</u>

(i) Cash at bank earns a weighted average interest rate of 4.25% at 30 June 2011 (2010: 4.00%).

(ii) Deposits earn a weighted average interest rate of 4.87% at 30 June 2011 (2010: 4.69%).

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
11 Receivables			
<i>Current</i>			
Trade receivables		14,241	14,593
Less provision for doubtful debt (i)		-	(8)
		<u>14,241</u>	<u>14,585</u>
Finance lease receivables	28(b)	542	1,968
		<u>14,783</u>	<u>16,553</u>
<i>Non-current</i>			
Finance lease receivable	28(b)	-	542
Receivables from related parties		-	1,562
		<u>-</u>	<u>2,104</u>
<i>(i) Ageing of impaired trade receivables</i>			
31 - 60 days		-	-
61 - 90 days		-	8
91 - 120 days		-	-
		<u>-</u>	<u>8</u>
<i>Ageing of past due but not impaired</i>			
31 - 60 days		356	117
61 - 90 days		-	25
91 - 120 days		1	-
		<u>357</u>	<u>142</u>

12 Other assets

<i>Current</i>			
Prepayments		1,440	1,520
Other assets		189	1,214
		<u>1,629</u>	<u>2,734</u>

13 Assets classified as held for sale

Buildings (i)		-	333
Plant and equipment (ii)		-	72
		<u>-</u>	<u>405</u>

(i) The sale of certain Buildings located at Victoria Dock was settled in December 2010.

(ii) The sale of two survey vessels was settled in January 2011 with the exception of some hydro graphic equipment which management decided to retain. This equipment with a book value of \$4,000 was reclassified into Property, plant and equipment.

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

14 Property, plant and equipment

Year ended 30 June 2011	Notes	Channel assets \$'000	Land \$'000	Building and improvements \$'000	Plant and equipment \$'000	Capital works in progress \$'000	Total \$'000
Carrying amount 1 July 2010		843,312	774,189	596,925	33,102	41,812	2,289,340
Transfer from capital works in progress		22,696	-	6,483	2,805	(34,076)	(2,092)
Additions		-	-	-	-	25,951	25,951
Additions on integration	33	-	1,920	15,585	16	-	17,521
Disposals		-	-	(123)	(656)	-	(779)
Transfers		-	-	(333)	337	-	4
Depreciation charge		(26,733)	-	(33,287)	(4,722)	-	(64,742)
Carrying amount at 30 June 2011		839,275	776,109	585,250	30,882	33,687	2,265,203
At 30 June 2011							
Fair value 2010		856,679	774,189	600,218	32,893	-	2,263,979
Cost		22,696	1,920	22,068	2,821	33,687	83,192
Accumulated depreciation		(40,100)	-	(37,036)	(4,832)	-	(81,968)
Net book amount		839,275	776,109	585,250	30,882	33,687	2,265,203

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

14 Property, plant and equipment (continued)

Year ended 30 June 2010	Notes	Channel assets \$'000	Land \$'000	Building and improvements \$'000	Plant and equipment \$'000	Capital works in progress \$'000	Total \$'000
Carrying amount 1 July 2009		126,517	726,702	430,192	52,055	445,866	1,781,332
Transfer from capital works in progress		458,231	1	125,682	4,933	(590,151)	(1,304)
Revaluation - Reserves	21	273,716	53,311	69,492	4,164	-	400,683
Revaluations - Comprehensive		-	128	(9,345)	(947)	-	(10,164)
Operating Statement		-	-	-	-	-	-
Transfer to Assets classified as held for sale	13	-	-	(818)	(72)	-	(890)
Additions		-	-	-	-	186,097	186,097
Disposals		-	-	(290)	(4,930)	-	(5,220)
Transfers		(39)	-	16,516	(16,447)	-	30
Reduction in provision for restoration		-	(5,953)	-	-	-	(5,953)
Depreciation charge		(15,113)	-	(34,504)	(5,654)	-	(55,271)
Carrying amount 30 June 2010		843,312	774,189	596,925	33,102	41,812	2,289,340
At 30 June 2010							
Fair value 2010		856,679	774,189	600,676	33,327	-	2,264,871
Cost		-	-	-	-	41,812	41,812
Accumulated depreciation		(13,367)	-	(3,751)	(225)	-	(17,343)
Net book amount		843,312	774,189	596,925	33,102	41,812	2,289,340

14 Property, plant and equipment (continued)

2011 Fair value assessment

A managerial assessment was undertaken on PoMC's Property, plant and equipment to determine whether their carrying amount represented a reasonable approximation of fair value.

The following basis/indices were used to undertake the assessment as at June 2011:

Class	Index	Source
Channels	Refer below	Refer below
Land	Land indices	Valuer-General Victoria
Buildings and improvements	Building price indices	Valuer-General Victoria
Plant and equipment	Consumer price indices	Australian Bureau of Statistics

As the relevant indices did not change by an amount greater than 10% it was determined that the carrying amount of Property, plant and equipment approximated fair value.

Channel assets

The fair value of channel assets was assessed using the same principles used by the Valuer-General Victoria to value the channel assets in 2010, which was the discounted cash flow method (value in use). This method was used as there was no market based evidence of fair value (value through sale) of the channel assets given the specialised nature of the assets in question (the channel assets would rarely be sold (if ever), except as part of a continuing business).

The main assumptions applied in 2011 were as follows:

- Discount rate of 9.60% was calculated using a nominal post tax weighted average cost of capital;
- Cash flows were modelled over a 30 year period in line with the timeframe consistent with PoMC's long term strategic plan;
- The terminal value was calculated using inflation indexed written down value;
- Trade forecasts and pricing factors were consistent with PoMC's 30 year funding model and Pricing Policy Statement;
- Projected expenses were in line with wage inflation and CPI of 2.5% for other expenditure items; and
- Capital expenditure was consistent with the long term strategic plan.

2010 Valuation

Independent valuations were undertaken in 2010 for Financial Reporting Purposes in accordance with the *Financial Management Act 1994* (Vic). The valuations incorporated requirements outlined in:

- AASB 116 Property Plant & Equipment; and
- FRD 103D Non-current Physical Assets, issued by The Department of Treasury and Finance.

All valuations (except for office equipment and motor vehicles) were undertaken by Valuer-General Victoria. The effective date of the valuations was 30 June 2010.

14 Property, plant and equipment (continued)

Channel assets

The fair value of channel assets was independently determined by Valuer-General Victoria using the discounted cash flow method (value in use). This method was used as there was no market based evidence of fair value (value through sale) since the channel assets would rarely be sold (if ever), except as part of a continuing business.

The main assumptions applied were as follows:

- Discount rate of 9.45% was calculated using a nominal post tax weighted average cost of capital;
- Cash flows were modelled over a 30 year period in line with the timeframe consistent with PoMC's Port Development Strategy;
- The terminal value was calculated using inflation indexed written down value;
- Trade forecasts and pricing factors were consistent with PoMC's 30 year funding model and Pricing policy statement;
- Projected expenses were in line with wage inflation and CPI of 2.5% for other expenditure items; and
- Capital expenditure was consistent with the Port Development Strategy.

Land

The fair value of land assets was independently determined by Valuer-General Victoria as the amount for which the assets can be exchanged between knowledgeable willing parties in an arms length transaction.

The main assumptions applied were as follows:

- Land assets have been assessed on a per title basis;
- Special use zoning that applies to particular land assets have been specifically considered; and
- Other factors considered included – location and neighbourhood, land area and measurement, shape of site, aspect, topography, encumbrances, access, services available, heritage related issues (if applicable), current use, highest and best use and potential for development, actual and potential capacity to yield a monetary return, comparable sales evidence and other market data.

Buildings & improvements

The fair value of buildings & improvements was independently determined by Valuer-General Victoria using the depreciated replacement cost method.

The main assumptions applied were as follows:

- Cost assessment was based on reconstruction of the buildings and improvements to a modern equivalent standard;
- Buildings and improvements have been fully maintained in a good state of repair; and
- Older buildings and improvements that exceeded their useful lives have been deemed to have extended useful lives based on continual use.

Notes	2011 \$'000	2010 \$'000
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14 Property, plant and equipment (continued)

Plant & Equipment

The fair value of plant and equipment (except for office equipment and motor vehicles) was independently determined by Valuer-General Victoria using the depreciated replacement cost method.

The assumptions applied were as follows:

- Replacement cost was the cost of replacing an existing asset at valuation date with an asset of comparable utility, employing the design and materials that are currently used in the market;
- Construction cost data was obtained from published cost guides and historical records; and
- Useful lives were determined using industry standards.

Office equipment and motor vehicles

Management determined the fair value of Office equipment and motor vehicles using the indexed depreciated replacement cost method.

The main assumptions applied were as follows:

- Effective life of the assets (reviewed annually) is accurate;
- Indexation figures will not differ significantly from March 2010 to June 2010 quarter; and
- Relevant consumer price indices were used to index the relevant assets.

15 Intangible assets

Software and systems

At cost		6,747	4,873
Accumulated amortisation		(3,445)	(2,513)
		<u>3,302</u>	<u>2,360</u>

Movement in intangible assets:

Carrying amount 1 July		2,360	1,919
Transfer from capital works in progress	14	2,092	1,304
Disposals		-	(1)
Transfers and reclassifications		-	(30)
Amortisation expense		(1,150)	(832)
Carrying amount 30 June		<u>3,302</u>	<u>2,360</u>

16 Payables

Unsecured

Trade payables		4,476	4,607
Accrued expenses		16,994	19,413
		<u>21,470</u>	<u>24,020</u>

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

2011 **2010**
\$'000 **\$'000**

17 Interest bearing liabilities

Current

Secured

Treasury Corporation of Victoria borrowings	34,661	72,308
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Non-current

Secured

Treasury Corporation of Victoria borrowings	455,488	490,149
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Interest bearing liabilities are secured by a Victorian State Government guarantee. The interest rates relating to interest bearing liabilities are at fixed rates, ranging from 5.78% to 6.99% (2010: 5.78% to 6.99%), with the effective weighted average rate 6.78% (2010: 6.74%). Non-current interest bearing liabilities have a weighted average maturity of 5.73 years (2010: 6.37 years) and are payable by 15 October 2021.

PoMC has available an overdraft facility of \$1,000,000 (2010: \$1,000,000) which was not utilised at 30 June 2011 and 2010.

18 Provisions

Current

Employee benefits - employee leave provisions (i)	5,086	5,377
Employee benefits - defined benefit superannuation fund liability (ii)	11,522	11,206
Environmental restoration feasibility studies and remediation costs (iii)	5,868	17,583
	22,476	34,166

Non-current

Employee benefits	454	250
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(i) The total amount of benefits expected to be paid to employees within 12 months after reporting date is \$4,550,988 (2010: \$4,599,094).

(ii) Refer to note 22(a) for movements in the defined benefits superannuation fund balance.

(iii) Movement in environmental restoration feasibility studies and remediation costs:

Carrying amount 1 July	17,583	26,443
Amounts utilised during the year	(3,507)	(2,908)
Provision de-recognised	(8,208)	(5,952)
Carrying amount 30 June	5,868	17,583

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
19 Other liabilities			
Income in advance		1,609	900
Other liabilities		1,353	143
		<u>2,962</u>	<u>1,043</u>

20 Contributed capital

Carrying amount 1 July		830,582	830,582
Capital contribution from integration of Port of Hastings	33	19,124	-
Carrying amount 30 June		<u>849,706</u>	<u>830,582</u>

Capital Management

PoMC manages capital risk through the monitoring and reporting of key ratios to the Board on a monthly basis including:

- Interest cover ratio
- Gearing ratio
- Leverage ratio

A key outcome for PoMC's business sustainability is to ensure that it makes a sufficient return from its operational activities and investments in infrastructure to fund the future development of the Port. The key ratios monitored are based on maintaining a minimum of a BBB credit rating and that future decisions regarding capital investment and funding requirements ensure that PoMC does not breach these key ratios. Target maximum gearing is between 40%-45%.

There have been no changes to the processes and procedures that are applied by PoMC in managing capital risk since 2010.

PoMC does not have any externally imposed debt related covenants, financial ratios or any other capital requirements.

PoMC's Treasury policy and procedures are in compliance with the Borrowing and Investment Powers Act 1987 (Vic), the Department of Treasury and Finance Treasury Management Guidelines and Standing Direction 4.5.6 "Treasury Risk Management".

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
21 Reserves and retained profits			
(a) Reserves			
Asset revaluation reserve		522,131	519,779
Cash flow hedge reserve		(10,604)	(13,620)
		<u>511,527</u>	<u>506,159</u>
Movement in asset revaluation reserve:			
Carrying amount 1 July		519,779	257,001
Revaluation - Property plant and equipment		6,848	400,683
Transfer to retained earnings on assets disposed		(791)	(336)
Tax effect charged to Comprehensive Operating Statement		(3,705)	(137,569)
Carrying amount 30 June		<u>522,131</u>	<u>519,779</u>
PoMC has a separate asset revaluation reserve for Land, Buildings and improvements, Property, plant and equipment and Channel assets. The reserves are used to record increments and decrements in the fair value of the assets net of tax effect.			
Movement in cash flow hedge reserve:			
Carrying amount 1 July		(13,620)	(14,567)
Foreign exchange forward contracts charged to other comprehensive income		-	(205)
Forward settling loans charged to other comprehensive income	25(e)	4,308	2,218
Tax effect of foreign exchange forward contracts and settling loans charged to comprehensive income		(1,292)	(1,066)
Carrying amount 30 June		<u>(10,604)</u>	<u>(13,620)</u>
This reserve records the unamortised portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.			
(b) Retained profits			
Carrying amount 1 July		87,051	127,013
Profit after income tax		38,967	27,462
Dividends paid		(13,370)	(67,760)
Transfer from asset revaluation reserve		791	336
Carrying amount 30 June		<u>113,439</u>	<u>87,051</u>

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

2011 **2010**
\$'000 **\$'000**

22 Superannuation

PoMC is the employer sponsor of a defined benefit fund for qualifying employees.

Expenses recognised by PoMC in relation to contributions made during the year to defined benefit and defined contribution superannuation plans of which PoMC's employees are members are as follows:

Port of Melbourne Superannuation Fund	1,023	1,634
Increase/(decrease) in net superannuation liability per AASB 119	316	(1,045)
Transport Superannuation Scheme	167	155
State Superannuation Scheme	72	80
Various contribution schemes	1,158	1,181
	<u>2,736</u>	<u>2,005</u>

At 30 June 2011, \$240,000 was accrued for superannuation liabilities (2010: \$0).

Defined benefit superannuation plan

A liability in respect of the Port of Melbourne Superannuation Fund is recognised in the Statement of Financial Position, and is measured as the present value of the defined benefit obligation at 30 June 2011 less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to year end, calculated annually by an independent actuary using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service.

Future taxes, such as taxes on investment income and employer contributions, are taken into account in the actuarial assumptions used to determine the relevant components of PoMC's defined benefit liability.

(a) Statement of Financial Position amounts and employer contributions

The amounts recognised in the Statement of Financial Position are determined as follows:

Present value of the defined benefits obligation	31,279	29,975
Fair value of defined benefits plan assets	(19,757)	(18,769)
Net liability in the Statement of Financial Position	<u>11,522</u>	<u>11,206</u>

The net liability in the Statement of Financial Position of \$11,522,000 (2010: \$11,206,000) has been treated as a current liability as there are no factors that can be applied to determine a current vs. non-current split. Refer to note 18.

22 Superannuation (continued)

(b) Categories of plan assets

The major categories of plan assets are as follows:

	%	%
Australian equity	36	36
International equity	19	20
Fixed income	25	25
Property	5	5
Alternative other	8	8
Cash	7	6
	<u>100</u>	<u>100</u>

The fair value of plan assets includes no amounts relating to any of PoMC's own financial instruments or any property occupied by or other assets used by PoMC.

(c) Reconciliation of opening and closing balances of the present value of the defined benefit obligation

Movements in the present value of the defined benefit obligation were as follows:

	\$'000	\$'000
Opening defined benefits plan obligation	29,975	28,358
Current services cost	763	799
Interest cost	1,365	1,328
Contributions by plan participants	118	129
Actuarial losses	48	780
Taxes, premiums and expenses paid	(329)	(459)
Benefits paid	(661)	(960)
Balance at the end of the year	<u>31,279</u>	<u>29,975</u>

22 Superannuation (continued)

(d) Reconciliation of opening and closing balances of the fair value of the defined benefit plan assets

Movements in the fair value of the defined benefit plan assets were as follows:

	\$'000	\$'000
Opening fair value of plan assets	18,769	16,107
Expected return on plan assets	1,314	1,163
Actuarial (losses)/gains	(273)	1,151
Contributions from the employer	819	1,638
Contributions from the participants	118	129
Taxes, premiums and expenses paid	(329)	(459)
Benefits paid	(661)	(960)
Balance at the end of the year	19,757	18,769

(e) Amounts recognised in Comprehensive Operating Statement of the plan

The amounts recognised in the Comprehensive Operating Statement are as follows:

	\$'000	\$'000
Current service costs	763	799
Interest cost	1,365	1,328
Expected return on plan assets	(1,314)	(1,163)
Net actuarial losses/(gains) recognised during the year	321	(371)
Total included in employee benefits expense	1,135	593

(f) Actuarial assumptions

Key assumptions used:

	%	%
Discount rate (active members) - before allowance for investment tax	5.3	5.4
Discount rate (active members) - after allowance for investment tax	4.5	4.6
Discount rate (pensioners)	5.3	5.4
Expected return on plan assets (active members)	6.7	6.7
Expected return on plan assets (pensioners)	7.7	7.2
Expected rate of salary increase	4.0	4.0
Expected rate of pension increase	2.5	2.5

The expected rate of return on assets assumption is determined by weighing the expected long term return for each asset class by the target allocation of assets to each asset class and allowing for the correlations of the investment returns between asset classes. The returns for each asset class are net of investment tax and investment fees.

22 Superannuation (continued)

(g) Actual return on plan assets

	\$'000	\$'000
Actual return on plan assets	1,041	2,314

Funding arrangements for employer contributions

(i) Contribution recommendations

Employer contributions to the defined benefit plan are based on recommendations by the plan's actuary. Actuarial assessments are made annually and the last such assessment was made at 30 June 2011.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. PoMC has no legal obligation to settle this liability with an immediate contribution or additional one off contributions.

(ii) Funding method

The method used to determine the employer contribution recommendations at the last actuarial review was the aggregate funding method. The method adopted affects the timing of the cost to PoMC.

(iii) Economic assumptions

The long term economic assumptions adopted for the last actuarial review of the plan were:

	%	%
Expected rate of return on plan assets (discount rate)	6.7	6.7
Expected salary increase rate	4.0	4.0

22 Superannuation (continued)

(iv) Nature of asset/liability

The Port of Melbourne Superannuation Fund does not impose a legal liability on PoMC to cover any deficit that exists in the fund. If the fund were wound up, there would be no legal obligation on PoMC to make good any shortfall. The Trust Deed of the fund states that if the fund winds up, the remaining assets are to be distributed by the Trustee of the fund in an equitable manner as it sees fit.

PoMC may, at any time by notice to the Trustee, terminate its contributions. PoMC has a liability to pay the contributions due before the effective date of the notice, but there is no requirement for it to pay further contributions, irrespective of the financial condition of the fund.

However PoMC does have a constructive obligation for the fund and therefore has recognised a current liability in the Statement of Financial Position in respect of its defined benefit superannuation arrangements. Refer to note 18.

(h) Historic summary

	2011	2010	2009	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Defined benefits plan obligation	31,279	29,975	28,358	21,336	22,828
Plan assets	19,757	18,769	16,107	17,958	19,987
Deficit in plan assets	<u>11,522</u>	<u>11,206</u>	<u>12,251</u>	<u>3,378</u>	<u>2,841</u>
Experience adjustments (gains)/losses arising on plan assets	273	(1,151)	3,168	3,530	(1,345)
Experience adjustments (gains)/losses arising on plan liabilities	(393)	(285)	993	812	471

2011
\$'000

2010
\$'000

23 Key management personnel disclosures

(a) Responsible persons

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

Responsible ministers:

The Hon Dr Denis Napthine MP (term commenced 8 December 2010)	<i>Minister for Ports</i>
The Hon K Wells MP (term commenced 8 December 2010)	<i>Treasurer of Victoria</i>
Mr T Pallas MP (term ended 8 December 2010)	<i>Minister for Roads and Ports</i>
Mr J Lenders MP (term ended 8 December 2010)	<i>Treasurer of Victoria</i>

Directors:

Mr W I Scales AO	<i>Chairman</i>
Mr J Cain (term commenced 1 July 2010)	<i>Deputy Chairman</i>
Ms P M Benson	
Ms J Bonnington (term commenced 1 July 2010)	
Mr D B Cranwell	
Mr D Powell	
Mr I C Robins	
Ms M Sussex AM	
Mr F Williamson	

Accountable Officer:

Mr S G Bradford

Responsible persons' remuneration (*)

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

Total remuneration paid or payable during the year by PoMC to all responsible persons	1,313,003	880,459
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As at 30 June 2011, the CEO was entitled to a remuneration package including a salary of \$386,400 (2010: \$375,100) and a potential annual incentive based bonus of up to 20% of salary. In addition, a retention payment linked to meeting pre-determined performance criteria relating to the Channel Deepening Project of \$367,598 was paid.

Total base remuneration paid or payable during the year pursuant to employment contracts included in the above total remuneration (exclusive of bonus payments, retention payments, long service leave payments, redundancy payments and retirement benefits)	875,853	814,816
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Total bonus paid or payable during the year pursuant to employment contracts included in the above total remuneration	437,150	65,643
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23 Key management personnel disclosures(continued)

There were no long service leave payments, redundancy payments and retirement benefits paid or payable during the year pursuant to employment contracts included in the above total remuneration.

Responsible persons' retirement benefits

	\$'000	\$'000
Total superannuation paid or payable by PoMC in connection with the retirement of responsible persons	177,468	211,610

The number of responsible persons whose annual base remuneration from PoMC fell within the following bands:

	No.	No.
\$20,000 to \$29,999	-	3
\$40,000 to \$49,999	8	6
\$80,000 to \$89,999	-	1
\$90,000 to \$99,999	1	-
\$370,000 to \$379,999	-	1
\$400,000 to \$409,999	1	-
	<u>10</u>	<u>11</u>

The number of responsible persons whose total annual remuneration from PoMC fell within the following bands:

	No.	No.
\$20,000 to \$29,999	-	3
\$40,000 to \$49,999	8	6
\$80,000 to \$89,999	-	1
\$90,000 to \$99,999	1	-
\$440,000 to \$449,999	-	1
\$830,000 to \$839,999	1	-
	<u>10</u>	<u>11</u>

23 Key management personnel disclosures(continued)

(b) Executive officers' remuneration

The executive officers' remuneration details noted below do not include the Accountable Officer (CEO). The CEO's remuneration details are presented in note 23(a).

	\$'000	\$'000
Total remuneration paid or payable during the year by PoMC to executive officers whose remuneration exceeded \$100,000	<u>2,047,122</u>	<u>1,840,909</u>
Total base remuneration paid or payable during the year pursuant to employment contracts included in the above total remuneration (exclusive of bonus payments, retention payments, long service leave payments, redundancy payments and retirement benefits)	<u>1,509,769</u>	<u>1,571,539</u>
Total bonus paid or payable during the year pursuant to employment contracts included in the above total remuneration	<u>537,353</u>	<u>269,370</u>
Total long service leave payments, redundancy payments and retirement benefits paid or payable during the year pursuant to employment contracts included in the above total remuneration	<u>192,838</u>	<u>-</u>

Bonuses paid or payable during the year pursuant to employment contracts are based on short term (annual) incentive program. In addition, a retention payment linked to meeting pre-determined performance criteria relating to the Channel Deepening Project of \$291,354 was paid to one of the executive officers.

The number of executive officers whose annual base remuneration from PoMC fell within the following bands:

	No.	No.
\$180,000 to \$189,999	1	-
\$220,000 to \$229,999	-	1
\$230,000 to \$239,999	-	2
\$240,000 to \$249,999	1	1
\$250,000 to \$259,999	2	-
\$270,000 to \$279,999	1	-
\$280,000 to \$289,999	-	1
\$290,000 to \$299,999	1	-
\$350,000 to \$359,999	-	1
	<u>6</u>	<u>6</u>

23 Key management personnel disclosures(continued)

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

	No.	No.
\$190,000 to \$199,999	1	-
\$260,000 to \$269,999	-	1
\$270,000 to \$279,999	-	2
\$280,000 to \$289,999	1	1
\$290,000 to \$299,999	1	-
\$300,000 to \$309,999	1	-
\$320,000 to \$329,999	1	-
\$330,000 to \$339,999	-	1
\$400,000 to \$409,999	-	1
\$630,000 to \$639,999	1	-
	6	6

Executives disclosed are defined as those occupying a management role under FRD 21A. In addition there are 32 other staff on executive contracts (2010: 34).

(c) Loans

There were no loans in existence between PoMC and responsible persons or related parties at the date of this report (2010: Nil).

(d) Other transactions of responsible persons and their related entities

Mr B Scales AO is Chancellor of Swinburne University of Technology which provided training and education services to PoMC during the year. Expenses incurred in 2011 \$47,050 (2010: \$7,315).

Mr D Powell's son is employed by PricewaterhouseCoopers which provided consulting services to PoMC during the year. Expenses incurred in 2011 \$693,021 (2010: \$1,547,548).

Mr S G Bradford is a director of Through Transport Mutual Insurance Association Limited ("TTMIAL"). This entity provided insurance to PoMC and seeks to appoint directors from within its membership base. During 2010 - 2011, Mr Bradford's daughter commenced employment with Pitcher Partners which provided consulting services to PoMC. Expenses incurred in 2011, Pitcher Partners \$63,220 (2010: Nil), TTMIAL \$197,136 (2010: \$148,090).

The terms and conditions of transactions entered into with 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 other entities on an arm's length basis.

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
24 Remuneration of auditors			
During the year the following fees were paid or payable for services provided by the auditors of PoMC:			
Victorian Auditor-General's Office			
Audit of financial reports		67,990	67,150
25 Financial Instruments			
Details of significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instruments are disclosed in note 1 to the financial statements.			
(a) Categorisation of financial instruments			
Contractual financial assets			
Loans and receivables			
<i>Current assets</i>			
Cash and cash equivalents	10	41,147	45,932
Receivables - Trade receivables	11	14,241	14,585
Receivables - Finance leases	11	542	1,968
<i>Non-current assets</i>			
Receivables - Finance leases	11	-	542
Receivables - Related parties	11	-	1,562
Total loans and receivables		55,930	64,589
Contractual financial liabilities			
Liabilities at amortised cost			
<i>Current liabilities</i>			
Payables	16	21,470	24,020
Interest bearing liabilities	17	34,661	72,308
<i>Non-current liabilities</i>			
Interest bearing liabilities	17	455,488	490,149
Total liabilities at amortised cost		511,619	586,477
Net holding gain/(loss) on financial instruments by category			
Interest income on financial assets	3	2,370	4,326
Interest expense on financial liabilities	9	(34,339)	(32,801)
Total		(31,969)	(28,475)

25 Financial Instruments (continued)

(b) Credit quality of contractual financial assets that are neither past due nor impaired

2011	Notes	Credit rating AAA	Credit rating other than AAA	Total
<i>Current assets</i>				
Cash and cash equivalents	10	41,147	-	41,147
Receivables - Trade receivables	11	-	14,241	14,241
Receivables - Finance leases	11	-	542	542
<i>Non-current assets</i>				
Receivables - Finance leases	11	-	-	-
Receivables - Related parties	11	-	-	-
		<u>41,147</u>	<u>14,783</u>	<u>55,930</u>
2010				
<i>Current assets</i>				
Cash and cash equivalents	10	45,932	-	45,932
Receivables - Trade receivables	11	-	14,585	14,585
Receivables - Finance leases	11	-	1,968	1,968
<i>Non-current assets</i>				
Receivables - Finance leases	11	-	542	542
Receivables - Related parties	11	-	1,562	1,562
		<u>45,932</u>	<u>18,657</u>	<u>64,589</u>

(c) Credit Risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to PoMC. The credit risk relating to PoMC'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.

PoMC actively manages its credit risk using a range of processes and procedures. These include performing credit checks for new and existing customers as required, obtaining bank guarantees where considered appropriate and monitoring the performance of significant trading partners on an ongoing basis.

The provision for impairment of financial assets is calculated based on past experience, and current and expected changes in clients' credit ratings. An aging analysis is provided in note 11 to outline PoMC's exposure to credit risk.

Notes	2011 \$'000	2010 \$'000
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25 Financial Instruments (continued)

(d) Market risk

Market risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risk. PoMC's policy is to continuously monitor its exposure to market risk arising from existing and future transactions.

PoMC is not exposed to currency risk since its operative functional currency is the Australian Dollar, PoMC's loans have fixed rates therefore are not subject to interest rate risk exposure and PoMC is not exposed to any other price risk. There is no requirement to disclose sensitivity analysis given PoMC's lack of exposure to market risk.

(e) Derivative instruments used by PoMC

Cash flow hedges

In order to protect against rising interest rates PoMC entered into forward settling loans under which it had a right to pay interest at fixed rates. The forward settling loans were measured at fair value and all gains and losses attributable to the hedged risk were taken directly to equity and is amortised as the interest expense is recognised. All forward settling loans were drawn down by 30 June 2010.

Movements in cash flow reserve:

Carrying amount 1 July		(13,620)	(14,567)
Foreign exchange forward contracts charged to other comprehensive income		-	(205)
Forward settling loans charged to other comprehensive income	21(a)	4,308	2,218
Tax effect of foreign exchange forward contracts and settling loans charged to comprehensive income		(1,292)	(1,066)
Carrying amount 30 June		<u>(10,604)</u>	<u>(13,620)</u>
Gain/(loss) transferred to Comprehensive Operating Statement		-	(63)

(f) Financial Risk Management

PoMC maintains a comprehensive Risk Management System which is integrated with its business planning processes. There is a formally documented Risk Management Policy, numerous guidelines and a framework which are consistently applied across all levels of the business. A quarterly risk assessment report is presented to the Risk Committee and the Board outlining all corporate risks including financial risks. Each risk is assessed regularly against the risk matrix to ensure the level of risk is appropriate and the treatment and controls are adequate.

25 Financial Instruments (continued)

(g) Liquidity risk

Liquidity risk is the risk that PoMC will be unable to meet its financial obligations as and when they fall due. PoMC's manages its liquidity risk to ensure that adequate cash funds are available at all times to meet its commitments as they arise. This objective is met through:

- sound cash management practices;
- regular identification and monitoring of the maturity profile of liquid assets and liabilities together with regular cash flow forecasting;
- having sufficient overdraft facilities; and
- investments that are limited to highly liquid and secure assets.

The Treasury Corporation of Victoria ensures adequate access to financial markets for PoMC and hence, the liquidity risk faced by PoMC is not considered significant.

25 Financial Instruments (continued)

(h) Net fair value of financial assets and liabilities

The net fair value of PoMC's cash and deposits and non-interest bearing financial assets and liabilities is equal to their carrying value. The net fair value of PoMC'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.

Comparison between carrying amount and fair value

	Notes	Carrying amount 2011 \$'000	Fair value 2011 \$'000	Carrying amount 2010 \$'000	Fair value 2010 \$'000
Contractual financial assets					
<i>Current assets</i>					
Cash and cash equivalents	10	41,147	41,147	45,932	45,932
Receivables - Trade receivables	11	14,241	14,241	14,585	14,585
Receivables - Finance leases	11	542	542	1,968	1,968
<i>Non-current assets</i>					
Receivables - Finance leases	11	-	-	542	542
Receivables - Related parties	11	-	-	1,562	1,562
		<u>55,930</u>	<u>55,930</u>	<u>64,589</u>	<u>64,589</u>
Contractual financial liabilities					
<i>Current liabilities</i>					
Payables	16	21,470	21,470	24,020	24,020
Interest bearing liabilities	17	34,661	31,821	72,308	69,488
<i>Non-current liabilities</i>					
Interest bearing liabilities	17	455,488	476,370	490,149	513,135
		<u>511,619</u>	<u>529,661</u>	<u>586,477</u>	<u>606,643</u>

Fair value measurement in the Statement of Financial Position

A fair value analysis for various levels (based on the degree to which fair value is observable) has not been provided since there are no qualifying derivatives or other financial assets requiring fair value measurement subsequent to acquisition at 30 June 2011 (2010: Nil).

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

25 Financial Instruments (continued)

(i) Interest rate risk and financial liability and financial asset maturity analysis

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

2011	Floating interest \$'000	1 year or less \$'000	over 1-2 years \$'000	over 2-3 years \$'000	over 3-4 years \$'000	over 4-5 years \$'000	over 5 years \$'000	Fixed interest maturing in:		Total \$'000
								Non-interest bearing 1 year or less \$'000	Non-interest bearing 1 year or less \$'000	
Financial assets										
Cash and cash equivalents	41,147	-	-	-	-	-	-	-	-	41,147
Receivables - Trade receivables	-	-	-	-	-	-	-	-	14,241	14,241
Receivables - Finance leases	-	542	-	-	-	-	-	-	-	542
	41,147	542	-	-	-	-	-	14,241	-	55,930
<i>Weighted average interest rate</i>	4.76%	16.00%	-%	-%	-%	-%	-%	-%	-%	-%
Financial liabilities										
Payables	-	-	-	-	-	-	-	-	21,470	21,470
Interest bearing liabilities	-	34,661	61,923	44,450	54,074	61,459	233,582	-	-	490,149
	-	34,661	61,923	44,450	54,074	61,459	233,582	21,470	-	511,619
<i>Weighted average interest rate</i>	-%	6.56%	6.70%	6.43%	6.80%	6.83%	6.81%	-%	-%	-%
Net financial assets/(liabilities)	41,147	(34,119)	(61,923)	(44,450)	(54,074)	(61,459)	(233,582)	(7,229)	(455,689)	

25 Financial Instruments (continued)

(i) Interest rate risk and financial liability and financial asset maturity analysis (continued)

	Fixed interest maturing in:										Non- interest bearing 1 year or less \$'000	Total \$'000
	Floating interest \$'000	1 year or less \$'000	over 1-2 years \$'000	over 2-3 years \$'000	over 3-4 years \$'000	over 4-5 years \$'000	over 5 years \$'000					
2010												
Financial assets												
Cash and cash equivalents	45,932	-	-	-	-	-	-	-	-	-	-	45,932
Receivables - Trade receivables	-	-	-	-	-	-	-	-	-	-	16,147	16,147
Receivables - Finance leases	-	1,968	542	-	-	-	-	-	-	-	-	2,510
	45,932	1,968	542	-	-	-	-	-	-	-	16,147	64,589
<i>Weighted average interest rate</i>	4.63%	16.00%	16.00%	-%	-%	-%	-%	-%	-%	-%	-%	-%
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	-	-	24,020	24,020
Interest bearing liabilities	-	72,308	34,661	61,923	44,450	54,074	295,041	-	-	-	-	562,457
	-	72,308	34,661	61,923	44,450	54,074	295,041	6.91%	6.72%	6.75%	24,020	586,477
<i>Weighted average interest rate</i>	-%	6.51%	6.87%	6.83%	6.72%	6.91%	6.75%	6.91%	6.72%	6.75%	-%	-%
Net financial assets/(liabilities)	45,932	(70,340)	(34,119)	(61,923)	(44,450)	(54,074)	(295,041)				(7,873)	(521,888)

26 Contingencies

Legal proceedings have been initiated against PoMC in relation to two separate matters: one is personal injury related and the other relates to a contract dispute. PoMC is contesting the claims made against it in both legal proceedings. At the certification date of the financial statements, PoMC is unable to assess the probability of success of these claims.

PoMC is aware of possible contamination in relation to its land and has made provision for restoration costs where sufficient information is available (refer to note 1(r)). As at the certification date of the financial statements, PoMC is unable to determine the total extent of potential contamination or restoration costs.

On 5 February 2008, The Treasury Corporation of Victoria (TCV) executed a Deed of Guarantee in favour of the Minister for Environment and Climate Change to pay on demand up to \$100 million for Recovery. A Deed of Indemnity was executed on the same day by PoMC in favour of TCV to pay TCV the same amount that TCV has paid to the Minister under the guarantee.

This contingent liability continues until the earlier of:

- TCV receives a notice from the Minister for Environment and Climate Change that the guarantee is no longer required;
- the \$100,000,000 has been paid in full; or
- 5 December 2012.

Management is of the opinion that provisions are not required in respect of the above matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of accurate assessment.

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

2011
\$'000

2010
\$'000

27 Commitments for expenditure

(a) Capital expenditure commitments

Commitments for the construction and acquisition of infrastructure, property, plant and equipment, contracted for at balance date but not incurred or recognised as liabilities:

- within one year	12,462	14,823
- later than one year but not later than five years	605	14
	<u>13,067</u>	<u>14,837</u>

Commitments for the acquisition of intangible assets contracted for at balance date but not incurred or recognised as liabilities:

- within one year	-	606
- later than one year but not later than five years	-	-
	<u>-</u>	<u>606</u>

(b) Operating expenditure commitments (excluding lease commitments)

Commitments for the payments of operating expenditure excluding lease commitments contracted for at balance date but not incurred or recognised as liabilities:

- within one year	4,069	6,567
- later than one year but not later than five years	1,310	5,225
	<u>5,379</u>	<u>11,792</u>

2011
\$'000

2010
\$'000

28 Leases

(a) Operating leases

Non-cancellable operating lease receivable

- within one year	46,729	39,429
- later than one year but not later than five years	130,431	115,054
- later than five years	169,228	195,508
	<u>346,388</u>	<u>349,991</u>

PoMC has entered into a number of long and short term leases and preferential berthing licences for land, buildings and infrastructure. The leases and licences terms range from 1 year and up to 25 years or more in some cases.

Longer term leases are entered into where PoMC requires the tenant to invest substantial capital to improve the land and provide infrastructure. Ministerial approval is required for leases with terms greater than 25 years in duration which includes an option term.

Generally rental income under leases is reviewed to market at two or three yearly intervals. Some leases provide for annual or bi-annual CPI reviews or an agreed fixed increase.

Non-cancellable operating lease payable

- within one year	2,555	2,357
- later than one year but not later than five years	9,759	9,075
- later than five years	2,794	4,782
	<u>15,108</u>	<u>16,214</u>

PoMC leases various offices and equipment under non-cancellable operating leases expiring within 1 to 6 years. The leases have varying terms and on renewal of the leases, are negotiated.

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
28 Leases (continued)			
(b) Finance leases			
<i>Finance leases receivable</i>			
- within one year		564	2,256
- later than one year but not later than five years		-	563
Minimum future lease receivables		<u>564</u>	<u>2,819</u>
Future finance lease revenue		<u>(22)</u>	<u>(309)</u>
Net direct finance lease asset		<u>542</u>	<u>2,510</u>
Included in the financial statements			
Current receivables	11	542	1,968
Non-current receivables	11	-	542
		<u>542</u>	<u>2,510</u>

Finance lease relates to a building paid for by PoMC which is being paid back by the tenant over the property lease term of 10 years.

Direct finance leases have an imputed interest rate of 16% (2010: 16%).

The present value of the minimum lease payments receivable is \$542,000 (2010: \$2,510,000).

29 Related party transactions

The Victorian State Government prepares consolidated financial statements relating to its controlled entities. For the purpose of preparing the State government's financial statements, transactions which PoMC has undertaken with other State Government controlled entities have been eliminated in the State Government's statements.

The aggregate amounts of PoMC's transactions conducted during the year and its assets and liabilities at the end of the year which relate to State Government controlled entities are as follows:

Operating revenue	1,052	1,122
Operating expenses	10,320	9,679
Finance charges	38,244	36,638
Dividend paid	13,370	67,760
Income tax paid	20,075	28,302
Assets	34,029	47,086
Liabilities	496,481	564,502
Equity transfer	19,124	-

Port of Melbourne Corporation
Notes to the Financial Statements
For the year ended 30 June 2011

2011 **2010**
\$'000 **\$'000**

30 Events occurring after the reporting period

The Victorian Government has expressed its intention to introduce draft legislation to transfer the operations of Port of Hastings to a new entity.

At the time of signing these Financial Statements, legislation had not been introduced.*

There are no other matters that have arisen since 30 June 2011 that have significantly affected or may significantly affect the operations, or results, or state of affairs of PoMC.

31 Reconciliation of profit after income tax to net cash inflow from operating activities

Profit for the year	38,967	27,462
Non-cash movements in income and expense		
Depreciation and amortisation	65,892	56,103
Loss on sale of non-current assets	1	1,136
Revaluation adjustment (gain)/loss on Property, plant and equipment	(908)	10,649
Net exchange differences	-	63
Related party non-recoverable receivable written off	5,468	-
Change in operating assets and liabilities		
Decrease/(increase) in receivables	2,337	(2,142)
Decrease/(increase) in deferred tax assets	986	(4,969)
Decrease in other operating assets	271	7,510
(Decrease)/increase in payables	(2,211)	4,167
Increase/(decrease) in provision for income taxes payable	2,223	(9,223)
(Decrease) in deferred tax liabilities	(8,029)	(5,361)
(Decrease) in current provisions	(526)	(3,833)
Increase/(decrease) in non current provisions	177	(92)
Increase in other liabilities	1,561	1,831
Net cash inflow from operating activities	<u>106,209</u>	<u>83,301</u>

(a) Non-cash investing activities

Refer to note 33 for details of net assets integrated from PoHC into PoMC for nil consideration.

32 Assets and liabilities transfers between public sector entities

Contributions from the Department of Transport

The Port of Hastings Corporation's assets and liabilities were integrated into PoMC on 1 September 2010. Refer to note 33 for further details (2010: None).

Transfer of assets to the Department of Transport

There were no transfers of assets for the year ended 30 June 2011 (2010: None).

* Erratum: The sentence should read, "At the time of signing these Financial Statements, legislation had not been passed by the Victorian Parliament."

33 Integration of Port of Hastings Corporation into Port of Melbourne Corporation

The Port of Hastings Corporation (PoHC) was integrated with PoMC effective on 1 September 2010 by the *Transport Legislation Amendment (Ports Integration) Act 2010* (Vic) and all assets and liabilities were transferred to PoMC. Accordingly, PoHC was abolished and PoMC became the successor in law of the Port of Hastings Corporation.

In accordance with section 53(1)(b) of the *Financial Management Act 1994* (Vic), the Minister for Finance provided PoHC with an exemption from preparing the report of operations and financial statements for the 2 months prior to integration with PoMC. Instead a performance summary of PoHC for the period 1 July to 31 August 2010 has been prepared as outlined below:

(a) Net Assets

The following net assets were integrated from PoHC into PoMC at the close of business on 31 August 2010 and treated as an equity contribution in PoMC's accounts:

	\$'000
Current assets	
Cash and cash equivalents	2,896
Receivables	25
Other assets	113
	<u>3,034</u>
Non-current assets	
Property, plant and equipment	17,521
	<u>17,521</u>
Total assets	<u>20,555</u>
Current liabilities	
Payables	70
Deferred income	1,305
Provisions	30
	<u>1,405</u>
Non-current liabilities	
Provisions	26
	<u>26</u>
Total liabilities	<u>1,431</u>
NET ASSETS	<u>19,124</u>

33 Integration of Port of Hastings Corporation into Port of Melbourne Corporation (continued)

(b) Operating performance

The operating performance of PoHC for the period 1 July to 31 August 2010 was as follows:

	\$'000
Continuing operation	
Revenue	201
Expenses	(340)
Loss for the period	<u>(139)</u>
Total comprehensive loss for the period	<u>(139)</u>

The above operating results and net assets were prepared using the accounting policies outlined in note 1 of these financial statements.

The above operating results are not consolidated into PoMC's Comprehensive Operating Statement as they represent PoHC's performance prior to PoMC being the successor in law of PoHC's operations. These details have been provided for disclosure purposes only.

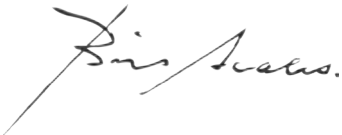
Port of Melbourne Corporation
Certification of financial report
30 June 2011

We certify that the attached financial report for Port of Melbourne Corporation has been prepared in accordance with the Standing Direction 4.2 of the *Financial Management Act 1994* (Vic), applicable Financial Reporting Directions, Australian Accounting Standards, including Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Comprehensive Operating Statement, Statement of Financial Position, Statement of Changes in Equity, 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 2011 and financial position of the Port of Melbourne Corporation as at 30 June 2011.

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

We authorise the attached financial statements for issue on 10 August 2011.



Mr Bill Scales AO
Chairman
10 August 2011



Mr S G Bradford
Chief Executive Officer
10 August 2011



Ms K L Excell
Executive General Manager Commercial
10 August 2011

Auditor-General's Report

VAGO

Victorian Auditor-General's Office

INDEPENDENT AUDITOR'S REPORT

To the Board Members, Port of Melbourne Corporation

The Financial Report

The accompanying financial report for the year ended 30 June 2011 of the Port of Melbourne Corporation which comprises the comprehensive operating statement, statement of financial position, statement of changes in equity, statement of cash flows, notes comprising a summary of significant accounting policies and other explanatory information, and the certification of financial report, has been audited.

The Board Members' Responsibility for the Financial Report

The Board Members of the Port of Melbourne Corporation are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board Members' determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board Members, as well as evaluating the overall presentation of the financial report.

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

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 and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Auditor-General's Report

VAGO

Victorian Auditor-General's Office

Independent Auditor's Report (continued)

Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Port of Melbourne Corporation as at 30 June 2011 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Port of Melbourne Corporation for the year ended 30 June 2011 included both in the Port of Melbourne Corporation's annual report and on the website. The Board Members of the Port of Melbourne Corporation are responsible for the integrity of the Port of Melbourne Corporation's website. I have not been engaged to report on the integrity of the Port of Melbourne Corporation's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE
12 August 2011



D D R Pearson
Auditor-General

Compliance index

DISCLOSURE INDEX (FRD 10)		Page
Charter and purpose		
FRD 22B	Manner of establishment and the relevant Ministers	11
FRD 22B	Objectives, functions, powers and duties including link to summary of objectives, program and achievements	41-43, 54-65
FRD 22B	Nature and range of services provided	62
Management and structure		
FRD 22B	Organisational structure	24-25
Financial and other information		
FRD 10	Application and operation of the <i>Information Privacy Act 2001 (Vic)</i>	46
FRD 10	Disclosure index	127
FRD 10	Ministerial Directions pursuant to Sections 163 and 141H of the <i>Transport Integration Act 2010 (Vic)</i>	12
FRD 10	Statement of Corporate Intent (Section 44 of the <i>Port Services Act 1995 (Vic)</i>)	49-67
FRD 22B	Operational and budgetary objectives and performance against objectives	64-67
FRD 22B	Employment and conduct principles and workforce data	22-23
FRD 22B	Occupational health and safety policy	23
FRD 22B	Sustainability - environmental performance	38
FRD 22B	Summary of the financial results for the year	30
FRD 22B	Significant changes in financial position during the year	28
FRD 22B	Analysis of operating results and financial position	28-29
FRD 22B	Subsequent events	121
FRD 22B	Application and operation of <i>Freedom of Information Act 1982 (Vic)</i>	47
FRD 22B	Compliance with building and maintenance provisions of <i>Building Act 1993 (Vic)</i>	47
FRD 22B	Statement on National Competition Policy	44
FRD 22B	Application and operation of the <i>Whistleblowers Protection Act 2001 (Vic)</i>	46
FRD 22B	Details of consultancies over \$100,000	45
FRD 22B	Details of consultancies under \$100,000	45
FRD 22B	Statement of availability of other information	47
FRD 25A	Victorian Industry Participation Policy disclosures	44
FRD 30A	Standard Requirements for the design and print of annual reports	1-128
Standing Directions of the Minister for Finance under the Financial Management Act 1994 (Vic) – other information		
SD 2.2 (f)	Audit Committee- independence of committee members	18
SD 4.5.5	Victorian Government Risk Management Framework Attestation	44
Financial Report		
Standing Direction 4.2 of the Minister for Finance under the Financial Management Act 1994 (Vic) (FMA) - Reporting Requirements under Part 7 of the FMA		
Financial statements		
SD4.2(a)	Statement of Changes in Equity	72
SD4.2(b)	Comprehensive Operating Statement	70
SD4.2(b)	Statement of Financial Position	71
SD4.2(b)	Statement of Cash Flows	73

Compliance index

Other requirements		Page
SD4.2(b)	Notes to financial statements	74-123
SD4.2(a)	Compliance with Ministerial Directions	74
SD4.2(a)	Compliance with Australian accounting standards and other authoritative pronouncements	74
SD4.2(c)	Accountable officer's declaration	124
SD4.2(d)	Rounding of amounts	84
Other disclosures as required by Financial Reporting Directions in the notes to the financial statements		
FRD 3A	Accounting for Dividends	89
FRD 17A	Long Service Leave, Wage Inflation & Discount Rates	83-84
FRD 21A	Responsible person and executive officer disclosures	106-109
FRD 100	Financial Reporting Directions	124
FRD 103D	Non Current Physical Assets	79-81
FRD 104	Foreign Currency	75
FRD 105A	Borrowing Costs	82
FRD 106	Impairment of Assets	75
FRD 108	Classification of Entities as For-Profit	74
FRD 109	Intangible Assets	81
FRD 110	Statement of Cash Flows	73
FRD 112C	Defined Benefits Superannuation Obligations	101-105
FRD 114A	Financial Instruments	110-116
FRD 119	Contributions by Owners	121
Legislation		
	<i>Building Act 1993 (Vic)</i>	47
	<i>Financial Management Act 1994 (Vic)</i>	74
	<i>Freedom of Information Act 1982 (Vic)</i>	47
	<i>Information Privacy Act 2001 (Vic)</i>	46
	<i>Port Management Act 1995 (Vic)</i>	41
	<i>Transport Integration Act 2010 (Vic)</i>	41-43
	<i>Victorian Industry Participation Policy Act 2003 (Vic)</i>	44
	<i>Whistleblowers Protection Act 2001 (Vic)</i>	46

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