

ANNUAL REPORT

2003/04



PERFORMANCE OVERVIEW



The Corporation prepared a 2003/04 – 2005/06 Corporate Plan which included the following key strategic outcomes – Customer Focus, Logistics Network, Economic and Financial Performance, Licence to Operate and People.

The following summarises the achievements of the Corporation for each of these outcomes during the year.

Customer focus

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

- Two new shipping lines (Lykes Lines and Gold Star Line) established calls at the port increasing the level of choice and service frequency for importers and exporters.
- The Vessel Sharing Agreement service to the US west coast ceased its direct calls to Flinders Port in Adelaide in February 2004. This has resulted in an additional 17,800 TEU of trade for Melbourne and a revenue gain of approximately \$0.5 million per annum to the Corporation.
- Neptune Shipping Line vessel *Captaine Wallis* has started to call at the Port of Melbourne to load 2000 tonnes of rice per month. This cargo previously loaded out of the GrainCorp facility at Geelong.
- The first cargo of 15,800 tonnes of pumice stone, a new trade secured for the port, was discharged at Yarraville in January 2004. This trade has a potential import throughput of 140,000 tonnes per year.
- The Corporation has held a number of customer forums in Melbourne and in regional Victoria for representatives of shipping lines and their agents, bulk and breakbulk cargo owners and third party service providers. The forums provided updates on port developments, channel deepening, port security, road and rail transport services, changes to electronic reporting and operational matters at both Patrick Stevedores and P&O Ports.
- As a result of marketing in the Griffith area in New South Wales, an increased volume of containerised wine and rice – including bulk and breakbulk rice – has resulted in Pacific National / Patrick Portlink introducing five return rail services to Melbourne per week.

Logistics network



Supporting world class facilities, systems and services through innovation.

- Westgate Ports Pty Ltd were appointed as the preferred developer of Victoria Dock, culminating in an agreement to redevelop the 17.5 hectare site into an \$80 million world class cargo facility.
- More than \$72 million of private sector funds were invested in the port at container, general and bulk cargo facilities.
- The Corporation invested \$28.2 million in land, new infrastructure and the upgrade of existing infrastructure to extend the life of these assets.
- More than \$4 million of wharf maintenance and upgrade works was undertaken at Appleton Dock and Swanson Dock berths, which will extend the life of the berths by a further 40 years and accommodate future developments.
- A \$5.5 million project started which involves extending Mackenzie Road from Coode Road to Sims Street. This will facilitate the closure of Coode Road West to help P&O Ports link their rail and container terminals. This required the relocation of underground services to allow for the lowering of Sims Street at Shepard Bridge by 0.5 metre.
- A high resolution Multi-Beam Echo Sounder System was installed on the Corporation's dedicated survey vessel, *Shearwater*. This new technology will enable the port to obtain high resolution imagery of the sea bed and assist the safe passage of ships through the channels.
- A new Satellite Positioning System was installed, with base stations established at Williamstown and Queenscliff. This will provide precise real-time positioning of the hydrographic survey vessel and any dredging activities in Port Phillip Bay. This system will also ensure the maximum benefit is obtained from the Multi-Beam Echo Sounder.
- Major pile repair works were completed at E Appleton Dock. These timber wharf support piles are part of the wharf structure leased to Australian National Line (ANL).
- As part of the navigation beacon management, the beacon-top structures and lights were replaced with new units at Beacons 75 and 76 in the Port of Melbourne Channel.
- Major pavement repairs were undertaken at B, C and E Appleton Dock and 24 Victoria Dock to provide a safer surface for operations and prevent the ponding of stormwater.
- Minor maintenance dredging was conducted in berths and docks in the port between April and May 2004 under the provisions of the ten year *Coastal Management Act* consent for minor maintenance dredging.
- The statutory planning process for the reinstatement of rail to Webb Dock started with the formation of the Technical Reference Group in June 2004.

Economic and financial performance

A profitable and financially independent organisation with the capacity to fund long-term port-related infrastructure and services necessary to support economic growth.

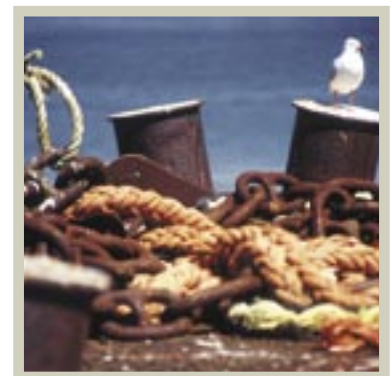
- Upon establishment of the Corporation, \$631 million of net assets were transferred to the Corporation. On transfer of the channels' operating business from VCA, a further \$95 million of assets were transferred. The closing balance sheet indicates that net assets are \$746 million. Total long term borrowings are \$67 million.
- The Corporation recorded a profit of \$8.1 million for the year after charging \$14.8 million of costs relating to the preliminary design studies for the channel deepening project. The Corporation has funded the channel deepening project and other capital expenditures from internally generated cash flow. Future expenditure on the channel deepening project is expected to be funded from long-term borrowings supported by a port pricing model focused on port operators who will benefit from the project.
- During the year, the Essential Services Commission's decision on port pricing for 2004/05 recognised the expanded role of the port under amendments to the *Port Services Act 1995* and allowed for the recovery of increased operating costs relating to security. The Commission also investigated the future pricing regime beyond 2005 and recommended a "light handed" approach to future pricing. The Victorian Government is considering the recommendation, which is seen by the Corporation as an essential first step in establishing a pricing regime that encourages long term investment in port related infrastructure and services.
- The focus of the year's internal audit was the transfer and integration of channel operations and staff, development of business continuity plans and compliance with the requirements of the Financial Management Compliance Framework as required under the *Financial Management Act 1994*. The Corporation's compliance disclosure reported full compliance for 27 of the 29 Ministerial Directions and partial compliance on the remaining two requirements.
- At the end of the financial year, the Corporation sought a new internal audit provider and has appointed Acumen Alliance to this role for the next three years.
- The Corporation has continued its investment to facilitate the development of electronic commerce in conjunction with industry. The Corporation has undertaken this initiative to reduce its cost structure and those of port users. Projects have been widely accepted and have delivered substantial efficiencies.

Licence to operate

Management and development of the port to provide a high level of physical security and economically, socially and environmentally sustainable outcomes.

- A study was conducted to measure the on-shore and offshore impacts of ship induced waves, following concerns raised by some bayside residents. The study findings resulted in speed limits being placed on all ships within the South and Port Melbourne Channels in order to minimise the potential effects.
- The Corporation provided submissions to the Department of Infrastructure when it conducted a major external review of safety and environment issues across all ports in Victoria as a result of changes to the *Port Services Act 1995*. The new legislation requires all ports in Victoria to develop and implement safety and environment plans by 1 July 2005.
- The Port Emergency Management Plan was reviewed following the joining of the former Melbourne Port Corporation and former Victorian Channels Authority. This required the plan to be updated to incorporate all land and marine activities in the port.
- A section of bank of the Yarra River in the West Gate Bridge area was reconstructed with rock beaching in conjunction with the extension of a stormwater drain. This was undertaken to repair severe erosion and to improve the deposit of floating debris.
- As a part of the Corporation's Stormwater Management Plan, litter baskets have been installed to existing side entry pits on port roads. The baskets are designed to reduce street litter entering the Corporation's controlled stormwater drains and therefore reduce litter entering the Yarra or Maribyrnong Rivers.
- The Corporation entered into an agreement for management of security services at Station Pier.
- The electrical and fire fighting equipment at No. 1 Maribyrnong berth were upgraded at a cost of \$2.7 million. This will provide a state of the art fire fighting capability, allowing the port to continue to handle hazardous chemicals at the berth.
- Eight schools were included in the Corporation's Adopt a Ship program which enables students to expand their knowledge in a range of curriculum areas, such as geography, international trade, climate and social studies.

- A purpose-built Port and Community Education Centre was officially opened in October 2003 by the Minister for Education Services, Jacinta Allen. Part of the Corporation's Ports and Maritime Education program, this unique port-side classroom has seen more than 1500 Victorian students learn more about the world of ships and seafaring. The centre has also been used by a number of community and industry groups and local councils for meetings and functions.
- School students in VCE were invited to submit painting designs for shipping containers for the Marfret Container Art Challenge, based on the theme *Living in Australia*. Eight winning designs from four schools were selected, with shipping containers painted and displayed in a prominent city park, Birrarung Marr, before being packed with export cargo and shipped to destinations all over the world.
- Representatives from the Corporation were involved with a wide range of industry and business associations, working groups and committees during 2003/04, including: Bulk Liquids Industry Association, Committee for Melbourne – Future Focus Group, Coode Island Users Group, National Bulk Commodities Group, Port Melbourne Business and Industry Group, Property Council of Australia – Industrial Committee, Freight and Logistics Council Working Group, Freight Intermodal Efficiency Group, Victorian Road Freight Advisory Council, Victorian Rail Freight Advisory Council and the Cargo Facilitation Committee.
- The Corporation participated in, and made submissions to, a number of reviews during the year including the Mackenzie Road Stage 2 development and the Yarraville Working Group.
- The Port Community Forums for stakeholders and residents continued. Numerous meetings were held during the year with items for discussion including port reform, port security, channel deepening and the port environmental management system.
- The Corporation sponsored the Engineers Australia monthly Young Engineers nights. This gave the Corporation a medium to promote career opportunities in the port, give career guidance and act as a mentor to graduates.
- The Corporation in conjunction with Landcare, Hobsons Bay City Council and the Community, rehabilitated an area known as The Spit at Newport, between The Warmies and the Yarra River. The Corporation contributed \$60,000 towards the rehabilitation and 300 hours of staff time to the clean up and the planting works on site.



People

Encouraging employees to reach their full potential and contribute to meeting the Corporation's objectives.

- The Port of Melbourne Corporation began operations on 1 July 2003 with the integration of staff from the former Melbourne Port Corporation and the Channel Deepening Project staff into the new organisation.
- The second round of legislative reforms delivered most of the recommendations advocated in the Russell Report. These amendments ensured that an appropriate framework was in place for the transfer of responsibilities for Melbourne port waters to the Corporation. On 3 November 2003, the transfer of the former Victorian Channels Authority to the Port of Melbourne Corporation was completed. Victorian Channels Authority staff joined the Port of Melbourne Corporation at this time.
- The Corporation reviewed its organisational structure, creating four divisions – Commercial, Planning and Development, Corporate Services and Port Operations. Four Executive General Managers, who report to the Chief Executive, were appointed to oversee these divisions.
- The Employee Recognition and Reward program continued in 2003/04, with six staff receiving awards. The program is designed to reinforce the organisation's values, acknowledge best practice and reward outstanding performance.
- A series of health and well-being seminars was held by *MAST*, the employee action group, for all employees. The series covered topics including women's and men's health and healthy eating.



Photography by: Alison Poulton



Photography by: Alison Poulton

PORT PRICING

Charges

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

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

Price regulation

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

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

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

During 2003/04 the Essential Services Commission conducted a review of the regulation of Victorian ports. On 30 June 2004, the Commission recommended that a "lighter handed" price monitoring framework should apply from 1 July 2005. This recommendation is being considered by the Victorian Government.

Prices

From 1 July 2003, the Corporation delivered on its plan to progressively phase out berth charges at container, general and dry bulk berths, and (with the exception of lay-up usage) eliminated these charges. As a result, port users generated estimated savings of \$4.7 million in 2003/04.

Wharfage charges increased by an average of 2.8%, well below the annual Consumer Price Index movement of 3.4%. The net reduction in charges exceeded the requirements of the current price determination and resulted in estimated savings of \$3.4 million to the port community during 2003/04.

From 1 July 2004, a new security charge will be introduced to enable the port to meet stringent guidelines of the Federal Government's *Maritime Transport Security Act (MTSA 2003)*. Tonnage charges have remained unchanged.

The Essential Services Commission has approved a proposal by the Corporation to increase wharfage charges by an average of 10.5% effective from 17 July 2004.

ADDITIONAL INFORMATION



Port Services Act 1995

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

Section 12. Objectives

The objectives of the Port of Melbourne Corporation are:

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

Section 13. Functions

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

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

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

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

Section 14.

Powers of the Port of Melbourne Corporation

The Port of Melbourne Corporation:

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

Consultancies commissioned

During 2003/04, the Corporation engaged consultancies to provide professional advice in relation to operations and capital activities for a total sum of \$3.2 million.

Freedom of information

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

During 2003/04, there were no applications made to the Corporation under Freedom of Information legislation.

Significant legislative changes

The Government continued to implement the recommendations of Professor Bill Russell's review of the port system in Victoria during 2003/04.

Marine Act 1988 Amendment

The amendments to the Act sought to clarify the role and function of harbour masters and the role of the Director of Marine Safety.

Port Services Act 1995 Amendment

The amending legislation vested responsibility and resources from the Victorian Channels Authority to the Port of Melbourne Corporation which was necessary for the management of the Port of Melbourne channels. The legislation also established the Victorian Regional Channels Authority to hold Victoria's shipping channels, (except the channels serving the Port of Melbourne), on behalf of the Crown, and to ensure that appropriate management arrangements are in place for these channels. The Port of Melbourne Corporation formally took control of the Port of Melbourne channels on 3 November 2003.

Legislation was also amended to deal explicitly with safety and environmental management. All ports in Victoria are now required to have in place safety and environment plans which are appropriate to the scale and nature of the port by 1 July 2005.

Availability of additional information

The following information relating to the Corporation, relevant to the period 2003/04, has been prepared and is available to the Minister, Members of Parliament and the public, on request.

- declarations of pecuniary interests duly completed by relevant officers
- details of publications produced by the Corporation about the Port of Melbourne and the places where publications can be obtained
- details of changes in prices, fees and levies charged by the Corporation
- details of any major external reviews carried out on the Port of Melbourne Corporation
- details of major research and development activities undertaken by the Corporation

- details of overseas visits undertaken including a summary of the objectives and outcomes of each visit
- details of major promotional, public relations and marketing activities undertaken by the Corporation to develop community awareness of the Corporation and the services it provides
- details of assessments and measures undertaken to improve the occupational health and safety of employees
- a general statement on industrial relations within the Corporation and details of time lost through industrial accidents or disputes
- list of committees sponsored.

National Competition Policy

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

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

Whistleblowers' protection

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

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

During 2003/04 there were:

- (a) no disclosures made to the Corporation
- (b) no disclosures referred by the Corporation to the Ombudsman for determination as to whether they are public interest disclosures
- (c) no disclosed matters referred to the Corporation by the Ombudsman
- (d) no disclosed matters referred by the Corporation to the Ombudsman to investigate

- (e) no investigations of disclosed matters taken over by the Ombudsman from the Corporation
- (f) no requests made under section 74 of the WPA to the Ombudsman to investigate disclosed matters
- (g) no disclosed matters that the Corporation declined to investigate
- (h) no disclosed matters that were substantiated on investigation and therefore there was no action taken on completion of investigation
- (i) no recommendation of the Ombudsman under the WPA that related to the Corporation.

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

Assets

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

Building and maintenance compliance

The Corporation's buildings were maintained in accordance with the building and maintenance provisions of the *Building Act 1993* and *Building Regulations 1994*.

Maintenance activities in accordance with the Act and Regulations included:

- buildings at 219 Whitehall Street taken out of operation and safely secured
- external stairs and ladders at Gellibrand Pier, Holden Dock and No.1 Maribymong altered to meet current building standards.

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

Direction from the Treasurer

Pursuant to section 30 of the *Port Services Act 1995* the Minister for Transport issued a direction to the Board of the Port of Melbourne Corporation on 25 October 2003.

The Board complied with the direction by:

1. Offering to grant continuing tenure to Terminals Pty Ltd of the East Land, extending the East Lease until 31 January 2006, providing the East Lease is varied as per the direction.
2. Upon request from Terminals Pty Ltd, agreeing to extend the date for provision of a Certificate or Statement of Environmental Audit to the Corporation pursuant to clause 91.12 of the East Lease, and the date by which Terminals Pty Ltd must comply with its obligations pursuant to clause 19.31 of the East Lease until 31 January 2006.
3. To take all reasonable steps to co-operate with Terminals Pty Ltd in terms of the East Lease in respect to the carrying out of the remediation respecting the East Land.

STATEMENT OF CORPORATE INTENT 2004/05 to 2006/07



The Port of Melbourne is Australia's largest container and general cargo port and a major strategic asset in the Victorian economy. The port currently accommodates 37% of the nation's container trade and hosts over 3200 commercial ship visits per annum. It handles nearly \$70 billion worth of trade each year and contributes in excess of \$5.4 billion to the state's economy annually. This amounts to approximately 5% of Victoria's Gross State Product.

Melbourne is the natural transport hub for south-eastern Australia. It is located at the junction of the state's major road and rail network, providing excellent access to South Australia, Western Australia, regional New South Wales and the east coast of the Australian mainland. Melbourne is also the primary mainland port for the transfer of Tasmanian cargo.

The importance of the port to the state's economy and its future growth has been fully recognised and endorsed by the Government. In establishing the Port of Melbourne Corporation on 1 July 2003, the Government provided the Corporation with a broad charter to strategically manage and develop the port for the benefit of the state. Further, in the Government's April 2004 Economic Statement, five of the 19 projects nominated by the Government to drive the future growth of the state in its *Victoria: Leading the Way* agenda, related directly to the port's growth.

Significantly for the port, world trade is continually growing and major changes are occurring in world trade patterns and the sea freight sector. These include the use of larger vessels, more efficient terminals and transport systems, changing pack types, the consolidation of logistics chains, emergence of new market regions and increasing levels of global competition. The port must change and grow to meet these challenges and continue to provide an internationally competitive gateway for the import and export of traded goods.

The Corporation has established a set of strategies to achieve the objectives set by the Government for the Corporation and to meet the three major challenges which will determine the port's ability to maintain its long term growth, its contribution to Victoria's economic development and its position as a strategic state asset. These are:

- the deepening of the channels serving the Port of Melbourne
- the development of the port's land side capacity
- the implementation of a commercial strategy to meet future investment needs.

Fundamental to each of these issues is the role of private sector development. By committing to planned action and achieving specific outcomes that contribute to a greater degree of investment certainty, the Corporation anticipates that private sector port service providers and logistics operators will have the confidence to invest substantially in port related infrastructure.

The sustainable future of the port will therefore be crucially dependent upon a successful commercial strategy that operates within a regulatory environment providing sufficient revenue to fund the extensive but necessary infrastructure investment over the period of the Corporate Plan and beyond.

In addition, there is the need to resolve issues associated with the growth in the port and changes in the international business environment. These include international and domestic security, community interests, environmental impacts and benefits, especially in the marine environment, and the development of systems and our people to generate efficiencies and business success. Of special significance is the responsible management of safety issues, particularly navigational safety.

Strategic direction

The Corporation's vision is that:

“The Port of Melbourne is a key driver of sustainable economic growth by being the best performing and best connected port in Australia.”

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

To achieve this strategic purpose, the Corporation has adopted five key strategies.

Strategy 1 Customer focus

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

Strategy 2 Logistics network

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

Strategy 3 Economic and financial performance

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

Strategy 4 Licence to operate

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

Strategy 5 People

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

Strategic priorities

The Corporation has nominated eight priority outcomes for the 2004/05 to 2006/07 period and these are listed below.

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

The priority outcomes form two major groups, the first four being high level, overarching outcomes that determine the port's infrastructure and commercial future and its role in the development of the state's economy for the longer term.

- **Channel Deepening Project advanced**, together with necessary berth modifications to accommodate larger ships (container, dry bulk and tanker vessels).
- **Port Development Plan finalised**, to provide confidence for port users, certainty and sustainability of the port and to encourage complementary private investment.
- **Commercial Strategy finalised** including the Corporation's pricing policy, aimed at generating the financial capacity to meet operational overheads and invest in port infrastructure, facilities and systems, together with an appropriate return to the shareholder.
- **Trade** through the port retained, attracted and grown.

- **Compliance with security requirements** of the International Maritime Organisation / Department of Transport and Regional Services, and **environmental and safety management** requirements of the *Port Services Act 1995* across both land and water. There will be a focus on maritime aspects and navigational safety as well as matters relating to land and property.
- **The Corporation's people** motivated, equipped and targeted towards business success.
- **Vibrant cruise, domestic passenger and visiting vessel trade** sustained.
- **Information technology solutions and information systems** achieving business efficiencies.

Services provided

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

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

Customers and stakeholders

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

- **import and export cargo owners** whose trade activities generate the demand for shipping, port facilities and logistics
- **shipping lines** which provide links to world and domestic ports through fixed schedule services as well as customised charter services
- **terminal operators (tenants)**, who provide stevedoring services and operate dedicated ship loading and cargo handling equipment
- **shipping lines and shipping agents** who use the 'common user' facilities
- **port service providers** who provide essential services to vessels calling at the port (pilots, towage, mooring, bunkers, security, cleaning and maintenance etc.)
- **third party service providers** including freight forwarders and transport operators who participate in the logistics chain
- **cruise ship, passenger ferries and visiting vessel operators**
- **Geelong Port interests** with respect to channel management
- **other tenants.**

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

- the Victorian Government (as owner, policy setter and regulator)
- the Victorian community
- producers and consumers
- adjacent local governments and neighbouring communities
- recreational, commercial and tourism boat operators
- State and Federal Government agencies and authorities
- business and industry groups and peak bodies
- suppliers, consultants and contractors.

Key performance indicators

The following Key Performance Indicators have been adopted to monitor the performance of the Corporation.

KPI	2003/04 Outcome	2004/05 Target
Customer Focus		
• Customer satisfaction with performance of PoMC	Survey deferred to 2004/05	Customer survey completed by Q4
• Trade growth		
Containers (full) (TEU)	8.0% p.a.	8.9%
General (revenue tonnes)	8.2%p.a.	7.1%
New motor vehicles (revenue tonnes)	4.8% p.a.	9.1%
Liquid bulk (revenue tonnes)	7.6% p.a.	-4.8%
Dry bulk (mass tonnes)	13.6% p.a.	5.9%
• Retention of the top 25 shipping lines and top five shipping agents servicing Melbourne.	No losses	No losses

KPI	2003/04 Outcome	2004/05 Target
Logistics network		
• Investment committed by PoMC and private operators to infrastructure for:		
Containerised cargo	PoMC: \$2.7m Private: \$33.3m	\$3.9m \$40.0m
General cargo	PoMC: \$1.8m Private: \$8.3m	\$2.0m \$10.0m
Bulk cargo	PoMC: \$3.5m Private: \$37.2m	\$5.2m \$30.0m
Roads and rail	PoMC: \$2.8m Private -	\$7.1m -
• Channel Deepening Project		
- Alliance partner appointed		Q1
- Environment Effects Statement completed		Q1
- Business case completed		Q2
- Commencement of relocation of Yarra services		Q3
- Commencement of dredging operations		Q4
- Commencement of protection of Esso pipeline (in situ)		Q4
• Average TEUs per truck visit to port.	1.03	1.05
• Per cent of container ships delayed due to non-availability of berths.	10.6%	<12%
• Per cent of port container throughput carried by rail.	15.4%	20%
• Per cent of total port throughput (mass tonnes) carried by rail – excludes liquid bulk.	17.5%	20%
• Productivity per container ship (based on the time labour is aboard the ship).	38 Cont/hr	40 Cont/Hr

Key business policies

Basis of accounting

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

Income tax

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

Dividend provision

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

Pricing regulation

The Corporation's business is subject to price regulation by the State Government's Essential Services Commission (ESC). The current price determination will expire on 30 June 2005. The ESC has reviewed the structure and application of price regulation beyond this date. During the period 2004/05 to 2006/07 the Corporation will adjust its prices for the provision of prescribed services in order to comply with the decisions of the ESC.

KPI	2003/04 Outcome	2004/05 Target
Economic & financial performance		
• Rate of return on capital employed	4.05%	6.8%
• Operating profit (after Income Tax)	\$8.1m	\$18.2m
• PoMC costs per revenue tonne of cargo handled (\$/revenue tonne)	Q1– \$1.10 Q2– \$1.14 Q3– \$1.15 Q4– \$1.38	Q1 – \$1.25 Q2 – \$1.22 Q3 – \$1.27 Q4 – \$1.41

KPI	2003/04 Outcome	2004/05 Target
Licence to operate		
• Number of formal non-compliances with safety, environment and security legislation on PoMC operated facilities	1	Zero
• Number of fatalities in the port on PoMC operated facilities	1	Zero
• Size of environmental footprint (New KPI for 2004/05)		Methodology and inputs to be developed by Q3
• Community satisfaction with PoMC's performance.	Survey deferred to 2004/05	Survey completed by Q4
• Minimisation of ship sourced oil spills (New KPI for 2004/05)		Zero
• Number of reported ship on ship and ship on boat incidents in port waters (New KPI for 2004/05)		Zero

People (New KPIs and targets for 2004/05)

• All permanent staff have performance reports completed.		All reports completed within a fortnight of due date.
• EBA successfully negotiated and implemented with a cost neutral outcome.		EBA negotiations completed by Q1 EBA fully implemented by Q2
• All permanent staff have a learning and development plan.		All L&D Plans completed within a fortnight of their due date.
• Agreed Statement of Values		Completed by Q1
• All policies consistent with Statement of Values		Completed by Q2

Target capital structure

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

	2003/2004 Forecast \$m	2004/2005 Budget \$m	2005/2006 Forecast \$m	2006/2007 Forecast \$m
Total assets	824.5	931.9	1251.5	1449.7
Total liabilities	100.8	165.1	446.0	608.9
Shareholder equity	723.7	766.8	805.5	840.8
Equity/total assets	88%	82%	64%	58%



FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2004

	<u>Note</u>	<u>2004</u> <u>\$000</u>
Revenues from ordinary activities	2	101,826
Expenses from ordinary activities, excluding borrowing costs expense	3	(82,240)
Borrowing costs	4	<u>(4,785)</u>
Profit from ordinary activities before income tax expense		14,801
Income tax expense	5	<u>(6,743)</u>
Profit from ordinary activities after income tax expense		8,058
Net increase in asset revaluation reserve	16	<u>17,608</u>
Total changes in equity other than those resulting from changes in contributed capital		<u><u>25,666</u></u>

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2004

	<u>Note</u>	<u>2004</u> <u>\$'000</u>
Current Assets		
Cash assets	6	21,157
Receivables	7	6,576
Other financial assets	8	768
Other	9	2,853
		<u>31,354</u>
Non-Current Assets		
Infrastructure, property, plant and equipment	10	812,865
Tax assets	5	7,933
Other financial assets	8	8,809
Other	9	80
		<u>829,687</u>
Total Assets		<u>861,041</u>
Current Liabilities		
Payables	11	16,623
Interest bearing liabilities	12	5,000
Tax liabilities	5	1,590
Provisions	13	4,013
Other	14	9,780
		<u>37,006</u>
Non-Current Liabilities		
Interest bearing liabilities	12	62,393
Tax liabilities	5	12,300
Provisions	13	2,974
Other	14	21
		<u>77,688</u>
Total Liabilities		<u>114,694</u>
NET ASSETS		<u>746,347</u>
Equity		
Contributed capital	15	726,561
Asset revaluation reserve	16	17,608
Retained profits	17	2,178
TOTAL EQUITY		<u>746,347</u>

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2004

	<u>Note</u>	<u>2004</u> <u>\$000</u>
Cash flows from operating activities		
Receipts from customers		113,587
Interest received		2,874
Payments to suppliers and employees		(65,751)
Borrowing costs		(5,421)
Goods and services tax paid		(5,971)
Income taxes paid		<u>(11,474)</u>
Net cash provided by operating activities	18	27,844
Cash flows from investing activities		
Payments for property, plant and equipment		(22,456)
Proceeds from sale of property, plant and equipment		<u>250</u>
Net cash (used in) investing activities		(22,206)
Cash flows from financing activities		
Proceeds from equity transfer		21,399
Dividends paid		<u>(5,880)</u>
Net cash provided by financing activities		<u>15,519</u>
Net increase in cash held		<u>21,157</u>
Cash at the end of the year	6	<u><u>21,157</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of accounting

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

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

On 1 July 2003, the new Port of Melbourne Corporation accepted the responsibilities of the former Melbourne Port Corporation, which ceased operations on 30 June 2003. On 3 November 2003, the Port of Melbourne Corporation accepted from the former Victorian Channels Authority the responsibilities and management of the channels and port waters relating to the port of Melbourne. As this is the first year of operation for the Port of Melbourne Corporation, comparatives are not available.

(b) Income tax

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

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

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

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

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

(c) Receivables

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

(d) Payables

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

(e) Leases

(i) Finance lease

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

(ii) Operating lease

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

(f) Infrastructure, property, plant and equipment

(i) Revaluations

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

Buildings and improvements are carried at the written down replacement cost of equivalent or identical assets. Consistent with the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, all land and building and improvement assets were transferred from the Melbourne Port Corporation to the Port of Melbourne Corporation at fair value on 1 July 2003 (refer to note 10).

Revaluation increments are credited directly to the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as expense in the net result, the increment is recognised as revenue in the net result. Revaluation decrements are recognised as expenses in the net result, except that, to the extent that a credit balance

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

exists in the asset revaluation reserve in respect of the same class of assets, they are debited directly to the asset revaluation reserve. In revaluing infrastructure, property, plant and equipment, the Corporation has not taken into account in determining the carrying amounts of these assets, the potential impact of capital gains tax on the grounds that such assets are an integral part of the Corporation's operations and there is no intention to sell the assets.

(ii) Recoverable amount

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

(iii) Depreciation

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

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

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

(iv) Acquisition

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

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

(v) Repairs and maintenance

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

(vi) Major maintenance dredging costs

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

(vii) Channel assets

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

(g) **Cash assets**

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

(h) **Borrowing costs**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

(i) Employee benefits

(i) Wages, salaries and sick leave

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

(ii) Annual leave

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

(iii) Long service leave

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

(iv) Superannuation

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

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

(v) Termination benefits

Liabilities for termination benefits are recognised when a detailed plan for employee terminations has been developed and a valid expectation raised in those employees affected, that the terminations will be carried out. Liabilities for termination payments expected to be settled within 12 months of the end of the reporting period are measured at their nominal amounts.

(j) Revenue recognition

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

(k) Environmental restoration costs

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

(l) Dividend policy

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

(m) Contributed capital

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

(n) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**NOTE 2. REVENUES FROM ORDINARY ACTIVITIES**

	<u>2004</u>
	<u>\$'000</u>
<u>Revenues from operating activities</u>	
Charges on goods	47,900
Rent and licence fees	30,158
Channel usage charges	11,641
Land tax recovered from tenants	6,065
Charges for berth and area hire	975
Charges for services	<u>1,468</u>
Total revenues from operating activities	98,207
<u>Revenues from non-operating activities</u>	
Interest received	2,868
Proceeds from sale of property, plant and equipment	254
Other revenue	<u>497</u>
Total revenues from non-operating activities	<u>3,619</u>
Total revenues from ordinary activities	<u><u>101,826</u></u>

NOTE 3. EXPENSES FROM ORDINARY ACTIVITIES

	<u>2004</u>
	<u>\$'000</u>
Contractor and consultant expenses	28,151
Depreciation and amortisation expenses	19,294
Salaries and employee benefits expenses	16,924
Land tax expense	10,458
Operating lease expenses	1,722
Written down value of property, plant and equipment disposed	682
Other expenses	<u>5,009</u>
Total expenses from ordinary activities	<u><u>82,240</u></u>

NOTE 4. BORROWING COSTS

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**NOTE 5. INCOME TAX**

	<u>2004</u>
	<u>\$'000</u>
<u>Income tax expense</u>	
The prima facie tax payable on profit from ordinary activities differs from the income tax attributable to these items. The difference is reconciled as follows:	
Profit from ordinary activities before income tax expense	14,801
Prima facie income tax payable calculated at 30%	4,440
Tax effect of permanent differences:	
Non-deductible depreciation and amortisation	2,307
Other net non-deductible/(assessable) items	<u>(4)</u>
Total income tax expense	<u><u>6,743</u></u>
<u>Income tax expense comprises:</u>	
Current tax liabilities	5,670
Deferred tax liabilities	339
Deferred tax assets	<u>734</u>
Income tax expense	<u><u>6,743</u></u>
<u>Tax assets and liabilities</u>	
Current tax payable	1,590
Provision for deferred income tax – non-current	12,300
Future income tax benefit – non-current	7,933

NOTE 6. CASH ASSETS

	<u>2004</u>
	<u>\$'000</u>
Cash at bank and on hand	1,253
Deposits	<u>19,904</u>
Total cash assets	<u><u>21,157</u></u>

Cash at bank earns interest at a rate of 4.75% at 30 June 2004.

Deposits earn interest at rates ranging from 5.20% to 5.41% at 30 June 2004.

NOTE 7. RECEIVABLES

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 8. OTHER FINANCIAL ASSETS

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

Leasing arrangements

Direct finance leases have a discount rate of 16% and a lease term of 7.5 years with rentals payable quarterly

Minimum direct finance leases payments receivable

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

NOTE 9. OTHER ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 10. INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT

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

	<u>2004</u>
	<u>\$000</u>
<u>Land</u>	
Freehold – at fair value (1)	519,206
Crown – at fair value (1)	<u>1,061</u>
Total land	520,267
<u>Buildings and improvements</u>	
At fair value (2)	53,628
At fair value (1)	122,838
At cost	17,078
Accumulated depreciation	<u>(13,663)</u>
Total buildings and improvements	179,881
<u>Plant and equipment</u>	
At cost	23,215
Accumulated depreciation	<u>(6,521)</u>
Total plant and equipment	16,694
<u>Channel assets</u>	
At fair value (3)	67,700
Accumulated depreciation	<u>(1,114)</u>
Total channel assets	66,586
<u>Capital works in progress</u>	
At cost	23,710
<u>Major maintenance dredging</u>	
At cost (4)	7,188
Accumulated amortisation	<u>(1,461)</u>
	<u>5,727</u>
Total infrastructure, property, plant and equipment	<u><u>812,865</u></u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

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

- (1) The basis of valuation of land and building assets is fair value, being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The independent valuations of land as at 30 June 2004 were performed by the firm FPD Savills Property Consultants. On 1 July 2003, the asset class of buildings and improvements was independently valued by Worley Pty Ltd and Maunsell McIntyre Pty Ltd.
- (2) The wharf assets (part of buildings and improvements) were independently valued by the firm Maunsell McIntyre Pty Ltd as at 30 June 2003.
- (3) The value of the channel assets was initially recorded in the accounts of the Victorian Channels Authority (VCA) in June 2000 as the equivalent of the book value of capitalised dredging costs in the accounts of its various predecessor port authorities less accumulated depreciation. In 2001 and subsequent years, the fair value of the channel assets was determined by the VCA as the net present value of future cash flows over the channels effective economic life of 40 years.

The channel assets were transferred to the Corporation from the Victorian Channels Authority on 3 November 2003 by way of Statutory Allocation under the *Port Services Act 1995*. The Statutory Allocation, together with a supporting Allocation Statement, was ratified by the Treasurer and the Minister for Transport under Section 166 of the *Port Services Act 1995* (as amended).

The Corporation has received independent and differing advice on the assessment of the fair value of the channel assets. Advice included the interpretation of accounting standards, clarification of the accounting implications of the physical or intangible nature of the channels and ownership and control of the asset, and the evaluation of assumptions and methodology underlying alternative valuation models. The Corporation has been advised that the Australian accounting standards and the *Financial Management Act 1994* provide a number of alternative measurement bases to establish the fair value of non current assets. Each of the differing measurement bases can result in very different values. However, it is the nature and circumstances of the relevant asset that will determine which measurement basis represents fair value. The Corporation is of the opinion that further clarification of these issues is necessary to determine the valuation of these assets in future periods and will seek guidance from the government on future accounting policy.

In the Corporation's point of view, the channel assets represent the exclusive rights and obligations attaching to the management and maintenance of specified shipping channels in existence within Port of Melbourne waters. Rights include the ability, subject to regulatory limitations, to impose charges for the provision of access to channels. Obligations include the requirement to maintain the channels at safe operating depths, the provision of navigational aids and the direction and control of vessel movements.

The valuation of \$67.7 million in these accounts accords with the fair value attributed by the Treasurer and Minister for Transport to the channel assets in the Allocation Statement referred to above and has been adopted by the Corporation as the appropriate valuation for reporting purposes for the 2004 annual accounts.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

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

(b) Reconciliations

	<u>2004</u>
	<u>\$000</u>
<u>Land</u>	
Transfer from the predecessor entity – refer note 27 (a)	498,743
Additions	3,916
Net amount of revaluation increments less decrements	<u>17,608</u>
Carrying amount at end of year	<u>520,267</u>
<u>Buildings and improvements</u>	
Transfer from the predecessor entity – refer note 27 (a)	177,181
Transfer from capital works in progress	17,117
Disposals	(219)
Depreciation expense	<u>(14,198)</u>
Carrying amount at end of year	<u>179,881</u>
<u>Plant and equipment</u>	
Transfer from the predecessor entity – refer note 27 (a)	5,005
Transfer from capital works in progress	1,049
Transfer from another entity – refer note 27 (b)	13,625
Disposals	(464)
Depreciation expense	<u>(2,521)</u>
Carrying amount at end of year	<u>16,694</u>
<u>Channel assets</u>	
Transfer from another entity – refer note 27 (b)	67,700
Depreciation expense	<u>(1,114)</u>
Carrying amount at end of year	<u>66,586</u>
<u>Capital works in progress</u>	
Transfer from the predecessor entity – refer note 27 (a)	17,628
Additions	24,248
Transfer to buildings and improvements	(17,117)
Transfer to plant and equipment	<u>(1,049)</u>
Carrying amount at end of year	<u>23,710</u>
<u>Major maintenance dredging</u>	
Transfer from another entity – refer note 27 (b)	7,188
Amortisation expense	<u>(1,461)</u>
Carrying amount at end of year	<u>5,727</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 11. PAYABLES

	<u>2004</u>
	<u>\$000</u>
Trade creditors	1,109
Accrued expenditure	<u>15,514</u>
Total payables	<u><u>16,623</u></u>

NOTE 12. INTEREST BEARING LIABILITIES

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

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

NOTE 13. PROVISIONS

	<u>2004</u>
	<u>\$000</u>
<u>Current</u>	
Employee benefits	3,013
Environmental restoration costs	<u>1,000</u>
Total provisions	<u><u>4,013</u></u>

Movements in provisions

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

Environmental restoration costs

Amount transferred from the predecessor entity	4,403
Additional provisions recognised	1,000
Amounts utilised during the year	<u>(4,403)</u>

Carrying amount at end of year	<u><u>1,000</u></u>
--------------------------------	---------------------

Non-current

Employee benefits	<u><u>2,974</u></u>
-------------------	---------------------

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**NOTE 14. OTHER LIABILITIES**

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

NOTE 15. CONTRIBUTED CAPITAL

	<u>2004</u>
	<u>\$000</u>
Net assets transferred from Melbourne Port Corporation - refer to note 27(a)	631,110
Net assets transferred from the Victorian Channels Authority - refer to note 27(b)	<u>95,451</u>
Balance at the end of the reporting period	<u><u>726,561</u></u>

NOTE 16. ASSET REVALUATION RESERVE

	<u>2004</u>
	<u>\$000</u>
Balance at the beginning of the reporting period	-
Revaluation increment on non-current assets	<u>17,608</u>
Balance at the end of the reporting period	<u><u>17,608</u></u>

NOTE 17. RETAINED PROFITS

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**NOTE 18. CASH FLOW DISCLOSURES**

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

	<u>2004</u>
	<u>\$'000</u>
Profit from ordinary activities after income tax expense	8,058
Adjustments for non-cash income and expense items:	
Depreciation	19,294
Net loss on disposal of property, plant and equipment	428
Amortisation of discount on borrowings	(320)
Changes in operating assets and liabilities:	
Decrease in receivables	1,449
Increase in current other financial assets	(137)
Increase in other current assets	(234)
Increase in non-current tax assets	(4,526)
Decrease in non-current other financial assets	941
Decrease in other non-current assets	42
Increase in payables	1,406
Decrease in current tax liabilities	(3,657)
Decrease in current provisions	(1,383)
Increase in other current liabilities	1,402
Increase in non-current tax liabilities	3,823
Increase in non-current provisions	1,391
Decrease in other non-current liabilities	(133)
Net cash provided by operating activities	<u>27,844</u>

NOTE 19. AUDITORS' REMUNERATION

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 20. RESPONSIBLE PERSONS' DISCLOSURES AND REMUNERATION

Responsible persons

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

Responsible Ministers:

The Hon P Batchelor MP	<i>Minister for Transport</i>
The Hon J M Brumby MP	<i>Treasurer</i>

Directors:

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

Accountable Officer:

Mr N R Edwards	(1 July 2003 to 18 January 2004)
Mr S G Bradford	(19 January 2004 to 30 June 2004)

2004
\$

Responsible persons' remuneration

Total remuneration paid or payable during the year to all responsible persons by the Corporation.	<u><u>664,818</u></u>
---	-----------------------

Number of responsible persons whose annual remuneration from the Corporation fell within the following bands:	<u>No.</u>
\$ 30,000 to \$ 39,999	8
\$100,000 to \$109,999	1
\$260,000 to \$269,999	1

Responsible persons' retirement benefits

The superannuation paid by the Corporation in connection with the retirement of responsible persons amounted to:	<u><u>103,556</u></u>
--	-----------------------

Loans

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

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

Other transactions of responsible persons and their related entities

Ms E H Parkin is an employee of an entity which provided consulting services to the Corporation during the year.

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

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

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

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

NOTE 21. EXECUTIVE OFFICERS' REMUNERATION

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 22. COMMITMENTS FOR EXPENDITURE

	<u>2004</u>
	<u>\$'000</u>
<u>Capital expenditure commitments</u>	
Commitments for the construction and acquisition of property, plant and equipment contracted for at balance date but not recognised as liabilities:	
– within one year	5,858
– one to five years	<u>38</u>
	<u>5,896</u>
<u>Operating expenditure commitments (excluding lease commitments)</u>	
Commitments for the payment of operating expenditure excluding lease commitments contracted for at balance date but not recognised as liabilities:	
– within one year	<u>1,374</u>
<u>Operating lease expenditure commitments</u>	
Commitments in relation to operating leases contracted for at balance date but not recognised as liabilities:	
– within one year	1,617
– one to five years	<u>2,317</u>
	<u>3,934</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 23. SUPERANNUATION

Defined benefit superannuation schemes

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

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

The accrued and vested benefits have been actuarially assessed as at 30 June 2004. Vested benefits are benefits which are not conditional upon continued membership of the scheme (or any other factor other than resignation from the scheme) and include benefits which members were entitled to receive had they terminated their scheme membership at balance date. A deficiency of \$1,892,000 in the net assets of the Port of Melbourne Superannuation Fund has been recognised as a provision during the current period.

2004
\$000

Employer contributions to superannuation schemes

Employer contributions during the year to defined benefit and accumulation superannuation schemes of which the Corporation's employees are members are as follows:

Port of Melbourne Superannuation Fund	2,199
Transport Superannuation Scheme	75
State Superannuation Scheme	96
Various Accumulation Schemes	605
	<u>2,975</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 24. FINANCIAL INSTRUMENTS

Credit risk

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

Interest rate risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004**NOTE 24. FINANCIAL INSTRUMENTS (CONTINUED)**2004\$'000**Reconciliation of net financial liabilities to net assets**

Net financial liabilities	(47,733)
Non-financial assets & liabilities:	
Other assets	2,933
Infrastructure, property, plant & equipment	812,865
Tax assets	7,933
Tax liabilities	(12,300)
Provisions	(8,576)
Other liabilities	<u>(8,775)</u>
Net assets	<u><u>746,347</u></u>

Net fair value of financial assets and liabilities

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

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

	<u>Carrying</u> <u>Amount</u> <u>2004</u> <u>\$'000</u>	<u>Net Fair</u> <u>Value</u> <u>2004</u> <u>\$'000</u>
Financial assets:		
Cash assets	21,157	21,157
Receivables	6,576	6,576
Other financial assets	<u>9,577</u>	<u>9,577</u>
	<u>37,310</u>	<u>37,310</u>
Financial liabilities:		
Payables	16,623	16,623
Interest bearing liabilities	67,393	69,549
Other liabilities	<u>1,027</u>	<u>1,027</u>
	<u>85,043</u>	<u>87,199</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

Certain claims have been lodged against the Corporation seeking compensation in relation to contractual disputes which are yet to be resolved. The Corporation is defending these claims and in one instance has made a counterclaim. Other events have occurred that may also give rise to a claim against the Corporation. At the certification date of the financial statements, the Corporation is unable to assess the probability of success of these claims.

The Corporation is aware of possible contamination in relation to its land assets and has made a provision for restoration costs where sufficient information is available [refer to Note 1(k)]. As at the certification date of the financial statements, the Corporation is unable to determine the total extent of potential contamination or restoration costs.

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

Contingent assets

In determining land tax liabilities, the State Revenue Office utilises land valuations prepared by the Melbourne City Council. The Corporation has lodged an objection against the basis upon which land tax liabilities have been assessed. The Valuer General is defending this claim on behalf of the Melbourne City Council. At the date of certification date of these financial statements, the Corporation is unable to assess the probability of success of this objection.

NOTE 26. EVENTS OCCURRING AFTER BALANCE DATE

During the year, the Port of Melbourne Corporation undertook a detailed investigation of a proposal to deepen the main commercial shipping channels to the Port of Melbourne to accommodate ships of up to 14 metres draught.

An Environment Effects Statement (EES) to assess in detail the potential environmental, economic and social impacts associated with the construction, maintenance and operation of the Channel Deepening Project was completed. The EES is due for public release on 5 July 2004 with preliminary findings indicating that the environmental impacts on Port Phillip Bay will be temporary and can be managed sustainably.

The EES is being prepared using a comprehensive risk management approach to minimise the environmental impacts of dredging of the channels. The preliminary findings indicate:

- there will be an imperceptible impact on waves, current and tides
- there will be no beach erosion resulting from channel deepening
- the sea level will not change as a result of the project
- no explosives will be used in the project
- turbidity from dredging will be temporary and localised
- all dredging will be undertaken in existing shipping channels.

Any person or organisation will be invited to make a written submission during the exhibition period. The public submission period will close on 16 August 2004 and a panel hearing is expected to be convened in 2004.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 27. ASSETS AND LIABILITIES TRANSFERS BETWEEN PUBLIC SECTOR ENTITIES

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

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

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

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

During the year, pursuant to Section 166 of the *Port Services Act 1995*, an allocation statement and its subsequent amendment certified by John Brumby *Treasurer* and Peter Batchelor *Minister for Transport*, transferred from the VCA to the Corporation \$95,451,000 of net assets effective from 3 November 2003. The assets and liabilities transferred to the Port of Melbourne Corporation on 3 November 2003 were as follows:

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

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

The Port of Melbourne Corporation has commenced transitioning its accounting policies and financial reporting from current accounting standards to Australian equivalents of International Financial Reporting Standards (IFRS). For reporting periods beginning on or after 1 January 2005, all Australian entities are required to adopt the financial reporting requirements of the Australian equivalents to IFRS.

The Corporation has allocated internal resources and engaged expert consultants to identify the key areas that will be impacted by the transition to IFRS. Priority has been given to considering the preparation of an opening balance sheet in accordance with the AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the Port of Melbourne Corporation prepares its first fully compliant financial report for the year ended 30 June 2006.

The Corporation has identified a number of changes (whose financial effects are unknown) to the existing accounting policies that would have an impact on its financial position and future financial performance on adoption of the requirements of the Australian equivalents to IFRS. These include:

Defined benefit superannuation schemes

Under AASB 119 *Employee Benefits*, employers are required to recognise the net surplus or deficit in their employer sponsored defined benefit funds as an asset or liability. This will result in a change in the Corporation's current accounting policy which does not currently recognise the net assets/liabilities of the Port of Melbourne defined benefit fund. Under the new policy, the Corporation will be required to recognise an asset of the Port of Melbourne defined benefit fund for the net surplus based on the actuarial calculation of the position of the fund. The initial adjustment on transition will be through retained earnings and subsequent adjustments will be to net profit for the period. The Department of Treasury and Finance has an obligation to recognise any surplus or deficit in the Transport and State Superannuation Schemes.

Property, plant and equipment

Under AASB 116 *Property, Plant and Equipment*, the Corporation will be required to account for the revaluation of assets on an individual basis rather than using an asset class approach. Revaluation decrements for an asset will no longer be able to be offset against increments for other assets in the same class but will be charged to the statement of financial performance while increments will be taken to the asset revaluation reserve.

Investment property

The Corporation holds significant assets which are leased on commercial terms and any movements in the value of these assets are currently reflected in the asset revaluation reserve. Under AASB 140 *Investment Property*, any movements in the fair value of these assets must be reflected in the statement of financial performance.

Income tax

Under AASB 112 *Income Taxes*, the Corporation will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. The most significant impact will be the recognition of a deferred tax liability in relation to the asset revaluation reserve.

Impairment of Assets

Under AASB 136 *Impairment of Assets*, an asset will be required to be assessed for impairment each year. If indicators of impairment exist, the carrying value of an asset must be assessed to ensure that the carrying value does not exceed its recoverable amount, which is the higher of its value-in-use and the fair value less costs to sell. For the Corporation, value-in-use of an asset will be determined using discounted cash flow analysis. Where the carrying value of an asset exceeds its recoverable amount, the difference will be charged as an impairment loss in the statement of financial performance except to the extent that the write down can be offset against any asset revaluation reserve amount applicable to that asset. Any impairment losses at transition date will be adjusted against retained earnings.

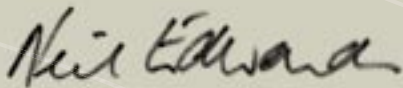
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

CERTIFICATION OF FINANCIAL STATEMENTS

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

We further state that, in our opinion, the information set out in the statement of financial performance, statement of financial position, statement of cash flows and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2004 and financial position of the Port of Melbourne Corporation as at 30 June 2004.

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



Mr N R Edwards
Chairman

Date: 20 September 2004



Mr S G Bradford
Chief Executive Officer

Date: 20 September 2004



Mr J F Johnson
Executive General Manager Corporate Services

Date: 20 September 2004



Auditor-General's Report



AUDITOR GENERAL
VICTORIA

AUDITOR-GENERAL'S REPORT

To the Members of the Parliament of Victoria, responsible Ministers and Members of the Board of the Port of Melbourne Corporation

Matters relating to the electronic presentation of the Audited Financial Report

This audit report relates to the financial report of the Port of Melbourne Corporation for the financial year ended 30 June 2004 included on its web site. The Members of the Board of the Port of Melbourne Corporation are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The audit report refers only to the statements named below. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Audit Scope

The accompanying financial report of the Port of Melbourne Corporation for the financial year ended 30 June 2004, comprising statement of financial performance, statement of financial position, statement of cash flows and notes to the financial statements, has been audited. The Members of the Board are responsible for the preparation and presentation of the financial report and the information it contains. An independent audit of the financial report has been carried out in order to express an opinion on it to the Members of the Parliament of Victoria, responsible Ministers and Members of the Board as required by the *Audit Act 1994*.

The audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. The audit procedures included an examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, so as to present a view which is consistent with my understanding of the Corporation's financial position, and its financial performance and cash flows.

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

Audit Opinion

In my opinion, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, the financial position of the Port of Melbourne Corporation as at 30 June 2004 and its financial performance and cash flows for the year then ended.

MELBOURNE
24 September 2004

J.W. CAMERON
Auditor-General

Victorian Auditor-General's Office Level 34, 140 William Street, Melbourne Victoria 3000
Telephone (03) 8601 7000 Facsimile (03) 8601 7010 Email comments@audit.vic.gov.au Website www.audit.vic.gov.au

Auditing in the Public Interest

Appendix – copy of Direction from the Minister

PORT SERVICES ACT 1995

SECTION 30

DIRECTION

PORT OF MELBOURNE CORPORATION

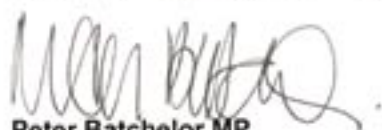
Pursuant to section 30 of the *Port Services Act 1995* and with the approval of the Treasurer, I, PETER BATCHELOR, Minister for Transport in the State of Victoria, hereby give the board of the Port of Melbourne Corporation ('the Corporation') the following directions;

- (a) to offer to grant continuing tenure to Terminals Pty Ltd of the East Land, extending the East Lease until 31 January 2006, provided that the East Lease is varied as set out in this direction;
- (b) upon request from Terminals Pty Ltd, the Corporation must agree to extend the date for provision of a Certificate or Statement of Environmental Audit to the Corporation pursuant to clause 19.12 of the East Lease, and the date by which Terminals Pty Ltd must comply with its obligations under special condition 19 of the East Lease pursuant to clause 19.31 of the East Lease, until 31 January 2006; and
- (c) to take all reasonable steps to co-operate with Terminals Pty Ltd in terms of the East Lease in respect to the carrying out of the Remediation respecting the East Land.

For the purposes of this direction:

- (a) 'East Land' means all the land defined as 'the Premises' in the East Lease as identified on the attached plan.
- (b) 'East Lease' means undated lease no.20575 for 47-59 and 63-79 Mackenzie Road, Coode Island, between the Corporation and Terminals Pty Ltd and Variation of Lease (as varied).
- (c) 'EPA' means Environment Protection Authority.
- (d) 'Remediation' means remediation of the East Land carried out for the purposes of obtaining a Statement of Environmental Audit which is issued in accordance with the Environment Protection Act that states that the East Land is suitable for industrial purposes under 'Special Use – Port Areas Zone' or its equivalent under the planning scheme existing at the time the Statement is made.

Dated this 25th day of OCT 2003



Peter Batchelor MP
Minister for Transport



Compliance index

Financial Management Act 1994, FRD 22	Page
Manner of the Corporation's establishment and its relevant Ministers.	9
Objectives, functions, powers and duties of the Corporation.	9, 38
Nature and range of service provision of the Corporation, including the communities served.	9, 10
Organisational chart detailing members of the governing board, Audit Committee, CEO, senior officers and their responsibilities.	7, 13, 14, 17, 18, 19
Names of occupants of senior offices and a brief description of the area of responsibility of each office.	17
Workforce data for the current and previous reporting period, including a statement on the application of employment and conduct principles.	16
Objectives, functions, powers and duties linked to a summary of activities, programs and achievements.	31
Summary of financial results with comparative results for the preceding four reporting periods.	26
Summary of the significant changes in financial position.	24-27
Summary of operational and budgetary objectives, including performance against the objectives and significant achievements.	25
Events occurring after balance date which may significantly affect the Corporation's operations in subsequent reporting periods.	66
Expenditure on consultancies	38
Discussion and analysis of operating results and financial position.	24-27
Summary of application and operation of <i>Freedom of Information Act 1982</i> .	39
Statement on compliance with the building and maintenance provisions of the <i>Building Act 1993</i> .	39
Summary of the application and operation of the <i>Whistleblowers Protection Act 2001</i> , including disclosures required by the Act.	39
Statement, to the extent applicable, that the information listed in Appendix 1 is available on request to the relevant Ministers, Members of Parliament or the public.	39
Statement, to the extent applicable, on the extent of progress in implementation and compliance with National Competition Policy, including compliance with the requirements of the policy statement <i>Competitive Neutrality: A Statement of Victorian Government Policy, Victorian Government Timetable for the Review of Legislative Restrictions on Competition</i> , and any subsequent reforms.	39
Summary of environmental performance.	34
Additional information available on request:	
• statement that declarations of pecuniary interests have been duly completed by all relevant officers	39
• details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary	39
• details of publications produced and how these can be obtained	39
• details of changes in prices, fees, charges, rates and levies charged by the Corporation	37, 39
• details of any major external reviews carried out on the Corporation	39
• details of major research and development activities undertaken by the Corporation	39
• details of overseas visits undertaken including a summary of the objectives and outcomes of each visit	39
• details of major promotional, public relations and marketing activities undertaken by the Corporation to develop community awareness of the Corporation and its services	39
• details of assessments and measures undertaken to improve the occupational health and safety of employees	16
• general statement on industrial relations within the Corporation and details of time lost through industrial accidents and disputes	16
• a list of major committees sponsored by the Corporation, the purposes of each committee and the extent to which the purposes have been achieved.	39

Port Services Act 1995, Section 44		Page
(a) A copy of each direction given to the Corporation during the year under section 30 or 38 together with a statement of the Corporation's response to the direction.		39, 72
(b) A copy of the statement of corporate intent last completed.		40
Whistleblowers Protection Act 2001, Section 104		Page
(a) The current procedures established by the Corporation under Part 6.		39
(b) The number and types of disclosures made to the Corporation during the year.		39
(c) The number of disclosures referred during the year by the Corporation to the Ombudsman for determination as to whether they are public interest disclosures.		39
(d) The number and types of disclosed matters referred to the Corporation during the year by the Ombudsman.		39
(e) The number and types of disclosed matters referred during the year by the Corporation to the Ombudsman to investigate.		39
(f) The number and types of investigations of disclosed matters taken over by the Ombudsman from the Corporation during the year.		39
(g) The number of requests made under section 74 during the year to the Ombudsman to investigate disclosed matters.		39
(h) The number and types of disclosed matters that the Corporation has declined to investigate during the year.		39
(i) The number and types of disclosed matters that were substantiated on investigation and the action taken on completion of the investigation.		39
(j) Any recommendations of the Ombudsman under this Act that relate to the Corporation.		39

Melbourne offices

Street Address
Level 48, Rialto South Tower
525 Collins Street
Melbourne
Victoria 3000 Australia

Level 4 and Level 6
99 King Street
Melbourne
Victoria 3000 Australia

Postal Address
GPO Box 261
Melbourne
Victoria 3001 Australia

Telephone: +61 3 9628 7555
Facsimile: +61 3 9628 7550
Email: information@portofmelbourne.com
Internet: www.portofmelbourne.com

Wagga Wagga office

Street Address
Level 1
55 Berry Street
Wagga Wagga
New South Wales 2650 Australia

Postal Address
PO Box 1246
Wagga Wagga
New South Wales 2650 Australia

Telephone: +61 2 6921 4000
Facsimile: +61 2 6921 5588

Adelaide office

Street Address
Carrington House
61 Carrington Street
Adelaide
South Australia 5000 Australia

Postal Address
PO Box 258
Prospect
South Australia 5082 Australia

Telephone: +61 8 8237 0503
Facsimile: +61 8 8237 0562



Authorised by the Victorian Government.

This publication is produced by the Port of Melbourne Corporation, GPO Box 261, Melbourne, Victoria 3001
Designed and produced by abCreative, 23 Glen Eira Road, Ripponlea Victoria 3185. Phone: 03 9532 7525