

# Port pricing

## Price determination

Pursuant to the Port Services Act 1995, the port industry in the Port of Melbourne is a regulated industry. The prices charged by PoMC for the provision of prescribed services are subject to regulation by the ESC. Prescribed services provided by PoMC 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.

From June 2000 to June 2005 prices were subject to price determination issued by the ESC.

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

- PoMC is to determine and publish reference tariff schedules to set out standard terms and conditions.
- PoMC and users may negotiate prices that differ from the reference tariff.
- Prices are subject to monitoring by the ESC.
- The ESC will publish an annual monitoring report.
- The ESC has a reserve power to inquire if there is evidence of a significant abuse of market power.

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

On 1 July 2005 PoMC's Reference Tariff Schedule became effective. It provided for:

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

From 1 July 2006 a revised PoMC's Reference Tariff Schedule will become effective. It provides for:

- international container prices to be increased by 4.6%
- other wharfage prices to be increased by between 3% and 4.6%
- tonnage charges to remain unchanged, for the fourth successive year.

## Charges

PoMC's principal charges consisted of land and infrastructure rental, wharfage, tonnage, and berth hire, area hire and security as follows:

- Land and infrastructure rental - the leasing fee charged to port tenants based on market values as per standard property industry practices.
- Wharfage - charged in dollars per TEU 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 and passenger vessels.
- Area hire - charged to ships' agents or cargo owners based on the time cargo is stored at common user facilities before onward transport.
- Security - charge for the provision of security service related to prescribed services within the Melbourne port area.



# Additional information

PoMC's Pricing Policy Statement and Reference Tariff Schedule are available on its website ([www.portofmelbourne.com](http://www.portofmelbourne.com))

## Port Services Act 1995

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

### Section 12. Objectives

The objectives of Port of Melbourne Corporation are:

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

### Section 13. Functions

(1) The Functions of 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 PoMC by or under this or any other Act.

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

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

### Section 14. Powers of the Port of Melbourne Corporation

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 2005/2006, PoMC engaged consultancies to provide professional advice in relation to operations and capital activities for a total sum of \$6.4 million.

### Freedom of information

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

During 2005/06, there were four valid applications made to PoMC under Freedom of Information legislation. Access was granted in full for one of these requests. Partial access was granted for another request. One request was refused due to documents being exempt, and at 30 June 2006 the other request had not been finalised.

### Significant legislative changes

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

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

The *Occupational Health and Safety Act 2004* (Vic) is a significant piece of legislation which came into operation on 1 July 2005. This Act repealed the *Occupational Health and Safety Act 1985* (Vic), and has the following main objectives:

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

### Availability of additional information

The following information relating to PoMC, relevant to the period 2005/06, 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 PoMC about the Port of Melbourne and the places where publications can be obtained.
- Details of changes in prices, fees and levies charged by PoMC.
- Details of any major external reviews carried out on PoMC.

- Details of major research and development activities undertaken by PoMC.
- 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 PoMC to develop community awareness of PoMC 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 PoMC and details of time lost through industrial accidents or disputes;
- List of committees sponsored.

### National Competition Policy

PoMC 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 (Vic) (WPA)* provides for the protection of people who make disclosures about improper conduct by public bodies or public officers. PoMC developed procedures for managing any such disclosure about PoMC 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 PoMC can be made by letter, telephone, facsimile or email to PoMC's delegated Protected Disclosures Coordinator. The Protected Disclosures Coordinator was required to liaise with the Chief Executive Officer of PoMC on these matters.

During 2005/06 there were:

- a) no disclosures made to PoMC
- b) no disclosures referred by PoMC to the Ombudsman for determination as to whether they are public interest disclosures
- c) no disclosed matters referred to PoMC by the Ombudsman
- d) no disclosed matters referred by PoMC to the Ombudsman to investigate
- e) no investigations of disclosed matters taken over by the Ombudsman from PoMC
- f) no requests made under section 74 of the WPA to the Ombudsman to investigate disclosed matters
- g) no disclosed matters that PoMC 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 PoMC

PoMC's procedures for managing disclosures made pursuant to the WPA are available on PoMC's internet site [www.portofmelbourne.com](http://www.portofmelbourne.com).

During the year a disclosure was made directly to the Ombudsman. PoMC cooperated with the subsequent investigation.

### Assets

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

### Building and maintenance compliance

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

- A new fire sprinkler has been installed in the buildings at Station Pier.
- An early warning and evacuation control system has been installed in the buildings at Station Pier.
- New child-compliant handrails have been installed at a number of locations at Station Pier.

All PoMC owned buildings were audited in accordance with Part II of the Building Regulations 2006.

2006/07-2008/09

# Statement of Corporate Intent



## 1 Vision

The Port of Melbourne will be the core of Australia's premier trade and transport hub, creating prosperity while sustaining environmental and social well-being for the people of Victoria and Australia.

## 2 Foreword

The Port of Melbourne Corporation (PoMC) was established on 1 July 2003. It is charged with providing the strategic management of the operation and development of the Port of Melbourne and to ensure that this is done in an economically, socially and environmentally sustainable manner.

The port is Australia's largest container and general cargo port and is one of Victoria's major strategic assets. Each year it contributes more than \$5.4 billion to the state economy and handles over \$75 billion worth of trade. It also plays a significant role in the national economy, handling 38 per cent of the nation's container trade.

As the natural transport hub for south-eastern Australia, the port has excellent road and rail connections to South Australia, regional New South Wales, and the east coast of the Australian mainland. It is also the primary mainland port for the transfer of Tasmanian cargo. Using modern, world class facilities and with more than 3,300 commercial ship visits annually, the port provides importers and exporters with not only efficient cargo handling services but frequent and reliable shipping schedules to over 300 ports worldwide.

The port operates within a city environment and has important links with, and impact on, this environment and its communities. The quality of this interaction determines the port's 'licence to operate' and there is an ongoing commitment to build strong relationships with these communities and minimise the port's impact on the surrounding environment.

This Statement of Corporate Intent provides a synopsis of the Corporation's 2006/07 – 2008/09 Corporate Plan. The Plan sets out the Corporation's strategic direction as defined by its vision and goals. It outlines the strategies that it will use to achieve the goals and how its performance will be monitored.

Three major factors have shaped the development of the goals and strategies outlined in the Plan. These are the Corporation's statutory objectives as stated in the Port Services Act 1995, the policies and directions set by the Government for Victorian ports, particularly those outlined in its Victorian Ports Strategic Framework (2004), and the need to address or harness the affects of changes that are occurring in the Corporation's business environment.

To achieve the vision and to deliver on each of the above factors five strategic goals have been established. These goals will direct the focus of the Corporation over the three years of the planning period.

The five goals of:

- Innovative and high quality facilities and services
- Integration of the port with land transport systems
- Trade and trade related business facilitation and expansion
- Sustainable financial performance
- Retain the port's licence to operate as a 'city' port

highlight the broad scope of the Corporation's activities and responsibilities. The Corporation must therefore continue to take a balanced approach to the pursuit and achievement of its goals, ensuring that not only is the port's contribution to the state's economy enhanced but that it also meets its commitments to environmental responsibility and the social well - being of the Victorian community.

The Corporation has established a number of priority project outcomes for 2006/07 and beyond. These projects have been selected not only because they directly contribute to the achievement of the goals but they also address the challenges presented by major changes that have occurred, and continue to occur, in the Corporation's business environment. Pre-eminent among these projects is channel deepening, the completion of which is vitally important for the port's future growth and development. Other projects concern the Port Development Plan, road and rail connectivity, Melbourne Port@L and the implementation of trade development strategies. Significantly, the focus of these projects is about maintaining the port's competitive advantages, building capacity to accommodate future trade growth and ensuring that the port's infrastructure, water and land connections, and operational efficiencies continue to meet the changing needs of port users. There are also projects related to the Corporation's commitment to ongoing improvement in safety, security and the environment as well as further enhancing the Corporation's relationships with its neighbours.

In undertaking its activities the Corporation will remain financially focused so that it meets its shareholder obligations, generates sufficient funds to implement its capital investment program and optimises complementary capital investment in port-related infrastructure by the private sector. There is an emphasis on building the organisation's skills' base and culture to ensure that our people will have the capability and motivation to achieve the vision and goals.



### 3 Values

The Corporation's values demonstrate what is important to us in how we undertake our business and how we deal with our customers, shareholders and our people. They guide our behaviours and decision making and inspire us to continually improve and perform at our best. They are as follows:

- Customer Focus
- Innovation
- Quality and Service Excellence
- Openness, Integrity and Honesty
- Teamwork
- Environment, Safety and Social Wellbeing
- Valuing our People

# 4 Strategic Direction



The Corporation has a clear vision:  
to make the Port of Melbourne the core of Australia's premier trade and transport hub.

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

To achieve its vision for the port and to ensure that the Corporation operates effectively and efficiently, the Corporation has adopted the following five goals for the 2006/07 to 2008/09 period. These are:

## Goal 1 Innovative and high quality facilities and services

To develop fit for purpose services and facilities which are secure, reliable, technologically efficient, innovative, safe and meet customers' needs

## Goal 2 Integration of the port with land transport systems

To ensure that the port is fully integrated with land transport systems

## Goal 3 Trade and trade related business facilitation and expansion

To facilitate and expand trade and trade related business opportunities.

## Goal 4 Sustainable financial performance

To operate a self-sustaining, financially independent and cost effective organisation.

## Goal 5 Retain the port's licence to operate as a city port

To commit to continuous improvement towards sustainable environmental performance, port safety and land use planning, and develop mutually beneficial relationships with surrounding communities.

# 5 Priority Projects for 2006/07

The Corporation has established a number of priority projects for 2006/07, the outcomes of which will be completed or progressed during the year.

Taken together with the Corporation's budgeted financial and operational outcomes these represent the major elements of the Corporation's 2006/07 Business Plan. The priority outcomes cover all aspects of the Corporation's activities including the planning and implementation of the port's maritime and land infrastructure needs, trade growth, security requirements, environmental management, community relations and improved internal efficiencies.

Strategic projects are those which impact the port's long term capacity and sustainability, include:

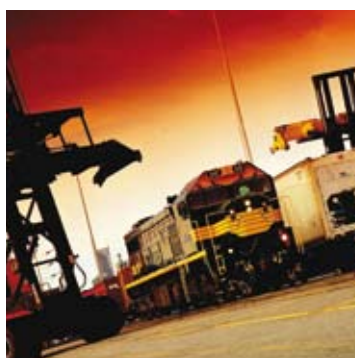
- Channel deepening (particularly completion of the SEES)
- Port Development Plan implementation
- PoMC's capability to identify and respond to issues
- The Port Rail Share plan (moving towards achieving the Government's 30% rail share target)
- Policy ambitions with respect to environmental requirements
- Community relations framework
- Certification/management and remediation of contaminated port land
- Innovative lease arrangements
- Trade and business retention and growth
- Port road traffic management
- Melbourne Port@L
- Dynon Port Rail Link project
- Knowledge management and information systems

Additional operational priorities will ensure that the Corporation and the port will meet ongoing operational requirements and commitments. These include the implementation of the cruise ships strategy and meeting security, safety and environmental management requirements.

# 6 Services Provided

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

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



# 7 Customers and Stakeholders



The Corporation has a wide range of customers and stakeholders.

Customer groups are broadly defined as those with whom the Corporation has some contractual, transactional or statutory relationship relating to the use of port facilities. Stakeholders have an interest in the performance of the Corporation and port as a whole, and in some cases, have a controlling influence over access infrastructure or have the capacity to assist in the development and funding of port related infrastructure.

The following provides a summary of the Corporation's customers and stakeholders.

Customers	Stakeholders
<ul style="list-style-type: none"> <li>• Import and export cargo owners</li> </ul>	<ul style="list-style-type: none"> <li>• The Victorian Government- through the Minister for Transport and the Treasurer (shareholder, policy setter and regulator)</li> </ul>
<ul style="list-style-type: none"> <li>• Shipping lines</li> </ul>	<ul style="list-style-type: none"> <li>• Adjacent local governments and neighbouring communities</li> </ul>
<ul style="list-style-type: none"> <li>• Terminal operators (eg, stevedores)</li> </ul>	<ul style="list-style-type: none"> <li>• The Victorian community including producers and consumers</li> </ul>
<ul style="list-style-type: none"> <li>• Shipping lines and shipping agents which use common user facilities</li> </ul>	<ul style="list-style-type: none"> <li>• Recreational, commercial and tourism boat operators</li> </ul>
<ul style="list-style-type: none"> <li>• Port service providers (eg, pilots, towage, mooring, security, maintenance, etc)</li> </ul>	<ul style="list-style-type: none"> <li>• State and federal government agencies and authorities</li> </ul>
<ul style="list-style-type: none"> <li>• Third-party service providers eg freight forwarders' road and rail operators</li> </ul>	<ul style="list-style-type: none"> <li>• Business and industry groups and peak bodies</li> </ul>
<ul style="list-style-type: none"> <li>• Cruise ship, passenger ferry and visiting vessel operators</li> </ul>	<ul style="list-style-type: none"> <li>• Suppliers, consultants and contractors.</li> </ul>
<ul style="list-style-type: none"> <li>• Shipping agents</li> </ul>	<ul style="list-style-type: none"> <li>• Geelong Port</li> </ul>
<ul style="list-style-type: none"> <li>• Other tenants</li> </ul>	<ul style="list-style-type: none"> <li>• Victorian Regional Channels Authority</li> </ul>
	<ul style="list-style-type: none"> <li>• Employees</li> </ul>

# 8 Performance Measurement

Whole of Port Outcomes		Actual	Targets	
Measure	2005/06	2006/07	2007/08	2008/09
Container crane rate - % of five mainland ports average (Waterline)	100.4%	>100%	>100%	>100%
Container ships delayed (berth not available)				
- on window	2.1%	<4%	<4%	<4%
- off window	13.5%	<8%	<8%	<8%
Reportable incidents in the port	New KPI	0	0	0
Port interface costs (Waterline) vs Sydney - imports	91.3%	<100%	<100%	<100%
- exports	91.4%	<100%	<100%	<100%
Port throughput carried by rail (mass tonnes)	15%*	20%	22%	24%
Trade volume growth (revenue tonnes)	-0.3%	4.2%	4.4%	5.9%
Cruise ship arrivals per season	36	26	30	32
Average TEUs per truck visit to port	1.11	1.11	1.14	1.17
Stakeholder/Community survey	n.a.	Benchmarks established	+5%	+2%
<b>Operational KPIs</b>				
Measure	2005/06	2006/07	2007/08	2008/09
Channel Deepening SEES		Complete		
Channel Deepening			Commenced	
Compliance with security regulations	100%	100%	100%	100%
Compliance with safety regulations	100%	100%	100%	100%
Compliance with environmental regulations	100%	100%	100%	100%
Navigational aids availability	99.8%	100%	100%	100%
Customer satisfaction rating (each two years)	Benchmark Established	n.a.	+5%	n.a.
Total price per TEU vs Sydney (average for international containers)	60.8%	<100	<100	<100
Satisfaction level of staff	69	60 - 70	65 - 75	65 - 75
<b>Financial KPIs</b>				
Measure	2005/06	2006/07	2007/08	2008/09
Capital Expenditure (excluding CDP) vs budget	79.7%	100%	100%	100%
Return on capital employed	5.6%	2.7%	4.3%	4.5%
Interest cover (times)	19.6	5.2	5.8	3.5
Gearing Ratio (year end)	8.5%	13.7%	27.2%	43.1%
Expenses vs revenue (excluding CDP)	41.7%	46.2%	45.2%	42.9%

\*YTD July 2005 to March 2006

## 9 Target Capital Structure

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

	2005/2006 Actual \$m	2006/2007 Budget \$m	2007/2008 Forecast \$m	2008/2009 Forecast \$m
Total assets	989.0	1028.5	1251.3	1597.7
Total liabilities	230.6	261.6	461.5	789.8
Shareholder equity	758.4	766.9	789.8	808.1
	77%	75%	63%	51%

## 10 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 Ports. A dividend payout ratio of 50% has been allowed in the Financial Forecasts, adjusted for non cash IFRS adjustments.

### Pricing Regulation

The Corporation's business is subject to a light handed price regulatory regime which is overseen by the State Government's Essential Services Commission (ESC). During the period 2006/07 to 2008/09 the Corporation will adjust its prices in accordance with the pricing policy established and agreed with the ESC

# Financial statements

## Income statement for the year ended 30 June 2006

	Note	2006 \$000	2005 \$000
Revenue	2	134,678	124,221
Expenses, excluding finance costs	3	(90,298)	(87,998)
Finance costs	4	(2,087)	(5,304)
<b>Profit before income tax expense</b>		42,293	30,919
Income tax benefit (expense)	5	6,206	(11,169)
<b>Profit for the year</b>		48,499	19,750

The income statement is to be read in conjunction with the accompanying notes.

# Balance sheet

## as at 30 June 2006

	Note	2006 \$000	2005 \$000
<b>Current Assets</b>			
Cash and cash equivalents	6	8,471	27,788
Receivables	7	10,633	8,161
Other financial assets	8	1,051	898
Current tax assets	5	2,771	-
Other	9	1,139	2,851
		24,065	39,698
<b>Non-Current Assets</b>			
Property, plant and equipment	10	936,311	866,983
Investment properties	11	17,729	16,168
Intangible assets	12	260	527
Deferred tax assets	5	6,560	12,047
Other financial assets	8	6,860	7,911
Other	9	-	38
		967,720	903,674
<b>Total Assets</b>		991,785	943,372
<b>Current Liabilities</b>			
Payables	13	27,312	14,857
Interest bearing liabilities	14	4,423	6,000
Current tax liabilities	5	-	7,753
Provisions	15	22,386	14,213
Other	16	6,985	9,378
		61,106	52,201
<b>Non-Current Liabilities</b>			
Interest bearing liabilities	14	74,191	59,588
Deferred tax liabilities	5	97,943	106,360
Provisions	15	144	112
		172,278	166,060
<b>Total Liabilities</b>		233,384	218,261
<b>NET ASSETS</b>		758,401	725,111
<b>Equity</b>			
Contributed capital	17	680,101	676,510
Retained profits	18	78,300	48,601
<b>TOTAL EQUITY</b>		758,401	725,111

The balance sheet is to be read in conjunction with the accompanying notes.

# Statement of changes in equity for the year ended 30 June 2006

	Note	2006 \$000	2005 \$000
<b>Total equity at the beginning of the financial year</b>		725,111	641,871
AIFRS adjustments recognised directly in equity		-	24,279
<b>Restated total equity at the beginning of the financial year</b>		725,111	666,150
Net assets transferred from Station Pier	29	-	31,507
Capital contribution to Channel Deepening Project by Victorian State Government	29	-	7,500
Capital contribution to Station Pier infrastructure by Victorian State Government	29	3,591	204
<b>Total movements recognised directly in equity</b>		3,591	39,211
Net profit for year	30	48,499	19,750
Dividends paid	18	(18,800)	-
<b>Total equity at the end of the financial year</b>		758,401	725,111

The statement of changes in equity is to be read in conjunction with the accompanying notes.

# Cash flow statement for the year ended 30 June 2006

	<u>Note</u>	<u>2006</u> \$000	<u>2005</u> \$000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of good and services tax)		141,979	134,084
Interest received		1,685	2,135
Payments to suppliers and employees		(68,754)	(76,235)
Finance costs		(4,064)	(4,433)
Goods and services tax paid		(3,609)	(5,060)
Income taxes paid		(7,248)	(3,746)
Net cash inflow/(outflow) from operating activities	19	59,989	46,745
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(79,698)	(45,122)
Proceeds from sale of property, plant and equipment		498	419
Net cash inflow/(outflow) from investing activities		(79,200)	(44,703)
<b>Cash flows from financing activities</b>			
Proceeds of borrowings		21,000	-
Repayments of borrowings		(6,000)	(5,000)
Proceeds from equity transfer		3,694	9,589
Dividends paid		(18,800)	-
Net cash inflow/(outflow) from financing activities		(106)	4,589
<b>Net increase in cash and cash equivalents held</b>		(19,317)	6,631
Cash and cash equivalents at the beginning of the financial year		27,788	21,157
<b>Cash and cash equivalents at the end of the financial year</b>	6	8,471	27,788

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

# Notes to the financial statements for the year ended 30 June 2006

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The financial report of PoMC is a general purpose financial report that consists of an income statement, balance sheet, statement of changes in equity, cash flow statement and notes accompanying these financial statements.

This general purpose financial report complies with Australian Accounting Standards, Urgent Issues Group Interpretations, other mandatory reporting requirements and the Victorian Financial Management Act 1994. This financial report has been prepared on the accrual and going concern basis. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS).

PoMC changed its accounting policies on 1 July 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected PoMC's income statement and balance sheet is discussed in note 30. All accounting policies have been consistently applied during the year. The statements have been prepared in accordance with the historical cost convention, except for certain assets and liabilities which, as noted, are at valuation. Where practicable, comparative amounts are presented and classified on a basis consistent with the current year.

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly.

### (b) Income tax

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

The income tax expense for the for the year ended 30 June 2006 is the tax payable on the current year's taxable income

based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled based on tax rates which are enacted at the end of the financial year.

Income taxes relating to items attributable to amounts recognised directly in equity are also recognised directly in equity and not in the income statement. The income tax expense for the year is calculated using an income tax rate of 30% (2005: 30%).

### (c) Impairment of assets

All assets are assessed annually for indications of impairment (i.e. as to whether their carrying value exceeds their recoverable amount), except for:

- financial assets (refer note 1(f))
- investment property that is measured at fair value (refer note 1(h))
- deferred tax assets (refer note 1(b)).

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off by a charge to the income statement except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that specific asset. The recoverable amount for assets is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

**(d) Cash and cash equivalents**

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, 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.

**(e) Receivables**

Trade receivables, which generally have 15 to 30 day terms, are recognised initially at the original invoice amount. Collectability of trade receivables is reviewed on an ongoing basis and a specific provision is made for doubtful debts where there is objective evidence that PoMC will not be able to collect all amounts due. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

Bad debts are written off in the period in which they are recognised.

**(f) Other financial assets**

*Finance lease*

Amounts due from lessees under finance leases are recorded as *Other Financial Assets* in the Balance Sheet. Leases, which effectively transfer substantially the entire risks and benefits incidental to ownership of the leased property of PoMC, are capitalised at the present value of the minimum lease payments receivable and are recognised as investments. The investment is reduced by the principal component of lease receipts. The interest component is credited to the income statement.

**(g) Infrastructure, property, plant and equipment**

Under AIFRS, AASB 116 *Property, Plant and Equipment* and AASB 140 *Investment Properties* permit property, plant and equipment and investment properties to be measured either using the cost or fair value model. The Department of Treasury and Finance's (DTF) Financial Reporting Directions (FRDs) have restricted this measurement option and has mandated the

use of fair value unless PoMC has received the prior written approval of the Minister for Finance to measure these assets at cost.

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

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

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

*(i) Depreciation*

Property, plant and equipment assets having limited useful lives are systematically depreciated over their estimated useful lives to PoMC, 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.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (continued)

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

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

#### (ii) *Change in accounting estimates*

The estimated useful lives, residual values and depreciation method are reviewed at the end of each financial reporting period and, where changed, are accounted for as a change in accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method. A review of the lives of depreciable assets during the year resulted in a reduction to the depreciation expense for the year of \$0.961 million (2005: \$0.765 million).

#### (iii) *Acquisition*

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

Infrastructure, property, plant and equipment represent non-current assets consisting land, buildings and improvements, channel assets, plant and equipment used by PoMC 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.

#### (iv) *Recoverable amount*

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

#### (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 balance sheet and amortised over a four year period.

#### (h) *Investment properties*

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

Subsequent to initial recognition at cost, investment properties are revalued to fair value with changes in fair value recognised as income or expense in the period in which they arise. These properties are not depreciated (refer to note 11).

#### (i) *Intangible assets*

PoMC has purchased various computer software assets which are stated at cost less accumulated depreciation and impairment. They are depreciated on a straight-line basis over their useful lives as follows (refer to note 12):

Computer software costs 3 – 5 years

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(continued)

### (j) Leases

#### (i) *Finance lease*

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

#### (ii) *Operating lease*

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

### (k) Payables

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

### (l) Interest bearing liabilities

Interest bearing liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, interest bearing liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the income statement.

### (m) Finance costs

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

### (n) Provisions

Provisions are recognised when PoMC has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. Provisions are measured at the present value of management's best

estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

### (o) Employee benefits

#### (i) *Wages, salaries and sick leave*

Liabilities for wages and salaries, expected to be settled within 12 months of the reporting date, are measured at their nominal amounts (including on costs) using the remuneration rate expected to apply at the time of the settlement and are recognised as current liabilities. No liability is recognised for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting leave will not be 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. The provision has been recognised as a current liability.

#### (iii) *Long service leave*

Long service leave entitlements are assessed at balance date having regard to expected employees remuneration rates on settlement, employment related on-costs and other factors including accumulated years of employment on settlement and experience of employees departure per year of service. Commonwealth bond rates are used for discounting future cash flows. Long service leave expected to be paid within 12 months is measured at its nominal value. The provision relating to employees who are entitled to take long service leave has been recognised as a current liability.

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (continued)

#### (iv) *Superannuation*

PoMC'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.

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

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

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

Contributions to defined benefit schemes are based on a fixed percentage of members' annual salary as actuarially determined. Contributions to defined contribution funds 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 24 *Superannuation*).

#### (p) **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to PoMC and the revenue can be reliably measured.

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

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

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

#### (q) **Environmental restoration costs**

PoMC's land and channel assets are subject to varying degrees of contamination. Environmental restoration costs are progressively charged as part of expenses from ordinary activities when incurred. Environmental restoration feasibility studies 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.

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

Environmental restoration costs which will possibly result in a future sacrifice of economic benefits are recognised as contingent liabilities.

## **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(continued)**

### **(r) Dividend policy**

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

### **(s) Contributed capital**

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

### **(t) Derivative financial instruments**

#### *Forward exchange contracts*

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

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

### **(u) 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.

### **(v) Goods and Services Tax (GST)**

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

### **(w) Critical accounting estimates and judgements**

In preparing this financial report, judgements and estimates have been made regarding:

- income and expenses for the year
- the reported amounts of assets and liabilities
- the disclosure of off balance sheet arrangements, including contingent assets and contingent liabilities.

These estimates and judgements are evaluated at least annually and may be based on historical experience and other factors, including expectations of future events. Estimates and judgements are believed to be reasonable under the circumstances and, where appropriate, are consistent with practices adopted by other government agencies.

**NOTE 2. REVENUE**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
<b>Revenues from continuing operations</b>		
Charges on goods	69,876	60,908
Rent and licence fees	29,611	28,902
Channel usage charges	17,650	17,555
Land tax recovered from tenants	4,831	5,989
Charges for berth and area hire	2,075	1,936
Income received from investment properties	1,523	1,371
Recoverable works	1,531	1,158
Other charges for services	2,607	2,072
Total revenues from continuing operations	<u>129,704</u>	<u>119,891</u>
<b>Other income</b>		
Interest received	2,103	2,850
Fair value adjustment to investment properties (refer to note 11)	1,961	-
Other revenue	910	1,480
Total other income	<u>4,974</u>	<u>4,330</u>
Total revenue	<u>134,678</u>	<u>124,221</u>

**NOTE 3. EXPENSES**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Contractor and consultant expenses	32,380	30,335
Depreciation and amortisation expenses	22,566	22,351
Salaries and employee benefits expenses	17,673	16,572
Land tax expense	8,561	10,148
Operating lease expenses	1,332	1,868
Net loss on disposal of property, plant and equipment	179	384
Other expenses	7,607	6,340
Total expenses	<u>90,298</u>	<u>87,998</u>

**NOTE 4. FINANCE COSTS**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Loan and interest expenses	4,061	4,265
Fair value adjustment to borrowings	(1,933)	1,076
Amortisation of discount/premium on borrowings	(41)	(37)
Total finance costs	<u>2,087</u>	<u>5,304</u>

**NOTE 5. INCOME TAX**

	2006 \$000	2005 \$000
<b>(a) Income tax expense</b>		
Current tax	3,477	9,887
Deferred income tax	(3,092)	1,989
Under / (over) provided in prior year	(6,591)	(707)
Total income tax expense (revenue)	<u>(6,206)</u>	<u>11,169</u>
Deferred income tax (revenue) expense included in income tax expense comprises:		
Increase / (decrease) in deferred tax liabilities	(8,161)	1,040
(Increase) / decrease in deferred tax assets	5,069	949
Total deferred income tax	<u>(3,092)</u>	<u>1,989</u>
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit from continuing operations before income tax expense	42,293	30,919
Tax at the Australian tax rate of 30% (2005 – 30%)	12,688	9,276
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Current year research and development tax concession	(12,352)	-
Other net non-deductible/(assessable) items	49	2,600
Under / (over) provided in prior year (research and development tax concession)	(6,591)	(707)
Total income tax expense	<u>(6,206)</u>	<u>11,169</u>
<b>(c) Deferred tax assets</b>		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in the income statement</i>		
Historical cost adjustment to property, plant and equipment on transition to AIFRS	-	5,946
Employee benefits	2,002	2,707
Provision for restoration	1,301	1,590
Income received in advance	2,042	1,093
Accrued expenditure	1,101	598
Doubtful debts	114	113
Total deferred tax assets	<u>6,560</u>	<u>12,047</u>
<b>(d) Deferred tax liabilities</b>		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in the income statement</i>		
Depreciation	20,618	19,956
Maintenance dredging	391	1,055
Prepayments	20	588
Other temporary differences	671	24
<i>Amounts recognised in equity</i>		
Revalued property, plant and equipment	76,243	84,737
Total deferred tax liabilities	<u>97,943</u>	<u>106,360</u>
<b>(e) Current tax assets and liabilities</b>		
Current tax assets	2,771	-
Current tax liabilities	-	7,753

**NOTE 6. CASH AND CASH EQUIVALENTS**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Cash at bank and on hand	2,762	2,805
Deposits	5,709	24,983
Total cash and cash equivalents	<u>8,471</u>	<u>27,788</u>

Cash at bank earns interest at a rate of 5.25% (2005: 5.00%) at 30 June 2006.

Deposits earn interest at a rate of 5.70% (2005: 5.45% to 5.60%) at 30 June 2006.

**NOTE 7. RECEIVABLES**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Trade debtors	11,012	8,537
Less: Provision for doubtful debts	(379)	(376)
Total receivables	<u>10,633</u>	<u>8,161</u>

**NOTE 8. OTHER FINANCIAL ASSETS**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
<b>Current</b>		
Direct finance leases	<u>1,051</u>	<u>898</u>
<b>Non-current</b>		
Direct finance leases	<u>6,860</u>	<u>7,911</u>

**Leasing arrangements**

Direct finance leases have a discount rate of 16% (2005: 16%) and a lease term of 5.5 years (2005: 6.5 years) with rentals payable quarterly.

**Minimum direct finance leases payments receivable**

– within one year	2,256	2,256
– one year to five years	9,024	9,024
– over five years	561	2,817
	<u>11,841</u>	<u>14,097</u>
Future finance lease revenue	<u>(3,930)</u>	<u>(5,288)</u>
Net direct finance lease asset	<u>7,911</u>	<u>8,809</u>

**NOTE 9. OTHER ASSETS**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
<b>Current</b>		
Prepayments	941	2,656
Other assets	198	195
Total current other assets	<u>1,139</u>	<u>2,851</u>
<b>Non-current</b>		
Other assets	<u>-</u>	<u>38</u>

## NOTE 10. INFRASTRUCTURE, PROPERTY, PLANT AND EQUIPMENT

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

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
<b>Land</b>		
Freehold – at cost <sup>(1)</sup>	582,667	553,408
Crown – at cost <sup>(1)</sup>	1,175	1,175
Total land	583,842	554,583
<b>Buildings and improvements</b>		
At cost <sup>(1)</sup>	246,342	209,787
Accumulated depreciation	(42,069)	(26,478)
Total buildings and improvements	204,273	183,309
<b>Plant and equipment</b>		
At cost	23,731	24,822
Accumulated depreciation	(8,768)	(8,079)
Total plant and equipment	14,963	16,743
<b>Channel assets</b>		
At cost <sup>(2)</sup>	46,952	46,952
Accumulated depreciation	(5,217)	(2,608)
Total channel assets	41,735	44,344
<b>Capital works in progress</b>		
At cost	90,195	64,489
Major maintenance dredging		
At cost <sup>(3)</sup>	7,188	7,188
Accumulated amortisation	(5,885)	(3,673)
	1,303	3,515
Total infrastructure, property, plant and equipment	936,311	866,983

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

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

Land and buildings held by PoMC to provide a port facility to facilitate trade and commerce will be accounted for as infrastructure assets under AASB 116 notwithstanding that the land and buildings are leased to port operators. Land and buildings that are not integral or associated with port activities and are leased with the principal objective of earning rentals or for capital appreciation, or both, are accounted for as investment properties under AASB140. Refer to Note 11 for details.

(2) PoMC values the channel assets at depreciated historical cost.

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

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

**b) Reconciliations**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
<b>Land</b>		
Carrying amount at start of year	554,583	545,183
Transfer from investment properties – refer note 11	400	-
Transfer from another entity – refer note 29	-	9,400
Transfer from capital works in progress	17,335	-
Capitalised environmental restoration costs	11,524	-
Carrying amount at end of year	<u>583,842</u>	<u>554,583</u>
<b>Buildings and improvements</b>		
Carrying amount at start of year	183,309	173,065
Transfer from another entity – refer note 29	-	20,112
Transfer from capital works in progress	35,663	4,602
Disposals	(14)	(316)
Depreciation expense	(14,685)	(14,154)
Carrying amount at end of year	<u>204,273</u>	<u>183,309</u>
<b>Plant and equipment</b>		
Carrying amount at start of year	16,743	15,499
Transfer from capital works in progress	1,688	4,895
Transfer from another entity – refer note 29	-	7
Disposals	(673)	(493)
Depreciation expense	(2,795)	(3,165)
Carrying amount at end of year	<u>14,963</u>	<u>16,743</u>
<b>Channel assets</b>		
Carrying amount at start of year	44,344	46,952
Depreciation expense	(2,609)	(2,608)
Carrying amount at end of year	<u>41,735</u>	<u>44,344</u>
<b>Capital works in progress</b>		
Carrying amount at start of year	64,489	23,710
Additions	80,392	50,276
Transfer to land	(17,335)	-
Transfer to buildings and improvements	(35,663)	(4,602)
Transfer to plant and equipment	(1,688)	(4,895)
Carrying amount at end of year	<u>90,195</u>	<u>64,489</u>
<b>Major maintenance dredging</b>		
Carrying amount at start of year	3,515	5,727
Amortisation expense	(2,212)	(2,212)
Carrying amount at end of year	<u>1,303</u>	<u>3,515</u>

**NOTE 11. INVESTMENT PROPERTIES**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Balance at beginning of financial year	16,168	16,168
Transfer to infrastructure, property, plant and equipment – refer to note 10	(400)	-
Net gain from fair value adjustment <sup>(1)</sup>	1,961	-
Balance at end of financial year	<u>17,729</u>	<u>16,168</u>

(1) The basis of valuation of investment properties is fair value, being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in a similar location and condition. The independent valuations of land as at 30 June 2006 were performed by the firm FPD Savills Property Consultants. The valuer is a member of the Australian Property Institute, a Certified Practising Valuer and an Associate Director of FPD Savills with more than 25 years of experience in the valuation industry. The independent valuation of buildings was performed by GHD Pty Ltd who is ranked in the world's top 50 engineering and architecture companies.

**NOTE 12. INTANGIBLE ASSETS**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Carrying amount at start of year	527	632
Additions	-	106
Amortisation expense	(267)	(211)
Carrying amount at end of year	<u>260</u>	<u>527</u>
At cost	2,254	2,298
Accumulated amortisation	(1,994)	(1,771)
Total intangible assets	<u>260</u>	<u>527</u>

PoMC has purchased various computer software assets which are stated at cost less accumulated amortisation and impairment. They are amortised on a straight-line basis over their useful lives (refer to note 1(i)).

**NOTE 13. PAYABLES**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Trade creditors	2,803	2,039
Accrued expenditure	24,509	12,747
Hedging foreign currency payable	-	71
Total payables	<u>27,312</u>	<u>14,857</u>

**NOTE 14. INTEREST BEARING LIABILITIES**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
<b>Current</b>		
Treasury Corporation of Victoria borrowings	4,408	6,000
Unamortised discount/premium on borrowings	15	-
Total interest bearing liabilities (refer to note 25)	<u>4,423</u>	<u>6,000</u>
<b>Non-current</b>		
Treasury Corporation of Victoria borrowings	74,191	59,532
Unamortised discount/premium on borrowings	-	56
Total interest bearing liabilities (refer to note 25)	<u>74,191</u>	<u>59,588</u>

Interest bearing liabilities are secured by a Victorian Government guarantee. The interest rates relating to interest bearing liabilities are at fixed rates, ranging from 5.65% to 9.21% (2005: 5.65% to 9.21%), with the effective weighted average rate 6.34% (2005: 6.44%). Non-current interest bearing liabilities have a weighted average maturity of 5.88 years (2005: 4.39 years) and are payable on or before 15 October 2018.

PoMC has available an overdraft facility of \$1 million (2005:\$1 million) which was not utilised at 30 June 2006. All other facilities are fully utilised at 30 June 2006.

**NOTE 15. PROVISIONS**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
<b>Current <sup>(1)</sup></b>		
Employee benefits – employee leave provisions	4,278	4,338
Employee benefits – defined benefit superannuation fund liability (note 24)	2,248	4,575
Environmental restoration costs	15,861	5,300
Total provisions	<u>22,387</u>	<u>14,213</u>
<b>Movements in provisions</b>		
Movements in each class of provision during the financial year, other than employee benefits, are set out below:		
<i>Environmental restoration costs</i>		
Carrying amount at start of year	5,300	1,000
Additional provisions recognised	11,361	4,432
Amounts utilised during the year	(800)	(132)
Carrying amount at end of year	<u>15,861</u>	<u>5,300</u>
<b>Non-current</b>		
Employee benefits	144	112

(1) The total amount of benefits expected to be paid to employees within 12 months after reporting date is \$115,699 (2005: \$111,787).

**NOTE 16. OTHER LIABILITIES**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
<b>Current</b>		
Income in advance	6,805	8,165
Other liabilities	180	1,213
Total current other liabilities	<u>6,985</u>	<u>9,378</u>

**NOTE 17. CONTRIBUTED CAPITAL**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Balance at the beginning of the year	676,510	635,230
Net assets transferred from Station Pier <sup>(1)</sup>	-	31,507
Capital contribution to Channel Deepening Project by Victorian State Government <sup>(1)</sup>	-	7,500
Capital contribution to Station Pier infrastructure by Victorian State Government <sup>(1)</sup>	3,591	204
Net AIFRS deferred tax adjustment recognised directly in equity	-	2,069
Balance at the end of the year	<u>680,101</u>	<u>676,510</u>

(1) refer to note 29

**NOTE 18. RETAINED PROFITS**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Retained profits at the beginning of the year	48,601	6,641
AIFRS adjustments recognised directly in retained profits	-	22,210
Net profit	48,499	19,750
Total available for appropriation	<u>97,100</u>	<u>48,601</u>
Dividends paid	18,800	-
Retained profits at the end of the year	<u>78,300</u>	<u>48,601</u>

**NOTE 19. CASH FLOW DISCLOSURES**

Reconciliation of profit after income tax expense to net cash inflows from operating activities:

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Profit after income tax expense	48,499	19,750
Adjustments for non-cash income and expense items:		
Depreciation and amortisation	22,566	22,351
Net loss on disposal of infrastructure, property, plant and equipment	179	384
Amortisation of discount on borrowings	(41)	(37)
Fair value adjustment to investment properties	(1,961)	-
Fair value adjustment to borrowings	(1,933)	1,076
Net foreign currency (gains) / losses	(3)	71
Changes in operating assets and liabilities:		
Increase in receivables	(2,472)	(489)
Increase in current other financial assets	(153)	(130)
Decrease in other current assets	1,713	2
(Increase) / decrease in deferred tax assets	5,487	2,301
Decrease in non-current other financial assets	1,050	898
Decrease in other non-current assets	38	42
Increase / (decrease) in payables	150	(7,961)
Decrease in current tax liabilities	(10,524)	6,163
Increase / (decrease) in current provisions	8,173	3,817
Increase / (decrease) in other current liabilities	(2,394)	(417)
Increase / (decrease) in deferred tax liabilities	(8,417)	(1,040)
Increase / (decrease) in non-current provisions	32	(15)
Decrease in other non-current liabilities	-	(21)
Net cash inflows from operating activities	<u>59,989</u>	<u>46,745</u>

**NOTE 20. AUDITORS' REMUNERATION**

	<u>2006</u> <u>\$</u>	<u>2005</u> <u>\$</u>
<i>Victorian Auditor General's Office:</i>		
Audit and review of the financial report	60,100	58,400

## NOTE 21. RESPONSIBLE PERSONS' DISCLOSURES AND REMUNERATION

### Responsible persons

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

#### Responsible Ministers:

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

#### Directors:

Mr B I Scales AO *Chairman* (appointed 1 October 2005)  
Mr D B Cranwell  
Dr M A Doig  
Mr N R Edwards (resigned as Chairman on 30 September 2005)  
Ms M Hartley  
Ms P R Marriott  
Mr B N Nicholls (resigned 30 September 2005)  
Ms E H Parkin  
Mr D Powell  
Mr F Williamson

#### Accountable Officer:

Mr S G Bradford

	<u>2006</u>	<u>2005</u>
	\$	\$
<b>Responsible persons' remuneration <sup>(1)</sup></b>		
Total remuneration paid or payable (including bonuses and superannuation) during the year to all responsible persons by PoMC	798,101	772,150
As at 30 June 2006, the accountable officer was entitled to a remuneration package, including a salary of \$328,600 and a potential incentive based bonus of up to 20% of salary.		
Bonuses paid or payable during the year pursuant to employment contracts included in the above remuneration	43,400	16,188
<b>Responsible persons' retirement benefits</b>		
The superannuation paid by PoMC in connection with the retirement of responsible persons amounted to:	132,109	136,663
Number of responsible persons whose annual remuneration from PoMC fell within the following bands:	<u>No.</u>	<u>No.</u>
\$ 0 to \$ 9,999	1	-
\$ 30,000 to \$ 39,999	7	8
\$ 50,000 to \$ 59,999	1	-
\$140,000 to \$149,999	1	-
\$190,000 to \$199,999	-	1
\$290,000 to \$299,999	-	1
\$370,000 to \$379,999	1	-

### Loans

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

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

**NOTE 21. RESPONSIBLE PERSONS' DISCLOSURES AND REMUNERATION (continued)****Other transactions of responsible persons and their related entities**

Ms E H Parkin is a consultant to KPMG which provided consulting services to PoMC during the year.

Mr D Powell's son is employed by PricewaterhouseCoopers which provided consulting services to PoMC during the year.

Mr S G Bradford was appointed as a director of Through Transport Mutual Insurance Association Limited during the year. This entity, which provided insurance to PoMC, seeks to appoint directors from within its membership base.

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>2006</u>	<u>2005</u>
	\$	\$
<b>Expenses</b>		
Contractor and consultant expenses	966,715	354,279

**NOTE 22. EXECUTIVE OFFICERS' REMUNERATION**

	<u>2006</u>	<u>2005</u>
	\$	\$
Total remuneration, including bonuses and superannuation, paid or payable during the year by PoMC to executive officers whose remuneration exceeded \$100,000	938,259	747,418
Bonuses paid or payable during the year pursuant to employment contracts included in the above remuneration	105,233	45,689

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

	<u>No.</u>	<u>No.</u>
\$140,000 to \$149,999	-	1
\$170,000 to \$179,999	-	1
\$180,000 to \$189,999	-	1
\$210,000 to \$219,999	2	-
\$240,000 to \$249,999	1	1
\$260,000 to \$269,999	1	-

**NOTE 23. COMMITMENTS FOR EXPENDITURE**

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
<b>Capital expenditure commitments</b>		
Commitments for the construction and acquisition of property, plant and equipment contracted for at balance date but not recognised as liabilities:		
– within one year	10,067	19,674
– later than one year but not later than five years	3,234	-
	<u>13,301</u>	<u>19,674</u>
<b>Operating expenditure commitments (excluding lease commitments)</b>		
Commitments for the payment of operating expenditure excluding lease commitments contracted for at balance date but not recognised as liabilities:		
– within one year	49	36
– later than one year but not later than five years	107	-
	<u>156</u>	<u>36</u>
<b>Operating lease expenditure commitments</b>		
Commitments in relation to operating leases contracted for at balance date but not recognised as liabilities:		
– within one year	1,543	1,324
– later than one year but not later than five years	6,697	651
– later than five years	12,233	-
	<u>20,473</u>	<u>1,975</u>

## NOTE 24. SUPERANNUATION

PoMC'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 defined contribution funds including the Victorian Superannuation Scheme. Contributions to defined contribution funds are recognised as an expense as they become payable.

Employer contributions during the year to defined benefit and contribution superannuation plans of which PoMC's employees are members are as follows:

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Port of Melbourne Superannuation Fund	587	597
Decrease in net superannuation liability per AASB 119	(2,327)	(851)
Transport Superannuation Scheme	160	157
State Superannuation Scheme	124	143
Various Contribution Schemes	1,118	720
	<u>(338)</u>	<u>766</u>

### (a) Defined benefit superannuation plan

A liability in respect of the defined benefit superannuation plan is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at 30 June 2006 plus unrecognised actuarial gains (less unrecognised actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to year end, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

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

### (b) Reconciliations

#### (i) Balance sheet amounts and employer contributions

The amounts recognised in the balance sheet are determined as follows:

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Present value of the defined benefit plan obligation	19,723	19,318
Fair value of defined benefit plan assets	17,475	14,743
Net liability in the balance sheet (note 15)	<u>2,248</u>	<u>4,575</u>

**NOTE 24. SUPERANNUATION (continued)***(ii) Reconciliation of opening and closing balances of the present value of the defined benefit obligation*

Movements in the present value of the defined benefit obligations in the current year were as follows:

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Opening defined benefit plan obligation	19,318	18,157
Current service cost	580	606
Interest cost	832	895
Contributions by fund participants	106	108
Actuarial (gains) / losses	(585)	300
Taxes, premiums and expenses paid	(188)	(181)
Benefits paid	(340)	(567)
Closing defined benefit plan obligation	<u>19,723</u>	<u>19,318</u>

*(iii) Reconciliation of opening and closing balances of the fair value of the defined benefit obligation*

Movements in the fair value of the defined benefit obligations in the current year were as follows:

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Opening fair value of plan assets	14,743	12,731
Expected return of plan assets	1,042	916
Actuarial (gains) / losses	1,503	1,116
Contributions from the employer	609	620
Contributions from the participants	106	108
Taxes, premiums and expenses paid	(188)	(181)
Benefits paid	(340)	(567)
Closing fair value of plan assets	<u>17,475</u>	<u>14,743</u>

*(iv) Reconciliation of the assets and liabilities recognised in the balance sheet*

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Defined benefit obligation	19,723	19,318
Less fair value of plan assets	<u>17,475</u>	<u>14,743</u>
Net superannuation liability	<u>2,248</u>	<u>4,575</u>

*(v) Amounts recognised in the income statement*

The amounts recognised in the income statement are as follows:

	<u>2006</u> <u>\$000</u>	<u>2005</u> <u>\$000</u>
Current service cost	580	606
Interest cost	832	895
Expected return on plan assets	(1,042)	(916)
Actuarial (gain)	(2,088)	(816)
Total included in employee benefits expense	<u>(1,718)</u>	<u>(231)</u>

**NOTE 24. SUPERANNUATION (continued)**

(vi) *Categories of plan assets*

The major categories of plan assets are as follows:

	<u>2006</u> %	<u>2005</u> %
Australian equity	36%	36%
International equity	19%	22%
Fixed income	23%	20%
Property	8%	8%
Cash	14%	14%

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

(vii) *Expected rate of return on plan assets*

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

(viii) *Actual return on plan assets*

	<u>2006</u> \$000	<u>2005</u> \$000
Actual return on plan assets	2,545	2,032

(ix) *Actuarial assumptions*

Key assumptions used:

	<u>2006</u> % per annum	<u>2005</u> % per annum
Discount rate (active members)	5.0%	4.4%
Discount rate (pensioners)	5.8%	5.1%
Expected return on plan assets (active members)	7.2%	7.2%
Expected return on plan assets (pensioners)	7.2%	7.2%
Expected rate of salary increase rate	4.5%	4.5%
Expected rate of pension increase rate	3.0%	2.5%

(x) *Historic summary*

	<u>2006</u> \$000	<u>2005</u> \$000
Present value of defined benefit plan obligation	19,723	19,318
Fair value of plan assets	17,475	14,743
Deficit in plan assets	2,248	4,575
Experience adjustments gain arising on plan assets	1,503	1,116
Experience adjustments gain arising on plan liabilities	288	358

## NOTE 24. SUPERANNUATION (continued)

### (c) Funding arrangements for employer contributions

#### (i) *Contribution recommendations*

Employer contributions to the defined benefit plan are based on recommendations by the plan's actuary. Actuarial assessments are made at yearly intervals and the last such assessment was made at 30 June 2005.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. PoMC has no legal obligation to settle this liability with an immediate contribution or additional one off contributions. As recommended by the actuary, contributions to the plan were made at a rate of 37% of salaries for the 2006 and 2005 financial years. From 1 July 2006, contributions will be at a rate of 29% of salaries and are expected to be \$492,000 for the year ending 30 June 2007.

#### (ii) *Funding method*

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

#### (iii) *Economic assumptions*

The long-term economic assumptions adopted for the last actuarial review of the plan as at 30 June 2005 were:

Expected rate of return on plan assets (discount rate)	7.0%
Expected salary increase rate	5.0%

#### (iv) *Nature of Asset / Liability*

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

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

## NOTE 25. FINANCIAL INSTRUMENTS

### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to PoMC. The credit risk relating to PoMC's financial assets which are recognised in the balance sheet is the carrying amount of such assets, net of any provisions for doubtful debts. Receivables are monitored on an ongoing basis, resulting in minimal exposure to bad debts.

### Derivative financial instruments

#### General hedge

PoMC is a party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations to foreign exchange rates. In particular, PoMC has entered into forward exchange contracts to purchase Euro dollars designed as a hedge for the anticipated purchases of goods for the financial year ending 30 June 2007. An unrealised loss of \$nil (2005: \$71,000) has been included in the income statement for the year relating to the forward exchange contract.

### Interest rate risk

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

	Fixed Interest Maturing in								Total
	Floating Interest	1 year or less	over 1-2 years	over 2-3 years	over 3-4 years	over 4-5 years	over 5+ years	Non-Interest Bearing	
	2006 \$000	2006 \$000	2006 \$000	2006 \$000	2006 \$000	2006 \$000	2006 \$000	2006 \$000	2006 \$000
Financial assets:									
Cash and cash equivalents	8,471	-	-	-	-	-	-	-	8,471
Receivables	-	-	-	-	-	-	-	10,633	10,633
Other financial assets	-	1,051	1,229	1,438	1,682	1,968	543	-	7,911
	<u>8,471</u>	<u>1,051</u>	<u>1,229</u>	<u>1,438</u>	<u>1,682</u>	<u>1,968</u>	<u>543</u>	<u>10,633</u>	<u>27,015</u>
Weighted average interest rate	5.3%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%		
Financial liabilities:									
Payables	-	-	-	-	-	-	-	27,312	27,312
Interest bearing liabilities	-	4,422	9,278	6,247	6,282	11,312	41,073	-	78,614
Other liabilities	-	-	-	-	-	-	-	178	178
	<u>-</u>	<u>4,422</u>	<u>9,278</u>	<u>6,247</u>	<u>6,282</u>	<u>11,312</u>	<u>41,073</u>	<u>27,490</u>	<u>106,104</u>
Weighted average interest rate		9.2%	6.3%	6.6%	6.6%	6.3%	6.0%		
Net financial assets/ (liabilities)	<u>8,471</u>	<u>(3,371)</u>	<u>(8,049)</u>	<u>(4,809)</u>	<u>(4,600)</u>	<u>(9,344)</u>	<u>(40,530)</u>	<u>(16,857)</u>	<u>(79,089)</u>

**NOTE 25. FINANCIAL INSTRUMENTS (continued)**

	Fixed Interest Maturing in					Total
	Floating Interest	1 year or less	over 1 to 5 years	more than 5 years	Non-Interest Bearing	
	2005 \$000	2005 \$000	2005 \$000	2005 \$000	2005 \$000	
<b>Financial assets:</b>						
Cash and cash equivalents	27,788	-	-	-	-	27,788
Receivables	-	-	-	-	8,161	8,161
Other financial assets	-	898	6,299	1,612	-	8,809
	<u>27,788</u>	<u>898</u>	<u>6,299</u>	<u>1,612</u>	<u>8,161</u>	<u>44,758</u>
Weighted average interest rate	5.0%	16.0%	16.0%	16.0%		
<b>Financial liabilities:</b>						
Payables	-	-	-	-	14,857	14,857
Interest bearing liabilities	-	6,178	26,883	32,527	-	65,588
Other liabilities	-	-	-	-	1,211	1,211
	<u>-</u>	<u>6,178</u>	<u>26,883</u>	<u>32,527</u>	<u>16,068</u>	<u>81,656</u>
Weighted average interest rate		6.5%	6.9%	6.0%		
Net financial assets/(liabilities)	<u>27,788</u>	<u>(5,280)</u>	<u>(20,584)</u>	<u>(30,915)</u>	<u>(7,907)</u>	<u>(36,898)</u>

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

	2006 \$000	2005 \$000
<b>Reconciliation of net financial liabilities to net assets</b>		
Net financial liabilities	(79,089)	(36,898)
<b>Non-financial assets &amp; liabilities:</b>		
Other assets	1,138	2,889
Infrastructure, property, plant & equipment	954,300	883,678
Deferred tax assets	6,560	12,047
Deferred tax liabilities	(97,943)	(106,360)
Provisions	(19,759)	(22,077)
Other liabilities	(6,806)	(8,168)
Net assets	<u>758,401</u>	<u>725,111</u>

**Net fair value of financial assets and liabilities**

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

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

## **NOTE 26. CONTINGENT LIABILITIES**

### **Contingent liabilities**

Four potential claims have been lodged against PoMC seeking compensation in relation to contractual disputes which are yet to be resolved. PoMC 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 PoMC. At the certification date of the financial statements, PoMC is unable to assess the probability of success of these claims.

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

PoMC 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.

## **NOTE 27. EVENTS OCCURRING AFTER BALANCE DATE**

There were no material events occurring after balance date.

## NOTE 28. RELATED PARTY TRANSACTIONS

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

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

	<u>2006</u> <u>\$000</u> <u>Total</u>	<u>2005</u> <u>\$000</u> <u>Total</u>
Operating revenue	1,574	3,296
Operating expenses	8,648	11,617
Finance charges	2,087	5,304
Dividend paid	18,800	-
Income tax (benefit) expense	(6,206)	11,169
Asset purchases	-	29,519
Assets	12,332	38,852
Liabilities	175,300	177,913
Equity transfer	3,594	7,623

## NOTE 29. ASSETS AND LIABILITIES TRANSFERS BETWEEN PUBLIC SECTOR ENTITIES

### 2006

#### Station Pier assets and liabilities transferred from the Department of Infrastructure

The Department of Infrastructure (DoI) contributed \$3,591,000 for the funding of Station Pier capital works completed as at 30 June 2006. There were no other assets and liabilities transferred to PoMC during the year ended 30 June 2006.

### 2005

#### Station Pier assets and liabilities transferred from the Department of Infrastructure

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

	<u>2005</u> <u>\$000</u>
<i>Assets</i>	
Cash assets	1,988
Infrastructure, property, plant and equipment	29,519
Total assets	<u>31,507</u>
Net assets transferred from DoI (refer to note 17)	<u>31,507</u>

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

### NOTE 30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

PoMC changed its accounting policies on 1 July 2004 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to international Financial Reporting Standards*, with 1 July 2004 as the date of transition.

An explanation of how the transition from Australian Generally Accepted Accounting Principles (AGAAP) to AIFRS has affected PoMC's balance sheet, income statement and cash flow statement is set out below.

#### (1) Reconciliation of equity reported under AGAAP to equity under AIFRS

##### (i) At the date of transition to AIFRS: 1 July 2004

	Note	Previous AGAAP \$000	Effect of transition to AIFRS \$000	AIFRS \$000
<b>Current Assets</b>				
Cash and cash equivalents		21,157	-	21,157
Receivables		6,576	-	6,576
Other financial assets		768	-	768
Other		2,853	-	2,853
		31,354	-	31,354
<b>Non-Current Assets</b>				
Infrastructure, property, plant and equipment	a	812,865	(36,538)	776,327
Investment properties	a, b	-	16,168	16,168
Intangible assets	a	-	738	738
Deferred tax assets	c	7,933	7,485	15,418
Other financial assets		8,809	-	8,809
Other		80	-	80
		829,687	(12,147)	817,540
<b>Total Assets</b>		861,041	(12,147)	848,894
<b>Current Liabilities</b>				
Payables		16,623	-	16,623
Interest bearing liabilities		5,000	-	5,000
Current tax liabilities		1,590	-	1,590
Provisions	d	4,013	3,534	7,547
Other		9,780	-	9,780
		37,006	3,534	40,540
<b>Non-Current Liabilities</b>				
Interest bearing liabilities	e	62,393	2,156	64,549
Deferred tax liabilities	c	12,300	86,639	98,939
Provisions		2,974	-	2,974
Other		21	-	21
		77,688	88,795	166,483
<b>Total Liabilities</b>		114,694	92,329	207,023
<b>NET ASSETS</b>		746,347	(104,476)	641,871
<b>Equity</b>				
Contributed capital	c	726,561	(91,331)	635,230
Asset revaluation reserve	a	17,608	(17,608)	-
Retained profits	f	2,178	4,463	6,641
<b>TOTAL EQUITY</b>		746,347	(104,476)	641,871

**NOTE 30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

(continued)

(ii) At the date of the last reporting period under previous AGAAP: 30 June 2005

	Note	Previous AGAAP \$000	Effect of transition to AIFRS \$000	AIFRS \$000
<b>Current Assets</b>				
Cash and cash equivalents		27,788	-	27,788
Receivables		8,161	-	8,161
Other financial assets		898	-	898
Other		2,851	-	2,851
		<u>39,698</u>	<u>-</u>	<u>39,698</u>
<b>Non-Current Assets</b>				
Infrastructure, property, plant and equipment	a	904,226	(37,243)	866,983
Investment properties	a, b	-	16,168	16,168
Intangible assets	a	-	527	527
Deferred tax assets	c	5,632	6,415	12,047
Other financial assets		7,911	-	7,911
Other		38	-	38
		<u>917,807</u>	<u>(14,133)</u>	<u>903,674</u>
<b>Total Assets</b>		<u>957,505</u>	<u>(14,133)</u>	<u>943,372</u>
<b>Current Liabilities</b>				
Payables		14,857	-	14,857
Interest bearing liabilities		6,000	-	6,000
Current tax liabilities		7,753	-	7,753
Provisions	d	8,056	3,369	11,425
Other		9,378	-	9,378
		<u>46,044</u>	<u>3,369</u>	<u>49,413</u>
<b>Non-Current Liabilities</b>				
Interest bearing liabilities	e	56,356	3,232	59,588
Deferred tax liabilities	c	11,260	95,100	106,360
Provisions		2,900	-	2,900
Other		-	-	-
		<u>70,516</u>	<u>98,332</u>	<u>168,848</u>
<b>Total Liabilities</b>		<u>116,560</u>	<u>101,701</u>	<u>218,261</u>
<b>NET ASSETS</b>		<u>840,945</u>	<u>(115,834)</u>	<u>725,111</u>
<b>Equity</b>				
Contributed capital	c	765,772	(89,262)	676,510
Asset revaluation reserve	a	51,418	(51,418)	-
Retained profits	g	23,755	24,846	48,601
<b>TOTAL EQUITY</b>		<u>840,945</u>	<u>(115,834)</u>	<u>725,111</u>

**NOTE 30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**  
(continued)

**(2) Reconciliation of profit for the year ended 30 June 2005**

	Note	Previous AGAAP \$000	Effect of transition to AIFRS \$000	AIFRS \$000
Revenue		124,644	-	124,644
Expenses, excluding finance costs	a, d, g	(87,670)	(751)	(88,421)
Finance costs	e	(4,228)	(1,076)	(5,304)
Profit before income tax expense		32,746	(1,827)	30,919
Income tax expense		(11,169)	-	(11,169)
Profit after income tax expense		21,577	(1,827)	19,750

**(3) Reconciliation of cash flow statement for the year ended 30 June 2005**

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

**(4) Notes to the reconciliations**

(a) Infrastructure, property, plant and equipment

Under AIFRS, AASB 116 *Property, Plant and Equipment* permits property, plant and equipment and to be measured either using the cost or fair value model. However, the DTF FRDs have restricted this measurement option and has mandated the use of fair value.

PoMC has received the Minister for Finance's approval for an exemption from the requirements to fair value certain non-current assets under the AIFRS framework. Subsequent to their initial recognition, port infrastructure assets will be carried at cost less any accumulated depreciation and any impairment losses. PoMC has elected to value the channel assets at depreciated historical cost and all other property, plant and equipment at cost. The fair value of property, plant and equipment was deemed to be cost on transition. On transition, \$17,608,000 in the asset revaluation reserve associated with these assets was transferred to retained profits. On 30 June 2005, the amount increased to \$51,418,000.

On transition, the impact of these changes is a decrease to the carrying amounts of assets of \$36,538,000. As a result of the channel assets being carried at depreciated historical cost, a transitional adjustment of \$19,632,000 has been taken to retained earnings. Accordingly, depreciation expense increased by \$917,000 for the year ended 30 June 2005. In addition, some land and buildings were classified as investment properties (\$16,168,000) and computer software was disclosed as intangible assets (\$738,000).

(b) Investment property

Land and buildings that are integral to port activities are to be classified as port infrastructure assets (part of property, plant and equipment) and measured at cost. Where land and buildings are not integral to port activities, these are classified as investment properties under AASB 140 and measured at fair value. There is a small proportion of land that has been purchased for future port related uses, which is currently under lease for non-port related activities. These parcels of land will be treated as investment properties until they form a port infrastructure asset and are used for port services.

## NOTE 30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING

### STANDARDS (continued)

Previously, land and buildings had been valued at fair value using market value for land and depreciated replacement cost for buildings. Changes in the fair values of such properties have previously been recognised through the asset revaluation reserve under Australian GAAP. Subsequent to initial AIFRS recognition, land and buildings will be carried at cost less any accumulated depreciation and any impairment losses. On transition, the disclosure of these assets was changed from property, plant and equipment to investment properties (\$16,168,000).

#### (c) Income tax

Under previous AGAAP, an income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of AIFRS has resulted in a change in accounting policy. On transition, AASB 112 *Income Taxes* has resulted in the recognition of deferred tax liabilities of \$86,639,000 in relation to revalued assets. For the year ended 30 June 2005, the increase was \$95,100,000.

On transition, an increase of \$7,485,000 in deferred tax assets has resulted in an adjustment to the balance sheet. For the year ended 30 June 2005, the increase was \$6,415,000. This increase is attributable to:

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

#### (d) Defined benefit superannuation plans

PoMC currently recognises the net position of the defined benefit superannuation plans based on the assets of the plans and the underlying obligations arising from the services of employees who are members of such plans. Under AGAAP, the present value of the underlying obligation of the Port of Melbourne Superannuation Fund was previously calculated using the expected long-term earning rate of investments held by the superannuation funds. AASB 119 *Employee Benefits* requires the present value of the underlying obligation to be calculated using a long-term bond rate. These two rates are different, leading to a difference in the calculation of the defined benefit superannuation obligation. The resulting initial adjustment of \$3,534,000 has been made against opening retained profits as at 1 July 2004, and is based on actuarially determined valuations of each plan made at that date in accordance with AIFRS.

The effect of the above requirement on the balance sheet is an increase in the superannuation liability. During the year ended 30 June 2005, this provision was reduced by \$166,000 to \$3,369,000.

#### (e) Interest bearing loans

PoMC's fair market value adjustment on transition resulted in an increase to interest bearing liabilities of \$2,156,000. On 30 June 2005, the fair value adjustment increased finance costs by \$1,076,000 to \$3,232,000.

#### (f) Impairment of Assets

AASB 136 *Impairment of Assets* requires assets to be assessed for indicators of impairment each year. This standard applies to all assets, other than investment properties, regardless of whether they are measured on a cost or fair value basis. If indicators

**NOTE 30. IMPACTS OF THE ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING****STANDARDS (continued)**

of impairment exist, the carrying value of an asset will need to be tested to ensure that the carrying value does not exceed its recoverable amount, which is the higher of its value-in-use and fair value less costs to sell. The recoverable amount for assets is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

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

(g) Retained profits

The effect on retained profits of the changes set out above are as follows:

	<u>Note</u>	<u>1 July 2004</u> <u>\$000</u>	<u>30 June 2005</u> <u>\$000</u>
Property, plant and equipment (channel assets)	a	(19,632)	(20,549)
Employee benefits (defined benefit superannuation)	d	(3,534)	(3,368)
Interest bearing liabilities	e	(2,156)	(3,232)
Transfer from asset revaluation reserve	a	17,608	51,418
Net deferred tax adjustments	c	12,177	577
<b>Total adjustment to retained profits</b>		<u>4,463</u>	<u>24,846</u>

# 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 income statement, balance sheet, statement of changes in equity, statement of cash flows and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2006 and financial position of the Port of Melbourne Corporation as at 30 June 2006.

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


The financial statements were authorised for issue by the Board of Directors on 21 August 2006.



Mr Des Powell  
Acting Chairman  
Date: 22 August 2006



Mr S G Bradford  
Chief Executive Officer  
Date: 22 August 2006



Mr J F Johnson  
Executive General Manager Corporate Services  
Date: 22 August 2006

# Auditor-General's Report



AUDITOR GENERAL  
VICTORIA

## INDEPENDENT AUDIT REPORT

### Port of Melbourne Corporation

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

#### **Matters Relating to the Electronic Presentation of the Audited Financial Report**

This audit report for the financial year ended 30 June 2006 relates to the financial report of the Port of Melbourne Corporation included on its web site. The Board of the Port of Melbourne Corporation is responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The audit report refers only to the statements named below. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

#### **Scope**

##### *The Financial Report*

The accompanying financial report for the year ended 30 June 2006 of the Port of Melbourne Corporation consists of an income statement, balance sheet, statement of changes in equity, cash flow statement, notes to and forming part of the financial report, and the certification of financial statements.

##### *Members' Responsibility*

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

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

##### *Audit Approach*

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

The audit procedures included:

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

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Auditing in the Public Interest

# Auditor-General's Report (continued)



## AUDITOR GENERAL VICTORIA

### Independent Audit Report (continued)

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

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

#### Independence

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

#### Audit Opinion

In my opinion, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and the financial reporting requirements of the *Financial Management Act 1994*, the financial position of the Port of Melbourne Corporation as at 30 June 2006 and its financial performance and cash flows for the year then ended.

MELBOURNE  
11 September 2006

  
for JW CAMERON  
Auditor-General

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## Melbourne Offices

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