25 YEARS SPIRIT OF TASMANIA

TT–LINE COMPANY PTY LTD

ANNUAL REPORT 2009–10

Celebrating 25 years of service

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 ferry 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.

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For these 25 years the company has been carrying passengers, their vehicles and freight from Tasmania to mainland Australia and return.

REPORT FROM THE CHAIRMAN

TT-LINE COMPANY PTY LTD HAS BEEN OPERATING PASSENGER AND PASSENGER VEHICLE SHIPS BETWEEN TASMANIA AND VICTORIA SINCE 1985 – FIRSTLY WITHIN THE DEPARTMENT OF TRANSPORT TASMANIA AND THEN AS A STATE-OWNED CORPORATION WHOLLY OWNED BY THE TASMANIAN GOVERNMENT FROM 1 NOVEMBER 1993.

The company celebrated an important milestone in the first half of the 2010 calendar year – our 25th year of operations under Tasmanian Government ownership.

For these 25 years the company has been carrying passengers, their vehicles and freight from Tasmania to mainland Australia and return. TT-Line has also been a strong ambassador and provided invaluable promotion for Tasmania throughout that time.

I am therefore pleased to report that in our 25th year of operations we have experienced growth in all product segments (refer CEO's report for details).

Total revenue for the year increased to $182.7 million compared to $173.6 million the previous financial year. TT-Line's underlying operational profit was $13.7 million ($6.7 million in 2008/09).

The company's net profit was $20.2 million ($2.4 million loss in 2008/09). This profit number has been impacted by two factors.

Firstly, the valuation of the vessels in Australian dollars has reduced by $50.6 million. The vessels are valued annually in Euros by European-based independent third parties. The underlying value of the vessels in Euros remained relatively steady (78 million Euros each this year, down from 80 million Euros each last year). The largest impact on the value has been the Australian dollar exchange rate movement over the past 12 months. The Australian dollar has appreciated substantially against the Euro, resulting in a significantly lower valuation in Australia dollars.

Secondly, the company has recorded a one-off tax benefit in its Statement of Comprehensive Income (this is a non-cash item). The decision recognises the strong financial performance of the company over recent years and the confidence the Board has in its future profitability, hence there is a strong probability that previous losses will be utilised.

TT-Line expects to be debt free with a final instalment of $25 million in June 2011, after making its $25 million debt reduction strategy payment in October 2009. Debt reduction and strengthening our financial position has been a priority for the Board and the Tasmanian Government as we look to the future and the replacement of our vessels, *Spirit of Tasmania I* and *II*.

On the subject of the replacement of the vessels, a committee of the Board has been established to oversee the very complex issues associated with ship replacement. Issues being considered include finance, new technology, consumer preferences, land side infrastructure and emission regulations.

TT-Line's ships are very important (and high-profile) pieces of infrastructure, providing a critical ferry bridge between Tasmania, Victoria and the rest of mainland Australia.

The company invests a significant amount of money in the vessels' operations and ongoing maintenance. Our main focus is to maintain excellence in safety, which is directly involved with the high standard maintenance of our engineering and technical capability. *Spirit of Tasmania* has an outstanding safety history and this is due to regularly scheduled ship inspections and servicing.

The ships are inspected in dry dock at least once every two years. *Spirit of Tasmania I* was dry-docked for scheduled maintenance and marine safety inspection during 2009/10.

The safe operation of our vessels continues to be a priority consideration for the Board. The Board takes very seriously its oversight of passenger and crew safety. It continues to be a monthly agenda item at Board meetings.

CEO Charles Griplas and the senior management team have done an excellent job managing and marketing the business during 2009/10. The 12-month period covered by this annual report was difficult for business, but Charles and his team have been outstanding in encouraging visitors to the State for the benefit of the Tasmanian tourism industry and the economy in general. These results are even more impressive when you take into account strong competition from other Australian destinations, more Australians choosing to holiday overseas and the ready availability of cheap airline fares.

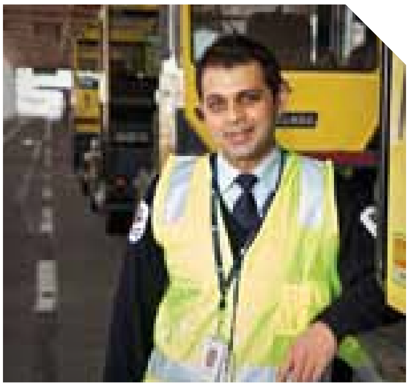
Expenditure by sea visitors to Tasmania who travelled on a *Spirit of Tasmania* vessel injected approximately $350 million into the State's economy in 2009/10.

It is also important to note the very important contribution the company makes to the economy of Tasmania each year. The direct and indirect value of the company's employment of staff totals $29.4 million alone. In addition, goods and services purchased by TT-Line, including engineering works, port fees, food and beverages, laundry services, stevedoring services and security services, were directly and indirectly responsible for injecting a further $22.9 million into the Tasmanian economy.

In closing, I would like to thank my fellow Directors for their support and wise counsel. I would particularly like to thank Deputy Chairman Mike Grainger for his dedicated, enthusiastic and hard work during my brief absence.

Finally, I would like to make note of the contribution of former Minister for Infrastructure Graeme Sturges, the Minister Responsible for TT-Line. I would also like to reference our new minister, Deputy Premier Lara Giddings, and the support she has demonstrated for the company since her appointment. It is also very important to note the assistance the Board has received from our shareholder minister, Treasurer Michael Aird.

Denis W Rogers AO
Chairman



Celebrating 25 years in Devonport and Melbourne

The TT-Line board of directors at the Devonport 25 year celebration (from left) Anthony Tobin, Chairman Denis Rogers AO, Simon Currant AO, Jayne Wilson, Dr Jeffrey Hawkins, CEO Charles Griplas, Rodney Chadwick and Michael Grainger.

...TT-Line takes very seriously its responsibilities as a ferry operator...

REPORT FROM THE CEO

THE 12 MONTHS COVERED BY THIS ANNUAL REPORT WERE DIFFICULT BY ANY MEASURE BECAUSE OF CONTINUING UNCERTAIN NATIONAL AND WORLD ECONOMIC CONDITIONS AND A TURBULENT AUSTRALIAN TOURISM INDUSTRY.

But, facing increased competition from other Australian destinations and cheap airlines fares, TT-Line Company Pty Ltd performed very well in 2009/10.

The company achieved a four per cent growth in passenger numbers, 2.6 per cent growth in passenger vehicles transported, a 10 per cent growth in TEUs (freight), an increase of nearly four per cent in passenger revenue and a 7.5 per cent increase in freight revenue.

While reflecting on these successes, it is important to note that TT-Line takes very seriously its responsibilities as a ferry operator to the Tasmanian tourism sector and freight operators.

With this in mind, I am pleased to report that our company has implemented major change initiatives in order to secure our brand prominence, improve our organisational efficiency and build our presence in the digital marketplace.

In September 2009 TT-Line implemented a program to replace its core reservation system. Delivered in May 2010 on time and within budget, the company's new look website (spiritoftasmania.com.au) and internet booking platform represent the public face of this system.

As a result, TT-Line is able to offer its passengers greater flexibility in booking online. Passengers can now book online all vehicles, multiple cabin types, share cabins and multiple vehicles. Passengers can also make simple amendments to existing bookings, email a simplified booking itinerary and access an easy-to-use availability calendar. These are important developments that will further enhance our operations.

As the Chairman notes in his Annual Report message, during the second half of the 2009/10 financial year TT-Line Company Pty Ltd celebrated its 25th anniversary of operations. Over the past 25 years, TT-Line vessels have carried more than 6 million passengers and nearly 2.5 million passenger vehicles.

These are impressive numbers, and demonstrate the significant impact the company has had over many years on the tourism sector in Tasmania and the broader Tasmanian economy.

In 2009/10 terminal services checked in 405,554 passengers (390,746 in 2008/09), 187,273 passenger vehicles (182,595) and 94,371 units of freight (85,288). This was our best all-round performance for more than five years.

Looking forward, the forecast for 2010/11 points to continuing challenges in the travel and freight market. But I am confident the organisation is well placed to continue to operate successfully, not only as a major player in the Tasmanian tourism industry but as the manager of one of the State's major pieces of infrastructure.

The company is well prepared for a challenging 12 months. We are updating the look of our advertising, have introduced a new loyalty program, launched a new travel guide and are working to increase website hits. In addition we intend to bring more journalists, representing more newspapers and publications in our key markets, to Tasmania on the Spirits.

People

The organisation conducted its second employee opinion survey in 2009 which provided the senior management team and Board with important feedback. Since the first survey in 2008 we have achieved improvements in overall performance and employee satisfaction – a pleasing result.

As reported last year, employees were asked for their opinions about the values they wanted for the business to underpin the way we communicate and interact with customers and stakeholders. In 2009/10 the adoption and implementation of our corporate values continued.

The company introduced a new employment model for our seagoing employees that has created more permanent employment opportunities at sea.

Travel experience

I am very pleased to once again report that independent research commissioned by the company found that 96 per cent of respondents said that their travel experience met or exceeded their expectations.

Other highlights of the research included 92 per cent of day sailing respondents rating the overall travel experience positively while the level of service, comfort and enjoyment of night sailings were identified as the key reasons behind the trip exceeding expectations.

The research also found that the majority of interstate visitors travelling on TT-Line spent about one or two weeks in Tasmania, which was comparable to previous years. Also similar to last year, respondents said they were predominantly driven by functional factors when choosing to travel on *Spirit of Tasmania*, namely the ability to take one's vehicle (74 per cent). Tasmanian passengers were more likely to state they chose *Spirit of Tasmania* because they could take their vehicle and it was easier and/or cheaper than flying.

The likelihood of travelling again on the *Spirit of Tasmania* was encouraging, with 95 per cent of the overall sample saying they would travel on the ship again. Tasmanians were slightly more likely than interstate travellers to consider future travel (98 per cent and 93 per cent respectively).

Community support

In addition to being a major contributor to the Tasmanian economy through its tourism activities and general operations, the company is also a strong supporter of various Tasmanian-based organisations, initiatives and charities.

In 2009/10, TT-Line sponsored the *Spirit of Tasmania* Award, part of the Southern Cross Young Achiever Awards, for a fifth year. The award recognises young people who possess confidence, creativity, credibility, leadership, commitment and high achievement.

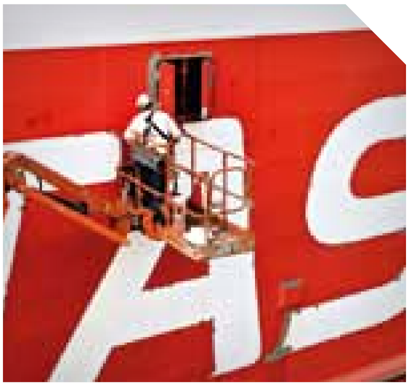
The latest award was presented to 21-year-old Danni Murfet, of Launceston, who works with the disabled, disadvantaged and those in need. With two friends, she started a youth support group, Working it Out, for young gay women in Launceston. She was also involved with the Youth Network of Tasmania, Tasmanian Youth Forum and volunteers with St John Ambulance and the Speak Out Forum – an outstanding young Tasmanian.

In 2009/10, TT-Line continued its sponsorship of Targa Tasmania and sponsored the Tour of Tasmania bike race. The six-day cycling event started from inside the ship.

Spirit of Tasmania also continued its sponsorship of the Tourism Industry Council of Tasmania.

The Events Committee in the Telephone Sales Centre in Devonport has been fundraising for varying charities for many years. The committee has donated thousands of dollars to a wide range of causes. Its work continued in 2009/10, with the RSPCA, Gran's Van (a charity that serves food to Devonport's underprivileged), the Victorian bushfire appeal (Red Cross), the Salvation Army, Cancer Council's Relay for Life, the Fred Hollows Foundation and Red Nose Day benefiting this year.

...the company is also a strong supporter of various Tasmanian-based organisations...



The vessels are dry-docked every two years for scheduled maintenance and marine safety inspection.

Environment

Spirit of Tasmania I was dry-docked in 2009. As was the case when *Spirit of Tasmania II* was dry-docked in 2008/09, underwater paint coatings were removed and replaced with a smooth silicon paint, an environmentally sound alternative to tin-based anti-fouling paint. The vessels are dry-docked every two years for scheduled maintenance and marine safety inspection.

After a trial period the company installed glass crushing equipment on both vessels in January 2010. After crushing, the glass is collected for recycling when the vessels are in port. Between 1 January 2010 and 30 June 2010 more than 19,300 kilograms of glass were removed from the vessels for recycling. The glass would previously have been disposed of in landfill.

TT-Line registered under the Federal Government's National Greenhouse Energy and Reporting (NGER) Act for the 2008/09 year. The company's report under NGER was submitted to the appropriate Federal Government department within the required deadline of 31 October 2009.

Brand

As noted previously, the *Spirit of Tasmania* brand continued to be the dominant force for interstate-based travellers visiting Tasmania and our vessels continued to be the dominant mode of travel for Victorians travelling to Tasmania.

The company's various and innovative retail promotions in 2009/10 delivered strong results.

The *Spirit of Tasmania* website received more than 1.27 million visits in 2009/10, a 22 per cent increase compared to the previous financial year. Online bookings comprised 43 per cent of total bookings, increasing by 31 per cent compared to 2008/09.

Online advertising generated 61 per cent more passenger legs and 65 per cent more revenue in 2009/10 compared to the previous financial year.

Importantly, during the first full month (June 2010) following the launch of the new online booking system, online bookings accounted for 62 per cent of total bookings (a 24 per cent increase compared to June 2009).

In 2009/10 the company distributed nearly 470,000 electronic and hard copy direct mail pieces to its consumer database.

Spirit's Tassie on a shoestring campaign was one of the company's most successful promotions, attracting more than 530 entries from Tasmanians who shared their ideas about how to enjoy a Tasmanian holiday on a shoestring budget.

The Tasmania ... A trip to remember travel guide campaign also proved successful. The direct mail (electronic and hard copy), press and online promotion generated more than 4330 passenger legs and more than $720,000 in revenue.

To celebrate TT-Line's 25th birthday, the company launched various promotional campaigns, including $25 ocean recliner fares, 25 great winter deals with leading Tasmanian and Victorian tourism partners, $25 meal deals and $250 gift voucher giveaways.

The company was represented at more than 30 consumer and trade shows through 2009/10 that collectively were attended by nearly 590,000 consumers.

Members of the company's business development team participated in a tour of Tasmania to increase their knowledge of attractions and accommodation offers and to develop/enhance key relationships with tourist operators.

Special event bookings in 2009/10 almost doubled compared to the previous financial year.

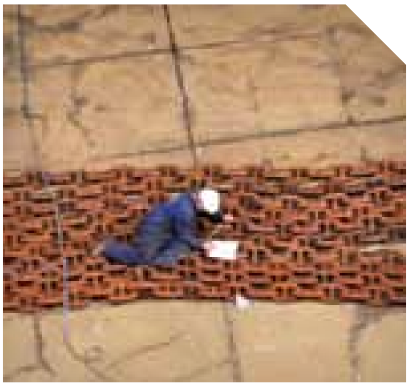
Safety and reliability

Spirit of Tasmania I was dry-docked in 2009/10 at Garden Island in Sydney. The vessel underwent extensive external cleaning and mechanical upgrades during the dock.

Inspection and maintenance of main engines, stabilisers, life-saving appliances and other machinery components were undertaken to maintain the operational reliability of the ship's major equipment, ensuring a high standard of safety for all passengers, crew and cargo.

Specifically, the work undertaken included checking and overhauling the sea valves, anodes that protect the steel, maintenance on the thrusters, engines and propellers that can only be done out of the water and measuring wear down on anchor cables.

The vessels maintained an impeccable record in 2009/10, completing 822 voyages without major incident. The vessels did not miss a sailing and completed every voyage.



Hospitality

TT-Line appointed a new General Manager of Retail and Hospitality in 2009/10.

Nick Harriman joined the company in January 2010. He has worked in various senior management roles for a range of well-known hotels in Australia and overseas and was educated at the Les Roches Hotel Management School in Switzerland.

His priority in his first six months with the company was to re-establish relationships with Tasmanian-based vineyards, cheese makers, farmers and other producers to ensure we offer the very best local produce on board. This work has been very successful. The company will continue to interact with Tasmanian producers and suppliers in the new financial year.

On board the vessels, the names of restaurants and bars have been changed. As part of this change, new menus have been created offering more Tasmanian cuisine and wines, and the restaurants and bars have been given an updated look and feel.

The TT-Line-owned Edgewater Hotel (that features 42 rooms, a restaurant, two bars, gaming facilities and functions rooms) continues to operate with high occupancy and customer satisfaction ratings.

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.

EXPLANATIONS OF THE NUMBERS STATEMENT – UNAUDITED

for the year ended 30 June 2010

	Jun-10 $'000	Jun-09 $'000
Revenue from operations		
Devonport – Melbourne	180,976	172,990
Other Revenue	3,031	3,050
	184,007	176,040
Expenses from operations		
Devonport – Melbourne	(150,368)	(147,675)
Other expenses	(2,894)	(2,924)
	(153,262)	(150,599)
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	**30,745**	**25,441**
Depreciation and Amortisation		
Devonport – Melbourne	(14,496)	(14,451)
Other	(194)	(197)
	(14,690)	(14,648)
Earnings before Interest and Tax (EBIT)	**16,055**	**10,793**
Interest expense		
Devonport – Melbourne	(2,330)	(4,049)
UNDERLYING OPERATIONAL PROFIT	**13,725**	**6,744**
Represented as follows:		
Devonport – Melbourne	13,782	6,815
Other	(57)	(71)
	13,725	**6,744**
Reconciliation to Audited Profit/(Loss) for the period		
Underlying operational profit	13,725	6,744
Accounting adjustments		
Valuation of the ships adjustment	(24,995)	–
Interest received/(expense) – Financial asset	–	44
Defined benefits superannuation adjustment	(587)	(965)
Profit before taxation equivalent expense	(11,857)	5,823
Taxation (expense)/benefit	32,057	(8,259)
Profit/(loss) for the period – audited	**20,200**	**(2,436)**

TT–LINE COMPANY PTY LTD

ANNUAL FINANCIAL REPORT

for the year ended 30 June 2010

ABN 39 061 996 174

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CORPORATE GOVERNANCE STATEMENT

WHILE TT-LINE COMPANY PTY LTD (COMPANY) 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;
- recommending 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 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
- Vessel Replacement and Procurement
- Director Nomination.

The Auditor-General completed a Governance Review of TT-Line in June 2005. In a follow-up review it was reported to Parliament in June 2008 that 98% of its 2005 recommendations had been implemented by the Company. A formal system of performance management for the Board has now been put in place and in the Company's opinion it has now fully implemented the recommendations of the Auditor-General's 2005 review.

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 appointed KPMG to conduct a Board performance review which was completed in October 2009. A Board performance review will be conducted on an annual basis.

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 programs. 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 2010. 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 Risk and Remuneration Committees in an ex-officio capacity.

Mr Simon Currant AO

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

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 Risk and Remuneration Committees.

Mr Michael Grainger, Deputy Chairman.

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 and Vessel Replacement and Procurement Committees.

Mr Anthony Tobin

Joined the Board in 2005 in a non-executive capacity. Mr Tobin is a founding partner of Gilbert + Tobin lawyers. 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 and Risk and Vessel Replacement and Procurement Committees.

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. He is a member of the Vessel Replacement and Procurement Committee.

Mr Rodney Chadwick

Joined the Board in 2007 in a non-executive capacity. Mr Chadwick is Chairman of the Monash University Medical Foundation. During the year he retired as Chairman of two public companies, Ausmelt Ltd and KLM Group Ltd upon the successful sale of each. He also holds a number of other directorships in the private sector. He is a member of the Audit and Risk and Vessel Replacement and Procurement Committees.

Mr Charles Griplas

Appointed Director in 2009. Chief Executive Officer of TT-Line Company Pty Ltd since 2008. Director of the Tourism Industry Council of Tasmania.

Remuneration of Directors and senior management

Information about the remuneration of Directors and senior management is set out in Note 24 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 profit after tax of $20.200 million for the year ended 30 June 2010 ($2.436 million loss for 30 June 2009). The Company implemented a strategy of increasing the number of sailings during the year to grow both the passenger and freight market. As a result of this strategy, revenue increased due to the strong demand for these additional sailings. Whilst costs increased as a result of these additional sailings, they increased at a lower rate than revenue. Interest expenditure was also reduced due to the Company paying off a further $25 million of its outstanding debt. The Company remains on-track to be debt free by June 2011. The Company continued its fuel hedging strategy during the year in order to gain more long-term certainty over one of its largest items of expenditure. The Company now recognises the tax benefit from historical tax losses due to the fact it now passes the 'probability' test regarding the likelihood that future taxable income would be available against which the unused losses could be utilised. As a result, income tax expense has had a once-off credit of $33.517 million to reflect this. Details of income tax for the year are found in Note 9 to the financial statements.

The value of each vessel reduced from $137.139 million (80 million Euro) to $111.818 million (78 million Euro) between 2009 and 2010. The reduction in the value of the vessels in Euros, combined with the movement in the AUD/Euro exchange rate resulted in a $14.733 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 21). Additionally, this devaluation of the vessels has resulted in an expense being recognised in the Statement of Comprehensive Income of $24.995 million.

Key Statistics

	Jun-10	Jun-09	Jun-08	Jun-07
Voyages	822	800	804	825
Passengers	405,554	390,746	385,028	393,677
Vehicles	187,274	182,595	177,265	177,786
Freight (twenty foot equivalent units)	94,371	85,288	85,594	77,734

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 stated 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 (as named above) 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, 2 Remuneration Committee and 5 Vessel Replacement and Procurement Committee meetings were held.

	Board Meetings		Audit and Risk Committee		Remuneration Committee		Vessel Replacement and Procurement Committee	
Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Mr Denis Rogers AO	11	8	4	3	2	1		
Mr Simon Currant AO	11	10						
Ms Jayne Wilson	11	11	4	4	2	2		
Mr Michael Grainger	11	9	1	1	2	2	5	5
Mr Anthony Tobin	11	11	4	4			5	5
Dr Jeffrey Hawkins	11	11					5	5
Mr Rodney Chadwick	11	11	4	4			5	4
Mr Charles Griplas	11	11					5	5

Public Interest Disclosure

The Board of the Company has ratified a Public Interest Disclosure procedure in line with the *Public interest Disclosure Act 2002* and a copy of the procedures may be viewed at the company's head office during business office hours.

During the year ended 30 June 2010, the Company received no disclosures that were determined to be public interest disclosures.

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, 19 August 2010

Ground Floor,
144-148 Macquarie Street
Hobart Tasmania 7000

Postal Address:
GPO Box 851
Hobart Tasmania 7001

Phone: 03 6226 0100
Fax: 03 6226 0199
Email: admin@audit.tas.gov.au
Web: www.audit.tas.gov.au

18 August 2009

The Board of Directors
TT-Line Company Pty Ltd
PO Box 168E
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 2010, 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) of the *Corporations Act 2001* a copy of this declaration must be included in the Directors' report.

Yours sincerely

E R De Santi
DEPUTY AUDITOR-GENERAL
Delegate of the Auditor-General

INDEPENDENT AUDIT REPORT

To the Members of TT-Line Company Pty Ltd

Financial Statements for the Year Ended 30 June 2010

Report on the Financial Statements

I have audited the accompanying financial statements of TT-Line Company Pty Ltd (the Company), which comprise the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 3, 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, comply 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 required 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 judgment, 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 the Company, dated 18 August 2010 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 2010 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 3.

TASMANIAN AUDIT OFFICE

E R De Santi
DEPUTY AUDITOR-GENERAL
Delegate of the Auditor-General

HOBART
19 August 2010

To provide independent assurance to the Parliament and Community on the performance and accountability of the Tasmanian Public sector.
• Professionalism • Respect • Camaraderie • Continuous Improvement • Customer Focus •

Making a Difference

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;

(c) in the directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; and

(d) 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, 19 August 2010

STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended 30 June 2010

	Note	Jun-10 $'000	Jun-09 $'000
Revenue	5	182,677	173,608
Cost of sales	10(a)	(112,815)	(112,356)
Gross profit		**69,862**	**61,252**
Investment Revenue	6	886	1,978
Other Gains/(Losses)	7	(13)	1
Other expenses	10(b)	(55,267)	(53,358)
Finance costs	8	(2,330)	(4,049)
PROFIT BEFORE IMPAIRMENT AND TAXATION EQUIVALENT BENEFIT		**13,138**	**5,824**
Tax equivalent benefit/(expense)	9	(3,912)	(8,260)
PROFIT/(LOSS) FOR THE YEAR AFTER TAX AND BEFORE IMPAIRMENT AND OTHER TAX BENEFIT/(EXPENSE)		9,226	(2,436)
Impairment of Vessels	13	(24,995)	-
Other Tax Equivalent Benefit/(Expense)	9	35,969	-
NET PROFIT/(LOSS) FOR THE YEAR		**20,200**	**(2,436)**
Other Comprehensive Income for the year net of tax			
Asset Revaluation Reserve	9, 21	(14,733)	(7,067)
Cash Flow Hedge Reserve	9, 21	7,010	(12,206)
		(7,723)	**(19,273)**
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**12,477**	**(21,709)**

Notes to the financial statements are included on pages 27 to 55.

STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

	Note	Jun-10 $'000	Jun-09 $'000
CURRENT ASSETS			
Cash and cash equivalents	23(a)	24,881	38,724
Trade and other receivables	11	13,063	10,588
Inventories	12	1,670	1,839
Other	14	1,086	512
TOTAL CURRENT ASSETS		**40,700**	**51,663**
NON-CURRENT ASSETS			
Property, plant and equipment	13	240,380	287,220
Deferred Tax Asset	9	38,329	-
Other	14	983	175
TOTAL NON-CURRENT ASSETS		**279,692**	**287,395**
TOTAL ASSETS		**320,392**	**339,058**
CURRENT LIABILITIES			
Trade and other payables	15	11,346	12,076
Borrowings	16	25,000	25,000
Provisions	17	7,411	7,860
Other	18	17,278	18,934
TOTAL CURRENT LIABILITIES		**61,035**	**63,870**
NON-CURRENT LIABILITIES			
Borrowings	16	-	25,000
Provisions	17	6,523	5,884
Deferred Tax Liability	9	2,962	-
Other	18	560	7,469
TOTAL NON-CURRENT LIABILITIES		**10,045**	**38,353**
TOTAL LIABILITIES		**71,080**	**102,223**
NET ASSETS		**249,312**	**236,835**
EQUITY			
Issued Capital	20	328,981	328,981
Reserves	21	(5,196)	2,527
Accumulated losses	22	(74,473)	(94,673)
TOTAL EQUITY		**249,312**	**236,835**

Notes to the financial statements are included on pages 27 to 55.

STATEMENT OF CHANGES IN EQUITY

for the financial year ended 30 June 2010

	Share Capital $'000	Asset Revaluation Reserve $'000	Cash flow Hedging Reserve $'000	Accumulated Losses $'000	Total $'000
Balance at 1 July 2008	328,981	21,800	–	(92,237)	258,544
Loss for the year	–	–	–	(2,436)	(2,436)
Other comprehensive income for the year	–	(7,067)	(12,206)	–	(19,273)
Total comprehensive income for the year	–	(7,067)	(12,206)	(2,436)	(21,709)
Balance at 30 June 2009	328,981	14,733	(12,206)	(94,673)	236,835
Profit for the year	–	–	–	20,200	20,200
Other comprehensive income for the year	–	(14,733)	7,010	–	(7,723)
Total comprehensive income for the year	–	(14,733)	7,010	20,200	12,477
Balance at 30 June 2010	**328,981**	**–**	**(5,196)**	**(74,473)**	**249,312**

Notes to the financial statements are included on pages 27 to 55.

STATEMENT OF CASH FLOWS

for the financial year ended 30 June 2010

	Note	Jun-10 $'000	Jun-09 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts in the course of operations		199,065	193,489
Interest received		919	2,160
Cash payments in the course of operations		(172,324)	(169,470)
Borrowing costs paid		(2,599)	(4,341)
Net cash provided by operating activities	26	25,061	21,838
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		137	44
Payments for property, plant and equipment		(14,041)	(8,318)
Net cash (used in)/provided by investing activities		(13,904)	(8,274)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(25,000)	(25,000)
Net cash used in financing activities		(25,000)	(25,000)
Net increase/(decrease) in cash held		(13,843)	(11,436)
Cash and cash equivalents at the beginning of the financial year		38,724	50,160
Cash and cash equivalents at the end of the financial year	26	24,881	38,724

Notes to the financial statements are included on pages 27 to 55.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2010

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's 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 between Devonport and Melbourne.

Note 2 Adoption of new and revised Accounting Standards and Interpretations

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected t he amounts reported in these financial statements. Details of other Standards and Interpretations which have been adopted in these financial statements but have had no effect on the amounts are also set out below.

Standards affecting presentation and disclosure

AASB 101 Presentation of Financial Statements (as revised in September 2007), AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 and AASB 2007-10 Further Amendments to Australian Accounting Standards arising from AASB 101	AASB 101 (September 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
AASB 2009-2 Amendments to Australian Accounting Standards - Improving Disclosures about Financial Instruments	The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Company has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.
Amendments to AASB 107 Statement of Cash Flows (adopted in advance of effective date of 1 January 2010)	The amendments (part of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements* Project) specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 Intangible assets for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows. Prior year amounts have been restated for consistent presentation.

Standards and Interpretations adopted with no effect on financial statements

AASB 123 Borrowing Costs (as revised in 2007) and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123	The principal change to AASB 123 was to eliminate the option to expense all borrowing costs when incurred. This change has no impact on these financial statements because it has always been the Company's accounting policy to capitalise borrowing costs incurred on qualifying assets.
AASB 2008-8 Amendments to Australian Accounting Standards - Eligible Hedged Items	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	In addition to the changes affecting amounts reported in the financial statements described above, the amendments have led to a number of changes in the detail of the Company's accounting policies - some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2010

Note 2 Adoption of new and revised Accounting Standards and Interpretations (continued)

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning in or after	Expected to be initially applied in the financial year ending
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*	1 January 2010	30 June 2011
AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions	1 January 2010	30 June 2011
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issue	1 February 2010	30 June 2011
AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	30 June 2012
AASB 9 Financial Instruments AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2013	30 June 2014
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011	30 June 2012
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	30 June 2011

* AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project specify amendments resulting from IASB's annual improvement project to various Australian accounting standards and interpretations. As permitted, the Company has early adopted most of the amendments in AASB 2009-5.

A number of Australian Accounting Standards and Interpretations (and IFRSs and IFRIC Interpretations) are in issue but were not yet effective for the current year end. The reported results and position of the Company will not change on adoption of these pronouncements as they do not result in any changes to the Company's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements. The Company does not intend to adopt any of these pronouncements before their effective dates.

Note 3 Significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply 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 statements were authorised for issue by the Directors on 19 August 2010.

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.

Early adoption of Accounting Standards

The Directors have elected under s.334 (5) of the *Corporations Act 2001* to apply Amendments to AASB107 Statement of Cash Flows in advance of its effective date. The standard is not required to be applied until annual reporting periods beginning on or after 1 January 2010.

Note 3 Significant accounting policies (continued)

The impact of the adoption of this standard is disclosed in Note 2 to the financial statements.

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

(a) 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.

Passenger and freight

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.

Interest revenue

Interest revenue is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue 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 on initial recognition.

On-board trading

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

Other revenue

Other revenue is recognised as it accrues.

(b) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Company as lessee

Assets held under finance leases are initially recognised as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under the operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(c) Foreign currencies

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see 3(l) below for hedge accounting policies).

(d) 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.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long-term employee benefits 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.

Note 3 Significant accounting policies (continued)

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

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 period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Company's defined benefit obligation and the fair value of the plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees. 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 statement of financial position represents the present value of the defined benefit obligation, adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of 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.

(e) Taxation

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 expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. 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 there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its 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 statement of comprehensive income, except when it relates to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss.

(f) 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.

Land and buildings held for use in the production or supply of goods and services, or for administrative purposes, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. 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 the end of the reporting period.

Any revaluation increase arising on revaluation is recognised in other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in carrying amount arising on revaluation is recognised

Note 3 Significant accounting policies (continued)

in profit or 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 recognised in profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Properties in the course of construction for production, supply 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.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives (refer note 4), residual values and depreciation method are reviewed at each year end, with the effect of any changes recognised on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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.

(g) Impairment of tangible assets

At the end of each reporting period, 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 it is not possible to estimate the recoverable amount of an individual asset, 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 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 3 (f)).

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 so 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 3 (f)).

(h) 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.

(i) 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 the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Note 3 Significant accounting policies (continued)

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

(j) Financial assets

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

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets 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, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets classified as at FVTPL.

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 any impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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 affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default in receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised 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 is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When the trade receivable is considered uncollectible, it is written off against the 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.

(k) Financial liability and equity instruments issued by the Company

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

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, to the net carrying amount on initial recognition.

Note 3 Significant accounting policies (continued)

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(l) 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 23 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).

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

Hedge accounting

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or 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 Company documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, 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.

Notes 9, 14, 18 and 23 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 is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of comprehensive income 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 accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated 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.

(m) 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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2010

Note 3 Significant accounting policies (continued)

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

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.

Note 4 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts 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 of the revision 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.

Critical judgments in applying the Company's accounting policies

The following are the critical judgments, apart from those involving estimations (see 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.

Employee entitlements

Management judgment 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 3(f), the Company reviews the estimated useful lives of property, plant and equipment at the end of 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.

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

Note 13 reports the carrying amount of the Company's vessels and note 3(f) details the valuation policy. Significant judgments made in applying these policies include:

- The need for an independent valuation
- The need for the valuation to be in Euro
- A residual value of $38.212 million (per vessel) based on 20% of the initial purchase price.

All of these assumptions include risk that can materially alter the carrying value of the ships.

Fair value of derivatives and other financial instruments

As described in note 23, management uses its judgment 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 the end results of sensitivity analyses regarding these assumptions are provided in note 23.

Note 5 Revenue

The following is an analysis of the Company's revenue for the year from continuing operations:

	2010 $'000	2009 $'000
Revenue from the sale of goods	13,256	12,332
Revenue from the provision of services	169,421	161,276
	182,677	173,608

Note 6 Investment revenue

Interest revenue:		
Bank deposits	886	1,978

Note 7 Other gains and losses

Gain/(loss) on disposal of property, plant and equipment	(13)	1

No other gains or losses have been incurred in respect of loans and receivables or held-to-maturity investments, other than as disclosed in note 6 and impairment recognised/reversed in respect of trade receivables as disclosed in note 11.

Note 8 Finance costs

Interest on bank overdraft and loans	2,330	4,049

Finance costs relating to financial liabilities classified as at fair value through profit or loss are included in 'Other gains and losses' in note 7.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2010

Note 9 Income tax expense

Recognised in the statement of comprehensive income	2010 $'000	2009 $'000
Current Tax Expense		
Current year tax expense/(benefit)	1,407	205
Adjustments for prior years	53	22
	1,460	227

Deferred Tax Expense attributable to transactions recognised in statement of comprehensive income		
Origination and reversal of temporary differences:		
Increase in deferred tax liability	2,292	2,079
Decrease/(Increase) in deferred tax asset	160	(585)
Non-recognition of temporary differences and tax equivalent losses	–	6,538
Net Income tax expense/(benefit) recognised in income statement	3,912	8,259

Other Tax Expense/(Benefit)		
Recognition of previously unrecognised tax losses	(31,420)	–
Recognition of previously unrecognised temporary differences	2,949	–
Tax on devaluation of vessel	(7,498)	–
Total other tax expense/(benefit)	(35,969)	–

Deferred tax recognised in other comprehensive income		
Tax impact of revaluation of property, plant and equipment	(6,314)	(3,029)
Tax impact of movement in cashflow hedge reserve	3,004	(5,230)
Net income tax expense/(benefit) attributable to transactions recognised in equity	(3,310)	(8,259)

Recognition of deferred tax balances

As at 30 June 2010, the Company has recognised a deferred tax asset of $29.960 million attributable to tax losses as management now considers it probable (based on forward projections of income) that future taxable profits will be available against which those losses can be utilised. A deferred tax asset of $8.369 million relating to temporary differences and a deferred tax liability of $2.962 million relating to taxable temporary differences has also been recognised on the same basis.

Further details in relation to the deferred tax asset and liability are disclosed below.

Tax benefits not recognised		
Deferred tax liability – revaluations	–	(14,220)
Deferred tax assets – revenue losses	–	31,420
Deferred tax assets – capital losses	116	116
Deferred tax assets – other	–	11,271
Net tax assets not recognised	116	28,587

Note 9 Income tax expense (continued)

Numerical reconciliation between tax expense and pre-tax net profit	2010 $'000	2009 $'000
Profit before tax	13,138	5,823
Prima facie tax expense at 30%	3,941	1,747
Non-deductible entertainment	65	21
Investment allowance	(105)	(46)
Other items	4	–
Under/over provided in prior years	7	(1)
Non-recognition of temporary differences and tax equivalent losses	–	6,538
Tax on de-valuation of vessel	(7,498)	–
Recognition of previously unrecognised temporary differences	2,949	
Recognition of previously unrecognised tax losses	(31,420)	–
	(32,057)	8,259

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Balance 1 July 2009	Recognised in profit or loss (previously unrecognised)	Recognised in profit or loss (movement)	Recognised in other comprehensive income	Balance 30 June 2010
Deferred tax assets					
Derivative liability – fuel hedge	–	5,284	–	(2,742)	2,542
Employee provisions	–	4,124	99	–	4,223
Other accruals	–	184	12	–	196
Other items	–	265	(133)	–	133
Property, plant and equipment	–	1,354	(173)	–	1,181
Provisions	–	59	34	–	94
Tax losses	–	31,420	(1,460)	–	29,960
	–	42,691	(1,620)	(2,742)	38,329
(Deferred tax liabilities)					
Accrued income	–	(44)	10	–	(34)
Consumables	–	(464)	54	–	(410)
Derivative liability – fuel hedge	–	(53)	–	(262)	(315)
Other accruals	–	(21)	(83)	–	(104)
Property, plant and equipment	–	(13,638)	5,225	6,314	(2,099)
	–	(14,220)	5,207	6,052	(2,962)
Net	**–**	**28,471**	**3,586**	**3,310**	**35,367**

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2010

Note 10 Profit for the year from continuing operations

Profit for the year from continuing operations has been arrived at after charging:

(a) Cost of sales	2010 $'000	2009 $'000
Employee benefits expense:		
Defined contribution plans	4,021	4,483
Defined benefit plans	587	965
Termination benefits	616	460
Other employee benefits	46,766	44,693
	51,990	50,601
Cost of food and beverage	4,164	3,694
Consumables	4,085	3,933
Repairs and maintenance	9,300	9,800
Bunker fuel and oil	43,276	44,328
	112,815	112,356

(b) Other expenses		
Depreciation of:		
Buildings, plant and equipment	1,279	1,057
Ships	12,929	13,063
Amortisation of:		
Leasehold improvements	482	528
Total depreciation and amortisation	14,690	14,648
Tasmanian quarantine	562	592
Terminal operations*	23,577	20,193
Administration	7,840	9,206
Customer acquisition	8,598	8,719
	55,267	53,358

* Increase in terminal operations expense primarily due to increased number of passengers and freight TEUs transported throughout the year.

Note 11 Trade and other receivables

Trade receivables	11,902	9,042
Allowance for doubtful debts	(312)	(198)
	11,590	8,844
Goods and services tax recoverable	(83)	69
Other debtors	1,556	1,675
	13,063	10,588

Note 11 Trade and other receivables (continued)

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period on sales of goods is 24 days. No interest is charged on trade receivables. The Company has recognised an allowance for doubtful debts of 100% against all receivables over 120 days because historical experience has been that receivables that are due beyond 120 days are not recoverable. Allowances for doubtful debts are recognised against trade receivables between 60 and 120 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

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.

Ageing of past due but not impaired	**2010** $'000	**2009** $'000
60–90 days	542	571
90–120 days	235	24
Total	777	595

Movement in the allowance for doubtful debts		
Balance at the beginning of the year	198	313
Impairment (gain)/losses recognised on receivables	126	(110)
Amounts written off as uncollectible	(12)	(5)
Balance at the end of year	312	198

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 12 Inventories

Shore stock at cost	32	39
Bunker fuel at cost	1,065	1,221
Maintenance stock at cost	269	286
Food and beverages at cost	304	293
	1,670	1,839

The cost of inventories recognised as an expense during the period in respect of continuing operations was $40.867 million (2009: $37.456 million).

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2010

Note 13 Property, plant and equipment

	2010 $'000	2009 $'000
Cost or valuation	253,386	302,753
Accumulated depreciation and impairment	(13,006)	(15,533)
	240,380	**287,220**
Leasehold improvements at cost	6,191	5,564
Plant and equipment at cost	5,975	2,608
Ships at fair value	223,636	274,278
Buildings at cost	4,078	4,270
Freehold land at cost	500	500
	240,380	**287,220**

	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 $'000
Gross carrying amount						
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 1 July 2009	**12,003**	**10,786**	**274,278**	**5,186**	**500**	**302,753**
Acquisitions (net of funds recovered)	1,109	4,604	3,297	2	–	9,012
Major cyclical maintenance	–	–	5,031	–	–	5,031
Disposals	–	(4,440)	–	–	–	(4,440)
Gross revaluation increment/(decrement)	–	–	(58,970)	–	–	(58,970)
Balance at 30 June 2010	**13,112**	**10,950**	**223,636**	**5,188**	**500**	**253,386**

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2010

Note 13 Property, plant and equipment (continued)

	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 $'000
Accumulated depreciation/ amortisation and impairment						
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 1 July 2009	**6,439**	**8,178**	**–**	**916**	**–**	**15,533**
Disposals	–	(4,288)		–	–	(4,288)
Depreciation expense	482	1,085	12,929	194	–	14,690
Adjustments from revaluation increment/(decrement)	–	–	(12,929)	–	–	(12,929)
Balance at 30 June 2010	**6,921**	**4,975**	**–**	**1,110**	**–**	**13,006**
Net book value						
As at 30 June 2009	**5,564**	**2,608**	**274,278**	**4,270**	**500**	**287,220**
As at 30 June 2010	**6,191**	**5,975**	**223,636**	**4,078**	**500**	**240,380**

Ships carried at fair value

An independent valuation of the Company's ships 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 $137.139 million (80.000 million Euro) to $111.818 million (78.000 million Euro) between 2009 and 2010. This resulted in a total reduction in the value of the ships of $58.970 million. The amount of this reduction directly attributable to movement in the exchange rate between the Australian Dollar and Euro was $44.908 million. As a result, the revaluation reserve has been decreased by $14.733 million, net of tax, and an expense item has been recorded in the Statement of Comprehensive Income for $24.995 million.

If the ships (*Spirit of Tasmania I* and *II*) had been carried at cost, the carrying value of each ship would be $213.783 million.

Estimations of economic life and residual value of the ships are key judgments in the financial statements. A 10% increase/decrease in residual value of the ships would have a $0.402 million decrease/increase in depreciation in the Statement of Comprehensive Income and a $0.402 million increase/decrease in the carrying value of property, plant and equipment in the Statement of Financial Position.

One year increase/decrease in the remaining estimated economic life of the ships would have a $0.521 million decrease/ $0.579 million increase in depreciation in the Statement of Comprehensive Income and a $0.521 million increase/$0.579 million decrease in the carrying value of property, plant and equipment in the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2010

Note 14 Other assets

	2010 $'000	2009 $'000
Current		
Derivative Asset – Fuel Hedge	68	1
Prepaid expenses	1,018	511
	1,086	512
Non-current		
Derivative Asset – Fuel Hedge	983	175

Note 15 Trade and other payables

Trade payables	11,346	12,076

The average credit period on purchases of goods and services is 22 days. The Company has financial risk management policies in place to ensure all payables are paid within the credit timeframe.

Note 16 Borrowings

Unsecured – at amortised cost		
Secured Tasmanian Public Finance Corporation loans (i), (ii)	25,000	25,000
Secured – at amortised cost		
Secured Tasmanian Public Finance Corporation loans (i), (ii)	–	25,000
	25,000	50,000

(i) During the financial year, the guarantee provided by the Treasurer on behalf of the Tasmanian Government to the Tasmanian Public Finance Corporation has been returned as it is no longer required by the Tasmanian Public Finance Corporation.

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

Note 17 Provisions

Workers compensation (i)	860	1,350
Liability for long service leave	3,374	3,164
Liability for annual leave	4,419	4,314
Defined Benefit Superannuation (note 19)	5,281	4,916
	13,934	13,744
Current	7,411	7,860
Non-current	6,523	5,884
	13,934	13,744

(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.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2010

Note 18 Other liabilities

	2010 $'000	2009 $'000
Derivative Liability– Fuel Hedge	8,473	17,612
Revenue received in advance	9,365	8,701
Other	–	90
	17,838	26,403
Current	17,278	18,934
Non-current	560	7,469
	17,838	26,403

Note 19 Retirement benefits plans

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.

Reconciliation of the Defined Benefit Obligation

Financial year ending	30 June 2010 $'000	30 June 2009 $'000
Present value of defined benefit obligations at beginning of the year^	6,271	5,393
Current Service Cost^*	169	195
Interest cost*	354	309
Estimated contributions by plan participants*	50	49
Actuarial (gains)/losses^*	166	458
Estimated benefits paid*	(300)	(119)
Estimated taxes, premiums and expenses paid*	(13)	(14)
Transfers in	–	–
Contributions to accumulation section	–	–
Past service costs	–	–
Curtailments	–	–
Settlements	–	–
Exchange rate changes	–	–
Present value of defined benefit obligations at end of year	6,697	6,271

^ Includes contributions tax provision/change in contributions tax provision.
** Total adjustments included in employee benefits expense (refer note 10).*

Funded status

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

Note 19 Retirement benefits plans (continued)

Reconciliation of the Fair Value of Scheme Assets

Financial year ending	30 June 2010 $'000	30 June 2009 $'000
Fair value plan assets at beginning of the year	1,355	1,360
Expected return on plan assets	96	95
Actuarial gain/(losses)	5	(98)
Estimated employer contributions	222	83
Estimated contributions by plan participants	50	49
Estimated benefits paid	(300)	(119)
Estimated taxes, premiums and expenses paid	(13)	(14)
Transfers in	–	–
Contributions in accumulation section	–	–
Settlements	–	–
Exchange rate changes	–	–
Fair value of plan assets at end of the year	1,416	1,355

Reconciliation of the Assets and Liabilities Recognised in the Statement of Financial Position

As at	30 June 2010 $'000	30 June 2009 $'000
Defined Benefit Obligation^	6,697	6,271
RBF contributory scheme assets	(1,416)	(1,355)
Deficit/(Surplus)	5,281	4,916
Unrecognised past service cost	–	–
Unrecognised net (gain)/loss	–	–
Net liability/(asset)	5,281	4,916
Current net liability	85	123
Non-current net liability	5,196	4,793

Expense Recognised in Income Statement

Financial year ending	30 June 2010 $'000	30 June 2009 $'000
Service cost	169	195
Interest cost	354	309
Expected return on plan assets	(96)	(95)
Recognised actuarial (gains)/losses	161	556
Recognised past service cost	–	–
Curtailment/settlement (gain)/loss	–	–
Superannuation expense/(income):	587	965

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2010

Note 19 Retirement benefits plans (continued)

Fund Assets

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

As at	30 June 2010	30 June 2009
Australian equities	26%	20%
International equities	22%	13%
Fixed income	12%	11%
Property	20%	31%
Alternative assets/Other	14%	19%
Cash	6%	6%

^Asset allocation as at 31 March.

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 2010 $'000	30 June 2009 $'000
Actual return on plan assets	101	(3)

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

Principal Actuarial Assumptions at the Statement of Financial Position Date

Principal assumptions as at balance date and for following year expense	30 June 2010	30 June 2009
Discount rate:	5.35%	5.70%
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 2010 extrapolated to allow for the fact that the term of the liabilities exceeds the term of the longest Government bond. The decrement rates used for mortality and retirement have been updated since the last valuation and are described in the Actuarial Assumptions section.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2010

Note 19 Retirement benefits plans (continued)

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 temporarily invalid benefits has been assumed to be 0.38% of salaries of current contributory members.

Historical Information

Financial year ending	30 June 2010 $'000	30 June 2009 $'000	30 June 2008 $'000	30 June 2007 $'000	30 June 2006 $'000
Present value of defined benefit obligation	6,697	6,271	5,393	5,507	4,604
Fair value of plan assets	1,416	1,355	1,360	1,504	1,259
(Surplus)/deficit in plan	5,281	4,916	4,034	4,003	3,346
Experience adjustments (gain)/loss – plan assets	(5)	(98)	232	(140)	46
Experience adjustments (gain)/loss – plan liabilities	(374)	351	78	85	(64)

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).

Expected contributions

The expected employer contributions for the financial year ending 30 June 2011 are $0.085 million.

Note 20 Issued capital and fully paid ordinary shares

	2010 $'000	2009 $'000
328,981,230 (2009: 328,981,230) ordinary shares, fully paid	**328,981**	**328,981**
Balance at year end	**328,981**	**328,981**

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2010

Note 21 Reserves

	2010 $'000	2009 $'000
Asset revaluation	–	14,733
Hedging	(5,196)	(12,206)
Total reserve	(5,196)	2,527
Asset revaluation:		
Balance at beginning of financial year	14,733	21,800
Revaluation increment/(decrement)	(21,047)	(10,095)
Deferred tax liability arising on revaluation (note 9)	6,314	3,028
Balance at end of financial year	–	14,733

The asset revaluation reserve arises on the revaluation of the ships (refer note 13). 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	(12,206)	–
Effective portion of changes in fair value of cash flow hedge	(919)	(32,143)
Transfer of hedge reserve to income statement	10,933	14,707
Net impact on equity	10,014	(17,436)
Deferred tax liability arising on market valuation (note 9)	(3,004)	5,230
Balance at end of financial year	(5,196)	(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.

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2010

Note 22 Retained earnings

	2010 $'000	2009 $'000
Balance at beginning of financial year	(94,673)	(92,237)
Profit/(Loss) for the year	20,200	(2,436)
Balance at end of financial year	(74,473)	(94,673)

Note 23 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 benefit to stakeholders. The Company's overall strategy remains unchanged from 2009.

The capital structure of the Company consists of net debt (borrowings as detailed in note 16 and offset by cash and bank balances as detailed in note 23) and equity of the Company (comprising issued capital, reserves and retained earnings as detailed in notes 20, 21 and 22).

The Company is not subject to any externally imposed capital requirements.

Gearing ratio

The gearing ratio at the end of the reporting period was as follows.

Financial assets

Debt (i)	25,000	50,000
Equity (ii)	249,311	236,835
Net debt to equity ratio	10%	21%

(i) Debt is defined as long and short-term borrowings, as detailed in note 16.

(ii) Equity includes all capital and reserves of the Company that are managed as capital.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement, and the bases for recognition of income and expense) for each class of financial asset, financial liability and equity instrument are disclosed in note 3.

(c) Categories of financial instruments

Financial assets		
Loans and receivables	13,063	10,587
Cash and cash equivalents	24,881	38,724
Derivative instrument in designated hedge accounting relationship	1,051	176
Financial liabilities		
Amortised cost	36,346	62,076
Derivative instrument in designated hedge accounting relationship	8,473	17,612

Note 23 Financial instruments (continued)

(d) 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.

(e) 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. 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.

There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

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.

	Net Profit		Equity	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
10% increase in USD/AUD exchange rate	(2,038)	(1,691)	(4,351)	(3,744)
10% decrease in USD/AUD exchange rate	2,498	2,056	5,318	4,756

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.

	Net Profit		Equity	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
10% increase in price M/T of fuel	2,248	1,853	4,787	4,118
10% decrease in price M/T of fuel	(2,248)	(1,853)	(4,787)	(4,118)

(e) Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise.

NOTES TO THE FINANCIAL STATEMENTS
for the financial year ended 30 June 2010

Note 23 Financial instruments (continued)

(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 50 basis points higher/lower and all other variables were held constant, the Company's profit for the year would decrease by $0.116 million and increase by $0.117 million (2009: decrease by $0.175 million and increase by $0.175 million). This is mainly attributable to the Company's exposure to interest rates on its fixed rate borrowings.

The Company's sensitivity to interest rates has decreased during the current period mainly due to the repayment of debt.

(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.

Trade receivables 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.

Except as detailed in the following table, the carrying amount of financial assets recognised in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk, without taking into account collateral or other credit enhancements held.

	2010 $'000	2009 $'000
Financial assets and other credit exposure		
Cash and cash equivalents	24,881	38,724
Trade and other receivables	13,063	10,588
Total other financial assets	983	176
Total	38,927	49,488

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, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2010

Note 23 Financial instruments (continued)

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. Note 23(h) below sets out details of additional 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.

The tables below include the weighted average effective interest rate and a reconciliation to the carrying amount in the Statement of Financial Position as an example of summary quantitative data about exposure to interest rates at the end of the reporting period that an entity may provide internally to key management personnel.

Non– Derivative

		Fixed interest rate maturity				
2010	**Floating interest rate** $'000	**Less than 1 year** $'000	**1 –5 years** $'000	**Greater than 5 year** $'000	**Non-interest bearing** $'000	**Total** $'000
Financial assets						
Cash	24,745	–	–	–	135	24,881
Receivables	–	–	–	–	13,063	13,063
	24,745	–	–	–	13,198	37,944
Weighted average interest rate	3.86%					
Financial liabilities						
Payables	–	–	–	–	11,346	11,346
Interest-bearing liabilities	–	25,000	–	–	–	25,000
	–	25,000	–	–	11,346	36,346
Weighted average interest rate		6.32%				

		Fixed interest rate maturity				
2009	**Floating interest rate** $'000	**Less than 1 year** $'000	**1 –5 years** $'000	**Greater than 5 year** $'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%			

Note 23 Financial instruments (continued)

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.

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

2010	Expected cash flows $'000	Less than 1 year $'000	1 –5 years $'000	Greater than 5 years $'000
Bunker Fuel Swap:				
Assets	1,051	68	983	–
Liabilities	(8,473)	(7,913)	(560)	–

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)	–

Financing facilities

	2010 $'000	2009 $'000
Unsecured bank overdraft facility, reviewed annually:		
• amount used	(27,500)	(52,500)
• amount unused	(2,500)	(2,500)
Unsecured bank loan facilities with a maturity date of June 2010:		
• amount used	(27,500)	(52,500)
• amount unused	(2,500)	(2,500)

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

NOTES TO THE FINANCIAL STATEMENTS

for the financial year ended 30 June 2010

Note 23 Financial instruments (continued)

Non-Derivative

	2010		2009	
	Carrying amount $'000	Fair value $'000	Carrying amount $'000	Fair value $'000
Financial assets				
Cash	24,881	24,881	38,724	38,724
Receivables	13,063	13,063	10,588	10,588
Financial liabilities				
Payables	11,346	11,346	12,076	12,076
Interest-bearing liabilities	25,000	25,385	50,000	51,287

Derivatives

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 cash flows for the relevant periods. These cash flows are discounted to determine the Mark to Market value for each period. Derivative instruments are carried at fair value.

(j) Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that included inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2010	Level 1	Level 2	Level 3	Total
Financial Assets at Fair Value Profit or Loss				
Derivative Financial Assets	–	1,051	–	1,051
Total	–	1,051	–	1,051
Financial Liabilities at Fair Value Profit or Loss				
Non-derivative Financial Liabilities	(25,385)	–	–	(25,385)
Derivative Financial Liabilities	–	(8,473)	–	(8,473)
Total	(25,385)	(8,473)	–	(33,858)

There were no transfers between Level 1 and 2 in the period.

Note 24 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 $
2010	1,902,846	181,784	28,442	229,784		2,342,856
2009	2,235,958	200,155	24,260	–	–	2,460,373

Note 25 Related party transactions

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 AO is the chairman of the Tourism Industry Council Tasmania for which he receives no remuneration. Mr C Griplas is a Director 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 is disclosed in note 24.

Note 26 Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the Statement of Cash Flows can be reconciled to the related items in the statement of financial position as follows:

	2010 $'000	2009 $'000
Cash and cash equivalents	24,881	38,724
Cash flows from operating activities		
Profit/(loss) for the year	20,200	(2,436)
Gain on sale of non-current assets	13	(1)
Value decrement *Spirit of Tasmania I* and *II*	24,995	
Depreciation	14,208	14,120
Amortisation – leasehold improvements	482	528
Income tax benefit	(32,057)	8,259
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables	(2,475)	1,686
Inventories	169	409
Other assets	(508)	(61)
Increase/(decrease) in liabilities:		
Trade and other payables	(820)	(3,014)
Revenue received in advance	664	599
Provisions	190	1,749
Net cash provided by operating activities	25,061	21,838

Note 27 Operating lease arrangements

Operating leases

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

	2010 $'000	2009 $'000
Non-cancellable operating lease payments		
Not longer than 1 year	3,937	3,825
Longer than 1 year but not longer than 5 years	12,450	13,750
Longer than 5 years	14,528	16,763
	30,915	34,338

The Company also acts as lessor with regard to the gaming and general stores on board the ships where these areas are leased to a specialist third party to operate.

Note 28 Commitments for expenditure

(a) Capital expenditure commitments		
Edgewater improvements		
Not longer than one year	–	16
Ship improvements		
Not longer than one year	91	298

(b) Lease commitments

Non-cancellable operating lease commitments are disclosed in note 27 to the financial statements.

Note 29 Remuneration of auditors

	2010 $	2009 $
Auditor of the Company		
Audit of the financial report	59,485	52,180

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

Note 30 Events after the reporting date

There has not been any matter or circumstance that has arisen since the end of the financial year which 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.

Note 31 Contingent liabilities

There are no material contingent liabilities as at 30 June 2010.

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