

Financial Report

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Five-year financial summary

Income Statement For the year ended 30 June	2004 \$M	2005 \$M	2006 \$M	2007 \$M	2008 \$M
Revenue and other income	503.8	525.6	592.6	588.3	600.3
Profit from continuing operations before income tax expense	179.5	192.7	227.7	177.4	93.5
Less: Income tax expense	56.1	61.3	59.0	43.9	25.9
Net profit	4.0	131.4	168.7	133.5	67.6
Dividends paid	95.7	41.3	97.0	86.6	99.4
Balance Sheet As at 30 June	2004 \$M	2005 \$M	2006 \$M	2007 \$M	2008 \$M
Current assets	44.3	53.2	51.3	56.3	66.6
Non-current assets	3,087.5	3,579.5	3,717.4	3,912.6	4,369.7
Total assets	3,131.8	3,632.7	3,768.7	3,968.9	4,436.3
Current liabilities	367.6	302.3	247.2	382.2	542.3
Non-current liabilities	1,355.0	1,523.1	1,681.4	1,700.6	1,907.1
Total liabilities	1,722.6	1,825.4	1,928.6	2,082.8	2,449.4
Net assets	1,409.2	1,807.3	1,840.1	1,886.1	1,986.9
Total equity	1,409.2	1,807.3	1,840.1	1,886.1	1,986.9

The following should be considered when reviewing the five-year financial summary:

Following adoption of Australian equivalents to International Financial Reporting Standards (AIFRS), financial information disclosed from the financial year ended 30 June 2005 has been prepared in accordance with AIFRS Accounting Standards. Accordingly, financial information disclosed prior to the financial year ended 30 June 2005 has been prepared in accordance with Australian Accounting Standards (AGAAP).

Directors' Report

Directors

The Directors of the Corporation in office, at the date of this report, are:

Cheryl Batagol (Chairman)	Terry Larkins
Merran Kelsall (Deputy Chairman)	Carolyn Schultz
Peter Darvall	Peter Vines
Mary Anne Hartley	Robert Skinner (Managing Director)

Particulars of the Directors' qualifications, experience and special responsibilities are set out on pages 76, 77 and 78 of this report.

Directors' meetings

During the financial period, the Corporation held 11 meetings of Directors.

Attendance at meetings of the Board and its Committees were:

	PRINCIPAL BOARD		AUDIT & CORPORATE RISK COMMITTEE		HUMAN RESOURCES & SAFETY COMMITTEE		ENVIRONMENT & PUBLIC HEALTH COMMITTEE		CAPITAL PLANNING & DELIVERY COMMITTEE	
	ATTENDED	MAXIMUM POSSIBLE	ATTENDED	MAXIMUM POSSIBLE	ATTENDED	MAXIMUM POSSIBLE	ATTENDED	MAXIMUM POSSIBLE	ATTENDED	MAXIMUM POSSIBLE
CHERYL BATAGOL	10	11	4*	5	2	3	2	2	4*	4
MERRAN KELSALL	6	11	4	5	2	3	–	–	4*	4
BRUCE COHEN#	2	2	–	–	–	–	–	–	–	–
PETER DARVALL	11	11	5	5	–	–	–	–	4	4
MARY ANNE HARTLEY	10	11	–	–	–	–	2	2	–	–
TERRY LARKINS	11	11	5	5	3	3	–	–	4	4
CAROLYN SCHULTZ†	5	11	–	–	–	–	1	2	–	–
PETER VINES	10	11	–	–	–	–	–	–	4	4
ROBERT SKINNER	9	11	3*	5	3*	3	0*	2	3*	4

* ATTENDED BY INVITATION # RESIGNED AS BOARD MEMBER FROM 21 AUGUST 2007 † GRANTED LEAVE OF ABSENCE JULY TO DECEMBER 2007

Director benefits

No Director has received or become entitled to receive a benefit (other than a benefit included in notes 38a and 38b to the financial statements) because of a contract that the Director, a firm of which the Director is a member, or an entity in which the Director has a substantial financial interest, has made (during the period ended 30 June 2008 or at any other time) with:

- (a) the Corporation; or
- (b) an entity that the Corporation controlled, or a body corporate that was related to the Corporation, when the contract was made or when the director received, or became entitled to receive, the benefit.

Director and officer liability insurance

During the financial year, the Corporation paid insurance premiums in respect of director and officer liability insurance.

The policies do not specify a premium for individual directors and officers.

The director and officer liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Corporation) incurred in their position as director or officer unless the conduct involves a willful breach of duty or an improper use of information or position to gain advantage.

The terms of the policy of insurance, prohibit the disclosure of the nature of the liabilities insured and the amount of the premium.

Interest in contracts

No contracts involving Directors' interests were entered into since the end of the previous financial year, or existed at the end of the financial year, other than the transactions detailed in Notes 38a and 38b to the Financial Statements.

Principal activities

The Corporation is owned by the Victorian Government. The Corporation manages Melbourne's water supply catchments, removes and treats most of Melbourne's sewage, and manages rivers, creeks and major drainage systems throughout the Port Phillip and Westernport region. The Corporation also provides water and sewerage services to Melbourne's three retail water businesses: City West Water Ltd, South East Water Ltd and Yarra Valley Water Ltd.

Operating results and dividend

The Corporation's net profit, after providing for income tax, was \$67.6 million. The proposed interim and final dividend for 2007/08 is \$57.8 million, which is subject to final determination by the Treasurer of Victoria, after consultation with the Corporation's Board of Directors and the Minister for Water. The proposed dividend has not been booked as a provision as at 30 June 2008.

Review of operations

The Directors' review of the Corporation's operations during the financial period ended 30 June 2008, and the results of those operations, are set out in the Managing Director's overview on page 11 of this report.

State of affairs

There were no significant changes in the state of affairs of the Corporation during the financial period ended 30 June 2008.

Environmental regulation

The Corporation is subject to significant environmental regulation in respect of managing its sewage treatment plants, maintaining environmental flow requirements and managing Ramsar wetlands. Information on these topics is included in Melbourne Water's 2007/08 Sustainability Report.

Sewage treatment plants

The Corporation's compliance with EPA Victoria discharge parameters was 100 per cent at the Eastern Treatment Plant and 100 per cent at the Western Treatment Plant. The other discharge licence requirements were met during the year.

The Corporation commenced a 12 month trial of tertiary treatment options in February 2008 under a EPA Victoria Research and Development Approval. A decision on the final treatment process will be made when the trial is completed. The requirement to achieve an annual median ammonia of less than 5 mg/L was achieved during the year with the successful commissioning of the new ammonia reduction process.

Ramsar sites at Western Treatment Plant and Edithvale Seaford Wetlands

The Western Treatment Plant is broadly managed within parameters of the Ramsar International Convention's "wise use" test, which aims to protect wetlands with internationally significant environmental values. The Commonwealth Department of Environment, Water, Heritage and the Arts has approved a detailed Compliance Plan to manage environmental values at the Plant, while works to meet the EPA Victoria discharge licence were implemented. Actions taken during the year complied with the plan. The Plan's five year audit and review was conducted and a revised Plan has been developed.

The Edithvale-Seaford Wetlands Management Plan was developed in 2000 to ensure that site activities are managed within parameters of the Ramsar International Convention's "wise use" test. Actions required under the Plan were completed during the year and a review of the Plan was started as required. It is expected the review will be completed during 2008.

Dandenong Treatment Plant

The Corporation is rehabilitating the former Dandenong Treatment Plant site for redevelopment in partnership with VicUrban for both residential and industrial purposes. An EPA Victoria Works Approval for the proposed Capped and Lined Mound (CALM) was received during the year and works relating to this have commenced. It is expected that the stockpiled contaminated soils and biosolids will be placed in the CALM and the project completed during 2008/09.

Environmental flow requirement – bulk entitlements

The Corporation has bulk entitlements to water from the Thomson, Maribyrnong and Yarra Rivers. During the year, the Minister for Water qualified the environmental flow requirements due to drought conditions and the qualified requirements were met.

Environmental incidents

In August 2007, the Melbourne Magistrates' Court required Melbourne Water to pay \$150,000 to environment projects in Western Port Bay and the City of Whittlesea after Melbourne Water pleaded guilty to two separate charges of pollution of water under the Environment Protection Act. These charges related to incidents at the Winneke Treatment Plant in 2005 and at Cardinia Treatment Plant in 2006. In light of Melbourne Water's good environmental management record, no conviction was recorded.

Implementation of the Victorian Industry Participation Policy (VIPP)

In accordance with the Victorian Industry Participation Policy Act 2003, the following VIPP contracts commenced or were completed during the financial year:

Contracts commenced to which the VIPP applied:

During the financial year 2007/08, the Corporation commenced 22 contracts totalling \$611.5 million in value to which VIPP applied. The number and value of these relate to 20 Metropolitan contracts and 2 Regional Victoria contracts.

The commitments by contractors under VIPP included:

- › An overall level of local content of 88 per cent of the total value of the contracts.
- › 1788 full time equivalent jobs.
- › The benefits to the Victorian economy in terms of skills and technology transfers will be derived from the following:
 - computerised scanning equipment for tank floor corrosion mapping, scanning and data evaluation;
 - increase in construction skills of all personnel relating to the unusual harnessing of surplus energy relating to the Mini Hydro project;
 - new skills developed in machine, mobile equipment, crane operating pipe mill electronics and pipe mill maintenance;
 - new skills developed in plant operating pipe laying and use of GPS for the refurbishment of sludge drying pans;
 - training for personnel on all aspects of infrastructure where new or modified maintenance is required for the odour control program at ETP;
 - providing experience in working on new infrastructure water mains in built up areas with heavy traffic flow;
 - providing knowledge in the use and application of post-tensioned concrete and mobile formwork shuttering;
 - providing training and knowledge in the use of laser screening and pre-tied steel reinforcement mats;
 - design of 70km of water transfer system including tunnelling, steep terrain, river and road crossings;
 - providing training on pipe laying techniques in varying terrains;
 - providing training on specialist welding required to weld pipes;
 - providing training on heavy steel fabrication and large bore pipe work manifolds.

Contracts completed to which the VIPP applied:

During the financial year 2007/08, the Corporation completed 15 contracts totalling \$105.2 million in value to which VIPP applied.

The number and value of these relate to 15 Metropolitan contracts. There were no Regional Victoria contracts.

The outcomes reported by contractors under VIPP included:

- › An overall level of local content of 93.7 per cent of the total value of the contracts.
- › 308 full time equivalent jobs.
- › All committed skills and technology transfer were achieved for these contracts. These skills included training in:
 - introducing subcontractors and electricians to the latest water treatment works technologies;
 - training Melbourne Water staff in the operation of Mini Hydro technology;
 - plant operators received competency certificates in the operation of dump trucks, compactors and scrapers;
 - training in polyfusion welding;
 - employees and subcontractors received training in plant operation, pipe laying and use of GPS;
 - employees and subcontractors were introduced to the floor replacement process and manway access skills;
 - training for staff in working on new infrastructure water mains in built up areas with heavy traffic flows.



Cheryl Batagol
Chairman



Robert Skinner
Managing Director

Income Statement

For the year ended 30 June 2008	Notes	2008 \$000	2007 \$000
Revenue from continuing operations	3(a)	589,307	566,076
Other Income	3(b)	10,978	22,206
Depreciation and amortisation expense	4	(87,497)	(77,380)
Operational expense	4	(112,998)	(89,967)
Employee benefits expense	4	(60,858)	(50,475)
Repairs and maintenance expense	4	(50,828)	(42,868)
Administrative expense		(33,431)	(25,851)
Finance costs		(100,838)	(86,634)
Other expenses	4	(60,324)	(37,685)
Net result from ordinary activities before tax		93,511	177,422
Income tax expense	5	(25,869)	(43,913)
Profit for the year	26	67,642	133,509

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

Balance Sheet

As at 30 June 2008	Notes	2008 \$000	2007 \$000
ASSETS			
Current assets			
Cash and cash equivalents	6, 27	350	203
Trade and other receivables	7(a), 27	48,906	41,070
Other current assets	8	6,266	5,689
Other financial assets	10	483	511
Current tax assets	5(c)	1,320	–
Biological assets	11	9,162	8,515
		66,487	55,988
Non-current assets classified as held for sale	9	94	275
Total current assets		66,581	56,263
Non current assets			
Biological assets	11	11,467	13,274
Property, plant and equipment	12(a)	4,342,672	3,863,694
Intangible assets	12(b)	2,372	4,133
Other receivables	13	37	23
Defined superannuation benefit asset	36	13,169	31,519
Total non-current assets		4,369,717	3,912,643
Total assets		4,436,298	3,968,906
LIABILITIES			
Current liabilities			
Trade and other payables	15, 27	187,712	143,522
Interest bearing liabilities	16, 27	315,756	200,655
Provisions	17, 34	38,876	35,919
Other financial liabilities	18, 27	–	34
Current tax liability	5(c)	–	2,096
Total current liabilities		542,344	382,226
Non current liabilities			
Trade and other payables	20, 27	8,530	11,155
Interest bearing liabilities	21, 27	1,313,443	1,126,899
Provisions	22, 34	10,071	24,176
Net Deferred tax liabilities	23	575,031	538,302
Total non-current liabilities		1,907,075	1,700,532
Total liabilities		2,449,419	2,082,758
Net assets		1,986,879	1,886,148
EQUITY			
Contributed equity	24	591,567	600,147
Reserves	25	164,323	23,827
Retained profits	26	1,230,989	1,262,174
Total equity		1,986,879	1,886,148

The above Balance Sheet should be read in conjunction with the accompanying notes.

Cash Flow Statement

For the year ended 30 June 2008	Notes	2008 \$000	2007 \$000
Cash flows from operating activities			
Receipts from Customers (inclusive of goods and service tax)		568,240	528,651
Payments to suppliers and employees (inclusive of goods and service tax)		(368,760)	(259,021)
Income tax paid		(6,270)	(23,745)
Interest received	3(a)	45	44
Interest and other costs of finance paid	4	(97,357)	(85,444)
Other revenue	4	67,719	66,059
Net cash inflow from operating activities	41	163,617	226,544
Cash flows from investing activities			
Payment for property, plant, equipment and works in progress		(367,799)	(213,277)
Proceeds from sale of property, plant and equipment		2,084	6,187
Net cash (outflow) from investing activities		(365,715)	(207,090)
Cash flows from financing activities			
Proceeds from borrowings		841,200	382,687
Repayments of borrowings		(536,200)	(311,987)
Repayments for outstanding finance lease liability		(3,355)	(3,617)
Dividends paid	31	(99,400)	(86,600)
Net cash inflow / (outflow) from financing activities		202,245	(19,517)
Net increase/(decrease) in cash held		147	(63)
Cash and cash equivalents at the beginning of the financial year		203	266
Cash and cash equivalents at end of the financial year	6	350	203

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

Statement of Changes in Equity

For the year ended 30 June 2008	Notes	2008 \$000	2007 \$000
Total equity at the beginning of the financial year	24, 25, 26	1,886,148	1,840,112
Net increment/(decrement) in contributed equity	24	(8,580)	(24,632)
Asset revaluation reserve			
Revaluation increment/(decrement) on non-current assets	4	154,749	27,107
Revaluation reserves transferred to retained profits on derecognition of asset	4	(573)	–
Deferred tax on revaluation	25	(13,714)	(3,315)
Cash flow hedges			
Gain/(loss) taken to equity	25	34	(33)
Net income recognised directly in equity		131,916	(873)
Retained Profits			
Transfer from asset revaluation reserve	26	573	–
Profit for the year	26	67,642	133,509
Total recognised income and expense for the year		200,131	132,636
Dividends paid	26, 31	(99,400)	(86,600)
Total equity at the end of the financial year		1,986,879	1,886,148

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

Notes to the Financial Report

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

(i) General

This financial report of Melbourne Water Corporation 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 Statements. The general purpose financial report complies with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the requirements of the Financial Management Act 1994 and applicable Ministerial Directions.

This financial report has been prepared on an accrual and going concern bases.

(ii) Accounting policies

Unless otherwise stated, all accounting policies applied are consistent with those of the prior year. Where appropriate, comparative figures have been amended to accord with current presentation and disclosure made of material changes to comparatives.

(iii) Classification between current and non-current

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next twelve months, being the Corporation's operational cycle – see Note 1(k) for a variation in relation to employee benefits.

(iv) Rounding

Unless otherwise stated, amounts in the report have been rounded to the nearest thousand dollars.

(v) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain classes of property, plant and equipment, biological assets and financial instruments.

(vi) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Corporation's accounting policies. Areas involving a high degree of estimates and assumptions which can materially impact the financial statements relate to the actuarial assumptions used to determine the Corporation's defined superannuation benefit asset and employee benefit provisions. These assumptions and their related carrying amounts are discussed in Notes 1(k), 17, 22 and 35.

(b) Revenue Recognition

(i) Water sales and sewage disposal charges

Water sales and sewage disposal charges consist of a variable metered component and a fixed fee. The metered usage revenue is recognised when the service has been used with settlement from date of invoice. The fixed fee is recognised on a monthly basis with settlement at 14 days. Collateral is not obtained for this class of debtor.

The Essential Services Commission regulates the prices and service standards for the provision of water and sewage services. The Commission's general regulatory powers are set out in:

- › the Essential Services Commission Act 2001;
- › Part 1A of the Water Industry Act 1994; and
- › a Water Industry Regulatory Order made under section 4D of the Water Industry Act.

(ii) Drainage rates

Drainage rate revenue is recognised in the year for which the rate is levied. Rates are levied quarterly, based on property valuations as at 30 June 1990. Drainage revenue is collected by various retail water businesses on behalf of the Corporation. The Corporation engages the Victorian Auditor-General's Office to undertake an annual audit of collection processes and procedures by each of the retailers to ensure timely billing and collection. A lien is held over each property to ensure that any outstanding amounts are recovered upon sale of the property.

(iii) Developer charges and contributions

Developer charges and contributions consist of assets received free of charge or for nominal consideration and are recognised as revenue at fair value on completion of works and their acceptance by the Corporation. Cash contributions are recognised when received.

(iv) Interest receivable

Interest receivable is accrued in accordance with the terms and conditions of the underlying financial instrument or other contract.

(v) Net gain from disposal of property, plant and equipment

Property sales are recognised on signing of an unconditional contract of sale. Debtors are provided with commercial terms and are recognised in the Income Statement on a net basis of sale proceeds less costs.

(vi) Government grants and contributions

Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Corporation will comply with all attached conditions.

Government grants relating to costs are included in non-current liabilities as deferred income and are recognised in the Income Statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase or construction of property, plant and equipment are included in non-current liabilities as deferred income and are recognised in the Income Statement on a straight line basis over the expected lives of the related assets.

(c) Finance Costs

Finance costs are recognised as expenses in the period in which they are incurred. Finance costs include interest on short-term and long-term borrowings, finance lease charges, financial accommodation levy and Treasury Corporation of Victoria administration fee.

(d) Property, Plant and Equipment

(i) Recognition and Measurement of Assets

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

(ii) 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.

(iii) Valuation of non-current physical assets

Land and buildings are shown at fair value – refer to Note 12(a) for details. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

The fair value of land and buildings is determined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. Crown land is measured with regard to the property's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the asset.

Infrastructure assets and property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges on foreign currency purchases of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

All assets are tested for indication of impairment on an annual basis. Such assets are tested to ascertain whether the carrying amount exceeds their recoverable amounts. At 30 June 2008, no indicators of impairment were present.

(iv) Revaluations

Revaluation increments are credited directly to equity in the revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of the same asset previously recognised as an expense in determining the net result, the increment is recognised as revenue in determining the net result.

Revaluation decrements are recognised immediately as expenses in the net result, except that, to the extent that a credit balance exists in the revaluation reserve in respect of the same class of asset, they are debited to the revaluation reserve.

(v) Non-current assets held for sale

Non-current assets are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell, as their carrying amount will be recovered principally through a sale transaction, rather than through continuing use. The Corporation considers that the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets are not depreciated or amortised while they are classified as held for sale and are presented separately from other assets in the Balance Sheet.

(e) Depreciation and Amortisation of Non-Current Assets

Where assets have separate identifiable components that have distinct useful lives and/or residual values, a separate depreciation rate is determined for each component.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, commencing from the time the asset is held ready for use. The assets residual values and useful lives are reviewed annually, and adjusted if appropriate, at each balance sheet date.

Major depreciation and amortisation periods used are listed below and are consistent with the prior year, unless otherwise stated:

› Buildings and leasehold improvements	5 to 80 years
› Plant and equipment	3 to 50 years
› Infrastructure assets	20 to 150 years
› Intangible assets	3 to 5 years

(f) Leased Assets

(i) Finance leases

Leases of property, plant and equipment, where the Corporation has substantially all the risks and rewards incidental to ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in the Balance Sheet. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated on a straight line basis over the estimated useful life of the asset.

(ii) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease, in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(iii) Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a basis which reflects the time pattern in which economic benefits from the leased asset are consumed.

Notes to the Financial Report

1. Summary of Significant Accounting Policies continued

(iv) Leasehold improvements

Leasehold improvements are recognised at cost less accumulated depreciation and accumulated impairment losses and are amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter.

(g) Cash and Cash Equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts are shown within interest bearing liabilities on the Balance Sheet.

(h) Receivables

All receivables are recognised at the amounts receivable less any allowance for doubtful debts. Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written-off. A provision for doubtful debts is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Income Statement.

(i) Inventories

(i) Stores

Stores and materials are used in the construction of new works and for the repair and maintenance of existing assets. All stores are valued at the lower of cost and net realisable value.

(j) Payables

(i) Trade and Other Payables

Payables are recognised when the Corporation becomes obliged to make future payments resulting from the purchase of goods and services.

(ii) Creditors and accruals

These amounts represent liabilities for goods and services provided to the Corporation prior to the end of the financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition or in accordance with contract terms.

(iii) Interest payable

Interest is accrued in accordance with the terms and conditions of the underlying financial instruments or other contract.

(k) Employee Benefits

(i) Salaries and annual leave

Liabilities for salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date, are recognised in employee benefit liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled, at their nominal values. Employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the entity, in respect of services rendered by employees up to the reporting date.

Regardless of the expected timing of settlements, provisions made in respect of employee benefits are classified as a current liability, unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability.

(ii) Sick leave

Sick leave payments are made in accordance with relevant awards, determinations and Corporation policy. No provision is made in the financial statements for unused sick leave entitlements as these are non-vesting benefits.

(iii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary levels, experience of employee departures and periods of service. Expected future cash payments are discounted using interest rates attached to national government guaranteed securities as at the reporting date with terms to maturity that closely match the estimated future long service cash outflows. Provisions made for unconditional long service leave are classified as a current liability, where the employee has a present entitlement to the benefit. The non-current liability represents long service leave entitlements accrued for employees with less than 7 years of continuous service.

(iv) Superannuation

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

Defined benefit plans

A liability or asset in respect of the Equisuper defined superannuation benefit plan is recognised in the provision for employee benefits and is measured as the difference between the present value of employees' accrued benefits at the reporting date and the net market value of the superannuation plan's assets at that date. The present value of accrued benefits is based on expected future payments which arise from membership of the plans to the reporting date. Consideration is given to expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using rates of national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The amount brought to account in the Income Statement in respect of superannuation represents the contributions made to the superannuation plan, adjusted by the movement in the defined benefit plan liability or surplus.

(v) Termination benefits

Liabilities for termination benefits are recognised when a detailed plan for the termination has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised as payables in the provision for employee benefits.

Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the reporting date are measured as the estimated cash outflows, discounted using market yields at the reporting date on national government bonds with terms to maturity that matches as closely as possible, the estimated future cash outflows.

(vi) Employee benefit on-costs

Employee benefit on-costs, including payroll tax and worker's compensation are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(vii) Performance payments

Performance payments for the Corporation's employees are based on a percentage of the annual salary package provided under their contracts of employment. A liability is recognised and is measured as the aggregate of the amounts accrued under the term of the contracts to balance date.

(viii) WorkCover

The Corporation is registered as a self-insurer for workers compensation and is liable to the workers or workers' dependants to pay compensation under the Accident Compensation Act 1985. Based upon an independent actuarial assessment, a provision of \$5.1 million (\$4.7 million in 2006/07) has been made for outstanding claims incurred and not settled, and for claims incurred but not reported at 30 June 2008. Other claims incurred and settled during the period are charged to the Income Statement.

In accordance with Section 146(5)(a) of the Accident Compensation Act 1985, the Corporation must provide a bank guarantee to the Victorian WorkCover Authority as part of its WorkCover self insurance commitments. The value of this bank guarantee at 30 June 2008 is \$7.7 million (\$7.1 million in 2006/07).

(ix) Workers compensation

The Corporation continues to be liable for workers compensation claims incurred prior to the introduction of WorkCare (now WorkCover) in 1985. Based on an independent actuarial assessment, a provision of \$0.7 million (\$0.5 million in 2006/07) has been made for all outstanding workers compensation claims at 30 June 2008.

(l) Build, Own and Operate (BOO) Schemes

The Corporation entered into contractual arrangements with AGL Ltd in February 2000 to build, own and operate a power generation plant at the Western Treatment Plant in exchange for a stream of payments.

(m) Segment Information

A business segment is identified for a group of assets and operations engaged in providing services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when services are provided within a particular economic environment subject to risk and returns that are different from those of segments operating in other economic environments.

Segment information is reported on the basis of business segments, which is water, sewerage, waterways and drainage, as the Corporation's risks and returns are affected predominately by differences in the services provided through those segments, rather than geographical segments as the Corporation operates solely within the Port Phillip and Westernport catchments.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of receivables, prepayments, stores, biological assets, property, plant and equipment and intangible assets. Segment liabilities consist primarily of trade and other creditors, accruals and provisions.

(n) Taxation

The Corporation is subject to the National Tax Equivalent Regime (NTER), which is administered by the Australian Taxation Office. The essential difference between the NTER and the Commonwealth legislation is that the tax liability is to be paid to the State Government and not the Commonwealth Government.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national corporate income tax rate of 30%, 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, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantially enacted.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences if they arose in a transaction, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Notes to the Financial Report

1. Summary of Significant Accounting Policies continued

(o) Dividend Policy

The Corporation is required to pay a dividend in accordance with a determination of the Treasurer of Victoria under the Public Authorities (Dividend) Act 1983, based on a prescribed percentage of the previous years' adjusted net profit before tax. An obligation to pay a dividend only arises after consultation with the relevant Minister and the Treasurer and a formal determination is made by the Treasurer.

(p) Smart Water Fund

The Smart Water Fund was established by the Victorian Government and is managed by the Corporation and the three retail water businesses for the purpose of providing grant funding to support the development of sustainable water use projects. Each water business has a 25 per cent interest in the fund.

Contributions made to the Smart Water Fund are initially recognised as prepayments in the Corporation's Balance Sheet. Expenses are subsequently recognised by the Corporation when incurred by the Fund.

(q) Goods and Services Tax

Revenues, expenses and assets are recognised net of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Balance Sheet. Cash flows arising from operating activities are disclosed in the Cash Flow Statement on a gross basis i.e. inclusive of GST. The GST component of cash flows arising from investing and financing activities which is recoverable or payable to the taxation authority is classified as operating cash flows.

(r) (i) Intangible Assets

Intangible assets represent identifiable non-monetary assets without physical substance. Intangible assets are recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Corporation.

Amortisation is allocated to intangible assets with finite useful lives on a systematic basis over the asset's useful life. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each annual reporting period. In addition, an assessment is made at each reporting date to determine whether there are indicators that the intangible asset concerned is impaired. If so, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount.

(ii) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from a development project is recognised only if all of the following conditions are met:

- › an asset is created that can be identified (such as software and new processes);
- › it is probable that the asset created will generate future economic benefits; and
- › the development cost of the asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

(s) Biological Assets

Livestock, including cattle and sheep are held in connection with operating the Corporation's Werribee Agriculture Operations.

Determination of net increment / decrement of fair value less estimated point-of-sale costs

Livestock is measured at fair value less estimated point of sale costs. The fair value of trading livestock is determined with reference to market prices at each balance date. The fair value of non trading livestock is determined by independent valuation at balance date.

Changes to the fair value of livestock assets are recognised as a gain or loss, in the Income Statement in the period in which it arises.

(t) Interest Bearing Liabilities

All borrowings are required to be transacted through the Treasury Corporation of Victoria whose liabilities are guaranteed by the Victorian Government.

The Corporation's borrowings currently comprises of floating rate note (FRN) loans, fixed interest loans and an overnight loan facility. FRN loans are fixed term loans with a margin that is reset to a variable interest rate every ninety days. Generally, these notes are issued with maturity terms between three and five years. Fixed interest loans are interest only loans with the full face value repaid at maturity or refinanced for a new term. Most have maturity terms set between 5 and 10 years. The overnight loan facility interest rates are negotiated on a daily basis depending on cash flow needs.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(u) Foreign Currency Translation

(i) Functional and presentation currency

The functional and presentation currency of the Corporation is the Australian dollar.

(ii) Transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction.

(v) Cash Flow Hedges

In order to hedge the effect of foreign exchange rate movements on the fair values of assets purchased, the Corporation occasionally enters into forward foreign exchange contracts. These hedges are classified as cash flow hedges with the associated gains or losses recognised directly in equity. As the hedged firm commitment results in the recognition of an asset, the associated gains/losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost. These are accounted for at settlement date. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

At any point in time, any cumulative gain or loss on the cash flow hedge is retained in equity until the forecast transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

(w) Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Contingent assets and contingent liabilities are not recognised in the financial statements but are only disclosed by way of a note, and if quantifiable are measured at nominal value.

(x) Contributed Equity

Appropriations for additions/reductions to net assets are designated as contributed capital when approved by the Minister for Finance. Other transfers that are in the nature of contributions or distributions have also been designated as contributed equity.

(y) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Corporation's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8.

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009.

AASB 8 will not result in a significant change as the Corporation's current approach to Segment reporting is consistent with the "management approach" to financial reporting. The segments selected are in line with the categories reported to regulatory authorities and are the basis for future pricing decisions.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 and AASB 138 and Interpretations 1 & 12].

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and, when adopted, will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. The Corporation is currently assessing the impact of the changes.

Notes to the Financial Report

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk management objectives

The objectives of the Corporation's financial risk management programs are to:

- (i) Manage the daily and long term liquidity needs of the organisation;
- (ii) Optimise cash resources, in such a way as to minimise net financing costs and maximise the repayment of debt within acceptable levels of risk;
- (iii) Ensure that all financial and treasury management operational exposures are fully identified, quantified, planned, approved and managed;
- (iv) Safeguard the financial resources by maintaining appropriate resources, operational controls (including credit guidelines) and infrastructure in corporate treasury functions.

These objectives are consistent with the corporate risk management policy of the Corporation, the Treasury Management Guidelines issued by the Department of Treasury and Finance and the Victorian Public Sector Debt Management Objectives.

(b) Financial risk management strategy

The Corporation manages financial risk by maintenance of approved debt portfolio structure and strategic targets. This includes:

- (i) **Portfolio composition**
(i.e. fixed, floating, indexed exposure):
The Corporation's debt portfolio is managed within the bands of:
 - › Floating interest rate borrowings: 10%-40%
 - › Fixed interest rate borrowings: 60%-90%
- (ii) **Physical maturity profile:**
Debt maturity of fixed and floating interest rate borrowings (excluding working capital) is not to exceed 20% of the total debt portfolio in any year.
- (iii) **Interest rate risk profile:**
Fixed and floating interest rate borrowings to be re-priced within one year do not exceed 40% of the total debt portfolio.

Forward rate agreements are used occasionally where it is perceived that a lower interest rate can be achieved. The purchase of forward agreements is limited in terms of volume and time, and is subject to a maximum term of 18 months forward.

(c) Financing arrangements

The capacity to borrow funds and manage the associated risks is subject to the provisions of the Borrowing and Investment Powers Act (1987). In accordance with this Act, the Treasurer of Victoria issues annual approval permitting new borrowings and the refinancing of all loan maturities for that year. All funding is sourced from the Treasury Corporation of Victoria.

The Corporation's total maximum borrowing of \$2,010.7 million was not exceeded at any stage throughout 2007/08.

(d) Capital Management

The Corporation controls its capital in order to maintain a satisfactory debt to equity ratio, to provide adequate returns, maintain its current credit rating and to ensure that it can fund its operations as a going concern.

There has been no changes to the strategy adopted by the Corporation to control its capital during the year. The current gearing levels are considered appropriate given Melbourne Water's current and future funding requirements.

The only externally imposed capital requirements of the Corporation are:

- › that financial accommodation does not exceed the approval limits set by the Treasurer of Victoria pursuant to the Borrowing and Investment Powers Act 1987; and
- › that the Corporation, with the exception of a trading account with overdraft facilities, is required to borrow exclusively with the Treasury Corporation of Victoria.

The gearing ratio for 30 June 2008 was 45.1% (2007 41.3%).

Gearing is one of a number of commercial benchmarks that are considered by the Board when considering the capital structure and are approved via the Corporate Plan.

(e) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

It is the Corporation's policy to hedge the effect of foreign currency exchange rate movements on the fair values of any assets purchased in excess of AUD\$100,000. The Corporation's policy requires all hedging to be undertaken through the Treasury Corporation of Victoria in the form of forward foreign exchange contracts.

Forward rate agreements are used occasionally where it is perceived that a lower interest rate can be achieved. The purchase of forward agreements is limited in terms of volume and time, and is subject to a maximum term of 18 months forward.

At 30 June 2008, the Corporation does not have any material forward exchange contracts.

(ii) Price risk

The Corporation is not exposed to any material commodity price risk.

(iii) Interest rate risk sensitivity analysis

Exposures arise predominately from liabilities bearing variable interest rates as the Corporation intends to hold fixed rate liabilities to maturity. At 30 June 2008, if interest rates had changed by +/- 50 basis points from the year end rates with all other variables held constant, pre-tax profit would have been \$2.3million higher/lower (2007 \$1.2million).

(f) Credit risk

Credit risk is the risk of financial loss to the Corporation as a result of a customer or counterparty to a financial instrument failing to meet its contractual obligations. The Corporation's exposure to credit risk is influenced by the individual characteristics of each customer.

All receivables are recognised at the amounts receivable less any allowance for doubtful debts. Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written-off. A provision for doubtful debts is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Income Statement.

As Trade Debtors are made up predominantly by the metropolitan retail water businesses, the Corporation's exposure to credit risk is minimal. These debts are invoiced monthly and paid within seven days.

The major exposure to credit risk arises from Other Receivables, which have been recognised net of any provision for doubtful debts. The receivable balance consists of a

large number of residential and business customers which are spread across a diverse range of industries. Receivable balances are monitored on an on-going basis to ensure that exposure to bad debts is not significant. The Corporation has in place a policy and procedure for the collection of overdue receivables.

All financial risk management instruments are transacted with the Treasury Corporation of Victoria, whose liabilities are guaranteed by the Victorian Government. The Corporation potentially has a concentration of credit risk with the Treasury Corporation of Victoria as the central borrowing authority of Victoria. This risk is considered minimal.

(g) Liquidity risk

The Corporation manages liquidity risk by maintaining and conducting efficient banking practices and account structures, sound cash management practices and regular monitoring of the maturity profile of assets and liabilities, together with anticipated cash flows.

The Corporation obtains annual approval from the Treasurer of Victoria for new borrowings, borrowings to refinance maturing and non-maturing loans and temporary purpose borrowing facilities.

	Notes	2008 \$000	2007 \$000
3 Income Statement – Revenue and Other Income Disclosures			
(a) Revenue from continuing operations			
Sales revenue			
Water sales		175,496	175,417
Sewage disposal charges		187,842	181,387
Drainage rates		147,410	140,054
		510,748	496,858
Other revenue			
Developer charges and contributions		52,569	46,363
Interest received / receivable		45	44
Biological assets		16,002	11,563
Licence fees received		2,173	2,222
Miscellaneous		7,770	9,026
		78,559	69,218
Total revenue		589,307	566,076
(b) Other income			
Net gain/(loss) on disposal of property, plant and equipment	41	719	(491)
Government grants*		3,777	2,112
Gains/(loss) arising from changes in fair value less estimated point of sale costs of biological assets		(935)	4,513
Gains/(loss) arising from initial recognition of agricultural produce		7,417	1,337
Net gain from defined benefit superannuation plan	36	–	14,735
Total other income		10,978	22,206

*Government grants

Government grants of \$3.8 million (2006/07: \$2.1 million) were recognised as Other Income by the Corporation during 2007/08 for various projects including the \$10M Stormwater project, Water Watch program and Water Sensitive Urban Design program.

All conditions attached to Government grants have been satisfied prior to their recognition in the Income Statement.

The recognition of Government grants with unfulfilled conditions have been recognised as Deferred Income in the Balance Sheet.

Notes to the Financial Report

	Notes	2008 \$000	2007 \$000
4. Income Statement – Expense disclosures			
Depreciation and amortisation expense			
Depreciation			
Buildings	12(c)	943	568
Leasehold improvements	12(c)	427	426
Plant and equipment	12(c)	5,190	3,982
Infrastructure assets	12(c)	77,420	68,853
		83,980	73,829
Amortisation			
Infrastructure assets under finance leases	12(c)	1,621	1,622
Intangible assets	12(c)	1,896	1,929
Total amortisation	12(c)	3,517	3,551
Total depreciation and amortisation expense		87,497	77,380
Operational expense			
Materials, chemicals and laboratory expenses		10,871	7,708
Energy expenses		15,699	16,174
Agricultural expenses		26,606	21,277
External expenses		3,944	3,614
Transport expenses		6,022	5,702
Grants and contributions expenses		10,656	7,189
External professional services expenses		12,882	6,216
Other expenses		26,318	22,087
Total operational expense		112,998	89,967
Employee benefits expense			
Salary expenses		43,340	37,978
Post employment benefits		3,244	2,465
Annual, long service and shift leave expenses		5,999	4,566
Other employee expenses		8,275	5,466
Total employee benefits expense		60,858	50,475
Other expenses			
Government rates and taxes		24,233	21,160
Rental and lease expenses		4,031	3,205
Bad and doubtful debt expenses		2	4
Decrement arising from asset revaluation	12(c)	272	685
Assets written off / written down	41	11,652	10,623
Defined Benefit Superannuation expense	36	18,350	–
Other expenses		1,784	2,008
Total other expenses		60,324	37,685

	2008 \$000	2007 \$000
5. Income tax		
(a) Components of tax expense		
Current Tax	2,949	15,904
Deferred Tax relating to temporary differences	21,956	27,247
Adjustments for current tax of prior periods	964	762
	25,869	43,913
(b) Numerical reconciliation of income tax to prima facie tax payable		
Profit before income tax expense	93,511	177,422
Tax at the Australian tax rate of 30%	28,053	53,227
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Adjustment in respect of income tax of previous year	964	762
Non assessable and non deductible for income tax purposes	2,124	449
Deductible expenses not booked	(2,823)	(3,914)
Asset allocation to Government	(2,059)	(6,161)
Research and Development concession	(390)	(450)
Income tax as reported in the Income Statement	25,869	43,913
(c) Income Tax Receivable		
Current Tax Receivable/(Payable)	1,320	(2,096)
	1,320	(2,096)

Notes to the Financial Report

	Notes	2008 \$000	2007 \$000
6. Current assets – Cash and cash equivalents			
Cash on hand		16	15
Cash at bank		291	178
Cash advances		43	10
Total current assets – cash and cash equivalents	27	350	203

7. Current assets – Trade and other receivables

(a) Current assets – Trade and other receivables

Trade debtors	27	18,357	22,182
Other receivables	27	30,552	18,892
Less: provision for impaired receivables		(3)	(4)
		30,549	18,888
Total current assets – trade and other receivables		48,906	41,070

Ageing Analysis of Receivables

All receivables are recognised at the amounts receivable less any allowance for impaired receivables.

Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written-off.

A provision for impaired receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The amount of the provision is recognised in the Income Statement.

30 June 2008	Notes	Current		Past Due but not Impaired			Impaired \$000	Total \$000
		0-30 days \$000	31-60 days \$000	61-90 days \$000	91 days + \$000			
Receivables								
Trade debtors	7(a)	6,360	8,832	3,163	2	–	18,357	
Other receivables	7(a), 13	23,839	6,708	36	6	(3)	30,586	
Total Receivables		30,199	15,540	3,199	8	(3)	48,943	

30 June 2007	Notes	Current		Past Due but not Impaired			Impaired \$000	Total \$000
		0-30 days \$000	31-60 days \$000	61-90 days \$000	91 days + \$000			
Receivables								
Trade debtors	7(a)	7,618	9,168	5,396	–	–	22,182	
Other receivables	7(a), 13	18,662	187	31	35	(4)	18,911	
Total Receivables		26,280	9,355	5,427	35	(4)	41,093	

	Notes	2008 \$000	2007 \$000
8. Current assets – Other current assets			
Prepayments		1,836	1,270
Stores		4,430	4,419
Total current assets – other current assets		6,266	5,689

9. Current assets – Non-current assets classified as held for sale

Property, plant and equipment – held for sale*		94	275
Total current assets – non-current assets classified as held for sale		94	275

* The Corporation currently holds five parcels of surplus land for sale. These lots were auctioned during the 2007/08 financial year but were passed in. As at 30 June 2008, the land is still on the market and an active program is underway to locate a buyer.

10. Current assets – Other financial assets

Forward foreign exchange contracts		483	511
Total current assets – financial assets	27	483	511

In order to hedge the effect of foreign currency exchange rate movements on the fair values of assets purchased, the Corporation entered into a number of forward exchange agreements to facilitate payments to a supplier in Euro dollars.

These forward contracts are hedging a highly probable forecast purchase. The contracts are timed to mature when payments for assets are scheduled to be made. However, the timing of payment is dependent on delivery of the assets. At 30 June 2008, only one foreign purchase payment is outstanding as the asset has not been fully delivered.

As at 30 June 2008, payment is forecast as follows:

31 July 2008 (EUR 255,272)

No foreign exchange gain was transferred to the Income Statement and \$33,505 (2006/07: \$35,259) was recognised in equity during the reporting period.

Notes to the Financial Report

11. Current and Non-current assets – Biological assets

(a) Nature of Biological assets

The Corporation's Werribee Agriculture team, operates an agricultural trading operation managing 21,749 cattle (2006/07: 19,686) and 21,119 sheep (2006/07: 77,695) at 30 June 2008. This operation is based principally at the Western Treatment Plant with a small number of satellite properties to support its breeding herd.

(b) (i) Reconciliation of fair value of biological assets for 2007/08

Biological Assets	Cattle \$000	Sheep \$000	Total \$000
Fair value at beginning of period	16,851	4,892	21,743
Increases due to purchases	7,475	580	8,055
Gain arising from changes in fair value less estimated point of sale costs attributable to physical changes	2,451	11	2,462
Gain/(loss) arising from changes in fair value less estimated point of sale costs attributable to price changes	(447)	(592)	(1,039)
Increases attributable to births	2,319	1,011	3,330
Decreases attributable to sales	(10,477)	(3,610)	(14,087)
Decreases attributable to death	(530)	(138)	(668)
Fair value at end of period	17,642	2,154	19,796

(b) (ii) Agricultural produce – wool and hay/crops	2008 \$000	2007 \$000
Fair value at beginning of period	45	201
Fair value less estimated point of sale costs of agricultural produce harvested during the period	1,624	1,336
Gain/(loss) arising from changes in fair value less point of sale costs attributable to price changes	105	42
Decreases attributable to sales	(1,257)	(1,534)
Increases due to purchases	316	–
Fair value at end of period	833	45

(c) (i) Reconciliation of fair value of biological assets for 2006/07

Biological Assets	Cattle \$000	Sheep \$000	Total \$000
Fair value at beginning of period	13,469	6,126	19,595
Increases due to purchases	6,111	493	6,604
Gain arising from changes in fair value less estimated point of sale costs attributable to physical changes	3,486	625	4,111
Gain/(loss) arising from changes in fair value less estimated point of sale costs attributable to price changes	(966)	(470)	(1,436)
Increases attributable to births	728	1,067	1,795
Decreases attributable to sales	(5,772)	(2,702)	(8,474)
Decreases attributable to death	(204)	(247)	(451)
Fair value at end of period	16,852	4,892	21,744

(d) Representing Biological Assets:	2008 \$000	2007 \$000
Current Biological Assets	9,162	8,515
Non-current Biological Assets	11,467	13,274
Total Biological Assets	20,629	21,789

(e) Significant Assumptions

Market values for each herd type are determined after assessing a number of key independent market indicators to ensure the values determined are representative of the full herd.

Cattle:

Breeding cattle

Prices for these cattle generally reflect a more stable longer term price and as such are less volatile than movements in the spot cattle prices evident with trading cattle. These breeders were independently valued at 28 June 2008.

Trading cattle

Prices for these cattle generally reflect the shorter term spot prices available in the market place. Relevant market indicators include the carcass weight rates published by the Meat and Livestock Australia Ltd (MLA).

Sheep:

Breeding Sheep

Prices for these sheep generally reflect a more stable longer term price and as such are less volatile than movements in the spot sheep prices evident with trading sheep. These breeders were independently valued at 28 June 2008.

Trading sheep

Prices for these sheep generally reflect the shorter term spot prices available in the market place. Relevant market indicators include the carcass weight rates published by MLA.

Herd numbers	2008	2007
Cattle		
Breeding	6,510	7,460
Trading	15,239	12,226
Sheep		
Breeding	15,052	17,145
Trading	6,067	60,550
TOTAL	42,868	97,381

Notes to the Financial Report

	2008 \$000	2007 \$000
12. Non-current assets – Property, plant and equipment		
(a) Classes of property, plant and equipment		
Land		
*Crown land at fair value	93,410	80,670
*Freehold land at fair value	834,857	693,403
Total land	928,267	774,073
Buildings		
Buildings at fair value	18,947	18,150
Less: accumulated depreciation	943	–
Total buildings	18,004	18,150
Leasehold improvements		
Leasehold improvements at cost	6,355	6,355
Less: accumulated depreciation	4,800	4,373
Total leasehold improvements	1,555	1,982
Plant and equipment		
Plant and equipment at cost	50,309	44,331
Less: accumulated depreciation	37,949	33,008
Total plant and equipment	12,360	11,323
Infrastructure assets		
Infrastructure assets at cost	4,014,464	3,781,404
Less: accumulated depreciation	1,149,655	1,080,363
Sub total infrastructure assets	2,864,809	2,701,041
Infrastructure assets under finance lease	40,105	40,105
Less: accumulated amortisation	12,710	11,089
Sub total infrastructure assets under finance lease	27,395	29,016
Total infrastructure assets	2,892,204	2,730,057
Capital works in progress at cost	490,282	328,109
Total non-current assets – property, plant and equipment	4,342,672	3,863,694
* Land and buildings are shown at fair value based on an independent valuation undertaken by the Valuer General Victoria as at 1 July 2004. Subsequent revaluations have been undertaken using an indices based process revaluing assets to 30 June 2008.		
(b) Intangible assets		
Intangible assets at cost	15,468	17,713
Less: accumulated amortisation	13,096	13,580
Total non-current assets – intangible assets	2,372	4,133

12. Reconciliation of movement in property, plant and equipment

(c) (i) Reconciliation of movement in property, plant and equipment for 2007/08

2007/08	Crown Land at fair value \$000	Freehold land at fair value \$000	Buildings at fair value \$000	Leasehold improvements at cost \$000	Plant and equipment at cost \$000	Infrastructure assets at cost \$000	Infrastructure assets under finance lease at cost \$000	Works in progress at cost \$000	Intangible assets at cost \$000	Total \$000
Carrying amount at 1 July 2007	80,670	693,403	18,150	1,982	11,323	2,701,041	29,016	328,109	4,133	3,867,827
Additions	–	10,052	797	–	6,408	252,556	–	–	135	269,948
Disposals	(392)	(10,269)	–	–	(10)	(11,394)	–	(317)	–	(22,382)
Depreciation/amortisation	–	–	(943)	(427)	(5,190)	(77,420)	(1,621)	–	(1,896)	(87,497)
Transfers between classes	348	(203)	–	–	(171)	26	–	–	–	–
Assets classified as held for sale	–	181	–	–	–	–	–	–	–	181
Revaluation increments	12,785	141,964	–	–	–	–	–	–	–	154,749
Revaluation decrements	(1)	(271)	–	–	–	–	–	–	–	(272)
Capital expenditure	–	–	–	–	–	–	–	417,809	–	417,809
Capitalisation of works in progress	–	–	–	–	–	–	–	(255,319)	–	(255,319)
Carrying amount at 30 June 2008	93,410	834,857	18,004	1,555	12,360	2,864,809	27,395	490,282	2,372	4,345,044

(c) (ii) Reconciliation of movement in property, plant and equipment for 2006/07

2006/07	Crown Land at fair value \$000	Freehold land at fair value \$000	Buildings at fair value \$000	Leasehold improvements at cost \$000	Plant and equipment at cost \$000	Infrastructure assets at cost \$000	Infrastructure assets under finance lease at cost \$000	Works in progress at cost \$000	Intangible assets at cost \$000	Total \$000
Carrying amount at 1 July 2006	78,436	648,189	15,302	2,408	7,186	2,631,533	30,638	253,755	3,955	3,671,402
Additions	1,206	54,643	1,470	–	9,284	144,976	–	–	1,796	213,375
Disposals	(1,241)	(32,321)	(283)	–	(702)	(6,149)	–	(2,083)	–	(42,779)
Depreciation/amortisation	–	–	(568)	(426)	(3,982)	(68,853)	(1,622)	–	(1,929)	(77,380)
Transfers between classes	12	607	(1)	–	(463)	(466)	–	–	311	–
Assets classified as held for sale	–	350	–	–	–	–	–	–	–	350
Revaluation increments	2,257	22,556	2,294	–	–	–	–	–	–	27,107
Revaluation decrements	–	(621)	(64)	–	–	–	–	–	–	(685)
Capital expenditure	–	–	–	–	–	–	–	226,707	–	226,707
Capitalisation of works in progress	–	–	–	–	–	–	–	(150,270)	–	(150,270)
Carrying amount at 30 June 2007	80,670	693,403	18,150	1,982	11,323	2,701,041	29,016	328,109	4,133	3,867,827

Notes to the Financial Report

	Notes	2008 \$000	2007 \$000
13. Non-current assets – Other receivables			
Other receivables		37	23
Total non-current assets – other receivables	27	37	23
14. Non-current assets – Defined superannuation benefit asset			
Defined superannuation benefit asset		13,169	31,519
Total non-current assets – defined superannuation benefit asset	36	13,169	31,519
15. Current liabilities – Trade and other payables			
Creditors	27	34,349	47,851
Interest payable	27	26,056	23,083
Other accruals	27	25,119	20,730
Capital accruals	27	99,060	49,790
Advances	27	3,128	2,068
Total current liabilities – trade and other payables		187,712	143,522
16. Current liabilities – Interest bearing liabilities			
* Lease liabilities	27, 29(d)	3,456	3,355
* Borrowings	27	312,300	197,300
Total current liabilities – interest bearing liabilities		315,756	200,655
* Current interest bearing liabilities are unsecured.			
17. Current liabilities – Provisions			
Employee benefits	35	17,160	15,578
Insurance claims	34	634	1,123
Remediation works	34	19,065	17,518
Other provisions	34	2,017	1,700
Total current liabilities – provisions		38,876	35,919
18. Current liabilities – Other financial liabilities			
Financial liabilities	27	–	34
Total current liabilities – financial liabilities		–	34
19. Current liabilities – Current tax liability			
Income tax		–	2,096
Total current liabilities – current tax liability		–	2,096
20. Non-current liabilities – Trade and other payables			
Creditors	27	244	811
Advances	27	8,286	10,344
Total non-current liabilities – trade and other payables		8,530	11,155

	Notes	2008 \$000	2007 \$000
21. Non-current liabilities – Interest bearing liabilities			
* Lease liabilities	27, 29(d)	8,443	11,899
* Borrowings	27	1,305,000	1,115,000
Total non-current liabilities – interest bearing liabilities		1,313,443	1,126,899

* Non current interest bearing liabilities are unsecured.

22. Non-current liabilities – Provisions

Employee benefits	35	6,560	5,556
Insurance claims	34	323	643
Remediation works	34	3,188	17,977
Total non-current liabilities – provisions		10,071	24,176

23. Net Deferred tax liabilities

The balance comprises temporary differences attributable to:

Amounts recognised in the Income Statement

Property, plant and equipment		538,795	508,263
Employee entitlements		(5,298)	(4,759)
Developer contributions		22,814	25,481
Finance lease		2,394	1,826
Defined benefit obligation		3,951	9,456
Provisions		(1,901)	(1,811)
Revenue in advance		(2,831)	(3,359)
Other		78	(110)
		558,002	534,987

Amounts recognised directly in equity

Revaluation of property, plant and equipment		17,029	3,315
Net deferred tax liability		575,031	538,302

Movements:

Opening balance at 1 July		538,302	510,126
(Credited)/debited to the Income Statement		21,956	24,861
Credited/(debited) to equity		13,714	3,315
Prior Year Correction		1,059	–
Closing balance at 30 June		575,031	538,302

Net Deferred tax liabilities to be recovered after more than 12 months		578,596	543,000
Net Deferred tax liabilities to be recovered within 12 months		(3,565)	(4,698)
Total non-current liabilities – Deferred tax liabilities		575,031	538,302

24. Contributed equity

Opening balance		600,147	624,779
Adjustment relating to the transfer of Crown Land to the Government		(8,580)	(24,632)
Total contributed equity at the end of year		591,567	600,147

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	Notes	2008 \$000	2007 \$000
25. Reserves			
Asset revaluation reserve			
Opening balance		23,792	–
Revaluation increment/(decrement) on non-current assets	12(c)	154,749	27,107
Revaluation reserves transferred to retained profits on derecognition of asset		(573)	–
(Increment)/decrement on deferred tax revaluation	23	(13,714)	(3,315)
Closing balance		164,254	23,792
The asset revaluation reserve is used to record asset revaluation increments and decrements in the value of non-current physical assets.			
Cash flow hedge			
Opening balance		35	68
Gain/(loss) taken to equity		34	(33)
Closing balance		69	35
The cash flow hedge reserve represents the gain or loss on conversion to Australian dollars of the cash flow hedge.			
Total reserves at the end of year		164,323	23,827

26. Retained profits

Retained profits at the beginning of the year		1,262,174	1,215,265
Net profit for the year	41	67,642	133,509
Transfer from asset revaluation reserve	25	573	–
Dividends paid	31	(99,400)	(86,600)
Retained profits at the end of year		1,230,989	1,262,174

27. Financial instruments

(a) Interest rate exposure

At 30 June 2008, the Corporation has no significant interest-bearing assets. As such, the Corporation's income and operating cash flows are not materially exposed to changes in market interest rates.

For 2007/08, the Corporation is exposed to interest rate risk on outstanding interest bearing liabilities. The mix of floating and fixed rate debt is managed strategically within a range of Board approved parameters, in order to minimise exposure to fluctuations in variable rates and to minimise the long-term net cost of funding.

30 June 2008	Notes	Weighted avg. annual effective interest rate %	Floating interest rate \$000	Fixed interest rate maturing 1 year or less \$000	1 to 5 years \$000	over 5 years \$000	Non interest bearing \$000	Total \$000
Financial assets								
Cash	6	6.81	350	–	–	–	–	350
Trade debtors	7a		–	–	–	–	18,357	18,357
Derivatives	10	4.22	–	483	–	–	–	483
Other receivables	7a, 13		–	–	–	–	30,586	30,586
Total financial assets			350	483	–	–	48,943	49,776
Financial liabilities								
Creditors, accruals & interest payable	15, 20		–	–	–	–	(184,828)	(184,828)
Lease liabilities	16, 21		–	–	–	–	(11,899)	(11,899)
Derivatives	18		–	–	–	–	–	–
Advances	15, 20		–	–	–	–	(11,414)	(11,414)
Borrowings:								
11am Cash	16, 21	7.42	(172,300)	–	–	–	–	(172,300)
Floating Rate Notes	16, 21	7.59	(275,000)	–	–	–	–	(275,000)
Fixed Interest	16, 21	6.20	–	(100,000)	(400,000)	(670,000)	–	(1,170,000)
Total financial liabilities			(447,300)	(100,000)	(400,000)	(670,000)	(208,141)	(1,825,441)
Net financial liabilities			(446,950)	(99,517)	(400,000)	(670,000)	(159,198)	(1,775,665)

Notes to the Financial Report

27. Financial instruments continued.

30 June 2007	Notes	Weighted avg. annual effective interest rate %	Floating interest rate \$000	Fixed interest rate maturing 1 year or less \$000	1 to 5 years \$000	over 5 years \$000	Non interest bearing \$000	Total \$000
Financial assets								
Cash	6	6.14	203	–	–	–	–	203
Trade debtors	7a		–	–	–	–	22,182	22,182
Derivatives	10	4.1	–	511	–	–	–	511
Other receivables	7a, 13		–	–	–	–	18,911	18,911
Total financial assets			203	511	–	–	41,093	41,807
Financial liabilities								
Creditors, accruals & interest payable	15, 20		–	–	–	–	(142,265)	(142,265)
Lease liabilities	16, 21		–	–	–	–	(15,254)	(15,254)
Derivatives	18		–	(34)	–	–	–	(34)
Advances	15, 20		–	–	–	–	(12,412)	(12,412)
Borrowings:								
11am Cash	16, 21	6.42	(37,300)	–	–	–	–	(37,300)
Floating Rate Notes	16, 21	6.32	(175,000)	–	–	–	–	(175,000)
Fixed Interest	16, 21	6.12	–	(100,000)	(415,000)	(585,000)	–	(1,100,000)
Total financial liabilities			(212,300)	(100,034)	(415,000)	(585,000)	(169,931)	(1,482,265)
Net financial liabilities			(212,097)	(99,523)	(415,000)	(585,000)	(128,838)	(1,440,458)

Notes to the Financial Report

(b) Fair value

The book values and net fair values of financial assets and liabilities at balance date are:

	2008 Book value \$000	2008 Net fair value* \$000	2007 Book value \$000	2007 Net fair value* \$000
On balance sheet				
Financial assets				
Cash	350	350	203	203
Trade debtors	18,357	18,357	22,182	22,182
Derivatives	483	482	511	511
Other receivables	30,586	30,586	18,911	18,911
Total financial assets	49,776	49,775	41,807	41,807
Financial liabilities				
Creditors, accruals & interest payable	(184,828)	(184,828)	(142,265)	(142,265)
Lease liabilities	(11,899)	(11,899)	(15,254)	(15,254)
Derivatives	–	–	(34)	(34)
Advances	(11,414)	(11,414)	(12,412)	(12,412)
Borrowings:				
11am Cash	(172,300)	(173,084)	(37,300)	(37,504)
Floating Rate Notes	(275,000)	(277,633)	(175,000)	(175,476)
Fixed Interest	(1,170,000)	(1,144,433)	(1,100,000)	(1,087,987)
Total financial liabilities	(1,825,441)	(1,803,291)	(1,482,265)	(1,470,932)

* Net book values are capital amounts. The differences between book values and net fair values relate principally to interest rate movements.

Net fair values of financial instruments are determined as follows:

Cash, deposit investments, short-term borrowings, cash equivalents and non-interest-bearing financial assets and liabilities (trade debtors and trade creditors) are valued at cost.

Other borrowings are estimated based on the present value of expected future cash flows discounted at current market interest rates quoted for securities issued by the Treasury Corporation of Victoria.

28. Segment information

(a) Description of segments

Business segments:

The Corporation is organised into the following business segments:

The **water segment** includes the harvesting, storing, treating and transfer of water to the metropolitan retail water businesses for delivery to end users.

The **sewerage segment** includes the transfer, treating and disposal of sewage and trade waste collected from the metropolitan retail water businesses.

The **waterways and drainage segment** includes regional drainage and flood protection services, waterways management for achieving healthy rivers, creeks and floodplains and stormwater quality protection.

Geographical segments:

The Corporation operates in one geographical area.

(b) Business segment reporting for 2007/08

Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Revenue				
External revenue/income	178,338	215,364	206,538	600,240
Unallocated revenue/income				45
Total segment revenue/income				600,285
Results				
Segment result	59,837	42,298	92,169	194,304
Unallocated revenue less unallocated expenses				(100,793)
Profit before income tax				93,511
Income tax expense				(25,869)
Profit for the year				67,642
Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Assets				
Segment assets	1,571,974	1,699,897	1,162,757	4,434,628
Unallocated assets				1,670
Total assets				4,436,298
Liabilities				
Segment liabilities	33,910	128,222	57,000	219,132
Unallocated liabilities				2,230,287
Total liabilities				2,449,419
Other segment reporting information	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Depreciation and amortisation	23,208	44,393	19,896	87,497
Acquisition of property, plant and equipment and intangible assets.	63,171	138,113	68,664	269,948

(c) Business segment reporting for 2006/07

Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Revenue				
External revenue/income	183,593	210,775	193,870	588,238
Unallocated revenue/income				44
Total segment revenue/income				588,282
Results				
Segment result	89,226	69,402	105,384	264,012
Unallocated revenue less unallocated expenses				(86,590)
Profit before income tax				177,422
Income tax expense				(43,913)
Profit for the year				133,509
Business segments	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Assets				
Segment assets	1,407,063	1,520,064	1,041,576	3,968,703
Unallocated assets				203
Total assets				3,968,906
Liabilities				
Segment liabilities	23,548	119,336	48,839	191,723
Unallocated liabilities				1,891,035
Total liabilities				2,082,758
Other segment reporting information	Water \$000	Sewerage \$000	Waterways & Drainage \$000	Consolidated \$000
Depreciation and amortisation	20,377	37,358	19,645	77,380
Acquisition of property, plant and equipment and intangible assets.	50,757	95,938	66,680	213,375

Notes to the Financial Report

	2008 \$000	2007 \$000
29. Commitments		
(a) Capital commitments		
Total capital expenditure contracted for the construction of water, sewerage and waterways and drainage infrastructure at balance date but not provided for in the accounts:		
Property, plant and equipment payable:		
Within one year	357,367	101,827
Later than one year but not later than five years	361,186	23,972
Total capital commitments	718,553	125,799
Capital commitments by segment groups:		
Water capital commitments	133,099	25,660
Sewerage capital commitments	488,526	93,068
Waterways and drainage capital commitments	96,928	7,071
Total capital commitments by segment groups	718,553	125,799
(b) Operating lease commitments		
(i) Melbourne Water as lessee		
The Corporation's East Melbourne building is held under a non-cancellable operating lease expiring on 15 June 2012. The Corporation also leases five other buildings under non-cancellable operating leases expiring from 31 May 2010.		
These building lease agreements have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.		
The Corporation also leased land, photocopiers and motor vehicles under non-cancellable operating leases.		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	8,169	6,100
Later than one year but not later than five years	12,371	12,564
Later than five years	164	265
Total operating lease commitment	20,704	18,929
Lease incentives on non-cancellable operating leases included in trade creditors is as follows:	337	430
Representing operating lease liability:		
Current (part of note 15)	93	93
Non-current (part of note 20)	244	337
Total operating lease liability	337	430
(ii) Melbourne Water as lessor		
Operating leases relate to land owned by the Corporation with lease terms generally for a period of 10 years. All operating lease contracts contain market review clauses. The lessee does not have an option to purchase the land at the expiry of the lease period.		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	940	1,156
Later than one year but not later than five years	1,720	2,642
Later than five years	400	727
Total operating lease commitment	3,060	4,525
(c) Smart Water Fund		
The Corporation has a commitment to the Victorian Government's Smart Water Fund in the amount of \$2.8 million over the next 3 years (2006/07: \$3.6 million, 4 years). The timing of such payments cannot be reliably estimated and as such have not been disclosed in yearly bands.		

(d) Finance lease commitments

The Corporation has finance lease agreements with Yan Yean Water and TopAq Pty Ltd. The agreement with Yan Yean Water involves the construction of a water treatment plant, commencing on 1 October 1994 for a term of 15 years.

The agreement with TopAq Pty Ltd involves the development of a water recycling project that uses effluent sourced from the Corporation's Eastern Treatment Plant. This effluent is further treated to produce and supply Class A Water to customers in the project area, commencing on 29 April 2005 for a term of 25 years.

	2008 \$000	2007 \$000
The carrying amount of the finance lease is:		
Commitments in relation to finance lease are payable as follows:		
Within one year	4,691	4,915
Later than one year but not later than five years	5,753	9,241
Later than five years	8,217	9,420
Minimum lease payments	18,661	23,576
Less: Future finance charges	(6,762)	(8,322)
Total finance lease liability	11,899	15,254
Representing finance lease liability:		
Current (refer to note 16)	3,456	3,355
Non-current (refer to note 21)	8,443	11,899
Total finance lease liability	11,899	15,254

(e) Other operating commitments

Total operating expenditure (excluding leases) contracted for at balance date but not provided for in the accounts:

Not later than one year	4,633	2,411
Later than one year but not later than five years	12,229	3,637
Later than five years	149	159
Total other commitments	17,011	6,207

(f) Build, Own and Operate (BOO) commitments

On 25 February 2000, the Corporation signed a Build, Own and Operate (BOO) contract with Australian Gas and Light Ltd (AGL) to purchase a minimum of 21.2 GWh of electricity generated from biogas per year for a period of 10 years. AGL has a contractual obligation to supply the minimum amount.

Under this contract, AGL will build, own and operate the power generation plant which has been constructed on land owned by the Corporation at Western Treatment Plant. This arrangement became fully operational on 1 July 2003. On 1 January 2006, this was replaced by a contract with a new term of 15 years.

This new agreement requires AGL to expand generation at its plant to approximately 51GWh of electricity generated from biogas per year for the period of the contract.

The minimum obligation (excluding the effect of inflation) for the term of the arrangement is \$31.4 million at 30 June 2008.

This calculation has been based on best estimates of volume throughput, peak and off peak electricity consumption and other relevant variables as detailed in the contract.

Future minimum obligations

Fixed costs, payable within:

Not later than one year	2,166	2,098
Later than 1 year but not later than 5 years	9,309	9,047
Later than 5 years	19,922	22,350
Total value of future minimum obligations	31,397	33,495

(g) Food Bowl Modernisation Commitment

The Corporation is contributing \$300 million towards Phase 1 of the Government's \$1 billion Food Bowl Modernisation Project, which will modernise irrigation infrastructure across the Goulburn Murray systems.

Not later than one year	85,000	–
Later than 1 year but not later than 5 years	205,000	–
Later than 5 years	10,000	–
Total commitment	300,000	–

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	2008 \$000	2007 \$000
30. Contingent assets and liabilities		
(a) Contingent assets		
As at 30 June 2008, there were no contingent assets recognised.	–	–
(b) Contingent liabilities		
Details and estimates of maximum amounts of contingent liabilities for which no provision is included in the accounts, are as follows:		
Claims or possible claims against the Corporation arising out of various matters connected with the Corporation's business dealings.	10,659	3,054

31. Dividends

Interim dividend paid (relating to previous financial year)	48,500	38,600
Final dividend paid (relating to previous financial year)	50,900	48,000
Total dividends paid	26	86,600

The proposed interim and final dividend payable in relation to the 2007/08 financial year is \$57.8 million. This amount is subject to final determination by the Treasurer after consultation with the Corporation's Board of Directors and the Minister for Water and consequently has not been booked as a provision as at 30 June 2008.

32. Events occurring after balance sheet date

No matters or circumstances have arisen since the end of the reporting period which significantly affected or may significantly affect the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation in future financial years.

33. Remuneration of auditors

During the reporting period, the following fees were paid or payable for services provided by the Victorian Auditor General's Office:

Audit of financial statements	118	109
Annual Drainage Review	25	24
Total amount paid / payable	143	133

34. Provisions

(i) Insurance Claims

The amount represents a provision for public liability, motor vehicle and property claims. The amount classified as current is expected to be settled within 12 months. The amount classified as non-current is expected to be settled later than 12 months. The provision amounts are based on an independent assessment of claim costs.

(ii) Remediation Works

The amount represents a provision for remediation works at the Dandenong Treatment Plant.

The amount classified as current represents the expected completion of works within the next 12 months.

The amount classified as non-current represents works expected to be completed later than 12 months.

(iii) Other Provisions

The amount represents other provisions that satisfy the recognition requirements of AASB 137 Provisions, Contingent Liabilities and Contingent Assets. The amount is based on legal advice and is expected to be settled within 12 months.

(iv) Movements in Provisions

Movements in each class of provision during 2007/08, other than employee benefits, are set out below:

Notes	Insurance Claims \$000	Remediation Works \$000	Other Provisions \$000	Total \$000
Carrying amount at start of year	1,766	35,495	1,700	38,961
Additional provisions recognised	71	–	405	476
Amounts utilised during the year	(880)	(13,242)	(88)	(14,210)
Carrying amount at end of year	957	22,253	2,017	25,227
			2008 \$000	2007 \$000

35. Employee Benefits

Current: Accrued salaries (part of note 15)	1,543	1,081
Current: Short-term employee benefits, that fall due within 12 months after the end of the period measured at nominal value (part of note 17)	6,345	5,573
Current: Long-term employee benefits that do not fall due within 12 months after the end of the period measured at present value (part of note 17)	10,815	10,005
Non-current: Other employee benefits (part of note 22)	4,903	4,392
Non-current: Long service leave representing less than 7 years of continuous service measured at present value (part of note 22)	1,657	1,164
Total employee benefits liability	25,263	22,215

The aggregate employee benefit liability includes amounts for annual leave, shift leave, long-service leave, salaries, WorkCover and superannuation. All employees of the Corporation are entitled to superannuation benefits upon retirement, disability or death through membership of the following funds: (see Note 36).

Notes to the Financial Report

36. Defined superannuation benefit

Defined benefit superannuation

The Equipsuper superannuation fund provides lump sum benefits based on length of service and final superannuable salary for employees engaged up until 31 December 1993. Employees contribute at rates between 0 to 7.5 per cent of their superannuation salary. The Corporation contributes to the fund based on the Corporation's commitments under the Employee Participation Agreement and Contribution Policy with the Trustee of the fund.

Defined contribution superannuation

Employees engaged from 1 January 1994 are entitled to benefits under accumulation funds. The majority of these employees are covered by Vision Super Pty Ltd. Employees have the opportunity to make personal contributions to this fund (or other funds) at a self-nominated rate or amount. The minimum employer contribution to the fund, pursuant to the Superannuation Guarantee Charge was 9.0 per cent in 2007/08 (9.0 per cent in 2006/07).

	2008 \$000	2007 \$000
Employer contributions		
Employer contributions to defined contribution funds	3,662	2,889
Employer contributions to employee nominated funds	405	283
Total employer contributions	4,067	3,172
Reconciliation of the Present Value of the Defined Benefit Obligation		
Balance at the beginning of the year	69,185	74,068
Current service cost	1,663	1,962
Interest cost	3,708	3,575
Contributions by plan participants	1,060	1,050
Actuarial (gains)/losses	6,040	(5,950)
Benefits paid	(4,923)	(5,307)
Taxes and premiums paid	(224)	(213)
Present value of the defined benefit obligation at the end of the year	76,509	69,185
Reconciliation of the Fair Value of Plan Assets		
Balance at the beginning of the year	100,704	90,852
Expected return on Plan assets	6,788	6,119
Actuarial (gains)/losses	(13,727)	8,203
Employer contributions	–	–
Contributions by plan participants	1,060	1,050
Benefits paid	(4,923)	(5,307)
Taxes and premiums paid	(224)	(213)
Fair value of Plan assets at the end of the year	89,678	100,704
Reconciliation of the Assets and Liabilities Recognised in the Balance Sheet		
Present value of the defined benefit obligation	76,509	69,185
Less fair value of plan assets	89,678	100,704
*Net superannuation liability/(asset)	(13,169)	(31,519)

* The Corporation has recognised an asset in the Balance Sheet in respect of its defined superannuation benefit arrangements. If a surplus exists in the Plan, the Corporation may be able to take advantage of it in the form of a reduction in the required contribution rate, depending on the advice of the Plan's actuary. The Corporation has elected to do this during 2007/08.

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

	2008 \$000	2007 \$000
Expense Recognised in the Income Statement		
Service cost	1,663	1,962
Interest cost	3,708	3,575
Expected return on Plan assets	(6,788)	(6,119)
Actuarial loss/(gain) recognised in year	19,767	(14,153)
Total superannuation expense/(income)	(Note 4) 18,350	(14,735)

Categories of Plan assets

The percentage invested in each asset class at the balance sheet date was:

Australian Equity	35%	37%
International Equity	22%	24%
Fixed Income	13%	15%
Property	14%	13%
Alternatives/Other	8%	4%
Cash	8%	7%
Total	100%	100%

Fair Value of Plan Assets

The fair value of Plan assets includes no amounts relating to:

- a) any of the Corporation's own financial instruments
- b) any property occupied by, or other assets used by, the Corporation.

Expected Rate of Return on Plan Assets

The expected return on Plan assets assumption is determined by weighting 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 used for each asset class are net of investment tax and investment fees. An allowance for administration expenses has also been deducted from the expected return.

Actual return on Plan assets	(6,939)	14,322
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Principal Actuarial Assumptions at the Balance Sheet Date

Discount rate (active members)	6.2% pa	5.3% pa
Discount rate (pensioners)	6.8% pa	6.2% pa
Expected return on Plan assets (active members)	7.0% pa	7.0% pa
Expected return on Plan assets (pensioners)	7.5% pa	7.5% pa
Expected salary increase rate	4.0% pa	4.0% pa
Expected pension increase rate	3.0% pa	3.0% pa

Historical Information

	2008	2007	2006	2005
Present value of defined benefit obligation	76,509	69,185	74,068	70,279
Less fair value of Plan assets	89,678	100,704	90,852	80,625
(Surplus)/deficit in Plan	(13,169)	(31,519)	(16,784)	(10,346)
Experience adjustments (gain)/loss – Plan assets	13,727	(8,203)	(6,308)	(3,172)
Experience adjustments (gain)/loss – Plan liabilities	6,227	(5,455)	3,380	(775)

Expected Contributions

Expected employer contributions for defined benefit members during the financial year ending 30 June 2009 are expected to be nil.

Notes to the Financial Report

37. Related party transactions

(a) Parent entities

The Department of Sustainability and Environment (DSE) leads and directs the Corporation in the implementation of the framework for achieving the State's responsibilities for sustainability of the natural and built environment.

(b) Entities with significant influence – Department of Treasury and Finance

The Department of Treasury and Finance (DTF) administers the Water Act 1989 and the Financial Management Act 1994, which the Corporation is required to comply. DTF is also responsible for protecting the shareholder's interest in respect of corporate business plans, appointment of directors and capital project approvals above \$5 million.

(c) Other related parties

The following entities have the same controlling entities as the Corporation, and therefore are considered to be related parties of the Corporation.

City West Water Ltd, South East Water Ltd, Yarra Valley Water Ltd, Western Water and Gippsland and Southern Rural Water

City West Water Ltd, South East Water Ltd, Yarra Valley Water Ltd, Western Water, Gippsland and Southern Rural Water are Government owned water authorities. City West Water Ltd, South East Water Ltd and Yarra Valley Water Ltd have bulk water and sewerage supply agreements with the Corporation. Western Water has a bulk water supply agreement with the Corporation. Gippsland and Southern Rural Water has a bulk recycled water supply agreement with the Corporation. These agreements operated on normal terms and conditions during the reporting period.

Environment Protection Authority Victoria

The Environment Protection Authority Victoria (EPA) is responsible for environmental regulation. It issues licences which set environmental discharge standards for the Corporation's sewerage treatment plants. The standards cover discharges to water, land and air. EPA is also responsible for issuing works approvals for capital works that may include a public consultation process. The Corporation has developed a Memorandum of Understanding with EPA which assists in establishing a working relationship in respect of the operations of the sewerage system.

Treasury Corporation of Victoria

The Treasury Corporation of Victoria provides financial accommodation (loans to the Corporation), executes financial arrangements (derivatives) and provides / arranges the provision of financial services to the Corporation.

Department of Primary Industries

The Department of Primary Industries (DPI) promotes the sustainable development of primary industries, including agriculture and energy within Victoria. DPI uses a collaborative approach to influence improvements in industry performance and to encourage the adoption of new technologies and development practices.

State Revenue Office

The State Revenue Office (SRO) is the Victorian Government's major tax collection agency. The SRO is a service agency of DTF, which falls within the portfolio responsibilities of the Treasurer of Victoria. The SRO administers Victoria's taxation legislation and collects a range of taxes, duties and levies.

Victorian Urban Development Authority

Victorian Urban Development Authority (VicUrban) is the Victorian Government's sustainable urban development agency. The Corporation is involved with VicUrban in commercial arrangements associated with the development of land at the Dandenong Treatment Plant and surplus land at Werribee.

Sustainability Victoria

Sustainability Victoria is a Government owned agency that encourages and supports government, business and communities to promote environmental sustainability.

Parks Victoria

Parks Victoria is a Government owned agency that is the custodian of a diverse estate of significant parks in Victoria and of the recreational management of Port Phillip Bay, Western Port and the Yarra and Maribyrnong rivers.

Vic Roads

Vic Roads is a Government owned agency that is primarily responsible for managing the Victorian arterial road network and its use as an integral part of the overall transport system.

VicWater

VicWater is a Government owned agency that contributes to and influences the development and implementation of Government policies relating to water and wastewater services within Victoria.

	2008 \$000	2007 \$000
(d) Transactions with related parties		
Receipts from related parties		
Department of Sustainability and Environment	9,306	6,953
Other related parties		
City West Water Ltd	127,351	123,262
South East Water Ltd	181,385	176,452
Yarra Valley Water Ltd	200,555	195,209
Western Water	4,776	4,928
Gippsland and Southern Rural Water	1,659	1,370
Victorian Urban Development Authority	4,419	1
Sustainability Victoria	101	220
Vic Roads	30	3,139
VicWater	16	-
Payments to related parties		
Department of Sustainability and Environment	8,882	3,528
Department of Treasury and Finance	18,589	32,162
Department of Primary Industries	384	646
Other related parties		
City West Water Ltd	2,819	2,603
South East Water Ltd	3,912	3,081
Yarra Valley Water Ltd	5,150	4,005
Western Water	351	13
State Revenue Office	28,989	6,501
Environment Protection Authority Victoria	1,743	930
Treasury Corporation of Victoria	89,964	78,870
Victorian Urban Development Authority	409	716
Sustainability Victoria	23	19
Parks Victoria	345	684
Vic Roads	1,381	16
VicWater	44	53
Dividend expense		
Department of Treasury and Finance	99,400	86,600
Equity contributions (transfer of crown land)		
Department of Sustainability and Environment	8,580	24,632

Notes to the Financial Report

(e) Outstanding balances arising from sales / purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

Current receivables

Department of Sustainability and Environment	6,448	13
Other related parties		
City West Water Ltd	5,243	6,267
South East Water Ltd	6,231	7,829
Yarra Valley Water Ltd	7,238	10,757
Western Water	376	250
Environment Protection Authority Victoria	544	-
Victorian Urban Development Authority	170	-
Sustainability Victoria	-	-

Current payables

Department of Sustainability and Environment	910	171
Department of Treasury and Finance	1,752	1,260
Other related parties		
City West Water Ltd	583	138
South East Water Ltd	83	82
Yarra Valley Water Ltd	210	304
Western Water	73	-
State Revenue Office	1,488	10,000
Environment Protection Authority Victoria	17	10
Treasury Corporation of Victoria – Borrowings	338,362	220,391
Sustainability Victoria	-	580

Non current payables

Department of Sustainability and Environment	7,263	9,229
Treasury Corporation of Victoria	1,305,000	1,115,000
Other related parties		
City West Water Ltd	100	100
Yarra Valley Water Ltd	25	50
Environment Protection Authority Victoria	110	111
Sustainability Victoria	56	63

(f) Terms and conditions

Transactions relating to dividends are subject to final determination by the Treasurer after consultation with the Corporation's Board of Directors and Minister for Water.

Transactions relating to equity contributions are determined by the Department of Sustainability and Environment in consultation with the Corporation.

Transactions relating to trading activities of the Corporation including sale of bulk water, sale of sewage services and collection of drainage rates are based on normal commercial terms and conditions.

Outstanding balances are unsecured and are repayable in cash.

(g) Guarantees

There are no guarantees given or received for the current payables, current receivables and borrowings.

38. Responsible persons related party disclosures

(a) Responsible persons

The names of persons who were responsible persons at anytime during the financial year were:

- › The Hon. John Thwaites MP, Minister for Water, Environment and Climate Change (1 July 2007 to 3 August 2007)
- › The Hon. Timothy Holding MP, Minister for Water (3 August 2007 to 30 June 2008)
- › Board Members:

Chairman	Cheryl Batagol	1 July 2007 to 30 June 2008
Deputy Chairman	Merran Kelsall	1 July 2007 to 30 June 2008
Director	Bruce Cohen	1 July 2007 to 21 August 2007
Director	Peter Darvall	1 July 2007 to 30 June 2008
Director	Mary Anne Hartley	1 July 2007 to 30 June 2008
Director	Terry Larkins	1 July 2007 to 30 June 2008
Director	Carolyn Schultz	1 July 2007 to 30 June 2008
Director	Peter Vines	1 July 2007 to 30 June 2008
Managing Director	Rob Skinner	1 July 2007 to 30 June 2008

Remuneration of responsible persons

Remuneration paid to the Minister is reported in the Annual Report of the Department of Premier and Cabinet.

Other relevant interests are declared in the Register of Members' Interests which each member of the parliament completes.

Remuneration received, or due and receivable by the Managing Director in connection with the management of the Corporation during the reporting period was in the range of \$370,000 – \$379,999.

Remuneration of directors

The number of responsible persons whose remuneration from the Corporation was within the specified bands were as follows:

Total Remuneration Income Band (\$)	2008 Number	2007 Number
0 – 9,999	1	-
10,000 – 19,999	-	1
20,000 – 29,999	1	-
30,000 – 39,999	-	-
40,000 – 49,999	5	6
70,000 – 79,999	-	-
80,000 – 89,999	1	1
360,000 – 369,999	-	1
370,000 – 379,999	1	-
Total numbers	9	9
	\$000	\$000
Total amount	707	722

Notes to the Financial Report

38. Responsible persons related party disclosures

(b) Other related party transactions

- › There were no amounts paid by the Corporation in connection with the retirement of responsible persons of the Corporation during the financial year.
- › There were no loans in existence by the Corporation to responsible persons or related parties during the financial year.
- › Related party transactions involving Board Members are as follows:

	2008	2007
	\$000	\$000
(i) The Chairman, Cheryl Batagol, is the Deputy Chairman of Sustainability Victoria, a Government owned agency, which provides services to the Corporation. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from Sustainability Victoria was:	101	283
Total payments made to Sustainability Victoria was:	23	10
(ii) A Director, Terry Larkins, is the Chairman of Western Water and the Victorian Water Industry Association (VicWater).		
Western Water is a Government owned water authority, which has a bulk water supply agreement with the Corporation that was operative on normal terms and conditions during the reporting period.		
VicWater is the peak industry association for water businesses and influences the development and implementation of Government policies relating to water and wastewater services. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from Western Water was:	4,776	4,928
Total payments made to Western Water was:	351	13
Total revenue received from VicWater was:	16	–
Total payments made to VicWater was:	44	53
(iii) A Director, Mary Anne Hartley, is a Director of Port of Melbourne Corporation (PoMC), a Government owned agency responsible for commercial shipping in the waters of the Port Phillip Bay, Port Melbourne and Williamstown. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from PoMC was:	–	–
Total payments made to PoMC was:	–	1
(iv) The Deputy Chairman, Merran Kelsall, is the Chairman of the audit committee of Darebin City Council, which provides local government for a large municipality north of the central business district. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from Darebin City Council was:	2	2
Total payments made to Darebin City Council was:	66	48
› All other transactions with related party entities were made on normal terms and conditions during the financial year.		

39. Remuneration of executives

The numbers of executive officers, other than responsible persons (as defined in *FRD 21A Responsible Person and Executive Officer Disclosures in the Financial Report*) whose remuneration (total and base) falls within the specified bands above \$100,000 are as follows:

(Base remuneration is exclusive of bonus payments, long-service leave payments, redundancy payments and retirement benefits).

Income Band (\$)	Total Remuneration		Base Remuneration	
	2008 Number	2007 Number	2008 Number	2007 Number
100,000 – 109,999	–	–	–	1
110,000 – 119,999	–	1	–	2
120,000 – 129,999	–	3	2	4
130,000 – 139,999	1	1	6	9
140,000 – 149,999	4	6	11	7
150,000 – 159,999	4	8	2	4
160,000 – 169,999	5	6	5	–
170,000 – 179,999	6	3	2	2
180,000 – 189,999	7	–	–	1
190,000 – 199,999	–	1	4	1
200,000 – 209,999	1	1	1	2
210,000 – 219,999	1	2	1	1
220,000 – 229,999	2	–	–	–
230,000 – 239,999	1	2	–	1
240,000 – 249,999	2	1	–	–
260,000 – 269,999	–	1	1	–
300,000 – 309,999	1	–	–	–
310,000 – 319,999	–	–	–	1
330,000 – 339,999	–	1	–	–
Total numbers	35	37	35	36*
	\$000	\$000	\$000	\$000
Total amount	6,444	6,393	5,612	5,674

* This total excludes one executive officer with a base remuneration of less than \$100,000.

40. Key management personnel compensation

Key management personnel (as defined in *AASB 124 Related Party Disclosures*) includes the Managing Director and selected executive officers who have the authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly, during the financial year.

	2008 \$000	2007 \$000
Short-term employment benefits	1,858	1,773
Post-employment benefits	–	–
Other long-term benefits*	355	492
Termination benefits	–	–
Share-based payment	–	–
Total amount	2,213	2,265
Total numbers	8	7

* Other long-term benefits represents long service leave.

Notes to the Financial Report

	Notes	2008 \$000	2007 \$000
41. Reconciliation of net cash provided from operating activities to net profit			
Net profit	26	67,642	133,509
Depreciation	4	87,497	77,380
Provision for impaired receivables	7(a)	(1)	4
Net (gain)/loss on sale of non-current assets	3(b)	(719)	491
Assets written off / written down	4	11,652	10,623
Asset revaluation decrements	4	272	685
Defined benefit expense	4	18,350	–
Value of works taken over from developers		(14,079)	(10,151)
Changes in operating assets and liabilities:			
Decrease (increase) in trade receivable and other receivables		(8,343)	(8,345)
Decrease (increase) in other assets		599	(13,570)
Decrease (increase) in current tax assets	5	(1,320)	–
(Decrease) increase in trade creditors and payables		(7,704)	31,551
(Decrease) increase in provisions	17, 22	(11,148)	(15,802)
(Decrease) increase in current tax liabilities	19	(2,096)	(4,693)
(Decrease) increase in deferred tax liabilities	23	23,015	24,862
Net cash provided by operating activities		163,617	226,544

Melbourne Water Corporation

Statement by Directors and Chief Finance Officer

In the opinion of the Directors of Melbourne Water Corporation:

- (a) the accompanying financial statements are drawn up so as to present fairly, in all material respects the financial performance of the Corporation for the year ended 30 June 2008 and the financial position of the Corporation as at that date;
- (b) at the date of this statement there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they fall due;
- (c) the accompanying financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board of Directors; and
- (d) the Corporation's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

We certify that the financial statements have been prepared in accordance with the requirements of the *Financial Management Act 1994*, including the Directions and applicable accounting standards.

We are not aware, at the date of this statement, of any circumstance which would render any particulars in the financial statements to be misleading or inaccurate.

Dated at Melbourne on this 15th day of August 2008.

On behalf of the Board:



Cheryl Batagol
Chairman



Robert Skinner
Managing Director



Malcolm Haynes
Chief Finance Officer

INDEPENDENT AUDITOR'S REPORT

To the Board Members of the Melbourne Water Corporation

The Financial Report

The accompanying financial report for the year ended 30 June 2008 of Melbourne Water Corporation which comprises of an income statement, balance sheet, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the statement by Directors and Chief Finance Officer has been audited.

The Board Members Responsibility for the Financial Report

The Board Members of the Melbourne Water Corporation are responsible for the preparation and the fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. This responsibility includes:

- establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Independent Auditor's Report (continued)

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial statements published in both the annual report and on the website of the Melbourne Water Corporation for the year ended 30 June 2008. The Board Members of Melbourne Water Corporation are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. 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 the Melbourne Water Corporation web site.

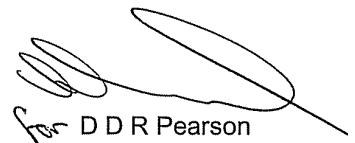
Independence

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

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of Melbourne Water Corporation as at 30 June 2008 and its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations), and the financial reporting requirements of the *Financial Management Act* 1994.

MELBOURNE
15 August 2008



for D D R Pearson
Auditor-General