
FINANCIAL REPORT

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FIVE-YEAR FINANCIAL SUMMARY

SUMMARY OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June - Extract

	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Revenue and other income	997.3	858.4	732.2	600.3	588.3
Operating and other expenses	328.0	326.6	330.6	318.5	246.9
Depreciation and amortisation expenses	231.9	122.0	105.8	87.5	77.4
Finance costs	223.3	171.3	122.0	100.8	86.6
Net result from continuing operations before income tax expense	214.1	238.5	173.8	93.5	177.4
Less: Income tax expense	56.2	52.1	45.8	25.9	43.9
Profit for the period	157.8	186.4	128.0	67.6	133.5
Dividends paid	26.5	79.8	72.0	99.4	86.6

STATEMENT OF FINANCIAL POSITION

As at 30 June - Extract

	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Current assets	109.6	71.4	108.7	65.8	56.3
Non-current assets	9,644.8	8,876.9	5,312.4	4,369.7	3,912.6
Total assets	9,754.5	8,948.3	5,421.1	4,435.5	3,968.9
Current liabilities	1,365.5	1,096.5	862.3	541.5	382.2
Non-current liabilities	4,014.2	3,833.4	2,557.0	1,907.1	1,700.6
Total liabilities	5,379.7	4,929.9	3,419.3	2,448.6	2,082.8
Net assets	4,374.8	4,018.4	2,001.8	1,986.9	1,886.1
Total equity	4,374.8	4,018.4	2,001.8	1,986.9	1,886.1

STATEMENT OF CASH FLOWS

As at 30 June - Extract

	2011	2010	2009	2008	2007
	\$M	\$M	\$M	\$M	\$M
Net cash flows from operating activities	266.6	302.9	278.8	163.6	226.5
Payments for property, plant and equipment	814.3	955.5	939.2	367.8	213.3

FIVE-YEAR FINANCIAL SUMMARY (CONTINUED)

SUMMARY OF FINANCIAL PERFORMANCE

PERFORMANCE INDICATOR

	2011	2010	2009	2008	2007
Internal Financing Ratio % = ((Net Operating Cashflow - Dividends)/Capital Expenditure)**	29.5%	23.4%	22.0%	17.5%	65.6%
Gearing Ratio % = (Total Debt/Total Assets)**	37.1%	34.3%	43.5%	36.7%	33.4%
Gearing Ratio % = (Total Debt/(Total Debt + Equity))*	45.3%	43.3%	54.1%	45.1%	41.3%
Interest Cover EBIT (Earnings Before Interest and Tax) Times = (EBIT/Net Interest Expense)**	2.0	2.4	2.4	1.9	3.0
Interest Cover (Cash) Times = (Cashflow from operations before net interest and tax payments/net interest payments)***	2.8	3.4	3.3	2.7	3.9
Return on Assets % = (Earnings Before Interest and Tax/Average Total Assets)**	4.7%	5.7%	6.0%	4.6%	6.8%
Return on Equity % = (Net Profit After Tax/Average Total Equity)**	3.8%	6.2%	6.4%	3.5%	7.2%
Return on Equity % = (Net Profit After Tax/Total Equity)*	3.6%	4.6%	6.1%	3.4%	7.1%
Cash Returns to Government \$M = (Dividends + Tax + Financial Accommodation Levy + Local Government Rates Equivalent Cash Payments)*	173.1M	175.9M	92.3M	114.6M	117.4M

Explanatory Notes:

* Performance Indicator included in Melbourne Water's Corporate Plan

** Performance Indicator mandated by the Minister for Water through Ministerial Reporting Direction 01 (Performance Reporting)

*** Performance Indicator mandated by the Minister for Water and included in Melbourne Water's Corporate Plan

During 2010/11 the Minister for Water issued Ministerial Reporting Direction 01 (Performance Reporting), which mandated the Corporation to report against a set of specific Performance Indicators. The Corporation was already reporting against a set of Board mandated financial Performance Indicators, most of which were measured on a different basis. Above is a five year summary of results for both the existing Board mandated and the new Minister for Water mandated financial Performance Indicators. Refer to the annual Performance Report at pages 102 to 110 for reporting of all 2010/11 Performance Indicators (financial and non financial) against targets with supporting explanations for any significant variations.

DIRECTORS' REPORT

Directors

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

Eleanor Underwood (Chairman)	Mary Anne Hartley	Robert Skinner (Managing Director - resigned 11 March 2011)
Merran Kelsall (Deputy Chairman)	Terry Larkins	Shaun Cox (Managing Director - appointed 8 March 2011)
Warren Hodgson	Peter Vines	
	Maria Wilton	

Particulars of the Directors' qualifications, experience and special responsibilities are set out on pages 42, 43 and 44 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:

	Board		Audit & Corporate Risk Committee		People & 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
Eleanor Underwood	11	11	5	5	4	4	2	2	2	3
Merran Kelsall	10	11	5	5	2	4	-	-	3*	3
Warren Hodgson	9	11	3	5	3	4	-	-	-	-
Mary Anne Hartley	11	11	-	-	4	4	2	2	-	-
Terry Larkins	10	11	-	-	4	4	2*	2	2	3
Peter Vines	11	11	5	5	-	-	-	-	3	3
Maria Wilton	8	11	3	5	-	-	-	-	3	3
Robert Skinner [^]	6	7	1	4	2	3	1	1	1	2
Shaun Cox ^{^^}	4	4	1	1	1	1	1	1	1	1

* Attended by invitation

[^] Resigned from the board on 11 March 2011

^{^^} Appointed to the board on 8 March 2011

DIRECTORS' REPORT (CONTINUED)

Director benefits

No Director has received or become entitled to receive a benefit (other than a benefit included in Notes 37a and 37b 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 2011 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 policy does not specify a premium for individual directors and officers.

The director and officer liability insurance policy 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 wilful breach of duty or an improper use of information or position to gain advantage.

The terms of the insurance policy 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 37a and 37b 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 \$157.8 million (2009/10: \$186.4 million). The proposed interim and final dividend in relation to the 2010/11 financial year is \$45.8 million. Based on direction from DTF there was no interim dividend paid leaving \$45.8 million final payable (2009/10: \$73.3 million interim and final payable). This final amount payable 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 recorded as a provision as at 30 June 2011.

Review of operations

The Directors' review of the Corporation's operations during the financial period ended 30 June 2011, and the results of those operations are set out in the Managing Director's overview on page 2 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 2011.

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 2010/11 Annual 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.

EPA Victoria issued a Works Approval to Melbourne Water for an upgrade to the Eastern Treatment Plant in January 2010. The upgrade will improve treatment to reduce the impact from effluent discharged at Boags Rocks and will increase opportunities for recycled water from the Plant. The upgrade is scheduled to be completed by the end of 2012.

Ramsar sites at Western Treatment Plant and Edithvale Seaford Wetlands

Melbourne Water has two sites that are listed under the Ramsar International Convention and these are broadly managed within the parameters of the Convention's "wise use" test, which aims to protect wetlands with internationally significant environmental values.

During the year the Ramsar Site Management Plan was revised for Western Treatment Plant and submitted to the Victorian Department of Sustainability and Environment and this revised Plan is being implemented as required. Improvement actions in the Compliance Plan, related to a referral under the Environment Protection and Biodiversity Conservation Act (EPBC) for Western Treatment Plant and improvements were implemented and performance against the Plan was reported as required during the year. A further referral for a Land Use Strategy at the site was a controlled action under the EPBC Act and preparation of a Compliance Plan for this started during the year. Once this Plan is approved a combined annual report will be prepared.

The Edithvale-Seaford Wetlands Ramsar site Management Plan to ensure that site activities are managed as required was implemented as required. Actions required from a referral under the EPBC Act to construct and operate a Discovery Centre at the site were also implemented in the prescribed manner.

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. Remediation works to stockpile contaminated soils and biosolids, which was required under a Works Approval from EPA Victoria were completed during the year. A final report on the extent of clean up of groundwater was submitted to the EPA Victoria for their approval. Final approval on the audit is expected in 2011/12 so that this project can be completed.

Environmental flow requirement - bulk entitlements

The Corporation manages bulk entitlements to water from the Thomson, Maribyrnong and Yarra Rivers. During 2010/11, the qualifications on environmental flow requirements due to drought conditions were removed from the Yarra and Thomson Rivers. Requirements were met for all rivers with environmental flow entitlements.

Environmental incidents

During the year, there were two incidents related to works replacing water mains. Both incidents involved the discharge of turbid water to the stormwater system with one incident incurring a Penalty Infringement Notice from the EPA Victoria.

IMPLEMENTATION OF THE VICTORIAN INDUSTRY PARTICIPATION POLICY

In accordance with the Victorian Industry Participation Policy Act 2003, the following Victorian Industry Participation Policy (VIPP) contracts commenced or were completed during the financial year 2010/11:

Contracts commenced to which the VIPP applied:

The Corporation commenced nine contracts totalling \$51.3 million in value to which VIPP applied. The total number and value of these relate to metropolitan contracts.

The commitments by contractors under VIPP included:

- An overall level of local content of 88.2 per cent of the total value of the contracts.
- 313 full time equivalent jobs.
- 11 full time equivalent apprenticeships and traineeships.
- A number of benefits to the Victorian economy in terms of skills and technology transfers were provided by contractors including:
 - Opportunities provided to subcontractors to work in partnership with the Pipelines Alliance to understand an alliance delivery contract;
 - Project specific training in new and emerging IT methodologies will be provided to contractor staff in partnership with Melbourne Water;
 - Training opportunities identified for first aid, confined space, working at heights and on plant and equipment, geomembrane welding and steel structure & roof cladding; and
 - Commitments were made to staff and apprentices for general training and skills development in green construction methodologies for a new data centre at Brooklyn Pumping Station.

Contracts completed to which the VIPP applied:

The Corporation completed eleven contracts totalling \$161.4 million in value to which VIPP applied. The total number and value of these relate to metropolitan contracts. The outcomes reported by contractors under VIPP included:

- An overall level of local content of 89.5 per cent of the total value of the contracts.
- 469 full time equivalent jobs.
- 6 full time equivalent apprenticeships and traineeships.
- All committed skills and technology transfer were achieved for these contracts. These skills included training in:
 - New skills developed in machine, mobile equipment, crane operating, operating pipe mill electronics and maintenance;
 - Employees and subcontractors developed new skills in GPS, Surveying, plant operator training including earth moving equipment and training in environmental management on site;
 - Training sessions for Melbourne Water staff on the operation and maintenance of the Mini Hydro Technology for the Sugarloaf Mini Hydro Plant. The construction of the plant promotes the generation of green electricity;
 - Operation of Tunnel Boring Machine;
 - First aid OHS, confined spaces and plant and equipment operation; and
 - Reo fixing, concrete formwork, concrete placement, concrete formwork, steel fixing and use of specialised mobile earthmoving equipment.



Eleanor Underwood
Chairman



Shaun Cox
Managing Director

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

		2011	2010
	Notes	\$000	\$000
Revenue	3(a)	975,231	848,116
Other Income	3(b)	22,077	10,255
Depreciation and amortisation expenses	4	(231,884)	(122,024)
Operational expenses	4	(111,223)	(119,514)
Employee benefits expenses	4	(75,065)	(72,504)
Repairs and maintenance expenses	4	(72,522)	(59,694)
Administrative expenses	4	(33,072)	(31,339)
Finance costs	4	(223,331)	(171,289)
Other expenses	4	(36,151)	(43,470)
Net result from continuing operations before tax expense		214,060	238,537
Tax expense	5 (a, b)	(56,218)	(52,121)
Profit for the period after tax expense	26	157,842	186,416
Other comprehensive income/(expense) net of tax			
Gain on revaluation of non-current assets	25	224,462	1,907,426
Net value (loss)/gain on cash flow hedges	25	(67)	79
Total other comprehensive income/(expense) net of tax		224,395	1,907,505
Total comprehensive income for the period after tax expense		382,237	2,093,921

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

STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	2011 \$000	2010 \$000
ASSETS			
Current assets			
Cash and cash equivalents	6, 27	1,849	154
Trade and other receivables	7(a), 27	95,959	50,706
Other current assets	8	7,739	8,072
Other financial assets	10, 27	-	1,382
Biological assets	11	1,159	3,358
		106,705	63,672
Non-current assets classified as held for sale	9	2,937	7,716
Total current assets		109,642	71,388
Non-current assets			
Property, plant and equipment	12(a)	9,625,895	8,853,912
Intangible assets	12(b)	13,056	17,009
Other receivables	13, 27	5,679	5,427
Other non-current assets	14	200	547
Total non-current assets		9,644,830	8,876,895
Total assets		9,754,472	8,948,283
LIABILITIES			
Current liabilities			
Trade and other payables	15, 27	283,865	288,847
Interest bearing liabilities	16, 27	951,780	693,930
Provisions	17, 31, 32	94,618	51,961
Other financial liabilities	18, 27	-	1,197
Current tax liability	5(c)	35,232	60,537
Total current liabilities		1,365,495	1,096,472
Non-current liabilities			
Trade and other payables	19, 27	5,475	43,504
Interest bearing liabilities	20, 27	2,666,288	2,376,768
Provisions	21, 31, 32	8,492	57,760
Net deferred tax liabilities	22	1,326,931	1,345,374
Defined superannuation benefit liability	23, 33	6,976	9,953
Total non-current liabilities		4,014,162	3,833,359
Total liabilities		5,379,657	4,929,831
Net assets		4,374,815	4,018,452
EQUITY			
Contributed equity	24	559,952	559,326
Reserves	25	2,292,504	2,069,480
Retained profits	26	1,522,359	1,389,646
Total equity		4,374,815	4,018,452

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

		Contributed Equity	Reserves	Retained Profits	Total
	Notes	\$000	\$000	\$000	\$000
Balance at 1 July 2010		559,326	2,069,480	1,389,646	4,018,452
Comprehensive income for the period					
Profit for the period after tax expense		-	-	157,842	157,842
Other comprehensive income for the period after tax expense		-	223,024	1,371	224,395
Total comprehensive income for the period	24, 25, 26	-	223,024	159,213	382,237
Transactions with equity holders in their capacity as equity holders					
Dividends paid	30	-	-	(26,500)	(26,500)
Net increase in contributed equity	24	626	-	-	626
Total transactions with owners		626	-	(26,500)	(25,874)
Balance at 30 June 2011	24, 25, 26	559,952	2,292,504	1,522,359	4,374,815
Balance at 1 July 2009		556,865	162,410	1,282,595	2,001,870
Comprehensive income for the period					
Profit for the period after tax expense		-	-	186,416	186,416
Other comprehensive income for the period after tax expense		-	1,907,070	435	1,907,505
Total comprehensive income for the period	24, 25, 26	-	1,907,070	186,851	2,093,921
Transactions with equity holders in their capacity as equity holders					
Dividends paid	30	-	-	(79,800)	(79,800)
Net increase in contributed equity	24	2,461	-	-	2,461
Total transactions with owners		2,461	-	(79,800)	(77,339)
Balance at 30 June 2010	24, 25, 26	559,326	2,069,480	1,389,646	4,018,452

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

STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

		2011	2010
	Notes	\$000	\$000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and service tax)		968,265	943,275
Payments to suppliers and employees (inclusive of goods and service tax)		(438,250)	(515,624)
Income tax paid		(116,625)	(74,107)
Interest received	3(a)	122	88
Interest and other costs of finance paid		(211,752)	(152,177)
Other receipts		64,865	101,486
Net cash inflow from operating activities	38	266,626	302,941
Cash flows from investing activities			
Payments for property, plant, equipment and works in progress		(814,280)	(955,523)
Proceeds from sales of property, plant and equipment		28,479	19,315
Net cash outflow from investing activities		(785,801)	(936,208)
Cash flows from financing activities			
Proceeds from borrowings	1(s), 2	1,394,179	1,839,321
Repayment of borrowings	1(s), 2	(846,379)	(1,125,021)
Repayments for outstanding finance lease liability		(430)	(1,245)
Dividends paid	30	(26,500)	(79,800)
Net cash inflow from financing activities		520,870	633,255
Net increase/(decrease) in cash and cash equivalents		1,695	(12)
Cash and cash equivalents at the beginning of the financial year		154	166
Cash and cash equivalents at the end of the financial year	6	1,849	154

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of Accounting*

(i) *General*

These Financial Statements of Melbourne Water Corporation ('the Corporation') represent the audited general purpose financial report that consists of a Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes accompanying these statements. This general purpose financial report complies with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, including Australia interpretations, the requirements of the *Financial Management Act 1994* and applicable Ministerial Directions. These financial statements have been prepared on accrual and going concern bases. The Financial Statements were authorised for issue by the Directors on the 19th day of August 2011.

(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(l) for a variation in relation to employee benefits, and Note 1(s) for a variation in relation to borrowings.

(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 Australian International Financial Reporting Standards (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 estimate of the fair value of infrastructure assets and defined superannuation benefit asset and employee benefit provisions. These assumptions and their related carrying amounts are discussed in Notes 1(l), 12, 17, 21, 31, 32 and 33.

(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.

Water sales and sewage disposal charges revenue is collected from the various retail water businesses.

The Essential Services Commission (ESC) regulates the prices and service standards for the provision of water and sewage services. The ESC'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 1994*.

(ii) *Waterways charges*

Waterways charges are recognised in the year for which the rate is levied. Charges are levied either quarterly or annually. Waterways charges are 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.

The ESC regulates the prices and service standards for the provision of waterways.

(iii) *Developer charges and contributions and contributed assets*

Developer charges and contributions in the form of cash are recognised when received. Developer contributed assets 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.

(iv) *Interest receivable*

Interest receivable is recognised as revenue when earned and 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 Statement of Comprehensive Income on a net basis of sale proceeds less costs.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 required conditions.

Government Grants relating to costs are included as deferred income in liabilities and are recognised in the Statement of Comprehensive Income 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 deducted in arriving at the carrying amount of the asset.

(c) Finance costs

Finance costs are recognised as expenses in the period in which they are incurred.

All qualifying assets (being assets that necessarily take a substantial period of time to get ready for their intended use or sale) are measured at fair value. Therefore, any finance costs directly attributable to the acquisition, construction or production of these qualifying assets are not required to be capitalised and will continue to be expensed 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 the Treasury Corporation of Victoria administration fee.

(d) Property, plant and equipment

(i) Recognition and measurement of assets

Property, plant and equipment represent non-current physical 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 (capitalisation threshold) and a useful life of more than one year are recognised as an asset.

All other assets acquired are expensed.

Cost includes such expenditure that is directly attributable to the acquisition of the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges relating to foreign currency purchases of non-current physical assets.

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 subsequent costs are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

(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 over the remaining life of the asset.

(iii) Valuation of non-current physical assets

All non-current physical assets are recognised initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment in accordance with the requirements of DTF's Financial Reporting Direction 103D *Non-Current Physical Assets*.

Revaluations are conducted either independently (as required under FRD103D) or using management expertise and classified as a managerial revaluation. 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. An independent valuation of the Corporation's land and buildings was performed by the Valuer General Victoria (VGV) in 2010/11 to determine the fair value of the land and buildings, in accordance with FRD 103D as explained in note 12(a)(i).

The fair value of infrastructure assets is determined using the 'income approach' (based on discounted cash flows), as explained further at Note 12 (a)(ii).

The fair value of the remaining plant and equipment (consisting of plant and equipment, leasehold improvements, fleet vehicles and works in progress) is determined based on cost less any accumulated depreciation and any accumulated impairment losses. This is deemed the most appropriate basis to approximate fair value given:

- there is no evidence that a reliable market based fair value or other relevant fair value indicators for these assets exists; and/or
- these assets are acquired and disposed of frequently, typically have short depreciable lives, and these assets are relatively low in value (with the exception of works in progress) compared to land and buildings and infrastructure assets.

(iv) Impairment

All assets are assessed for indicators of impairment on an annual basis. Such assets are tested to ascertain whether the carrying amount exceeds their recoverable amounts. At 30 June 2011, no indicators of impairment were present.

(v) 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) Non-current assets held for sale

Non-current assets that are classified as held for sale are 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 of these assets is highly probable and the assets are available for immediate sale in their present condition. These assets are not depreciated or amortised while classified as held for sale and are disclosed separately in the Statement of Financial Position.

(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 the end of each reporting period.

Major depreciation and amortisation periods used are listed below and are consistent with the prior year:

Buildings	10 to 100 years
Leasehold improvements	3 to 10 years
Plant and equipment	3 to 50 years
Infrastructure assets	3 to 200 years
Fleet vehicles	3 to 10 years
Intangible assets	3 to 5 years

f) Leased assets

(i) Finance leases

Leases of property, plant and equipment, where the Corporation substantially bears 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 Statement of Financial Position. 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 Statement of Comprehensive Income 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 leases is amortised 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 incidental to 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 Statement of Comprehensive income 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.

(iv) Leasehold improvements

Leasehold improvements are recognised at fair value less accumulated depreciation and accumulated impairment losses (as explained above in note 1(d)(iii)) 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 Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term and 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 (if applicable) are shown within interest bearing liabilities on the Statement of Financial Position.

h) Receivables

All receivables are recognised at the amounts receivable less any allowance for doubtful debts. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written-off when identified.

A provision for doubtful debts is established when there is objective evidence that the Corporation is highly unlikely 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 Statement of Comprehensive income.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Prepayments

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that accounting period.

j) Inventories

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.

k) 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 recognised as an expense in the reporting period in which it is payable and accrued in accordance with the terms and conditions of the underlying financial instruments or other contract.

l) Employee benefits

(i) Salaries and annual leave

Liabilities for salaries, including non-monetary benefits expected to be settled within 12 months of the reporting period, are recognised in employee benefit liabilities in respect of employees' services up to the end of the reporting period 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 Corporation, in respect of services rendered by employees up to the end of the reporting period. 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 period, 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 end of the reporting period. 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 the 10 year Commonwealth Government guaranteed securities as at the end of the reporting period with terms to maturity that closely match the estimated future cash outflows. Provisions made for unconditional long service leave (where the employee has a present entitlement to the benefit) are classified as a current liability. The non-current liability represents long service leave entitlements accrued for employees with less than 7 years of continuous service. Amounts expected to be paid within 12 months are measured at nominal value, and amounts expected to be paid beyond 12 months are measured at present value.

(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 Corporation's equisuper defined superannuation benefit plan is recognised in the Statement of Financial Position and is measured as the difference between the present value of employees' accrued benefits at the end of the reporting period and the net market value of the superannuation plan's assets at that date. The present value of benefits at accrued benefits is based on expected future payments which arise from membership of the plans at the end of the reporting period. Consideration is given to expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using rates of the 10 year Commonwealth Government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The amount brought to account in the Statement of Comprehensive Income in respect of superannuation represents the contributions made to the superannuation plan, adjusted by the movement in the defined benefit plan liability or asset which is determined annually by actuarial assessment.

(v) Termination benefits

Liabilities for termination benefits are recognised when the Corporation is demonstrably committed to terminating employment of current employees, according to a detailed formal plan without possibility of withdrawal. 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 end of the reporting period are measured as the estimated cash outflows, discounted using market yields at the reporting date on the 10 year Commonwealth Government bonds with terms to maturity that matches as closely as possible, the estimated future cashflows.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) Employee benefit on-costs

Employee benefit on-costs, including payroll tax and workers 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 at the end of the reporting period.

(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*. An independent actuarial assessment is obtained for outstanding claims incurred and not settled, and for claims incurred but not reported as at 30 June 2011 which are recognised as a liability. Other claims incurred and settled during the period are charged to the Statement of Comprehensive Income.

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.

Refer to note 32(i) for details of the independent actuarial assessment and bank guarantee.

(ix) Workers compensation

The Corporation continues to be liable for workers compensation claims incurred prior to the introduction of WorkCare (now WorkCover) in 1985. An independent actuarial assessment is obtained for all outstanding workers compensation claims as at 30 June 2011, which are recognised as a liability.

Refer to note 32(ii) for details of the independent actuarial assessment.

m) Taxation

The Corporation is subject to the National Tax Equivalent Regime (NTER), which is administered by the Australian Taxation Office (ATO). The essential difference between the NTER and the Commonwealth legislation is that the tax liability is paid to the State Government rather than 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. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

n) 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 year's adjusted net profit before tax. An obligation to pay a dividend only arises after consultation with the Minister for Water and the Treasurer and a formal determination is made by the Treasurer.

o) 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 Statement of Financial Position. Expenses are subsequently recognised by the Corporation when incurred by the Fund.

p) Goods and Services Tax

Revenues, expenses and assets are recognised net of goods and services tax (GST), unless GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables (including commitments) 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 Statement of Financial Position. Cash flows arising from operating activities are disclosed in the Statement of Cashflows on a gross basis (i.e. inclusive of GST).

The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO are presented as operating cash flows.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) *Intangible assets and research & development costs*

(i) *Intangible assets*

Intangible assets (primarily consisting of Information Technology software) represent identifiable non-monetary assets without physical substance. Intangible assets are measured at cost less accumulated amortisation and impairment. 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 period 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 & 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 when it is probable that the project will be completed and generate future economic benefits and its costs 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.

r) *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 the end of each reporting period. The fair value of non-trading livestock is determined by independent valuation at the end of each reporting period.

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

s) *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. Floating Rate Note (FRNs) 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 3 and 5 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 1 and 12 years (2009/10: 1 and 12 years). The overnight loan facility interest rates are floating rates that fluctuate with the cash rate.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Where the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the balance date, borrowings are classified as non-current liabilities. Otherwise, borrowings are classified as current liabilities. See Note 2 for further details on financing arrangements and risk management.

t) *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 reporting period are brought to account using the exchange rate in effect at the date of the transaction.

u) *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 Statement of Comprehensive Income.

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 the Statement of Comprehensive Income.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) 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 the end of the reporting period, 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.

Provisions for Gainshare on Capital Projects and Remediation Works are included within the cost of the non-current physical assets they are directly attributable to in accordance with criteria in note 1(d).

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

w) Commitments

Commitments (capital and other) are disclosed at their nominal value and inclusive of the GST payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated.

The Corporation assesses project costs of all commitments for inclusion in pricing submissions to the Essential Services Commission.

x) Contributed equity

Additions/disposals to net assets are designated as contributed equity when approved by the Minister for Finance and have met the requirements of FRD 119 *Contributions By Owners*. 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 2011 reporting periods. The Corporation has not and does not intend to adopt these standards early. The Corporation's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9 Financial Instruments, AASB 2009-11 and AASB 2010-7 (December 2010) Amendments to Australian Accounting Standards arising from AASB 9

The revised AASB 9 is effective for annual reporting periods commencing on or after 1 January 2013. It address the classification and measurement of financial assets. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The Corporation is currently assessing the impact and expects that it will not be significant as all financial assets are currently measured at amortised cost.

(ii) AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards arising from AASB 124

The revised AASB 124 is effective for annual reporting periods commencing on or after 1 January 2011. It provides a partial exemption from related party disclosure requirements for government-related entities, clarifies the definition of a related party. The Corporation is currently assessing the impact and expects a reduction in compulsory related party disclosures.

(iii) AASB 1053 Application of Different Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements

AASB 1053 and AASB 2010-2 are applicable to annual reporting periods commencing on or after 1 July 2013. AASB 1053 establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. AASB 2010-2 makes amendments to many Australian Accounting Standards, including Interpretations, to introduce reduced disclosure requirements to the pronouncements for application by certain types of entities. The Corporation meets the requirements for reduced disclosures. However, it does not expect any material changes as it is expected that Tier 1 will be mandated to apply.

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Principal financial instruments

The Corporation's principal financial instruments comprise of (as per Note 27):

- (i) Cash assets;
- (ii) Receivables;
- (iii) Derivatives;
- (iv) Payables;
- (v) Lease liabilities;
- (vi) Advances; and
- (vii) Borrowings.

(b) Financial risk management objectives

The objectives of the Corporation's Financial Risk Management Guidelines and Procedures are to:

- (i) Manage the daily and long term liquidity needs of the Corporation;
- (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; and
- (iv) Safeguard the organisation's financial resources by maintaining appropriate internal control over the corporate treasury functions.

These objectives are consistent with the Corporate Risk Management Policy and Framework of the Corporation, the Corporation's Commercial Management Policy, the Treasury Management Guidelines issued by the Department of Treasury and Finance and the Victorian Public Sector Debt Management Objectives.

(c) 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 11 am account) 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.

(d) 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 approved maximum borrowing of \$3,914.7 million (2009/10: \$3,456.8 million) was not exceeded at any stage throughout 2010/11.

e) Capital Management

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

There have been no changes to the strategy adopted by the Corporation to manage its finances during the year. The current gearing levels are considered appropriate given the Corporation'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
- the Corporation, with the exception of a trading account with overdraft facilities, is required to borrow exclusively with the Treasury Corporation of Victoria.

The Corporation's gearing ratio (debt/(debt+equity)) for 30 June 2011 was 45.3% (2009/10: 43.3%). The increase compared to 2009/10 is mainly attributed to increased borrowing as a result of capital expenditure on projects.

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.

2 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

f) Market risk

Market risk is the risk that changes in market prices will affect the fair value or future cash flows of the financial instruments. Market risk comprises of the Corporation's foreign exchange risk, price risk and interest rate risk. The Corporation's exposure to market risk is primarily through interest rate risk. There is insignificant exposure to foreign exchange and other price risks.

Objectives, policies and processes used to manage these risks are disclosed below.

(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\$100k (This has been increased to AUD\$1million for the 2011/12 financial year). 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 2011, 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 predominantly from liabilities bearing variable interest rates as the Corporation intends to hold fixed rate liabilities to maturity. At 30 June 2011, 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 \$4.3 million higher/lower (2009/10: \$3.7 million).

g) 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 in full and on the due date. 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. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable 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 Statement of Comprehensive Income.

As Trade Debtors are made up predominantly by the metropolitan retail water businesses, the Corporation's exposure to credit risk is minimal. These debtors are invoiced in two parts. The first part is a usage charge that is invoiced weekly and paid within seven days. The second part is an availability charge that is invoiced monthly and paid within 14 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.

h) 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 Department of Treasury and Finance (DTF) for new borrowings, borrowings to refinance maturing and non-maturing loans and temporary purpose borrowing facilities.

The Corporation's financial risk management policies are driven towards optimal utilisation of cash with all funds invested repaid in borrowings. This results in a working capital deficiency of \$1,255.6 million (2009/10: \$1,025.1 million) at the end of the reporting period. The deficiency occurs at a point in time only due to timing of revenue receipt and does not reflect the permanent situation of the Corporation. This deficiency is funded by the financing arrangement with the Treasury Corporation of Victoria and there is no reason to indicate that the Corporation cannot pay its debts as and when they fall due.

The Corporation's financial liability maturities have been disclosed in Note 27.

3 REVENUE AND OTHER INCOME

		2011	2010
	Notes	\$000	\$000
a) Revenue			
Sales revenue			
Water sales		379,702	325,463
Sewage disposal charges		308,156	249,233
Waterways charges		197,849	182,947
		885,707	757,643
Other revenue			
Developer charges and contributions		52,837	44,341
Developer contributed assets	38	23,250	21,985
Interest revenue		122	88
Biological assets		6,001	15,269
Licence fees received		2,619	2,471
Bad and doubtful debt expenses recovered		-	10
Miscellaneous		4,695	6,309
		89,524	90,473
Total revenue		975,231	848,116
b) Other income			
Defined benefit plan superannuation income	33(e)	1,040	-
Net gain on disposal of property, plant and equipment	38	16,288	2,003
Government grants*		3,211	3,928
Gain/(loss) arising from changes in fair value less estimated point of sale costs of biological assets		10	(640)
Gain arising from initial recognition of agricultural produce		1,528	4,964
Total other income		22,077	10,255
Total revenue and other income		997,308	858,371

*Government grants

Government grants of \$3.2 million (2009/10: \$3.9 million) were recognised as other income by the Corporation during 2010/11 for various projects including the \$10 million stormwater project and Water Watch program.

All conditions attached to Government grants have been satisfied prior to their recognition in the Statement of Comprehensive Income. The recognition of Government grants with unfulfilled conditions have been recognised as deferred income (included in advances within trade and other payables) in the Statement of Financial Position.

4 EXPENSES

	Notes	2011 \$000	2010 \$000
<i>Depreciation and amortisation expenses</i>			
Depreciation			
Buildings	12(c)	767	806
Leasehold improvements	12(c)	518	564
Plant and equipment	12(c)	7,756	6,728
Infrastructure assets	12(c)	213,428	106,687
Fleet vehicles	12(c)	692	94
Total depreciation		223,161	114,879
Amortisation			
Infrastructure assets under finance leases	12(c)	2,115	1,621
Intangible assets	12(d)	6,608	5,524
Total amortisation		8,723	7,145
Total depreciation and amortisation expenses	12(c)	231,884	122,024
<i>Operational expenses</i>			
Materials, chemicals and laboratory expenses		13,705	12,789
Energy expenses (including renewable energy)		23,121	20,221
Agricultural expenses		8,454	21,536
External expenses		2,923	3,954
Transport expenses		4,859	6,264
Grants and contributions expenses		11,941	11,321
External professional services expenses		10,330	9,391
Contract works		28,427	27,735
Other expenses		7,464	6,303
Total operational expenses		111,223	119,514
<i>Employee benefits expenses</i>			
Salary expenses		56,017	51,857
Post employment benefits		4,860	5,007
Annual, long service and shift leave expenses		7,242	7,655
Other employee expenses		6,946	7,985
Total employee benefits expenses		75,065	72,504
<i>Repairs and maintenance expenses</i>			
Repairs and maintenance		69,431	57,447
Information technology maintenance		3,091	2,247
Total repairs and maintenance expenses		72,522	59,694
<i>Administrative expenses</i>			
Waterways charges billings and collection		9,941	9,380
Information technology & telecommunication expenses		11,781	10,981
Legal expenses		1,071	1,678
Education and training expenses		2,912	3,123
Advertising expenses		609	1,094
Other expenses		6,758	5,083
Total administrative expenses		33,072	31,339

4 EXPENSES (CONTINUED)

	Notes	2011 \$000	2010 \$000
<i>Finance costs</i>			
Interest expense		194,530	150,942
Treasury Corporation of Victoria fees		18	40
Financial accommodation levy		28,783	20,307
Total finance costs		223,331	171,289
<i>Other expenses</i>			
Government rates and taxes (including land tax, FBT and other)		20,647	20,179
Rental and lease expenses		3,209	3,670
Bad and doubtful debt expenses		46	-
Assets written off/written down	38	10,005	14,774
Defined benefit superannuation expense	33(e)	-	3,002
Other expenses		2,244	1,845
Total other expenses		36,151	43,470
Total expenses		783,248	619,834

5 INCOME TAX

	Notes	2011 \$000	2010 \$000
<i>(a) Components of tax expense</i>			
Current tax		93,362	81,731
Deferred tax relating to temporary differences		(35,092)	(27,334)
Adjustments for current tax of prior periods		(2,052)	(2,276)
		56,218	52,121
<i>(b) Numerical reconciliation of income tax to prima facie tax payable</i>			
Profit before income tax expense		214,060	238,537
Tax at the Australian tax rate of 30% (2009/10: 30%)		64,218	71,561
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Adjustment in respect of income tax of previous year		(2,052)	(2,276)
Non assessable and non deductible for income tax purposes		(917)	420
Deductible expenses not booked		(1,226)	(16,133)
Research and development concession		(3,806)	(1,451)
Income tax as reported in the Statement of Comprehensive Income		56,218	52,121
<i>(c) Income tax (payable)/receivable</i>			
Current tax (payable)/receivable		(35,232)	(60,537)
Total income tax (payable)/receivable		(35,232)	(60,537)
<i>(d) Income tax recognised in other comprehensive income</i>			
Deferred tax arising on items recognised in other comprehensive income:			
Gain on revaluation of infrastructure assets	25	4,826	817,469
Gain on revaluation of land and buildings	25	11,844	-
Net value (loss)/gain on cash flow hedges	25	(26)	14
Total income tax recognised in other comprehensive income	22, 25	16,644	817,483

5 INCOME TAX (CONTINUED)

(e) Change in tax rate

During the 2009/10 financial year, the Australian Government announced its intention to reduce the company tax rate to 29% for the 2013-14 tax income year and to 28% from the 2014-15 tax income year. At the date of this financial report, the proposed changes have not been substantively enacted. Accordingly, any potential financial impact of these changes has not been recognised in the financial statements.

6 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Notes	2011 \$000	2010 \$000
Cash on hand		18	15
Cash at bank		1,812	139
Cash advances		19	-
Total current assets - cash and cash equivalents	27	1,849	154

7 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Notes	2011 \$000	2010 \$000
<i>(a) Current assets - Trade and other receivables</i>			
Trade debtors	27	32,690	21,233
Other receivables			
Other receivables		27,121	21,467
Other receivables - Northern Victoria Irrigation Renewal Project	28 (g)	29,300	-
Net GST receivable from the Australian Tax Office		6,895	8,007
Less: provision for impaired other receivables		(47)	(1)
	27	63,269	29,473
Total current assets - trade and other receivables		95,959	50,706

(b) Ageing Analysis of Receivables

All receivables are recognised at the amounts receivable less any allowance for impaired receivables. Collectability of receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written-off.

A provision for impaired receivables is established when there is objective evidence that the Corporation is highly unlikely 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 Statement of Comprehensive Income.

		30 June 2011					Total \$000	
		Current 0-30 days \$000	Past Due but not Impaired			Impaired \$000		
Notes		\$000	\$000	\$000	\$000	\$000	\$000	
	Receivables							
	Trade debtors	7(a)	12,786	14,358	5,526	20	-	32,690
	Other receivables	7(a), 13	26,014	7,446	14,928	20,606	(47)	68,948
	Total Receivables		38,800	21,804	20,454	20,626	(47)	101,638

7 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES (CONTINUED)

30 June 2010		Current		Past Due but not Impaired		Impaired	Total
		0-30 days	31-60 days	61-90 days	91 days +		
Notes	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Receivables							
Trade debtors	7(a)	9,916	8,733	2,487	97	-	21,233
Other receivables	7(a), 13	29,187	275	11	5,428	(1)	34,900
Total Receivables		39,103	9,008	2,498	5,525	(1)	56,133

8 CURRENT ASSETS - OTHER CURRENT ASSETS

		2011	2010
Notes		\$000	\$000
Prepayments		2,308	2,685
Stores		5,430	5,387
Total current assets - other current assets		7,739	8,072

9 CURRENT ASSETS - NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

		2011	2010
Notes		\$000	\$000
Property, plant and equipment - held for sale*		2,937	7,716
Total current assets - non-current assets classified as held for sale		2,937	7,716

* The Corporation currently holds 171 lots of land for sale as part of the Riverwalk (Western Treatment Plant) and Dandenong Treatment Plant developments. These lots were being marketed for private sale by VicUrban during the 2010/11 financial year. At 30 June 2011, these lots were still on the market and an active program is underway to locate buyers.

Of the 151 lots of surplus land recorded as held for sale at 30 June 2010, 148 were sold in the 2010/11 financial year and are no longer recorded within held for sale assets. The remaining lots were still on the market and an active program is underway to locate buyers at 30 June 2011.

10 CURRENT ASSETS - OTHER FINANCIAL ASSETS

		2011	2010
Notes		\$000	\$000
Forward foreign exchange contracts		-	1,382
Total current assets - other financial assets	27	-	1,382

In order to hedge the effect of foreign currency exchange rate movements on the fair values of assets purchased from overseas, the Corporation enters into forward exchange agreements to facilitate payments to suppliers.

These forward contracts are hedging highly probable forecast purchases. 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 2011, there were no foreign purchase payments outstanding (2009/10: three payments outstanding).

No foreign exchange gain or loss was transferred to the Statement of Comprehensive Income and a loss of \$78k (2009/10: gain of \$93k) was recognised in equity during the reporting period.

11 CURRENT AND NON-CURRENT ASSETS - BIOLOGICAL ASSETS

(a) Nature of Biological assets

The Corporation operates an agricultural trading operation (Werribee Agriculture (WAG)) managing 623 cattle (2009/10: 5,546) and 2,821 sheep (2009/10: 3,453) at 30 June 2011. This operation is based principally at the Western Treatment Plant (WTP).

In 2009/10, the Corporation and MPH Agriculture (MPH), finalised outsourcing arrangements consistent with the implementation of the Corporation's *Western Treatment Plant Land Use Strategy*. The Corporation is working collaboratively with MPH to enable a greater understanding of the site and determine the business plan best suited to the long term sustainable management of the farm. During the two year initial collaborative period (ending in April 2012), MPH will take responsibility for the operation of WAG prior to entering into a twenty year lease agreement. The first stage of the arrangements includes the sale of the Corporation's livestock, which has resulted in a significant decrease in biological assets at 30 June 2011, with the reduction of remaining livestock numbers via sale within the next 12 months.

(b) (i) Reconciliation of fair value of livestock biological assets for 2010/11

	Cattle	Sheep	Total
	\$000	\$000	\$000
Biological Assets			
Fair value at beginning of period	2,674	305	2,979
Gain arising from changes in fair value less estimated point of sale costs attributable to physical changes	962	-	962
Gain arising from changes in fair value less estimated point of sale costs attributable to price changes	38	20	58
Increases attributable to births	48	-	48
Decreases attributable to sales	(3,239)	(54)	(3,293)
Decreases attributable to death	(57)	(9)	(66)
Fair value at end of period	426	262	688

(b) (ii) Reconciliation of fair value of livestock biological assets for 2009/10

	Cattle	Sheep	Total
	\$000	\$000	\$000
Biological Assets			
Fair value at beginning of period	10,936	1,638	12,574
Increases due to purchases	288	170	458
Gain arising from changes in fair value less estimated point of sale costs attributable to physical changes	1,740	27	1,767
Loss/(gain) arising from changes in fair value less estimated point of sale costs attributable to price changes	(716)	150	(566)
Increases attributable to births	1,635	925	2,560
Decreases attributable to sales	(10,962)	(2,554)	(13,516)
Decreases attributable to death	(247)	(51)	(298)
Fair value at end of period	2,674	305	2,979

11 CURRENT AND NON-CURRENT ASSETS - BIOLOGICAL ASSETS (CONTINUED)

(c) Reconciliation of fair value of wool and hay/crops biological assets

	Notes	2011 \$000	2010 \$000
Fair value at beginning of period		379	683
Fair value less estimated point of sale costs of agricultural produce harvested during the period		518	637
Loss arising from changes in fair value less point of sale costs attributable to price changes		(48)	(74)
Decreases attributable to sales		(238)	(927)
Decreases attributable to internal consumption		(259)	-
Increases due to purchases		119	60
Fair value at end of period		471	379

(d) Representing Biological Assets:

	Notes	2011 \$000	2010 \$000
Current biological assets		1,159	3,358
Total Biological Assets		1,159	3,358

(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:

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:

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

	Notes	2011 \$000	2010 \$000
Cattle			
Trading		623	5,546
Sheep			
Trading		2,821	3,453
Total		3,444	8,999

12 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Notes	2011 \$000	2010 \$000
(a) Classes of property, plant and equipment			
Land			
Crown land at fair value		133,774	88,292
Freehold land at fair value		1,007,921	823,766
Total land	(i)	1,141,695	912,058
Buildings			
Buildings at fair value		19,575	19,523
Less: accumulated depreciation		(23)	(2,619)
Total buildings	(i)	19,552	16,904
Leasehold improvements			
Leasehold improvements at fair value		7,054	7,054
Less: accumulated depreciation		(6,761)	(6,243)
Total leasehold improvements		293	811
Plant and equipment			
Plant and equipment at fair value		67,960	65,826
Less: accumulated depreciation		(50,622)	(48,991)
Total plant and equipment		17,338	16,836
Fleet vehicles			
Fleet vehicles at fair value		4,746	1,442
Less: accumulated depreciation		(797)	(94)
Total fleet vehicles		3,949	1,348
Infrastructure assets			
Infrastructure assets at fair value		6,700,657	6,466,163
Less: accumulated depreciation		-	-
Sub total infrastructure assets		6,700,657	6,466,163
Infrastructure assets under finance lease at fair value		39,490	41,551
Less: accumulated amortisation		-	-
Sub total infrastructure assets under finance lease at fair value		39,490	41,551
Total infrastructure assets	(ii)	6,740,147	6,507,714
Capital works in progress at fair value		1,702,921	1,398,241
Total non-current assets - property, plant and equipment		9,625,895	8,853,912

(i) Valuations of land and buildings

An independent valuation of the Corporations's land and buildings was performed by the Valuer General Victoria (VGV) in 2010/11 to determine the fair value of the land and buildings, in accordance with Financial Reporting Direction 103D (Non-Current Physical Assets). The valuation, which conforms to Australian Valuation Standards, was determined by reference to recent market transactions on arm's length terms. The effective date of the revaluation was 30 June 2011.

12 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

If land and buildings were measured at historical cost, the carrying amounts would be as follows:

	Notes	2011 \$000	2010 \$000
Land		742,344	743,953
Buildings		27,239	23,575
Total		769,583	767,528

(ii) Valuations of infrastructure assets

A fair value assessment of infrastructure assets has been performed by management at 30 June 2011, using the 'income approach' (discounted cash flow) method. The discounted cash flow method estimates fair market value by discounting reliable estimates of future cash flows to their present values. An independent review of the Weighted Average Cost of Capital input into the fair value assessment was performed by Deloitte. There were no major changes to the significant assumptions used in determining fair value since 30 June 2010 as summarised below:

- Nominal after tax discount rate in the range of 6.25% to 6.5%
- Long term inflation of 2.5%
- Eight year valuation model life (based on two water plan periods, one known and one estimated)

The last independent valuation of infrastructure assets was performed at 30 June 2010 by Deloitte.

If infrastructure assets were measured at historical cost, the carrying amount would be as follows:

	Notes	2011 \$000	2010 \$000
Infrastructure assets - Owned		4,059,666	3,758,666
Infrastructure assets - Under finance lease		22,532	24,153
Total		4,082,198	3,782,819

(iii) Impairment

Property, plant and equipment is assessed for indicators of impairment on an annual basis. At 30 June 2011, no indicators of impairment were identified (30 June 2010: Nil).

(b) Intangible assets

	Notes	2011 \$000	2010 \$000
Intangible assets at cost		35,938	37,713
Less: accumulated amortisation		(22,882)	(20,704)
Total non-current assets - intangible assets		13,056	17,009

(c) (i) Reconciliation of movement in property, plant and equipment and intangible assets for 2010/11

2010/11	Crown Land at fair value \$000	Freehold land at fair value \$000	Buildings at fair value \$000	Leasehold improvements at fair value \$000	Plant and equipment at fair value \$000	Fleet Vehicles at fair value \$000	Infrastructure assets at fair value \$000	Infrastructure assets under finance lease at fair value \$000	Works in progress at fair value \$000	Total \$000	Intangible assets at cost \$000
Carrying amount at 1 July 2010	88,292	823,766	16,904	811	16,836	1,348	6,466,163	41,551	1,398,241	8,853,911	17,009
Additions	627	10,432	7,068	-	8,304	3,294	438,822	-	-	468,547	3,456
Disposals	-	(11,904)	(31)	-	(46)	-	(9,243)	(40)	-	(21,264)	(801)
Depreciation/amortisation	-	-	(767)	(518)	(7,756)	(692)	(213,428)	(2,115)	-	(225,276)	(6,608)
Transfers between classes	-	-	(2,352)	-	-	-	2,352	-	-	-	-
Decrease in assets classified as held for sale	-	4,165	-	-	-	-	-	-	-	4,165	-
Revaluation increments	44,855	181,462	-	-	-	-	15,991	94	-	242,402	-
Revaluation decrements	-	-	(1,270)	-	-	-	-	-	-	(1,270)	-
Capital expenditure	-	-	-	-	-	-	-	-	753,055	753,055	-
Capitalisation of works in progress	-	-	-	-	-	-	-	-	(448,375)	(448,375)	-
Carrying amount at 30 June 2011	133,774	1,007,921	19,552	293	17,338	3,949	6,700,657	39,490	1,702,921	9,625,895	13,056

12 NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

(c) (ii) Reconciliation of movement in property, plant and equipment and intangible assets for 2009/10

2009/10	Crown Land at fair value	Freehold land at fair value	Buildings at fair value	Leasehold improvements at fair value	Plant and equipment at fair value	Fleet Vehicles at fair value	Infrastructure assets at cost	Infrastructure assets under finance lease at cost	Works in progress at fair value	Total	Intangible assets at cost
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Carrying amount at 1 July 2009	88,293	836,276	17,035	1,375	13,886	-	3,039,059	25,774	1,267,161	5,288,859	9,072
Additions	-	4,259	890	-	9,327	1,442	840,132	-	-	856,050	13,461
Disposals	(1)	(9,667)	(215)	-	(104)	-	(13,383)	-	(1,171)	(24,541)	-
Depreciation/amortisation	-	-	(806)	(564)	(6,728)	(94)	(106,687)	(1,621)	-	(116,500)	(5,524)
Transfers between classes	-	-	-	-	455	-	(455)	-	-	-	-
Increase in assets classified as held for sale	-	(7,102)	-	-	-	-	-	-	-	(7,102)	-
Revaluation increments	-	-	-	-	-	-	2,707,497	17,398	-	2,724,895	-
Revaluation decrements	-	-	-	-	-	-	-	-	-	-	-
Capital expenditure	-	-	-	-	-	-	-	-	973,881	973,881	-
Capitalisation of works in progress	-	-	-	-	-	-	-	-	(841,630)	(841,630)	-
Carrying amount at 30 June 2010	88,292	823,766	16,904	811	16,836	1,348	6,466,163	41,551	1,398,241	8,853,912	17,009

13 NON-CURRENT ASSETS - OTHER RECEIVABLES

	Notes	2011 \$000	2010 \$000
Other receivables		61	61
Sugarloaf pipeline security deposit	13(a)	5,618	5,366
Total non-current assets - other receivables	27	5,679	5,427

(a) The Corporation was required to deposit \$5 million with the Treasury Corporation of Victoria (TCV) on 4 September 2008 as an environmental security deposit in relation to the Sugarloaf Pipeline project. This deposit is classified as non current as the security is fixed and cannot be withdrawn by the Corporation until project environmental conditions have been fulfilled satisfactorily. Interest is received at a floating rate.

14 NON-CURRENT ASSETS - OTHER NON-CURRENT ASSETS

	Notes	2011 \$000	2010 \$000
Prepayments		200	547
Total non-current assets - other non-current assets		200	547

15 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Notes	2011 \$000	2010 \$000
Creditors		29,531	45,491
Interest payable		58,498	49,349
Accruals - Other		48,780	28,885
Accruals - Capital		138,283	157,896
Advances		8,773	7,226
Total current liabilities - trade and other payables	27	283,865	288,847

16 CURRENT LIABILITIES - INTEREST BEARING LIABILITIES

		2011	2010
	Notes	\$000	\$000
* Lease liabilities	28(d)	480	430
* Borrowings		951,300	693,500
Total current liabilities - interest bearing liabilities	27	951,780	693,930

* Current interest bearing liabilities are unsecured (note - The Victorian Government does provide a guarantee to the Treasury Corporation of Victoria over its liabilities as detailed in note 2).

17 CURRENT LIABILITIES - PROVISIONS

		2011	2010
	Notes	\$000	\$000
Employee benefits	32	22,518	21,758
Insurance claims	31	415	694
Remediation works	31	514	4,643
Gainshare on capital projects	31	68,618	22,375
Other provisions	31	2,553	2,491
Total current liabilities - provisions		94,618	51,961

18 CURRENT LIABILITIES - OTHER FINANCIAL LIABILITIES

		2011	2010
	Notes	\$000	\$000
Forward foreign exchange contracts		-	1,197
Total current assets - financial assets	27	-	1,197

19 NON-CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

		2011	2010
	Notes	\$000	\$000
Creditors		53	524
Advances		5,422	3,570
Capital accruals		-	39,410
Total non-current liabilities - trade and other payables	27	5,475	43,504

20 NON-CURRENT LIABILITIES - INTEREST BEARING LIABILITIES

		2011	2010
	Notes	\$000	\$000
Lease liabilities *	28(d)	6,288	6,768
Borrowings *		2,660,000	2,370,000
Total non-current liabilities - interest bearing liabilities	27	2,666,288	2,376,768

* Non-current interest bearing liabilities are unsecured (note - The Victorian Government does provide a guarantee to the Treasury Corporation of Victoria over its liabilities as detailed in note 2).

21 NON-CURRENT LIABILITIES - PROVISIONS

		2011	2010
	Notes	\$000	\$000
Employee benefits	32	8,294	7,978
Insurance claims	31	198	396
Gainshare on capital projects	31	-	49,386
Total non-current liabilities - provisions		8,492	57,760

22 NON-CURRENT LIABILITIES - NET DEFERRED TAX LIABILITIES

		2011	2010
	Notes	\$000	\$000
The balance comprises temporary differences attributable to:			
<i>Amounts recognised in Profit or Loss</i>			
Property, plant and equipment		472,791	505,562
Employee entitlements		(7,154)	(6,818)
Developer contributions		14,545	17,205
Finance lease		2,619	2,928
Defined benefit obligation		(2,093)	(2,986)
Provisions		(2,245)	(3,118)
Revenue in advance		(2,864)	(2,121)
Other		174	210
		475,773	510,862
<i>Amounts recognised in Other Comprehensive Income</i>			
Gain on revaluation of land and buildings		28,873	17,029
Gain on revaluation of infrastructure assets		822,295	817,469
Net value (loss)/gain on cashflow hedges		(11)	14
Net deferred tax liability		1,326,930	1,345,374
<i>Movements:</i>			
Opening balance at 1 July		1,345,374	555,825
(Credited)/debited to Profit or Loss		(35,092)	(27,334)
Credited/(debited) to Other Comprehensive Income	5(d), 25	16,644	817,483
Prior year correction		4	(600)
Closing balance at 30 June		1,326,930	1,345,374
Net Deferred tax liabilities to be recovered after more than 12 months		1,333,767	1,352,892
Net Deferred tax liabilities to be recovered within 12 months		(6,837)	(7,518)
Total non-current liabilities - Deferred tax liabilities		1,326,930	1,345,374

23 NON-CURRENT LIABILITIES - DEFINED SUPERANNUATION BENEFIT LIABILITY

		2011	2010
	Notes	\$000	\$000
Defined superannuation benefit liability	33	6,976	9,953
Total non-current liabilities - defined superannuation benefit liability		6,976	9,953

24 CONTRIBUTED EQUITY

	Notes	2011 \$000	2010 \$000
Opening balance		559,326	556,865
<i>Capital transactions with the State in its capacity as owner arising from:</i>			
Adjustments relating to the transfers of Crown assets from/(to) the Government		626	2,461
Total contributed equity at the end of the year		559,952	559,326

25 RESERVES

	Notes	2011 \$000	2010 \$000
Asset revaluation reserve			
Land			
Opening balance		160,439	160,843
Revaluation increment on non-current physical assets	12(c)	226,317	-
Revaluation reserves transferred to retained profits on derecognition of asset	26	(1,363)	(404)
Increment in deferred tax on asset revaluation	22	(12,225)	-
Closing balance		373,168	160,439
Buildings			
Opening balance		1,574	1,605
Revaluation decrement on non-current physical assets	12(c)	(1,270)	-
Revaluation reserves transferred to retained profits on derecognition of asset	26	(8)	(31)
Decrement in deferred tax on asset revaluation	22	381	-
Closing balance		677	1,574
Infrastructure assets			
Opening balance		1,907,426	-
Revaluation increment on non-current physical assets	12(c)	16,085	2,724,895
Increment in deferred tax on asset revaluation	22	(4,826)	(817,469)
Closing balance		1,918,685	1,907,426
Closing balance (total asset revaluation reserve)		2,292,530	2,069,439
Summary of movements in asset revaluation reserve			
Opening balance		2,069,439	162,448
Revaluation increment on non-current physical assets		241,132	2,724,895
Revaluation reserves transferred to retained profits on derecognition of asset		(1,371)	(435)
Increment in deferred tax on asset revaluation		(16,670)	(817,469)
Closing balance (total asset revaluation reserve)		2,292,530	2,069,439

The asset revaluation reserve is used to record asset revaluation increments and decrements in the value of non-current physical assets.

Cash flow hedge reserve			
Opening balance		41	(38)
(Loss)/Gain taken to equity	10	(78)	93
Decrement/(Increment) in deferred tax on cashflow hedges	22	11	(14)
Closing balance		(26)	41

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 the year		2,292,504	2,069,480
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NOTES TO THE FINANCIAL REPORT

26 RETAINED PROFITS

	Notes	2011 \$000	2010 \$000
Retained profits at the beginning of the year		1,389,646	1,282,595
Net profit for the period after tax expense	38	157,842	186,416
Transfer from asset revaluation reserve	25	1,371	435
Dividends paid	30	(26,500)	(79,800)
Retained profits at the end of the year		1,522,359	1,389,646

27 FINANCIAL INSTRUMENTS

(a) Categorisation of financial instruments

30 June 2011	Notes	Derivative financial instruments \$000	Contractual financial assets - loans and receivables \$000	Contractual financial liabilities at amortised cost \$000	Total Carrying Amount \$000
Financial assets					
Cash	6	-	1,849	-	1,849
Trade debtors	7a	-	32,690	-	32,690
Other receivables	7a, 13	-	68,948	-	68,948
Total financial assets		-	103,487	-	103,487
Financial liabilities					
Creditors, accruals & interest payable	15, 19	-	-	(275,145)	(275,145)
Lease liabilities	16, 20	-	-	(6,768)	(6,768)
Advances	15, 19	-	-	(14,195)	(14,195)
Borrowings:					
11am Cash	16, 20	-	-	(641,300)	(641,300)
Floating rate notes	16, 20	-	-	(160,000)	(160,000)
Fixed interest	16, 20	-	-	(2,810,000)	(2,810,000)
Total financial liabilities		-	-	(3,907,408)	(3,907,408)

30 June 2010	Notes	Derivative financial instruments \$000	Contractual financial assets - loans and receivables \$000	Contractual financial liabilities at amortised cost \$000	Total Carrying Amount \$000
Financial assets					
Cash	6	-	154	-	154
Trade debtors	7a	-	21,233	-	21,233
Derivatives	10	1,382	-	-	1,382
Other receivables	7a, 13	-	34,900	-	34,900
Total financial assets		1,382	56,288	-	57,670
Financial liabilities					
Creditors, accruals & interest payable	15, 19	-	-	(321,555)	(321,555)
Lease liabilities	16, 20	-	-	(7,197)	(7,197)
Advances	15, 19	-	-	(10,797)	(10,797)
Derivatives	18	(1,197)	-	-	(1,197)
Borrowings:					
11am Cash	16, 20	-	-	(368,500)	(368,500)
Floating rate notes	16, 20	-	-	(235,000)	(235,000)
Fixed interest	16, 20	-	-	(2,460,000)	(2,460,000)
Total financial liabilities		(1,197)	-	(3,403,049)	(3,404,246)

27 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Net holding gain/(loss) on financial instruments by category

30 June 2011		Net holding gain/(loss)	Total interest income/(expense)	Fee income/(expense)	Impairment loss	Total
	Notes		\$000	\$000	\$000	\$000
Financial assets						
Financial assets - loans and receivables	4	(46)	-	-	-	(46)
Derivative financial instruments	25	(78)	-	-	-	(78)
Total financial assets		(124)	-	-	-	(124)
Financial liabilities						
Financial liabilities at amortised cost	4	-	(223,331)	-	-	(223,331)
Total financial liabilities		-	(223,331)	-	-	(223,331)

30 June 2010		Net holding gain/(loss)	Total interest income/(expense)	Fee income/(expense)	Impairment loss	Total
	Notes		\$000	\$000	\$000	\$000
Financial assets						
Financial assets - loans and receivables	3(a), 4	10	88	-	-	98
Derivative financial instruments	25	93	-	-	-	93
Total financial assets		103	88	-	-	191
Financial liabilities						
Financial liabilities at amortised cost designated at fair value	4	-	(171,289)	-	-	(171,289)
Derivative financial instruments		-	-	-	-	-
Total financial liabilities		-	(171,289)	-	-	(171,289)

(c) Interest rate exposure

At 30 June 2011, 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 2010/11, 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. Refer to Note 2(c)(iii) for more details.

27 FINANCIAL INSTRUMENTS (CONTINUED)

30 June 2011	Interest Rate Exposure					Total Carrying Amount
		Weighted average interest	Floating interest rate	Fixed interest rate	Non interest bearing	
	Notes	%	\$000	\$000	\$000	
Financial assets						
Cash	6	4.56	1,849	-	-	1,849
Trade debtors	7a		-	-	32,690	32,690
Other receivables	7a, 13	4.70	5,618	-	63,330	68,948
Total financial assets			7,467	-	96,020	103,487
Financial liabilities						
Creditors, accruals & interest payable	15, 19		-	-	(275,145)	(275,145)
Lease liabilities	16, 20	11.03	-	(6,768)	-	(6,768)
Advances	15, 19		-	-	(14,195)	(14,195)
Borrowings:						
11am Cash	16, 20	4.92	(641,300)	-	-	(641,300)
Floating rate notes	16, 20	4.74	(160,000)	-	-	(160,000)
Fixed interest	16, 20	6.09	-	(2,810,000)	-	(2,810,000)
Total financial liabilities			(801,300)	(2,816,768)	(289,340)	(3,907,408)

30 June 2010	Interest Rate Exposure					Total Carrying Amount
		Weighted average interest	Floating interest rate	Fixed interest rate	Non interest bearing	
	Notes	%	\$000	\$000	\$000	
Financial assets						
Cash	6	3.62	154	-	-	154
Trade debtors	7a		-	-	21,233	21,233
Derivatives	10	0.51	-	1,382	-	1,382
Other receivables	7a, 13	3.89	5,366	-	29,534	34,900
Total financial assets			5,520	1,382	50,767	57,670
Financial liabilities						
Creditors, accruals & interest payable	15, 19		-	-	(321,555)	(321,555)
Lease liabilities	16, 20	11.03	-	(7,197)	-	(7,197)
Advances	15, 19		-	-	(10,797)	(10,797)
Derivatives	18	0.51	-	(1,197)	-	(1,197)
Borrowings:						
11am Cash	16, 20	4.67	(368,500)	-	-	(368,500)
Floating rate notes	16, 20	4.68	(235,000)	-	-	(235,000)
Fixed interest	16, 20	6.06	-	(2,460,000)	-	(2,460,000)
Total financial liabilities			(603,500)	(2,468,395)	(332,352)	(3,404,246)

27 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Fair value

(i) Fair value measurement hierarchy

As of 1 July 2009, the Corporation adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements on financial assets and liabilities by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2), and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following tables present the Corporation's financial assets and liabilities measured and recognised at fair value at 30 June 2011.

30 June 2011		Fair value measurement at end of reporting period using:			
		Level 1	Level 2	Level 3	Total
	Notes	\$000	\$000	\$000	\$000
Financial assets					
Derivative financial instruments	10	-	-	-	-
Total		-	-	-	-
Financial liabilities					
Derivative financial instruments	18	-	-	-	-
Total		-	-	-	-

30 June 2010		Fair value measurement at end of reporting period using:			
		Level 1	Level 2	Level 3	Total
	Notes	\$000	\$000	\$000	\$000
Financial assets					
Derivative financial instruments	10	1,382	-	-	1,382
Total		1,382	-	-	1,382
Financial liabilities					
Derivative financial instruments	18	(1,197)	-	-	(1,197)
Total		(1,197)	-	-	(1,197)

27 FINANCIAL INSTRUMENTS (CONTINUED)

(iii) The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2011		2010	
	Book value \$000	Net fair value* \$000	Book value \$000	Net fair value* \$000
Financial assets				
Cash	1,849	1,849	154	154
Trade debtors	32,690	32,690	21,233	21,233
Derivatives	-	-	1,382	1,382
Other receivables	68,948	68,948	34,900	34,900
Total financial assets	103,487	103,487	57,670	57,670
Financial liabilities				
Creditors, accruals & interest payable	(275,145)	(275,145)	(321,555)	(321,555)
Lease liabilities	(6,768)	(6,768)	(7,197)	(7,197)
Advances	(14,195)	(14,195)	(10,797)	(10,797)
Derivatives	-	-	(1,197)	(1,197)
Borrowings:				
11am Cash	(641,300)	(643,462)	(368,500)	(369,700)
Floating rate notes	(160,000)	(159,876)	(235,000)	(234,600)
Fixed interest	(2,810,000)	(2,946,437)	(2,460,000)	(2,591,300)
Total financial liabilities	(3,907,408)	(4,045,883)	(3,404,246)	(3,536,346)

* 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. Derivative financial instruments are measured at fair value.

(e) Maturity Analysis of Financial Liabilities

The following table discloses the contractual maturity analysis for the Corporation's financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

30 June 2011	Total Carrying Amount \$000	Total Contractual Cashflows \$000	1 year or less \$000	1 to 5 years \$000	Over 5 years \$000
Financial liabilities					
Non-interest bearing	(289,340)	(289,340)	(283,865)	(5,475)	-
Variable rate	(801,300)	(852,902)	(756,614)	(96,289)	-
Fixed rate	(2,816,768)	(4,113,197)	(244,543)	(1,052,118)	(2,816,536)
Total financial liabilities	(3,907,408)	(5,255,439)	(1,285,021)	(1,153,882)	(2,816,536)

30 June 2010	Total Carrying Amount \$000	Total Contractual Cashflows \$000	1 year or less \$000	1 to 5 years \$000	Over 5 years \$000
Financial liabilities					
Non-interest bearing	(332,352)	(332,352)	(288,847)	(43,504)	-
Variable rate	(603,500)	(656,309)	(464,199)	(192,110)	-
Fixed rate	(2,468,395)	(3,536,941)	(266,825)	(1,045,001)	(2,225,115)
Total financial liabilities	(3,404,246)	(4,525,601)	(1,019,871)	(1,280,616)	(2,225,115)

28 COMMITMENTS

Commitments are shown inclusive of GST.

	2011	2010
	\$000	\$000
<i>(a) Capital commitments</i>		
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	236,290	310,543
Later than one year but not later than five years	46,130	109,112
Total capital commitments	282,419	419,655

Significant projects forming the capital commitments balance above include: Northern Sewerage Upgrade, Melbourne Main Sewer Replacement, Eastern Treatment Plant Tertiary Upgrade, and the remaining contribution to the Department of Sustainability & Environment (DSE) for Desalination Plant establishment costs.

(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.

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.

	2011	2010
	\$000	\$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	6,879	8,026
Later than one year but not later than five years	32,056	27,793
Later than five years	118,042	115,951
Total operating lease commitment	156,977	151,770
Lease incentives on non-cancellable operating leases included in trade creditors is as follows:	74	148
Representing operating lease liability:		
Current (part of note 15)	74	74
Non-current (part of note 19)	-	74
Total operating lease liability	74	148

(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.

	2011	2010
	\$000	\$000
Commitments for minimum lease payments in relation to non-cancellable operating leases are receivable as follows:		
Within one year	1,371	1,426
Later than one year but not later than five years	2,455	3,015
Later than five years	341	409
Total operating lease commitment	4,167	4,850

28 COMMITMENTS (CONTINUED)

(c) Smart Water Fund

The Corporation has a commitment to the Victorian Government's Smart Water Fund in the amount of \$5.2 million over the next 5 years (2009/10: \$3.0 million, 3 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 a finance lease agreement with TopAq Pty Ltd. The agreement involves the development of a water recycling project that uses effluent sourced from the Corporation's Eastern Treatment Plant and treats this effluent to produce and supply Class A Water to customers in the project area. This agreement commenced on 29 April 2005 and expires on 30 April 2020.

	2011	2010
	\$000	\$000
The carrying amount of the finance lease is:		
Commitments in relation to finance lease are payable as follows:		
Within one year	1,203	1,203
Later than one year but not later than five years	4,810	4,810
Later than five years	4,610	5,812
Minimum lease payments	10,623	11,825
Less: Future finance charges	(3,855)	(4,627)
Total finance lease liability	6,768	7,198
Representing finance lease liability:		
Current (refer to note 16)	480	430
Non-current (refer to note 20)	6,288	6,768
Total finance lease liability	6,768	7,198

(e) Other operating commitments

	2011	2010
	\$000	\$000
Total operating expenditure (excluding leases) contracted for at balance date but not provided for in the accounts is payable as follows:		
Not later than one year	11,767	13,093
Later than one year but not later than five years	11,887	18,797
Later than five years	5,275	5,275
Total other operating commitments	28,929	37,165

(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 \$24.7 million at 30 June 2011 (2009/10: \$27 million).

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.

28 COMMITMENTS (CONTINUED)

	2011	2010
	\$000	\$000
Future minimum obligations		
Fixed costs, payable within:		
Not later than one year	2,360	2,293
Later than 1 year but not later than 5 years	10,142	9,856
Later than 5 years	12,208	14,853
Total value of future minimum obligations	24,710	27,002

(g) Food Bowl Modernisation Commitment

Stage 1 of the Victorian Government's Northern Victoria Irrigation Renewal Project (NVIRP) has planned total expenditure of \$1.004 billion.

The previous Victorian Government mandated that the Corporation will contribute \$330 million (including GST) towards the total investment in the project, and an agreement has been reached for the three metropolitan retail water businesses to make direct payments to the Corporation to finance this contribution.

At 30 June 2011, \$275 million (including GST) has been invoiced by DSE to the Corporation, and accordingly the Corporation has invoiced \$275 million to the retailers. Of this \$275 million, the entire balance has been paid to DSE and \$245.7 million has been reimbursed by the retailers. A further \$14.7m has been received after 30 June 2011. The associated income and expense flows have been offset in the Statement of Comprehensive Income and the Statement of Financial Position to reflect the substance of the transaction being that the Corporation is merely a "pass through" agent.

	2011	2010
	\$000	\$000
The remaining commitment payable to DSE and correspondingly receivable from the retailers is as follows:		
Not later than one year	22,000	88,000
Later than 1 year but not later than 5 years	33,000	55,000
Total commitment	55,000	143,000

(h) Victorian Desalination Project Commitment

On 30 July 2009, the State of Victoria ('the State') through the Department of Sustainability and Environment (DSE) entered into a 30 year Project Deed with the AquaSure consortium to build and operate the desalination plant in Wonthaggi under a Public Private Partnership (PPP) arrangement, with a connection to the Melbourne Water System. Construction of the desalination plant began in September 2009. The project operation term will commence from the date of commercial acceptance, which is intended to occur by 30 June 2012.

The State has an obligation to make water security payments to the AquaSure consortium provided the plant is maintained to the appropriate standard. The water security payments comprise of an operating and maintenance component, a capital component and a finance lease component including GST, where applicable. The State also has an obligation to purchase the High Voltage Alternating Current (HVAC) transmission line assets from the AquaSure consortium.

A Statement of Obligations (SoO) was issued to Melbourne Water under section 41 of the Water Act on 26 June 2009. The SoO requires Melbourne Water to pay all costs under the Project Deed with AquaSure.

Melbourne Water is also entering into a Victorian Desalination Project 'Water Interface Agreement' (WIA) with the State to record the terms of the interface and financial arrangements between the Project and Melbourne Water.

At commencement of the desalination plant operations a lease liability will be recognised by DSE for the obligation under the Project Deed to pay water security payments to the AquaSure consortium. A corresponding lease receivable will also be recognised by DSE reflecting the sub-leasing arrangement with Melbourne Water set out under the WIA. Melbourne Water will recognise a lease liability and a leased asset under the WIA.

The desalination plant assets are intended to transfer from the State to the Corporation at the end of the project contract term presently planned for 2039.

As per information provided by DSE, subject to commercial acceptance of the desalination plant, the Corporation will recognise the following finance lease liability, and an asset of equal value:

28 COMMITMENTS (CONTINUED)

	2011	2010
	\$000	\$000
<i>(h) Victorian Desalination Project Commitment (continued)</i>		
Commitments in relation to future finance lease liabilities payable are as follows:		
Within one year	116,283	-
Later than one year but not later than five years	2,089,760	1,683,603
Later than five years	11,343,535	11,865,975
Minimum future lease payments	13,549,578	13,549,578
Less: Future finance charges	(9,437,164)	(9,437,164)
Present value of future minimum lease payments	4,112,414	4,112,414
The following expenditure commitments associated with the Victorian Desalination Project have not been recognised as liabilities in the financial statements:		
Other capital expenditure commitments:		
Not later than one year	-	-
Later than 1 year but not later than 5 years	286,652	281,282
Later than 5 years	644,269	649,639
Total other capital expenditure commitments	930,921	930,921
Other expenditure commitments - PPP operation and maintenance commitments:		
Not later than one year	11,227	-
Later than 1 year but not later than 5 years	208,355	164,672
Later than 5 years	2,039,412	2,094,322
Total other expenditure commitments	2,258,994	2,258,994

29 CONTINGENT ASSETS AND LIABILITIES

	2011	2010
Notes	\$000	\$000
<i>(a) Contingent assets</i>		
Details and estimates of maximum amounts of contingent assets for which no provision is included in the accounts, are as follows:		
Claims or possible claims by the Corporation arising out of various matters connected with the Corporation's business dealings.	17,000	-
Total contingent assets	17,000	-

	2011	2010
Notes	\$000	\$000
<i>(b) Contingent liabilities</i>		
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.	2,074	400
Possible gainshare payable by the Corporation on capital projects (not yet able to be measured with sufficient reliability as a provision)	33(iii), (v) 33,171	4,033
Total contingent liabilities	35,245	4,433

30 DIVIDENDS

	2011	2010
	Notes	\$000
Final dividend paid (relating to previous financial year)		26,500
Interim dividend paid (relating to current financial year)		-
Total dividends paid	26	26,500

The proposed interim and final dividend in relation to the 2010/11 financial year is \$45.8 million. There was no interim dividend paid this year, leaving the full amount payable (2009/10 \$73.3 million interim and final payable). This final amount payable 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 2011.

31 PROVISIONS (EXCLUDING EMPLOYEE BENEFITS)

(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 Riverwalk Estate at Werribee (2009/10: Also included provision for remediation works at 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) Gainshare on Capital Projects

The amount represents a provision for gainshare on capital projects. 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.

(iv) 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.

(v) Movements in Provisions

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

	Insurance Claims	Remediation Works	Gainshare on Capital Projects	Other Provisions	Total
	\$000	\$000	\$000	\$000	\$000
Carrying amount at 1 July 2010	1,089	4,643	71,761	2,491	79,985
Additional provisions recognised	497	-	20,604	299	21,400
Amounts utilised during the year	(973)	(4,129)	(23,747)	(237)	(29,086)
Unused amounts reversed	-	-	-	-	-
Carrying amount at 30 June 2011	613	514	68,618	2,553	72,299

	Insurance Claims	Remediation Works	Gainshare on Capital Projects	Other Provisions	Total
	\$000	\$000	\$000	\$000	\$000
Carrying amount at 1 July 2009	1,004	14,623	-	2,274	17,901
Additional provisions recognised	562	1,960	71,761	721	75,004
Amounts utilised during the year	(477)	(11,940)	-	(504)	(12,921)
Unused amounts reversed	-	-	-	-	-
Carrying amount at 30 June 2010	1,089	4,643	71,761	2,491	79,985

32 EMPLOYEE BENEFITS

	2011	2010
	\$000	\$000
Current:		
Accrued salaries (part of note 15)	2,787	2,126
Employee benefits expected to be settled within 12 months after the end of the period measured at nominal value (part of note 17)	8,003	7,895
Long service leave representing more than 7 years of continuous service measured at present value (part of note 17)	13,383	12,733
Other employee benefits (part of note 17)	1,132	1,130
Total employee current benefits liability	25,306	23,884
Non-current:		
Other employee benefits (part of note 21)	5,816	5,955
Long service leave representing less than 7 years of continuous service measured at present value (part of note 21)	2,479	2,023
Total employee non-current benefits liability	8,295	7,978
Total employee benefits liability	33,600	31,862

The aggregate employee benefit liability includes amounts for annual leave, shift leave, long-service leave, salaries, WorkCover, superannuation and termination benefits. All employees of the Corporation are entitled to superannuation benefits upon retirement, disability or death through membership of the funds disclosed in Note 33.

(i) Workcover

Based upon an independent actuarial assessment, a provision of \$5.709 million (2009/10: \$5.607 million) has been made for outstanding claims incurred and not settled, and for claims incurred but not reported at 30 June 2011.

The value of the bank guarantee to the Victorian WorkCover Authority (as part of the Corporation's WorkCover self insurance commitments) at 30 June 2011 is \$8.563 million (2009/10: \$8.411 million).

(ii) Workers Compensation

Based on an independent actuarial assessment, a provision of \$1.099 million (\$1.245 million in 2009/10) has been made for all outstanding workers compensation claims at 30 June 2011.

33 DEFINED SUPERANNUATION BENEFIT

Defined benefit superannuation

The equisuper 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.

	2011	2010
	\$000	\$000
<i>(a) Employer contributions</i>		
Employer contributions to defined contribution funds	6,296	7,273
Employer contributions to employee nominated funds	1,069	819
Total employer contributions	7,365	8,092

33 DEFINED SUPERANNUATION BENEFIT (CONTINUED)

	2011	2010
	\$000	\$000
<i>(b) Reconciliation of the Present Value of the Defined Benefit Obligation</i>		
Balance at the beginning of the year	100,174	91,327
Current service cost	2,200	2,420
Interest cost	4,268	4,580
Contributions by Plan participants	1,210	1,078
Actuarial losses	242	3,638
Benefits paid	(2,817)	(2,382)
Taxes and premiums paid	(470)	(601)
Transfers in	-	114
Present value of the defined benefit obligation at the end of the year	104,807	100,174
<i>(c) Reconciliation of the Fair Value of Plan Assets</i>		
Balance at the beginning of the year	90,221	81,396
Expected return on Plan assets	5,979	5,492
Actuarial losses	1,771	2,144
Employer contributions	1,937	2,980
Contributions by Plan participants	1,210	1,078
Benefits paid	(2,817)	(2,382)
Taxes and premiums paid	(470)	(601)
Transfers in	-	114
Fair value of Plan assets at the end of the year	97,831	90,221
<i>(d) Reconciliation of the Assets and Liabilities Recognised in the Statement of Financial Position</i>		
Present value of the defined benefit obligation	104,807	100,174
Less: fair value of Plan assets	(97,831)	(90,221)
*Net superannuation liability/(asset)	6,976	9,953

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 2010/11 (2009/10: 9.0 per cent).

* The Corporation has recognised a liability in the Statement of Financial Position in respect of its defined superannuation benefit arrangements at 30 June 2011 (2009/10: liability). 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. If a deficit exists in the Plan, the Corporation may be required to increase the required contribution rate, depending on the advice of the Plan's actuary consistent with the Plan's deed. The Corporation elected to do this during 2009/10 year with an increase in the contributions made. There have been no further increases in contributions during the year ended 30 June 2011.

33 DEFINED SUPERANNUATION BENEFIT (CONTINUED)

	2011	2010
	\$000	\$000
<i>(e) Expense Recognised in the Statement of Comprehensive Income</i>		
Service cost	2,200	2,420
Interest cost	4,268	4,580
Expected return on Plan assets	(5,979)	(5,492)
Actuarial (gain)/loss recognised in year	(1,529)	1,494
Total superannuation expense/(income) (Note 3 & 4)	(1,040)	3,002
<i>(f) Categories of Plan assets</i>		
The percentage invested in each asset class at the Statement of Financial Position date was:		
Australian Equity	35%	37%
International Equity	27%	25%
Fixed Income	12%	13%
Property	10%	10%
Alternatives/Other	10%	9%
Cash	6%	6%
Total	100%	100%

(g) 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.

(h) 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.

	2011	2010
	\$000	\$000
<i>(i) Actual return on Plan assets</i>	7,750	7,636
<i>(j) Principal Actuarial Assumptions at the Balance Sheet Date</i>		
Discount rate (active members)	4.5% pa	4.6% pa
Discount rate (pensioners)	4.9% pa	5.1% 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	5.0% pa	5.0% pa
Expected pension increase rate	3.0% pa	3.0% pa

33 DEFINED SUPERANNUATION BENEFIT (CONTINUED)

	2011	2010	2009	2008
	\$000	\$000	\$000	\$000
<i>(k) Historical Information</i>				
Present value of defined benefit obligation	104,807	100,174	91,327	76,509
Less: fair value of Plan assets	(97,831)	(90,221)	(81,396)	(89,678)
(Surplus)/deficit in Plan	6,976	9,953	9,931	(13,169)
Experience adjustments (gain)/loss - Plan assets	(1,771)	(2,144)	13,133	13,727
Experience adjustments (gain)/loss - Plan liabilities	(159)	(1,337)	5,124	6,227

(l) Expected Contributions

Expected employer contributions for defined benefit members during the financial year ending 30 June 2012 are expected to be \$1.72 million.

34 RELATED PARTY TRANSACTIONS

(a) Parent entities

DSE leads and directs the Corporation in the implementation of the framework for achieving the Victorian Government'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, with which the Corporation is required to comply. DTF is responsible for protecting the shareholder's interest in respect of corporate business plans and capital project approvals above \$50 million (2009/10: \$50 million). DTF also collects income taxes and dividend payments from the Corporation.

(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, South East Water, Yarra Valley Water, Western Water, Gippsland Water, Southern Rural Water and Barwon Water

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

Environment Protection Authority Victoria

The Environment Protection Authority Victoria (EPAV) 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. EPAV 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 EPAV 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 (TCV) provides financial accommodation (loans to the Corporation), executes financial arrangements (derivatives) and provides/arranges the provision of financial services to the Corporation. Any investments above \$2million are also required to be invested with TCV.

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, surplus land at Werribee Treatment Plant and developer works.

Sustainability Victoria

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

34 RELATED PARTY TRANSACTIONS (CONTINUED)

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 contributes to and influences the development and implementation of Government policies relating to water and wastewater services within Victoria.

	Notes	2011 \$000	2010 \$000
<i>(d) Transactions with related parties</i>			
Receipts from related parties			
Department of Sustainability and Environment		3,321	3,533
Other related parties			
City West Water Ltd		248,924	219,026
South East Water Ltd		353,737	306,775
Yarra Valley Water Ltd		357,401	315,960
Western Water		9,227	8,714
Southern Rural Water		552	2,186
Gippsland Water		50	9
Victorian Urban Development Authority		33,462	11,349
Vic Roads		541	26
Payments to related parties			
Department of Sustainability and Environment		103,476	141,662
Department of Treasury and Finance		176,021	117,355
Department of Primary Industries		677	687
Other related parties			
City West Water Ltd		3,784	3,280
South East Water Ltd		5,547	4,421
Yarra Valley Water Ltd		4,296	5,569
Western Water		132	142
State Revenue Office		18,429	22,647
Environment Protection Authority Victoria		924	1,010
Treasury Corporation of Victoria		136,050	101,633
Victorian Urban Development Authority		41,752	14,156
Sustainability Victoria		10	9
Parks Victoria		56	444
Vic Roads		1,472	2,102
VicWater		66	63
Southern Rural Water		57	64
Dividend expense			
Department of Treasury and Finance	26, 30	26,500	79,800
Equity contributions (transfer of crown land)			
Department of Sustainability and Environment	24	626	2,461

34 RELATED PARTY TRANSACTIONS (CONTINUED)

	2011	2010
Notes	\$000	\$000
<i>(e) Outstanding balances arising from sales/purchases of goods and services</i>		
The following balances are outstanding at the reporting date in relation to transactions with related parties:		
Current receivables		
Department of Sustainability and Environment	-	314
Other related parties		
City West Water Ltd	21,810	6,231
South East Water Ltd	8,909	7,894
Yarra Valley Water Ltd	32,529	6,902
Western Water	261	677
Southern Rural Water	-	4
Environment Protection Authority Victoria	642	898
Treasury Corporation of Victoria	5,619	5,366
Victorian Urban Development Authority	10	-
Westernport Water	-	11
Barwon Water	-	3
Central Highlands Water	-	25
Current payables		
Department of Sustainability and Environment	43,704	43,966
Department of Treasury and Finance	-	5,878
Department of Primary Industry	-	152
Other related parties		
City West Water Ltd	-	31
South East Water Ltd	937	587
Yarra Valley Water Ltd	-	285
Western Water	28	-
State Revenue Office	9,167	3,319
Treasury Corporation of Victoria	15, 16	1,009,798
Southern Rural Water	-	7
Parks Victoria	7	11
Sustainability Victoria	-	10
Victorian Urban Development Authority	10,242	8,699
Non current payables		
Department of Sustainability and Environment	-	43,351
Treasury Corporation of Victoria	20	2,660,000
Other related parties	-	-

(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 the Minister for Water.

Transactions relating to equity contributions are determined by the DSE 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 and non-current payables, current receivables and borrowings.

35 RESPONSIBLE PERSONS DISCLOSURES

(a) Responsible persons

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

- The Hon. Timothy Holding MP, Minister for Water (1 July 2010 to 2 December 2010)
- The Hon. Peter Walsh MP, Minister for Water (2 December 2010 to 30 June 2011)
- Board Members:

Chairman	Eleanor Underwood	1 July 2010 to 30 June 2011
Deputy Chairman	Merran Kelsall	1 July 2010 to 30 June 2011
Director	Warren Hodgson	1 July 2010 to 30 June 2011
Director	Mary Anne Hartley	1 July 2010 to 30 June 2011
Director	Terry Larkins	1 July 2010 to 30 June 2011
Director	Peter Vines	1 July 2010 to 30 June 2011
Director	Maria Wilton	1 July 2010 to 30 June 2011
Managing Director	Rob Skinner	1 July 2010 to 11 March 2011
Managing Director	Shaun Cox	8 March 2011 to 30 June 2011

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 Parliament completes.

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

Income Band (\$)	Total Remuneration	
	2011	2010
	Number	Number
10,000 - 19,999	-	3
20,000 - 29,999	-	1
30,000 - 39,999	-	1
40,000 - 49,999	6	4
70,000 - 79,999	-	1
90,000 - 99,999	1	-
100,000 - 109,999	1	-
370,000 - 379,999	1	-
410,000 - 419,999	-	1
Total numbers	9	11

	\$000	\$000
Total amount	865	784

35 RESPONSIBLE PERSONS DISCLOSURES (CONTINUED)

(b) 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:

	2011	2010
	\$000	\$000
(i) A Director, Terry Larkins, is the Chairman of Western Water and a Director at 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:	9,227	8,714
Total payments made to Western Water were:	132	142
Total revenue received from VicWater was:	-	-
Total payments made to VicWater were:	66	63
(ii) The Deputy Chairman, Merran Kelsall, was the Chairman of the audit committee of Darebin City Council, which provides local government for a large municipality north of the central business district and a Director of the Royal Automobile Association of Victoria (RACV). Merran Kelsall is also the Chair of the risk and audit committee of the Environment Protection Authority Victoria (EPAV) and a member of the audit committee of the Department of Business and Innovation (DBI). All dealings with this agency were on normal terms and conditions during the reporting period. All dealings with these organisations were on normal terms and conditions during the reporting period.		
Total revenue received from Darebin City Council was:	1	2
Total payments made to Darebin City Council were:	3	184
Total revenue received from RACV was:	-	1
Total payments made to RACV were:	33	67
Total revenue received from EPAV was:	-	-
Total payments made to EPAV were:	924	1,010
Total revenue received from DBI was:	-	220
Total payments made to DBI were:	-	-
(iii) The Managing Director, Shaun Cox and the previous Managing Director, Robert Skinner (resigned 11 March 2011), are Directors of Water Services Association Of Australia (WSAA). WSAA provides water and wastewater services to approximately 16 million Australians and many of Australia's largest industrial and commercial enterprises. All dealings with this agency were on normal terms and conditions during the reporting period.		
Total revenue received from WSAA was:	-	-
Total payments made to WSAA were:	254	251

- All other transactions with related party entities were made on normal terms and conditions during the financial year.

36 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:

(Total remuneration is inclusive of bonus payments, long-service leave payments, redundancy payments and retirement benefits paid and payable. Base remuneration excludes these components).

Income Band (\$)	Total Remuneration		Base Remuneration	
	2011	2010	2011	2010
	Number	Number	Number	Number
100,000 - 109,999	-	-	-	1
110,000 - 119,999	-	-	-	-
120,000 - 129,999	-	-	1	1
130,000 - 139,999	-	2	3	4
140,000 - 149,999	3	1	9	8
150,000 - 159,999	4	3	8	10
160,000 - 169,999	5	5	5	3
170,000 - 179,999	9	10	2	3
180,000 - 189,999	5	3	7	1
190,000 - 199,999	2	5	-	-
200,000 - 209,999	7	1	3	2
210,000 - 219,999	-	1	-	1
220,000 - 229,999	-	1	2	1
230,000 - 239,999	3	1	-	3
240,000 - 249,999	-	1	4	1
250,000 - 259,999	2	1	-	-
260,000 - 269,999	-	-	-	-
270,000 - 279,999	-	3	-	-
280,000 - 289,999	4	1	-	-
290,000 - 299,999	-	-	-	1
300,000 - 309,999	-	-	1	-
330,000 - 339,999	-	1	-	-
340,000 - 349,999	1	-	-	-
Total numbers	45	40	45	40

	\$000	\$000	\$000	\$000
Total amount	8,719	7,797	7,906	6,803

37 KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel (as defined in AASB 124 *Related Party Disclosures*) includes the Managing Director and 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.

	2011	2010
	\$000	\$000
Short-term employment benefits	2,715	2,598
Post-employment benefits	-	-
Other long-term benefits*	527	489
Termination benefits	-	-
Share-based payment	-	-
Total amount	3,242	3,087

	Number	Number
Total numbers	9	9

* Other long-term benefits represents long service leave.

38 RECONCILIATION OF NET CASH PROVIDED FROM OPERATING ACTIVITIES TO NET PROFIT

		2011	2010
	Notes	\$000	\$000
Profit for the period	26	157,842	186,416
Plus/(less) non cash and investing items:			
Depreciation	4	231,884	122,024
Net (gain)/loss on sale of non-current assets	3(b)	(16,288)	(2,003)
Assets written off/written down	4	10,005	14,774
Developer contributed assets	3(a)	(23,250)	(21,985)
Changes in operating assets and liabilities (net of investing items):			
(Increase)/decrease in trade and other receivables		(45,839)	26,340
Decrease in other assets		4,264	9,455
Increase/(decrease) in provision for impaired receivables	7(a)	46	(10)
Increase/(decrease) in trade and other payables		16,011	(3,940)
Decrease in provisions		(3,468)	(6,166)
(Decrease)/increase in other liabilities	18	(1,197)	1,197
(Decrease)/increase in current tax liability	5(c)	(25,305)	4,737
Net movement in defined benefit liability	33	(2,977)	22
Decrease in deferred tax liabilities	22	(35,102)	(27,920)
Net cash provided by operating activities		266,626	302,941

39 REMUNERATION OF AUDITORS

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

	2011	2010
	\$000	\$000
Audit of financial report	146	143
Other work performed	48	35
Total amount paid/payable	194	178

40 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.

MELBOURNE WATER CORPORATION

STATEMENT BY DIRECTORS AND CHIEF FINANCE OFFICER

We certify the attached Financial Statements for Melbourne Water Corporation have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Australian Accounting Standards, Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes to and forming part of the Financial Statements, presents fairly the financial transactions during the year ended 30 June 2011 and the financial position of the Corporation as at 30 June 2011.

We are not aware of any circumstance which would render any particulars included in the Financial Statements to be misleading or inaccurate.

Dated at Melbourne on this 19th day of August 2011.

On behalf of the Board:



Eleanor Underwood
Chairman



Shaun Cox
Managing Director



Malcolm Haynes
Chief Finance Officer



Victorian Auditor-General's Office

INDEPENDENT AUDITOR'S REPORT

To the Board Members, Melbourne Water Corporation

The Financial Report

The accompanying financial report for the year ended 30 June 2011 of the Melbourne Water Corporation which comprises the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, notes comprising a summary of significant accounting policies and other explanatory information, and the 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 fair presentation of the financial report in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board Members determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Independence

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

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Auditing in the Public Interest

VAGO

Victorian Auditor-General's Office

Independent Auditor's Report (continued)

Opinion

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

Matters Relating to the Electronic Publication of the Audited Financial Report

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

MELBOURNE
22 August 2011


for
D D R Pearson
Auditor-General

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Auditing in the Public Interest