SPIRIT OF TASMANIA

TT-LINE COMPANY PTY LTD
ANNUAL REPORT
2008-2009

It's our people who make the difference.

Contents

Company vision

TT-Line Company Pty Ltd (TT-Line) aims to deliver an unparalleled and unique sea transport service across Bass Strait.

Company mission

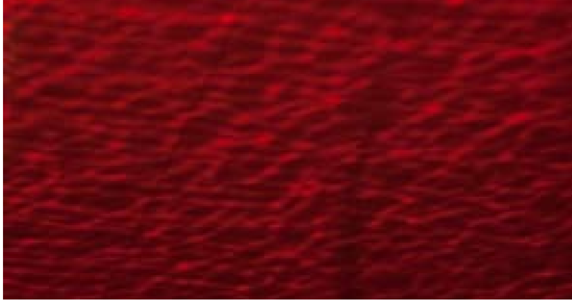
A blue water service built on a reputation for excellence in safety, reliability and exceptional passenger and freight services.

Business objectives

TT-Line will manage and facilitate the operation of a shipping service to and from Tasmania, in a manner that is consistent with sound commercial practice.

TT-Line will endeavour to do this through the provision of passenger and freight services on the Devonport to Melbourne Bass Strait route and through the operation of the Edgewater Hotel in Devonport.


The TT-Line Company Pty Ltd Board, from left, Michael Grainger, Simon Currant, CEO Charles Griplas, Anthony Tobin, Chairman Denis Rogers AO, Dr Jeffrey Hawkins, Jayne Wilson and Rodney Chadwick



Report from the Chairman

There is no question that the 2008/09 financial year was a challenging period for TT-Line Company Pty Ltd.

Despite the difficulties associated with managing a business through the global economic crisis, the number of passengers carried by our vessels increased, as did the number of passenger vehicles transported (refer CEO's report for detail).

Freight units carried for the year remained steady.

As a result of this strong performance during a down market, total revenue increased from $166.9 million in 2007/08 to $175.6 million this financial year, and TT-Line's underlying operational profit totalled $6.7 million (compared to $13.6 million in 2007/08).

However, because of taxation issues associated with the annual revaluation of *Spirit of Tasmania I* and *II* and bunker fuel hedge liabilities, the Company recorded an after-tax loss of $2.4 million ($16.5 million profit in 2007/08).

This resulted in a book tax expense of $8.3 million. It is important to note that this tax expense is a non-cash item and has not impacted on the Company's cash flow.

The Company met its debt reduction strategy payment of $25 million. A further $25 million will be paid in the 2009/10 financial year, with the Company expecting to be debt free by the end of 2010/11. As I noted last year in the Company's Annual Report, one of our priorities was to further reduce debt and strengthen our overall financial position as we continue to work towards replacement of the two Spirits around 2017. I am pleased to report that we have satisfactorily met this obligation.

As the CEO notes in his message, *Spirit of Tasmania II* was dry docked for scheduled maintenance and marine safety inspection during 2008/09. TT-Line is a member of the Federal Government's Greenhouse Challenge Program and it is therefore pleasing to note that the work undertaken on *Spirit II* will save fuel and contribute to a reduction in greenhouse gas emissions.

While the safe operations of *Spirits I* and *II* are also covered in the CEO report, it is appropriate that I mention here that safety is a major agenda item for the Board. Safety is obviously critically important for our passengers and crew, and is an issue that we consider very seriously at our monthly meetings.

The performance of CEO Charles Griplas, the senior management team, all employees and crew has been excellent. The Board is particularly pleased at the innovative approach Charles and his team applied to managing and marketing the business in a very challenging period.

The Board is also very pleased at the positive responses our activities in Tasmania generate from tourism and hospitality industry representatives. TT-Line has a close working relationship with Tourism Tasmania and the tourism sector, and this will continue in 2009/10.

Equally, our competitive advantage in the Bass Strait freight market has allowed us to develop strong partnerships with our customers, and continues to be an important component of our business.

Finally, I would like to note the contribution of Minister for Infrastructure Graeme Sturges, the Minister responsible for TT-Line. Senior management representatives and I regularly met with the Minister through the year. His ongoing support has been an important factor in the Company's operations in 2008/09.

Denis W Rogers AO
Chairman

Report from the Chief Executive

As foreshadowed in the Company's 2007/08 Annual Report, this financial year presented the Company with a number of challenges.

The year started with further fuel price increases (on top of fuel price increases of more than 50 per cent in 2007/08), a global financial crisis that impacted on the global and national tourism sector, heavily discounted fares from the low-cost airlines and the swine flu outbreak.

Despite these challenges, during the financial year covered by this Annual Report, total revenue was $175.6 million up from $166.9 million.

Terminal services checked in 390,746 passengers (385,028 passengers in 2007/08), 182,595 passenger vehicles (177,265) and 85,288 units of freight (85,594).

The growth in passenger numbers is a particularly pleasing result given the volatile economic conditions and weak consumer sentiment.

While the various issues outlined presented their own set of unique difficulties, I am pleased to report that the work we undertook this financial year in preparation for a difficult 2009/10 places us in a strong position to manage these challenges and provide for predictability and more certainty.

At the same time the management team has been working on a number of other projects to ensure the Company's long-term commercial viability.

These include changes to improve the passenger disembarkation process, adjustments to arrival and departure times in Devonport and Melbourne, additional day sailings to meet demand at busy times throughout the year and the introduction of a new booking system.

There is no question that TT-Line is a key member of the Tasmanian tourism industry. Importantly, we are strongly committed to the industry in the State.

The Company is also a key player in the freight market. For example, the

Spirit vessels transport large quantities of perishable fruit and vegetables from the State's north-west coast to markets interstate on a daily basis.

Indeed, we have multiple responsibilities as a blue water carrier to a wide range of stakeholders.

And we are working hard to meet their requirements because we understand the critical role we have to play if they are to be successful.

People

People, managing change and our corporate culture are key drivers for the success of our business.

TT-Line created the important position of General Manager – Human Resources in 2008/09 as part of the senior management team (this new position is reflected in the Key Management personnel note in the financial statements).

The organisation conducted its full employee survey in 2008 which delivered valuable feedback to the executive team. This is being repeated in 2009.

In the second half of 2008/09, TT-Line employees were asked for their opinions about the values they wanted for the business. About 180 employees participated in 20 review sessions to establish these.

The top five values identified were:

- Integrity (includes fairness, equality, respect, trust)
- Quality
- Communication
- Recognition
- Financial responsibility.

This is an excellent start. The values will evolve over the next five years and will underpin the way we communicate, engage the organisation and interact with our customers and stakeholders.

It is pleasing to be able to report that independent research undertaken by the Company revealed that 93 per cent of passengers described their overall satisfaction of travelling on a *Spirit of Tasmania* vessel as either excellent or good.

The same percentage of passengers said their expectations were either exceeded or met, while a record 95 per cent of day passengers and 94 per cent of night passengers said they would travel on *Spirit of Tasmania* again. The survey also revealed the maintenance of high check-in and disembarkation standards. Satisfaction with the overall booking experience was maintained at the same high levels as previous years.

These customer satisfaction results are a credit to the entire organisation, and prove all members of the *Spirit of Tasmania* team not only take enormous pride in their jobs but also work hard to reach the high levels of customer services and excellence required to be successful.

Community support

TT-Line is a strong supporter of various Tasmanian-based organisations, initiatives and charities.

The Company sponsored the Spirit of Tasmania Award as part of the Southern Cross Young Achiever Awards in 2008 for the fourth year in succession.

This latest award was presented to 22-year-old Josh Sutton, head chef at Essence Food and Wine in Devonport. Josh's priority to use and source locally grown Tasmanian produce so that farmers and the north-west coast community benefit are admirable aims and sit comfortably alongside Spirit of Tasmania's approach to business.

TT-Line again presented the Spirit of Tasmania Postgraduate Prize at the Australian Maritime College (AMC) and awarded scholarships to two Drysdale Institute of TAFE hospitality and tourism students to help them continue their studies at the University of Tasmania (UTAS).

Craig Eastaugh, who is undertaking study in Master of Maritime and Logistics Management at the AMC, was the recipient of the 2008 postgraduate prize, while Bianca Perriman and Charles Renner, who recently completed their Advanced Diplomas of Hospitality/Tourism Management, have received financial support from TT-Line to study Bachelor of Business Administration in hospitality or tourism at UTAS.

As widely reported, a series of fatal bushfires burnt across Victoria in February and March 2009 during extreme bushfire weather conditions. To assist the Victorian fire fighting effort at that time, the *Spirits* transported 50 Tasmanian emergency service vehicles and more than 90 fire fighters at no cost.

A TT-Line employee work safety initiative raised $1000 for Gran's Van, a charity that serves food to Devonport's underprivileged, and $1000 for RDA Kalang, a not-for-profit organisation that provides horse riding and carriage driving opportunities for people of all ages with a disability. Employees also assisted the Australian Red Cross and donated blood on World Blood Donor Day (14 June).

Four families travelled on board *Spirit of Tasmania* through the Starlight Children Foundation program. They included five-year-old Paige Holland, who travelled to Melbourne for open heart surgery, and 11-year-old Daniel Morgan, who suffers from retinal dystrophy, who wanted to travel to Tasmania via Bass Strait.

TT-Line is a major supporter of the Tourism Industry Council of Tasmania. This support assists with the organisation's administration and staging of the Tasmanian Tourism Awards.

Environment

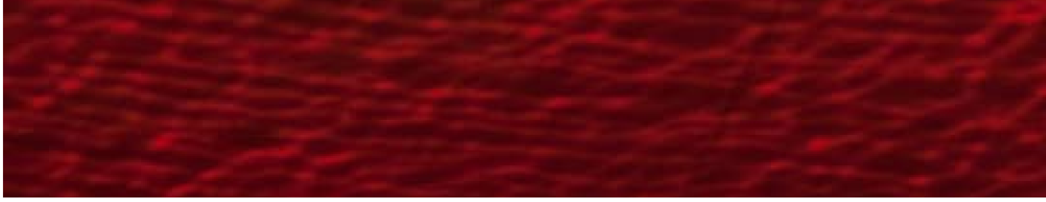
During the July/August 2008 dry docking of *Spirit of Tasmania II* (the vessels are dry docked every two years for scheduled maintenance and marine safety inspection), the vessel underwent extensive external cleaning and mechanical upgrades that contributed to a fuel saving and reduction in greenhouse gas emissions.

Underwater paint coatings were removed and replaced with a smooth silicon paint that has delivered an annual reduction in fuel consumption.

Eight new super polished propeller blades, featuring a new speed optimisation design, were also fitted to provide the ship with a further fuel saving.

TT-Line continued its work as a member of the Federal Government's Greenhouse Challenge Program in 2008/09. Through the program the Company monitors its greenhouse gas emissions.

While TT-Line recycles waste in its terminals and offices, it has trialled paper recycling on board its vessels. If successful, consideration will be given to expanding on-board recycling to glass, plastic, aluminium and milk cartons.



Brand

Independent research conducted for the Company found that Spirit of Tasmania continued as the dominant brand for travel to Tasmania for interstate-based travellers.

It also found that Spirit of Tasmania continued to have the highest advertising recall for travel between Victoria and Tasmania.

The research revealed TT-Line's increased number of sales and promotions in 2008/09 impacted positively on its brand. Relative to its competitors, TT-Line strengthened in the attributes of "innovation" and "good promotions/deals".

Retail promotions delivered strong results in 2008/09.

The various day sailing promotions delivered a 23 per cent increase in bookings compared to the previous year's promotion. An additional fare was offered during this period to increase bookings on night sailings. Together these discounted fares on day and night sailings between October 2008 and April 2009 delivered a 139 per cent passenger growth on the previous year.

The Spirit of Tasmania website received 1.19 million visits in 2008/09 – a three per cent increase compared to the previous financial year.

In November 2008, two new sections were added to the *Spirit of Tasmania* website - Visit Tasmania and Visit Victoria. The new sections contain event and regional information and the facility to book accommodation.

Nearly 525,000 direct mail pieces were distributed to past and prospective customers.

The execution of direct marketing campaigns resulted in 9,405 bookings resulting in 24,617 passenger legs.

An open day weekend in Melbourne proved to be a successful initiative, attended by nearly 8,000 people. More than 50 Tasmanian tourist operators participated in the open day

The Company was represented at more than 40 consumer and trade shows through 2008/09, attended by more than 1.2 million consumers.

Safety and reliability

The Marine Operations department, responsible for safety and technical services, oversees and audits all aspects of ship operations under the International Safety Management code.

This included the three-week dry dock of *Spirit of Tasmania II* at Garden Island in Sydney in July and August 2008.

During the dry dock period inspections were conducted and an overhaul of the shipside valves, rudders, side thrusters, stabiliser fins, anchors and cables was completed to ensure the ongoing reliable operation of the vessel.

Also, state-of-the-art navigation equipment was installed on the bridge and new floor coverings and upholstery installed on decks seven and eight.

As mentioned earlier, the outbreak of swine flu in Australia was one of a number of challenges faced by the Company in 2008/09. Swine flu defence initiatives implemented by TT-Line clearly demonstrated the Company's ability to work closely with various government departments to form part of the front line defence for Tasmania.

An exhaustive review of muster and evacuation procedures was undertaken in close association with the Australian Maritime Safety Authority.

It is pleasing to be able to report that *Spirit of Tasmania* vessels maintained a perfect record in respect to schedules in 2008/09, never missing a sailing and completing every voyage.

The Company recorded no major work-related injuries at sea. This is obviously a good result when you consider the size of the seagoing workforce, the various departments involved and the "unstable platform" created by Bass Strait and, at times, adverse weather.

Hospitality

The global financial crisis forced all businesses, including TT-Line, to look very closely at all aspects of its operations.

Taking into account the importance of customer satisfaction to the success of any service organisation, TT-Line increased its investment in professional development for its employees.

In early 2008, the Drysdale Institute, as it was then known, and TT-Line management jointly developed an extensive training program for all hospitality employees to ensure the Company offered the highest possible level of service and product delivery.

During 2008/09, 169 cooks, stewards, pursers and shipboard managers participated in the Spirit of Service program, which covered a range of training modules including food and beverage service and management skills.

The TT-Line-owned Edgewater Hotel, which features 42 rooms, a restaurant, two bars, gaming facilities and function rooms, achieved record occupancies and revenues in 2008/09.

Innovative packaging of travel product, careful monitoring of expenses and a commitment to continuous product improvement by the Edgewater team have been critical factors in the success of the business over the past 12 months.

This positive approach helped the Edgewater to withstand the impact of the economic downturn and the business is in an excellent position to take full advantage of future improvements in the market.

Charles Griplas

Chief Executive Officer

Vessel fleet

Spirit of Tasmania Facts

Spirit of Tasmania I and *II* were built in 1998 by Kvaerner Masa-Yards in Finland. They have a displacement weight of almost 30,000 tonnes and a length of 194.3 metres.

Spirit of Tasmania I and *II* cross Bass Strait at a cruising speed of 27 knots which is the equivalent of 50 kilometres per hour. The 429 kilometre voyage across Bass Strait is roughly twice the distance by road between Devonport and Strahan, on Tasmania's west coast.

Stretched end-to-end, the vehicle lanes on each ship would be almost two kilometres long!

Operator	TT-Line Company Pty Ltd
Builder	Kvaerner Masa-Yards of Finland
Year built	1998
Ship type	Roll-On/Roll-Off passenger and freight vessel
Class	American Bureau of Shipping
Overall length	194.3m
Overall width	25.0m
Gross tonnage	29,338 tonnes
First commercial crossing	1 September 2002
Average speed	27 knots
Crossing time	9-11 hours (approx.)
Total berths	748
Number of cabins (all with bathroom facilities)	222
Ocean View Recliners	146
Vehicle lane metres	2,565 metres
Distance from port to port	232 nautical miles (429 kilometres)
Distance from head to head	190 nautical miles (352 kilometres)
Distance from Station Pier to head	42 nautical miles (77 kilometres)

Note: A knot equals 1 nautical mile per hour. A nautical mile equals 6080 feet, 1852 metres or 1.85 kilometres.

Explanation of the numbers statement - unaudited

for year ended 30 June 2009

	Jun-09 $'000	Jun-08 $'000
Revenue from operations		
Devonport - Melbourne	172,990	164,351
Other Revenue	3,050	2,869
	176,040	167,220
Expenses from operations		
Devonport - Melbourne	(147,675)	(132,134)
Other expenses	(2,924)	(2,780)
	(150,599)	(134,914)
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	25,441	32,306
Depreciation and Amortisation		
Devonport - Melbourne	(14,451)	(13,348)
Other	(197)	(178)
	(14,648)	(13,526)
Earnings before Interest and Tax (EBIT)	10,793	18,780
Interest expense		
Devonport - Melbourne	(4,049)	(5,161)
UNDERLYING OPERATIONAL PROFIT	6,744	13,619
Represented as follows:		
Devonport - Melbourne	6,815	13,708
Other	(71)	(89)
	6,744	13,619
Reconciliation to Audited Profit/(Loss) for the period		
Underlying operational profit	6,744	13,619
Accounting adjustments		
Interest received/(expense) - Financial asset	44	159
Defined benefits superannuation adjustment	(965)	(80)
Profit before taxation equivalent expense	5,823	13,698
Taxation (expense)/benefit	(8,259)	2,834
Profit/(loss) for the period - audited	**(2,436)**	**16,532**

TT-LINE Company PTY LTD

ABN 39 061 996 174

Annual Report for the Financial Year ended 30 June 2009

Corporate Governance Statement

While TT-Line is not a listed Company, it has adopted, where applicable, practices in compliance with the relevant sections of the ASX Corporate Governance Council, Corporate Governance Principles and Recommendations (2nd Edition) January 2008.

Our practices in relation to the 8 principles are in summary:

1. Lay solid foundations for management and oversight:

The Board is responsible for the overall performance of the business to achieve the objects of the Company as set out in the Constitution in accordance with the *TT-Line Arrangements Act 1993* (the Act);

"The principal objective of the Company is to manage and facilitate the operation of a shipping service to and from Tasmania in a manner that is consistent with sound commercial practice."

Accordingly, the Board is responsible for determining the strategic direction of the Company in a manner consistent with the objects of the Company and for effective oversight of management.

The most significant responsibilities of the Board as set out in its Charter are:

- considering and determining the strategic direction of the Company in conjunction with management;
- adopting annual business plans and budgets;
- reviewing and assessing management's performance against strategic plans, business plans and budgets;
- ensuring that assets are adequate and effectively utilised to achieve the objects of the Company;
- determining the dividend policy of the Company;
- appointing and determining conditions of service including remuneration and performance monitoring procedures for the Chief Executive Officer;
- ratifying the appointment and conditions of service including remuneration and performance monitoring procedures of senior management;
- reviewing the performance of the Chief Executive Officer and the senior executive team in conjunction with the Chief Executive Officer in accordance with agreed procedures;
- ensuring timely and effective reporting to the shareholders of all major matters and including annual reports and annual business plans;
- reviewing and monitoring risk management and internal compliance and control with the guidance of the Audit and Risk Committee;
- reviewing and monitoring of processes for compliance with all regulatory requirements and standards including environmental, health and safety obligations;
- reviewing and approving all major policies; and
- overseeing the operation and performance of all committees of the Board.

Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making.

Any Director may take such independent legal, financial or other advice as they consider necessary at the Company's cost.

The Board may establish committees from time to time to assist it in carrying out its functions and for its effective performance in relation to specific areas. The committees provide information and advice to the full Board regarding issues that have been considered. The members of the committees are accountable to the Board.

The current committees are:

- Audit and Risk;
- Remuneration.

The Board has delegated to the Chief Executive Officer relevant authority to manage the day-to-day operations of the Company subject to such specific delegations and limits that the Board makes from time to time.

The Chief Executive Officer's performance is formally reviewed on an annual basis by the Remuneration Committee.

The Chief Executive Officer conducts formal performance appraisals on all senior managers reporting directly to him on an annual basis.

2. Structure the Board to add value:

The composition of and appointments to the Board are prescribed by the Company's constitution. Appointments are made directly by the two shareholders. The appointment of Directors in 2009/10 will be conducted as per the Guidelines for Tasmanian Government Business – Board Appointments.

The Chief Executive Officer was appointed as a Director of the Company on 29 July 2009. The Chairman and all other Directors are independent non-executive Directors. The details of the individual Directors are set out on page 16.

The Board has appointed KPMG to conduct a Board Performance Review which will be completed by October 2009.

3. **Promote ethical and responsible decision-making:**

   The Company has adopted a Code of Conduct and Ethics which governs TT-Line commercial operations and the conduct of Directors, employees, consultants and all other people when they represent TT-Line. The Company's Code of Conduct and Ethics can be read on its website at www.spiritoftasmania.com.au.

4. **Safeguard integrity in financial reporting:**

   The Chief Executive Officer and the Chief Financial Officer provide detailed written undertakings to the Board providing assurances that the Company's financial reports present a true and fair view and are in accordance with relevant accounting standards.

   The Board has established an Audit and Risk Committee. This committee is chaired by Ms Jayne Wilson and the other members of this committee are Mr Denis Rogers AO, Mr Tony Tobin, and Mr Rodney Chadwick .

   This committee has a formal charter which is reviewed on a regular basis.

   The Company's external auditor is the Tasmanian Audit Office. The Auditor-General or his representative attends meetings of the Audit and Risk Committee from time to time.

5. **Make timely and balanced disclosure:**

   TT-Line is not a listed Company and therefore does not have reporting obligations to the stock exchange.

6. **Respect the rights of shareholders:**

   The Company conducts briefing sessions with its shareholders or their representatives after each Board meeting and also reports to its shareholders in accordance with statutory obligations and shareholder directions.

   The Auditor-General is invited to attend the Company's Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

7. **Recognise and manage risk:**

   The Company is committed to ensuring that all key risks are identified, assessed and appropriately managed. In this regard, consideration is given to balancing the potential costs of the risk, the benefits from exposure to the risk and the cost of controlling the risks.

   The Board, and in particular the audit and risk committee, oversee the establishment, implementation, and periodic review of the Company's risk management systems. Management has established and implemented a system for assessing, monitoring and managing operational, financial reporting, and compliance risks for the Company.

   A formal risk assessment process, to document the organisational strategic risk profile, has been undertaken and this profile is subject to regular periodic update. The outputs from this process are reviewed by management and the audit and risk committee and ultimately are reported to the Board. Each business unit is responsible and accountable for implementing and managing the extent of exposure to identified risks.

8. **Remunerate fairly and responsibly:**

   The Board has established a remuneration committee which is responsible for ensuring that TT-Line's remuneration policies and practices are fair and nationally competitive. The remuneration committee is responsible for reviewing and approving changes to executive and senior management remuneration policies and incentive programmes. The committee approves market movement increases as part of the annual remuneration review for executives and senior managers. The remuneration committee is responsible for recommending to the Board movements in senior management salary levels.

   The remuneration committee is chaired by Ms Jayne Wilson and its other members are Mr Denis Rogers AO and Mr Michael Grainger.

Directors' Report

The directors of TT-Line Company Pty Ltd submit herewith the annual financial report of the Company for the financial year ended 30 June 2009. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Information about the directors

The names and particulars of the directors of TT-Line Company Pty Ltd during or since the end of the financial year are:

Mr. Denis Rogers AO

Chairman. Joined the Board in 2005 in a non-executive capacity. Mr Rogers is also Chairman of the Tasmanian Development Board. He is a member of the audit and remuneration committees.

Mr. Simon Currant

Joined the Board in 1996 in a non-executive capacity. Mr Currant is Chairman of Tourism Industry Council of Tasmania and Director of Tourism Tasmania.

Ms. Jayne Wilson

Joined the Board in 2005 in a non-executive capacity. Ms Wilson is a director of the Tasmanian Innovations Advisory Board. She is chairperson of the audit and remuneration committees.

Mr. Michael Grainger

Joined the Board in 2005 in a non-executive capacity. Mr Grainger is Managing Director of Liferaft Systems Australia, Director of Tasmanian Development Board and Director of Interferry. He is a member of the remuneration committee.

Mr. Anthony Tobin

Joined the Board in 2005 in a non-executive capacity. Mr Tobin is a founding partner of Gilbert + Tobin law firm. Mr Tobin holds a number of directorships in the private and public sector. He is also a Director of the Committee for Economic Development of Australia and Chairman of its NSW Advisory Council. He is a member of the audit committee.

Dr. Jeffrey Hawkins

Joined the Board in 2007 in a non-executive capacity. Dr Hawkins is managing director of the Asia Pacific Maritime Institute, Managing Director of Pivot Maritime International and Chairman of the Australasian Network of Maritime Education and Training.

Mr. Rodney Chadwick

Joined the Board in 2007 in a non-executive capacity. Mr Chadwick is Chairman of Ausmelt Ltd, Chairman of KLM Group Ltd and Chairman of the Monash University Medical Foundation. He also holds a number of other directorships in the private sector. He is a member of the audit committee.

Mr. Charles Griplas

Appointed Director 29 July 2009. Chief Executive Officer of TT-Line Company Pty Ltd since 2008.

Remuneration of directors and senior management

Information about the remuneration of directors and senior management is set out in Note 25 to the financial statements.

Principal activities

The principal activities of the Company during the course of the financial period were the provision of a passenger, vehicle and freight shipping service between Tasmania and mainland Australia.

Review of operations

The Company reported a loss after tax of $2.436 million for the year ended 30 June 2009 ($16.532 million profit for 30 June 2008). Revenue increased due to the strong demand for both passenger and freight services. Costs were well managed over the financial year through initiatives such as reduced winter sailings and paying down debt to reduce interest expenses. The Company adopted a fuel hedging strategy during the year with the aim to gain more long-term certainty over one of our largest items of expenditure. Income tax expense has increased substantially due to the impact of the cash flow fuel hedging reserve and the devaluation of the vessels.

The value of each vessel has reduced from $145.233 million (90.000 million Euro) to $137.139 million (80.000 million Euro) between 2008 and 2009. This devaluation combined with the movement in the AUD/EURO exchange rate resulted in a $7.067 million decrease (after tax impact) in the value of the Asset Revaluation Reserve attributable to the current year revaluation of *Spirit of Tasmania I* and *II*. (Refer note 19).

Key Statistics

	Jun-09	Jun-08	Jun-07	Jun-06
Voyages	800	804	825	1,016
Passengers	390,746	385,028	393,677	440,552
Vehicles	182,595	177,265	177,786	200,306
Freight (twenty foot equivalent units)	85,288	85,594	77,734	69,946

Note: Spirit of Tasmania III operated in the 2006 financial year only.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Future developments

Disclosure of information regarding likely developments in the operations of the Company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Company. Accordingly, this information has not been disclosed in this report.

Environmental regulations

The Company's operations are subject to various environmental regulations under both Commonwealth and State legislation. The Company has a management committee which monitors compliance with environmental regulations. The directors are not aware of any significant breaches during the period covered by the report.

Dividends

In accordance with the government's dividend policy for TT-Line Company Pty Ltd, the Company will "retain its annual surplus for the purpose of debt retirement and funding the replacement cost of its two vessels".

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

Indemnification and insurance of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (named previously) against a liability incurred as such a director to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company against a liability incurred as such an officer or auditor.

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 11 board meetings, 4 audit committee and 3 remuneration committee meetings were held.

	Board Meetings		Audit Committee		Remuneration Committee	
Director	Held	Attended	Held	Attended	Held	Attended
Mr. Denis Rogers AO	11	11	4	4	3	3
Mr. Simon Currant	11	11				
Ms. Jayne Wilson	11	10	4	4	3	3
Mr. Michael Grainger	11	9			3	3
Mr. Anthony Tobin	11	10	4	4		
Dr. Jeffrey Hawkins	11	10				
Mr. Rodney Chadwick	11	10	4	3		

Auditor's independence declaration

The auditor's independence declaration is included on page 19 of the director's report.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

This directors' report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the Directors

D Rogers AO

J Wilson

Directors
Hobart, 20 August 2009

Tasmanian Audit Office

STRIVE | LEAD | EXCEL | TO MAKE A DIFFERENCE

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19th August 2009

The Board of Directors
TT-Line Company Pty Ltd
The Esplanade
East Devonport TAS 7310

Dear Board Members

Auditor's Independence Declaration

In accordance with section 307C of the Corporations Act 2001, I provide the following declaration of independence.

As the auditor of the financial report of TT-Line Company Pty Ltd for the financial year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

Pursuant to section 298(1) a copy of this declaration must be included in the Directors' report.

Yours sincerely

H M Blake
AUDITOR-GENERAL

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
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Tasmanian Audit Office

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INDEPENDENT AUDIT REPORT

To the Members of TT-Line Company Pty Ltd

Financial Statements for the Year Ended 30 June 2009

Report on the Financial Statements

I have audited the acCompanying financial statements of TT-Line Company Pty Ltd (the Company), which comprise the balance sheet as at 30 June 2009, the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

The Responsibility of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based upon my audit. My audit was conducted in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*. *The Audit Act 2008* further promotes independence by:

- Providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- Mandating the Auditor-General as auditor of State Entities but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Tasmanian Audit Office are not compromised in their role by the possibility of losing clients or income.

I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of TT-Line Company Pty Ltd dated 19 August 2009 and included in the Directors' Report, would be unchanged if provided to the directors as at the date of this audit report.

Auditor's Opinion

In my opinion:

a) the financial statements of TT-Line Company Pty Ltd are in accordance with the *Corporations Act 2001*, including:

   I. giving a true and fair view of the financial position of the TT-Line Company Pty Ltd as at 30 June 2009 and its financial performance for the year ended on that date, and

   II. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 2.

TASMANIAN AUDIT OFFICE

H M Blake
AUDITOR-GENERAL

HOBART
27 August 2009

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Directors' Declaration

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company; and

(c) although not a requirement, the directors have been given the declarations referred to in s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the *Corporations Act 2001*:

On behalf of the Directors

D Rogers AO

J Wilson

Directors
Hobart, 20 August 2009

Income Statement

for the financial year ended 30 June 2009

	Note	Jun-09 $'000	Jun-08 $'000
Revenue	4	175,587	166,863
Cost of sales	7(b)	(112,786)	(95,246)
Gross profit		**62,801**	**71,617**
Other income	7(a)	1	5
Other expenses	5	(52,930)	(52,763)
Finance costs	6	(4,049)	(5,161)
PROFIT BEFORE TAXATION EQUIVALENT (EXPENSE)/BENEFIT		**5,823**	**13,698**
Taxation equivalent (expense)/benefit	8	(8,259)	2,834
PROFIT/(LOSS) FOR THE YEAR		**(2,436)**	**16,532**

Notes to the financial statements are included on pages 27 to 52.

Balance Sheet

as at 30 June 2009

	Note	Jun-09 $'000	Jun-08 $'000
CURRENT ASSETS			
Cash and cash equivalents	23(a)	38,724	50,160
Trade and other receivables	9	10,588	12,274
Inventories	10	1,839	2,247
Other	11	512	451
TOTAL CURRENT ASSETS		**51,663**	**65,132**
NON-CURRENT ASSETS			
Property, plant and equipment	12	287,220	303,689
Other	11	175	-
TOTAL NON-CURRENT ASSETS		**287,395**	**303,689**
TOTAL ASSETS		**339,058**	**368,821**
CURRENT LIABILITIES			
Trade and other payables	13	12,076	15,180
Borrowings	14	25,000	25,000
Provisions	15	7,860	7,443
Other	16	18,934	8,102
TOTAL CURRENT LIABILITIES		**63,870**	**55,725**
NON-CURRENT LIABILITIES			
Borrowings	14	25,000	50,000
Provisions	15	5,884	4,552
Other	16	7,469	-
TOTAL NON-CURRENT LIABILITIES		**38,353**	**54,552**
TOTAL LIABILITIES		**102,223**	**110,277**
NET ASSETS		**236,835**	**258,544**
EQUITY			
Issued capital	18	328,981	328,981
Reserves	19	2,527	21,800
Accumulated losses	20	(94,673)	(92,237)
TOTAL EQUITY		**236,835**	**258,544**

Notes to the financial statements are included on pages 27 to 52.

Statement of Recognised Income and Expense

for the financial year ended 30 June 2009

	Note	Jun-09 $'000	Jun-08 $'000
Gain/(loss) on ship revaluation	19	(10,095)	9,447
Fuel hedge reserve	19	(17,436)	-
Income tax on items taken directly to equity	19	8,259	(2,834)
Net income recognised directly in equity		**(19,272)**	**6,613**
Profit/(loss) for the year		(2,436)	16,532
Total recognised income and expense for the year		**(21,708)**	**23,145**

Notes to the financial statements are included on pages 27 to 52.

Cash Flow Statement

for the financial year ended 30 June 2009

	Note	Jun-09 $'000	Jun-08 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts in the course of operations		193,489	181,311
Interest received		2,160	2,646
Cash payments in the course of operations		(169,470)	(147,128)
Borrowing costs paid		(4,341)	(5,169)
Net cash provided by operating activities	23 (c)	21,838	31,660
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		44	93
Payments for property, plant and equipment		(8,318)	(9,201)
Net cash used in investing activities		(8,274)	(9,108)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(25,000)	-
Net cash used in financing activities		(25,000)	-
Net increase in cash held		(11,436)	22,552
Cash and cash equivalents at the beginning of the financial year		50,160	27,608
Cash and cash equivalents at the end of the financial year	23 (a)	38,724	50,160

Notes to the financial statements are included on pages 27 to 52.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 1 General information

TT-Line Company Pty Ltd is a private Company limited by shares, incorporated and operating in Australia.

TT-Line Company Pty Ltd registered office and principal place of business is as follows:

The Esplanade
East Devonport Tasmania 7310
Telephone: (03) 6421 7311
Facsimile: (03) 6427 0588

The Company's principal activities are the provision of passenger, vehicle and freight shipping services from Devonport to Melbourne.

Note 2 Significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and complies with other requirements of the law.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes comply with International Financial Reporting Standards ('IFRS').

The financial report was authorised for issue by the directors on 20 August 2009.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a Company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Refer to note 3 for a discussion of critical judgements in applying the Company's accounting policies, and key sources of estimation uncertainty.

Adoption of new and revised Accounting Standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period (refer note 2(r)).

Early adoption of Accounting Standards

The directors have elected under s.334(5) of the *Corporations Act 2001* to apply AASB 8 'Operating Segments' and AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8', even though the Standards are not required to be applied until annual reporting periods beginning on or after 1 January 2009.

As the equity and debt instruments of the Company are not traded in a public market or are not in the process of being issued in a public market, the Company is not required to comply with the disclosures in AASB 8.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

(a) Goods and services tax

Revenues, expenses and assets are recognised net of the amounts of goods and services tax (GST) except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 2 Significant accounting policies (continued)

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(b) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, rebates and other similar allowances.

<u>Passenger and freight</u>

Revenue from passengers and freight is brought to account at the time of departure of a vessel. Cash received for future sailings is treated as revenue received in advance and disclosed as a liability in the financial statements.

<u>Interest revenue</u>

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

<u>On-board trading</u>

Revenue from on-board trading activities is recognised on a voyage-by-voyage basis and is recognised at date of departure.

<u>Other revenue</u>

Other revenue is recognised as it accrues.

(c) Government grants

Government grants are assistance by the government in the form of transfers of resources to the Company in return for past or future compliance with certain conditions relating to its operating activities. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Company other than the requirement to operate in certain regions or industry sectors.

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and recognised as income on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised as income of the period in which it becomes receivable.

Refer to note 4 for amounts received.

(d) Income tax

The Company is subject to the National Tax Equivalent Regime under instructions from the Treasurer of the State of Tasmania, which is broadly based on the provisions of the Income Tax Assessment Act.

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

<u>Current tax</u>

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

<u>Deferred tax</u>

Deferred tax is accounted using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 2 Significant accounting policies (continued)

giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(e) Cash and cash equivalents

Cash comprises cash on hand and demand deposits.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

(f) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- has been acquired for the purpose of selling in the near future;
- is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 24.

Loans and receivables

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

Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 2 Significant accounting policies (continued)

sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to each particular class of inventory, with all categories being valued on a first in first out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(h) Property, plant and equipment

The ships are carried in the balance sheet at fair value. Fair value is determined on the basis of an annual independent valuation prepared by external valuation experts based on discounted cash flows or capitalisation of net income, as appropriate. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at balance sheet date.

Any revaluation increase arising on revaluation is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the profit and loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged as an expense in profit and loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued items is charged to profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related taxes, is transferred directly to retained earnings.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and impairment. Construction in progress is stated at cost. Cost includes expenditure that is directly attributable to the acquisition or construction of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight-line basis so as to write off the net cost or

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 2 Significant accounting policies (continued)

other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following useful lives are used in the calculation of depreciation:

Leasehold improvements	12 – 30 years
Plant and equipment	3 – 8 years
Ships	30 years
Buildings	30 years

(i) Major cyclical maintenance

Every two years the ships undertake a major maintenance programme that requires them to go to a dry dock.

This expense is capitalised as part of the ship and depreciated over the following 2 years of operation. The undepreciated balance of capitalised dry dock expense is incorporated into the carrying amount of ships carried at fair value.

(j) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(k) Leased assets

Details of the Company's operating leases are disclosed at note 22. The Company does not have any finance leases.

(l) Impairment of long-lived assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit or loss, unless the relevant asset is carried at revalued amount, in which case the impairment loss is treated as a revaluation decrease (refer note 2 (h)).

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase (refer note 2 (h)).

(m) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 2 Significant accounting policies (continued)

Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

Defined benefits plans

For defined benefit superannuation plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses are recognised in full in profit or loss in the period in which they occur.

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

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

Refer to note 17 for further details.

(n) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

(o) Financial instruments issued by the Company

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading is designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 2 Significant accounting policies (continued)

and Measurement' permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 24.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

(p) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk. Further details of derivative financial instruments are disclosed in note 24 to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or current liability if the remaining maturity of the hedge relationship is less than 12 months.

Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability.

Hedge accounting

The Company designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk as cash flow hedges.

Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Futhermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that it used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The corporate philosophy of the Company is that the primary goal of bunker fuel risk management is to protect the economic value of the Company from the negative impact of rate and price fluctuations, at the lowest possible cost. The Company will not enter into speculative hedging arrangements with the expectation of making financial gains. The Company will adopt a passive approach to hedging and will employ a 'set and forget' approach to all hedging transactions undertaken. The Company will not actively manage its hedging book based on prevailing market views i.e. actively trade. In order to gain maximum certainty on the price paid for bunker fuel the Company prefers to use financial derivative swap arrangements.

Notes 8, 11, 16, 19 and 24 contain details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedge

The Company does not have any fair value hedges.

Cash flow hedge

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 2 Significant accounting policies (continued)

recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(q) Foreign currency

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate prevailing at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(r) Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective. Initial application of these Standards will not affect any of the amounts recognised in the financial report, but may change the disclosures presently made in relation to the Company and the Company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101', AASB 2007-10 'Further Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010

Initial application of the following Standards/Interpretations is not expected to have any material impact on the financial report of the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 123 'Borrowing Costs' (revised) AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010
• AASB 3 'Business Combinations' (revised), AASB 127 'Consolidated and Separate Financial Statements' (revised and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	AASB 3 (Business Combinations occuring after the beginning of annual reporting periods beginning 1 July 2009), AASB 127 and AASB 2008-3 (I July 2009)	30 June 2010

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 2 Significant accounting policies (continued)

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 2008-5 'Amendments to Australian Accounting Standards arising from the Annual Improvements project'	1 January 2009	30 June 2010
• AASB 2008-6 Further 'Amendments to Australian Accounting Standards arising from the Annual Improvements project'	1 July 2009	30 June 2010
• AASB 2008-7 'Amendments to Australian Accounting Standards – Cost of Investment in a Subsidiary, Jointly controlled Entity or Associate'	1 January 2009	30 June 2010
• AASB 2008-8 'Amendments to Australian Accounting Standards – Eligible Hedged Items'	1 July 2009	30 June 2010

The initial application of the expected issue of an Australian equivalent accounting Standard/Interpretation to the following Standard/Interpretation is not expected to have a material impact on the financial report of the Company:

Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• IFRIC 18 'Transfers of Assets from Customers'	1 July 2009	30 June 2010

Note 3 Critical accounting judgements and key sources of estimation uncertainty

Critical judgements in applying the Company's accounting policies

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that Directors and management have made in the process of applying the Company's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Inventories

Note 10 sets out the categories of inventory carried. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell which approximates fair value less cost to sell. The key assumptions require the use of management judgement and are reviewed annually. These key assumptions are the variables affecting the estimated costs to sell and the expected selling price.

Any reassessment of cost to sell or selling price in a particular year will affect the cost of sales.

Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- Future increases in wages and salaries;
- Future on-cost rates; and
- Experience of employee departures and period of service.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Useful lives of property, plant and equipment

As described in note 2(h), the Company reviews the estimated useful lives of property, plant and equipment at the end of

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 3 Critical accounting judgements and key sources of estimation uncertainty (continued)

each annual reporting period. During the financial year, it was determined that the useful life of all classes of property, plant and equipment remain the same.

Fair value of derivatives and other financial instruments

As described in note 24, management uses its judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. Details of assumptions used and of the end results of sensitivity analyses regarding these assumptions are provided in note 24.

Note 4 Revenue

An analysis of the Company's revenue for the year from continuing operations is as follows:

	2009 $'000	2008 $'000
Continuing operations		
Revenue from the sale of goods	12,332	11,714
Revenue from the provision of services	160,633	149,276
	172,965	160,990
Other revenue from operating activities		
Interest	1,978	2,816
Rental	644	663
Government grants	-	2,394
	2,622	5,873
Total revenue from ordinary activities	175,587	166,863

Note 5 Other Expenses

Hotel services	29,490	29,354
Customer acquisition	14,379	15,674
Administration	9,061	7,735
	52,930	52,763

Note 6 Finance costs

Interest on loans	4,049	5,161

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 7 Profit for the year before tax

	2009 $'000	2008 $'000
(a) Gains and losses		
Loss for the year has been arrived at after crediting the following gain:		
Gain on disposal of property, plant and equipment	1	5
(b) Cost of Sales		
The major items include:		
Depreciation of:		
Buildings, plant and equipment	1,057	945
Ships	13,063	10,990
Amortisation of:		
Leasehold improvements	528	531
Major cyclical maintenance	-	1,060
Total depreciation and amortisation	14,648	13,526
Impairment (gain)/losses recognised in receivables	(110)	134
Employee benefit expense:		
Post-employment benefits		
Defined contribution plans	4,483	3,301
Defined benefit plans	882	31
Termination benefits	460	2,202
Other employee benefits	44,776	43,123
	50,601	48,657
Operating lease rental expense – minimum lease payments	3,819	3,978
Bunker fuel	43,199	28,726
Other	629	225
	112,786	95,246

Note 8 Income taxes

	2009 $'000	2008 $'000
Recognised in the income statement		
Current Tax Expense		
Current year tax expense/(benefit)	205	2,224
Adjustments for prior years	22	24
	227	2,248
Deferred Tax Expense attributable to transactions recognised in income statement		
Origination and reversal of temporary differences:		
Increase in deferred tax liability	2,079	1,943
Decrease/(increase) in deferred tax asset	(585)	66
Non-recognition of temporary differences and tax equivalent losses	6,538	(7,091)
	8,032	(5,082)
Net income tax expense/(benefit) recognised in income statement	8,259	(2,834)
Deferred Tax Expense attributable to transactions recognised in Equity		
Non-recognition of temporary differences from transactions in equity	8,259	(2,834)
Total income tax/(benefit) in income statement	8,259	(2,834)

The Company has significant income tax benefits which are not recognised in the financial statements as it is not currently probable that these benefits will be realised. To the extent to which a current or deferred tax liability arises in the current year ($1.721 million; 2008 $4.257 million), then this has been offset by

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 8 Income taxes (continued)

the recognition of previously unrecognised tax benefits of the same amount.

During the year, tax expense of $8.259 million (2008 $2.834 million benefit) arose as a result of the impact of the cashflow hedging reserve and the revaluation of the vessels. The financial impacts of these transactions, along with the tax impact, were recognised directly in equity. However, as these additional tax benefits do not currently meet the required threshold for recognition, then they must be derecognised. The accounting standards require this derecognition as a charge to income tax expense in the current year.

	2009 $'000	2008 $'000
Deferred tax expense recognised directly in equity		
Tax impact of revaluation of property, plant and equipment	(3,029)	2,834
Tax impact of revaluation of cashflow hedge reserve	(5,230)	-
	(8,259)	2,834
Tax benefits not recognised		
Deferred tax liability - revaluations	(14,220)	(15,117)
Deferred tax assets – revenue losses	31,420	31,648
Deferred tax assets – capital losses	116	116
Deferred tax assets – other	11,271	5,402
Net tax assets not recognised	28,587	22,049

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2009 $'000	2008 $'000
Profit before tax	5,823	13,698
Prima facie tax expense at 30%	(1,747)	(4,109)
Non-deductible entertainment	(21)	(16)
Investment allowance	46	-
Under/over provided in prior years	1	(132)
Non- recognition of temporary differences and tax equivalent losses	(6,538)	7,091
	(8,259)	2,834

Note 9 Trade and other receivables

Trade receivables (i)	9,042	9,273
Allowance for impairment	(198)	(313)
	8,844	8,960
Goods and services tax recoverable	69	261
Other debtors	1,675	3,053
	10,588	12,274

(i) The average credit period on sales of goods and rendering of services is 24 days. No interest is charged on trade receivables. Trade receivables over 60 days are provided for based on estimated irrecoverable amounts from the sale of goods and rendering of services, determined by reference to past default experience.

Before accepting any new customers, the Company conducts credit and reference checks to assess the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers are reviewed annually.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 9 Trade and other receivables (continued)

	2009 $'000	2008 $'000
Ageing of past due but not impaired		
60 – 90 days	550	444
90 – 120 days	22	19
Total	572	463
Movement in the allowance for impairment		
Balance at the beginning of the year	313	248
Impairment (gain)/losses recognised on receivables	(110)	134
Amounts written off as uncollectible	(5)	(69)
Balance at the end of year	198	313

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for impairment.

Note 10 Inventories

Shore stock at cost	39	35
Bunker fuel at cost	1,221	1,594
Maintenance stock at cost	286	355
Food and beverages at cost	293	263
	1,839	2,247

Note 11 Other assets

	2009 $'000	2008 $'000
Current		
Derivative asset – fuel hedge	1	-
Major cyclical maintenance dry dock at cost	-	1,060
Amortisation	-	(1,060)
	1	-
Prepaid expenses	511	451
	512	451
Non-current		
Derivative asset – fuel hedge	175	-

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 12 Property, plant and equipment

	Leasehold improvements at cost $'000	Plant and equipment at cost $'000	Ships at fair value $'000	Buildings at cost $'000	Freehold land at cost $'000	Total
Gross carrying amount						
Balance at 1 July 2007	**11,327**	**10,251**	**284,181**	**4,586**	**500**	**310,845**
Acquisitions (net of funds recovered)	384	860	5,634	129	-	7,007
Major cyclical maintenance			2,194			2,194
Disposals	-	(204)	-	-	-	(204)
Gross revaluation increment/(decrement)	-	-	(1,543)	-	-	(1,543)
Balance at 1 July 2008	**11,711**	**10,907**	**290,466**	**4,715**	**500**	**318,299**
Acquisitions (net of funds recovered)	292	585	2,248	471	-	3,596
Major cyclical maintenance			4,722			4,722
Disposals	-	(706)	-	-	-	(706)
Gross revaluation increment/(decrement)	-	-	(23,158)	-	-	(23,158)
Balance at 30 June 2009	**12,003**	**10,786**	**274,278**	**5,186**	**500**	**302,753**

	Leasehold improvements at cost $'000	Plant and equipment at cost $'000	Ships at fair value $'000	Buildings at cost $'000	Freehold land at cost $'000	Total
Accumulated depreciation / amortisation and impairment						
Balance at 1 July 2007	**5,380**	**7,322**	**-**	**547**	**-**	**13,249**
Disposals	-	(115)	-	-	-	(115)
Transfers			-	-	-	-
Depreciation expense	531	766	10,990	179	-	12,466
Adjustments from revaluation increment/ (decrement)	-	-	(10,990)	-	-	(10,990)
Balance at 1 July 2008	**5,911**	**7,973**	**-**	**726**	**-**	**14,610**
Disposals	-	(662)	-	-	-	(662)
Depreciation expense	528	867	13,063	190	-	14,648
Adjustments from revaluation increment/ (decrement)	-	-	(13,063)	-	-	(13,063)
Balance at 30 June 2009	**6,439**	**8,178**	**-**	**916**	**-**	**15,533**
Net book value						
As at 30 June 2008	**5,800**	**2,934**	**290,466**	**3,989**	**500**	**303,689**
As at 30 June 2009	**5,564**	**2,608**	**274,278**	**4,270**	**500**	**287,220**

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 12 Property, plant and equipment (continued)

Revaluation adjustment

An independent valuation of the Company's vessels is sought annually from independent sources, being Mason Shipbrokers Limited and Simsonship AB. As the prevailing market for these types of ships is predominately in Europe, the valuation is provided in Euros. The valuation of each vessel has changed from $145.233 million (90.000 million Euro) to $137.139 million (80.000 million Euro) between 2008 and 2009. As a result, the revaluation reserve has been decreased by $7.067 million, net of tax.

If the ships (*Spirit of Tasmania I* and *II*) had been carried at cost, the carrying value of each ship would be $112.108 million.

Note 13 Trade and other payables

	2009 $'000	2008 $'000
Trade payables (i)	12,076	15,180

(i) The average credit period on purchases of goods and services is 30 days. The Company has financial risk management policies in place to ensure all payables are paid within the credit timeframe.

Note 14 Borrowings

	2009	2008
Current		
Secured Tasmanian Public Finance Corporation loans - guaranteed (i) (ii)	25,000	25,000
Non-current		
Secured Tasmanian Public Finance Corporation loans – guaranteed (i) (ii)	25,000	50,000
	50,000	75,000

(i) Pursuant to section 17 of the *TT-Line Arrangements Act 1993*, the Treasurer on behalf of the Tasmanian Government has provided a guarantee for the payment of loans to Tasmanian Public Finance Corporation.

(ii) The Tasmanian Public Finance Corporation holds a charge over the net receivables of TT-Line Company Pty Ltd.

Note 15 Provisions

	2009 $'000	2008 $'000
Current		
Workers compensation (i)	1,350	1,350
Liability for long service leave	2,073	2,020
Liability for annual leave	4,314	3,812
Defined Benefit Superannuation (note 17)	123	261
	7,860	7,443
Non current		
Liability for long service leave	1,091	780
Defined Benefit Superannuation (note 17)	4,793	3,772
	5,884	4,552
Workers Compensation		
Balance at 1 July 2008	1,350	1,119
Additional provisions recognised	35	486
Payments made	(35)	(255)
Balance at 30 June 2009	1,350	1,350

(i) The provision for workers compensation represents the best estimate of the future outflows relating to workers compensation claims. The estimate has been made on the basis of information received.

Note 16 Other liabilities

	2009	2008
Current		
Derivative liability– fuel hedge	10,233	-
Revenue received in advance	8,701	8,102
	18,934	8,102
Non-current		
Other	90	-
Derivative liability– fuel hedge	7,379	-
	7,469	-

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 17 Defined benefit superannuation plan

The Company has employees who belong to the State of Tasmania's Retirement Benefits Fund. The fund provides defined benefits calculated on years of service and final average salary. No other post-retirement benefits are provided to those employees.

Plan information

Defined benefit members receive lump sum benefits on resignation and lump sum or pension benefits on retirement, death or invalidity. The defined benefit section of RBF is closed to new members. All new members receive accumulation only benefits.

The Company expects to make a contribution of $0.123 million to the defined benefit plan during the next financial year.

Principal assumptions

	30 June 2009	30 June 2008
Principal assumptions as at balance date and for following year expense		
Discount rate:	5.70%	6.50%
Expected salary increase rate:	4.50%	4.50%
Expected rate of return on plan assets	7.00%	7.00%
Expected pension increase rate	2.50%	2.50%
Expected rate of increase compulsory preserved amounts	4.50%	4.50%

The discount rate is based on the market yields on the longest dated government bond as at 30 June 2009 extrapolated to allow for the fact that the term of the liabilities exceeds the term of the longest government bond and adjusted to allow for the investment tax, based on the expected rate of tax payable by the fund.
The decrement rates used (e.g. mortality and retirement rates) are based on those at the last actuarial valuation for the Fund.

Operating costs

Operating costs for the fund as a whole have been assumed to be incurred at the rate of 1.5% of salaries. This cost has been allocated to each authority in proportion to assets.

Temporary invalidity expense

The cost of temporary invalidity benefits has been assumed to be 0.38% of salaries of current contributory members.

Profit and loss results for year ended 30 June

	30 June 2009 $'000	30 June 2008 $'000
Expense:		
Service cost	195	172
Interest cost	309	288
Expected return on Plan assets	(95)	(105)
Recognised actuarial (gains)/losses	556	(276)
Recognised past service cost	-	-
Curtailment/settlement (gain)/loss	-	-
Superannuation expense/ (income):	**965**	**80**

Balance sheet results as at 30 June

	30 June 2009 $'000	30 June 2008 $'000
Net liability		
Defined Benefit Obligation^	6,271	5,393
RBF contributory scheme assets	(1,355)	(1,360)
deficit/(surplus)	4,916	4,034
Unrecognised past service cost	-	-
Unrecognised net (gain)/loss	-	-
Net liability/(asset)	4,916	4,034
Current net liability	123	261
Non-current net liability	4,793	3,772

^ 2008 figure includes contributions tax provision.

Funded status

The defined benefit obligation consists of amounts from plans that are wholly or partly funded.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 17 Defined benefit superannuation plan (continued)

Reconciliation of the present value of the defined benefit obligation

	30 June 2009 $'000	30 June 2008 $'000
Total Defined Benefit Obligations		
Present value of defined benefit obligations at beginning of the year^	5,393	5,507
Current service cost^	195	172
Interest cost	309	288
Estimated contributions by plan participants	49	47
Actuarial (gains)/losses^	458	(509)
Estimated benefits paid	(119)	(97)
Estimated taxes, premiums and expenses paid	(14)	(15)
Transfers in	-	-
contributions to accumulation section	-	-
Past service costs	-	-
Curtailments	-	-
Settlements	-	-
Exchange rate changes	-	-
Present value of defined benefit obligations at end of year	6,271	5,393

^ includes contributions tax provision/change in contributions tax provision.

Reconciliation of the fair value of scheme assets

Financial year ending	30 June 2009 $'000	30 June 2008 $'000
Fair value plan assets at beginning of the year	1,360	1,504
Expected return on plan assets	95	105
Actuarial gains/(losses)	(97)	(232)
Estimated employer contributions	83	49
Estimated contributions by plan participants	49	47
Estimated benefits paid	(119)	(97)
Estimated taxes, premiums and expenses paid	(14)	(15)
Transfers in	-	-
contributions in accumulation section	-	-
Settlements	-	-
Exchange rate changes	-	-
Fair value of plan assets at end of the year	1,355	1,360

Fund Assets

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

As at	30 June 2009	30 June 2008
Australian equities	20%	23%
Overseas equities	13%	18%
Fixed interest securities	11%	13%
Property	31%	22%
Alternative assets/other	19%	18%
Cash	6%	6%

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 17 Defined benefit superannuation plan (continued)

Fair value of Fund assets

Assets are not held separately for each authority but are held for the Fund as a whole. The fair value of Fund assets was estimated by allocating the total Fund assets to each authority in proportion to the value of each authority's funded liabilities, calculated using the assumptions outlined in this report.

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

- any of the authority's own financial instruments
- any property occupied by, or other assets used by, the authority.

Expected rate of return on Fund assets

The expected return on 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 estimated tax and investment fees.

Actual return on Fund assets

Financial year ending	30 June 2009 $'000	30 June 2008 $'000
Actual return on plan assets	(3)	(128)

^as separate assets are not held for each authority, the actual return includes any difference in the allocation of each authority

Historical information

Financial year ending	30 June 2009 $'000	30 June 2008 $'000	30 June 2007 $'000	30 June 2006 $'000	30 June 2005 $'000
Present value of defined benefit obligation	6,271	5,393	5,507	4,604	4,813
Fair value of plan assets	1,355	1,360	1,504	1,259	1,175
(Surplus)/deficit in plan	4,916	4,034	4,003	3,346	3,638
Experience adjustments (gain)/loss - plan assets	(97)	232	(140)	46	38
Experience adjustment (gain)/loss - plan liabilities	351	78	85	(64)	2

The Experience Adjustment For Fund Liabilities Represents The Actuarial Loss/(Gain) Due To A Change In The Liabilities Arising From The Fund's Experience (E.G. Membership Movements, Salary Increases And Indexation Rates) And Excludes The Effect Of The Changes In Assumptions (E.G. Movements In The Bond Rates).

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 18 Issued capital

	2009 $'000	2008 $'000
328,981,230 (2008: 328,981,230) ordinary shares, fully paid	328,981	328,981
Balance at year end	328,981	328,981

Note 19 Reserves

Asset revaluation:		
Balance at beginning of financial year	21,800	15,187
Revaluation increment/ (decrement)	(10,095)	9,947
Deferred tax liability arising on revaluation (note 8)	3,028	(2,834)
Balance at end of financial year	14,733	21,800

The asset revaluation reserve arises on the revaluation of the ships (refer note 12). Where a revalued ship is sold, that portion of the asset revaluation reserve which relates to that asset is effectively realised, and is transferred directly to retained earnings.

Hedging reserve:		
Balance at beginning of financial year	-	-
Effective portion of changes in fair value of cash flow hedge	(32,143)	-
Transfer of hedge reserve to income statement	14,707	-
Net impact on equity	(17,436)	-
Deferred tax liability arising on market valuation (note 8)	5,230	-
Balance at end of financial year	(12,206)	-

The Company holds derivative financial instruments designated as cash flow hedges of future forecast fuel purchases. The table above identifies the impact of cash flow hedges on equity during the year.

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

	2009 $'000	2008 $'000
Total Reserve:	**2,527**	**21,800**

Note 20 Retained earnings

Balance at beginning of financial year	(92,237)	(108,769)
Transferred from asset revaluation reserve	-	
Profit/(loss) for the year	(2,436)	16,532
Balance at end of financial year	(94,673)	(92,237)

Note 21 Commitments for expenditure

(a) Capital expenditure commitments		
Edgewater improvements		
Not longer than one year	16	477
Ship improvements		
Not longer than one year	298	1,232

(b) Lease commitments

Non-cancellable operating lease commitments are disclosed in note 22 to the financial statements.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 22 Leases

Operating leases

Operating leases relate to the dock areas at Devonport and Melbourne terminals, and information technology leases. All leases are non-cancellable leases.

Non-cancellable operating lease payments

	2009 $'000	2008 $'000
Not longer than 1 year	3,825	3,941
Longer than 1 year but not longer than 5 years	13,750	15,015
Longer than 5 years	16,763	18,365
	34,338	37,321

Note 23 Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows;

	2009 $'000	2008 $'000
Cash and cash equivalents	38,724	50,160

(b) Financing facilities

Operating loan facility with Tasmanian Public Finance Corporation, reviewed annually:		
• amount used	(52,500)	(74,999)
• amount unused	(2,500)	(5,000)

The Company has access to financing facilities at reporting date as indicated above. The Company expects to meet its other obligations from operating cash flows.

(c) Reconciliation of profit for the period to net cash flows from operating activities

	2009 $'000	2008 $'000
Profit/(loss) for the year	(2,436)	16,532
Gain on sale of non-current assets	(1)	(5)
Depreciation	14,120	11,935
Amortisation – leasehold improvements	528	531
Income tax benefit	8,259	(2,834)
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables	1,686	185
Inventories	409	(967)
Other assets	(61)	1,171
Increase/(decrease) in liabilities:		
Trade and other payables	(3,014)	4,239
Revenue received in advance	599	398
Provisions	1,749	475
Net cash provided by operating activities	21,838	31,660

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 24 Financial instruments

(a) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Company's overall strategy remains unchanged from 2008.

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 14, cash and cash equivalents and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in notes 18, 19 and 20 respectively.

Operating cash flows are used to maintain and expand the Company's assets, as well as to make the routine outflows of tax and repayment of maturing debt.

Gearing ratio

The Company's Board reviews the capital structure at each Board meeting. As a part of this review the Company considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at year end was as follows:

	2009 $'000	2008 $'000
Financial assets		
Debt (i)	50,000	75,000
Cash and cash equivalents	(38,724)	(50,160)
Net debt	11,276	24,840
Equity (ii)	236,835	258,544
Net debt to equity ratio	5%	10%

(i) Debt is defined as long and short-term borrowings, as detailed in note 14.

(ii) Equity includes all capital and reserves.

(b) Categories of financial instruments

	2009 $'000	2008 $'000
Loans and receivables	10,587	12,274
Cash and cash equivalents	38,724	50,160
Derivative instrument in designated hedge accounting relationship	176	-
Financial liabilities		
Amortised cost	62,076	90,180
Derivative instrument in designated hedge accounting relationship	17,613	-

At the reporting date there are no significant concentrations of credit risk relating to loans and receivables at fair value through profit or loss. The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.

(c) Financial risk management objectives

The Company's treasury function provides services to the business, coordinates access to financial markets and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Company seeks to minimise the effects of these risks, by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives as required is governed by the Company's policies approved by the Board of directors. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports regularly to the Board of directors.

(d) Market risk

The Company has exposure to market risk in the areas of foreign exchange and fuel price risk.

The Company is exposed to cash flow variability in operating expenditure attributable to the purchase price of bunker fuel.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 24 Financial instruments (continued)

This variability is mainly caused by:

- Movements in the price of bunker fuel, and
- Movements in the AUD/USD foreign exchange rate.

In line with the Board approved hedging strategy, to manage the risks associated with fluctuations in the price of bunker fuel, the Company enters into bunker fuel swaps to exchange the US dollar denominated floating price based on the Singapore MOPS index into a fixed Australian dollar price nominated term of the swap.

The table below summarises the impact on net profit and equity of reasonably possible changes in USD/AUD exchange rates. The sensitivity analysis assumes a 10% increase/decrease in USD/AUD in exchange rates, and holds all other variables constant e.g. designations, hedge effectiveness testing results etc. Note that the bunker fuel swaps commenced in July 2008, and hence no derivatives were recorded in 2008.

	Net Profit		Equity	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
10% increase in USD/AUD exchange rate	(1,691)	-	(3,744)	-
10% decrease in USD/AUD exchange rate	2,056	-	4,576	-

The table below summarises the impact on net profit and equity of reasonably possible changes in the price of marine bunker fuel. The sensitivity analysis assumes a 10% increase/decrease in the price of fuel, and holds all other variables constant e.g. exchange rates, designations, hedge effectiveness testing results etc.

10% increase in price M/T of fuel	1,853	-	4,118	-
10% decrease in price M/T of fuel	(1,853)	-	(4,118)	-

(e) Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise during the course of normal operations.

(f) Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 0.5% higher or lower and all other variables were held constant:

- The Company's net profit would decrease by $0.175 million and increase by $0.175 million (2008: decrease by $0.263 million and increase by $0.263 million). This is mainly attributable to the Company's exposure to interest rates on its fixed rate borrowings.

(g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Board.

Credit risk pertaining specifically to fuel hedging is mitigated through restricting dealings to highly rated Australian and international banks and/or bunker fuel suppliers. Each quarter a review is undertaken to confirm there has been no deterioration in the counterparties' credit standing which might impact their ability to meet their obligations under the agreement. A similar review is undertaken prior to entering into any new agreement.

To the extent that it becomes probable that the counterparty will default, the hedge relationship is no longer expected to be highly effective and therefore hedge accounting is discontinued.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 24 Financial instruments (continued)

Trade accounts receivable consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Company does not have any significant credit risk to any single counterparty. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Measurement of credit exposure is based on cost to replace existing transactions should the counterparty default. The table below sets out the maximum exposure to credit risk:

	2009 $'000	2008 $'000
Financial assets and other credit exposure		
Cash and cash equivalents	38,724	50,160
Trade and other receivables	10,588	12,274
Total other financial assets	176	-
Total	49,488	62,434

The risk associated with total other financial assets is further reduced by holding fuel hedges with more than one counterparty.

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturing profiles of financial assets and liabilities. Included in note 23(b) is a listing of undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 24 Financial instruments (continued)

Non- derivative

2009	Floating interest rate $'000	Fixed interest rate maturity: Less than 1 year $'000	1 -5 years $'000	Greater than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets						
Cash	38,592	-	-	-	132	38,724
Receivables	-	-	-	-	10,588	10,588
	38,592	-	-	-	10,720	49,312
Weighted average interest rate	5.13%					
Financial liabilities						
Payables	-	-	-	-	12,076	12,076
Interest-bearing liabilities	-	25,000	25,000	-	-	50,000
	-	25,000	25,000	-	12,076	62,076
Weighted average interest rate		5.73%	6.32%			

2008	Floating interest rate $'000	Fixed interest rate maturity: Less than 1 year $'000	1 -5 years $'000	Greater than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets						
Cash	50,038	-	-	-	122	50,160
Receivables	-	-	-	-	12,274	12,274
	50,038	-	-	-	12,396	62,434
Weighted average interest rate	6.13%					
Financial liabilities						
Payables	-	-	-	-	15,180	15,180
Interest-bearing liabilities	-	25,000	50,000	-	-	75,000
	-	25,000	50,000	-	15,180	90,180
Weighted average interest rate		5.63%	6.03%			

Derivative

The liquidity of the hedging instrument is assessed at each effectiveness measurement date. Changes in the fair value of the hedging instrument arising from any deterioration in its liquidity will be incorporated into the testing of effectiveness based on the hypothetical derivative method. Any resulting ineffectiveness will be immediately recorded in the income statement. In this respect, the hypothetical derivative will be a highly liquid instrument.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 24 Financial instruments (continued)

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur.

2009	Expected cash flows $'000	Less than 1 year $'000	1 -5 years $'000	Greater than 5 years $'000
Bunker fuel swap:				
Assets	176	1	175	-
Liabilities	(17,613)	(10,233)	(7,380)	-

There was no expense in 2008.

Fair value of financial instruments

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

Non-derivative

	2009		2008	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Financial assets				
Cash	38,724	38,724	50,160	50,160
Receivables	10,588	10,588	12,274	12,274
Financial liabilities				
Payables	12,076	12,076	15,180	15,180
Interest-bearing liabilities	50,000	51,287	75,000	74,132

Derivative

The fair value of bunker fuel swaps is based on mark-to-market valuation reports provided from the relevant counterparties. The difference between the contractual forward price and the mid market settlement rate at close of trade on the relevant day determines the respective cashflows for the relevant periods. These cashflows are discounted to determine the mark-to-market value for each period. Derivative instruments are carried at fair value.

Notes to the Financial Statements

for the financial year ended 30 June 2009

Note 25 Key management personnel compensation

The aggregate compensation made to directors and other members of the key management personnel of the Company is set out below:

	Short-term benefits $	Post-employment benefits $	Other long-term benefits $	Termination benefits $	Share based payment $	TOTAL $
2009	2,235,958	200,155	24,260	-	-	2,460,373
2008	1,994,561	164,421	(15,085)	-	-	2,143,897

Note 26 Related party disclosures

Transactions with key management personnel

Apart from the details disclosed in this note, no director has entered into a material contract with the Company and there were no material contracts involving directors' interests at the year end.

During the financial year the Company gave $130,000 (2008: $130,000) in sponsorships to the Tourism Industry Council Tasmania. Mr. S. Currant is the chairman of the Tourism Industry Council Tasmania for which he receives no remuneration.

During the financial year, directors and their director-related entities purchased goods/services, which were domestic or trivial in nature, from the Company on the same terms and conditions available to other employees.

Details of the key management personnel compensation are disclosed in note 25.

Note 27 Remuneration of auditors

	2009	2008
Auditor of the Company		
Audit of the financial report	52,180	51,580

The auditor of TT-Line Company Pty Ltd is the Tasmanian Audit Office.

Note 28 Subsequent events

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

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