# Annual Report
# 2010-11

TT-LINE COMPANY PTY LTD


SPIRIT OF TASMANIA

*A trip to remember*

# COMPANY VISION

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

# COMPANY MISSION

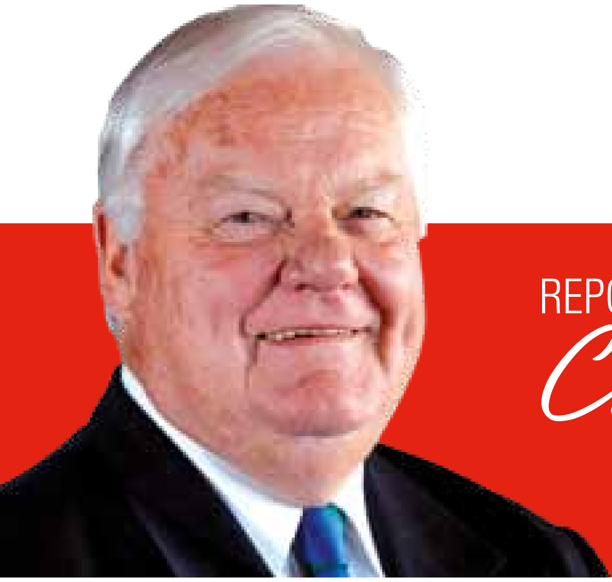
A ferry service built on a reputation for excellence in safety, reliability and exceptional passenger and freight services.

# 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.

# TABLE OF *Contents*



# REPORT FROM THE *Chairman*

**TT-Line Company Pty Ltd achieved an important milestone in 2010/11 when in June it made its final $25 million debt reduction payment.**

Debt reduction has been an important focus for the Board. By any measure, reducing our debt from $75 million four years ago to zero in 2010/11 is a significant achievement on the part of the company.

The committee established by the Board to oversee the very complex issues associated with ship replacement / refurbishment has been thoroughly and diligently examining all available options. This work is continuing. The committee is not expected to report back to the full Board with its recommendation before December 2013. The replacement / refurbishment guide date of 2017 remains in place.

Reflecting briefly on the performance of the business in 2010/11, passenger numbers increased compared to the previous financial year, while passenger vehicles and units of freight carried decreased slightly (see CEO's message for further detail).

In June the company carried approximately 4,500 stranded airline passengers between Victoria and Tasmania after ash from a Chilean volcano drifted into Australian air space cancelling air services. This was an important demonstration of how quickly and ably the company is able to assist the travelling public when the airlines are grounded for whatever reason.

Total revenue for the year decreased slightly from $183 million in 2009/10 to $181 million and TT-Line's underlying operational profit in 2010/11 was $12.3 million ($13.7 million in 2009/10).

The company's net profit in 2010/11 was $506,000 ($20.2 million in 2009/10 primarily as a result of a one-off tax benefit). While the valuation of the ships remained stable at 78 million Euros (the vessels are valued in Euros), the strong Australian dollar resulted in a revaluation expense of $11.6 million. This accounting loss impacted on the final profit figure for 2010/11.

A common theme in all of my TT-Line Annual Report messages has been safety. The safe operation of our vessels continues to be a priority for the Board. Passenger and crew safety is discussed in detail at each of our monthly Board meetings.

Each vessel is dry-docked once every two years for scheduled maintenance and safety inspection. The company has an excellent safety and reliability history because of this approach. Spirit of Tasmania II went into dry-dock in 2010/11. The maintenance was completed on time and on budget (see Safety and Reliability section for further detail).



In June 2011 the company was delighted to announce that it would provide funding support of $1.5 million over three years for AFL matches to be played at Bellerive Oval in Hobart. The deal presents an exciting opportunity for the company to promote its vessels and Tasmania in the core Victorian passenger market. While there was much community and media debate about the arrangement, we very seriously examine any opportunity that has the potential to assist the tourism industry through the quieter winter months. The company annually sets aside money in our passenger sales and marketing budget to pursue specific promotional initiatives. The amount we are contributing to AFL football at Bellerive Oval equates to about five per cent of our total marketing and sales promotion budget.

As was the case the previous financial year, 2010/11 brought with it a difficult economic environment, that presented numerous challenges for the company, the Tasmanian economy and the tourism industry. Despite this, CEO Charles Griplas, the executive management team and all employees have done an outstanding job encouraging and welcoming visitors to the State on board the *Spirit of Tasmania* vessels.

These visitors injected approximately $380 million into the Tasmanian economy in 2010/11. The company also makes an important contribution to the economy through employment of staff, goods and services purchased, stevedoring services and security services. This figure, which takes account of direct and indirect spending, amounted to $45 million in 2010/11.

Finally, I would like to thank my fellow Directors for their hard work, support and wise counsel throughout 2010/11.

I would like to particularly note the work of Simon Currant AO. Simon joined the Board in 1996 and made a significant contribution to Board deliberations over many years. His term expired in November 2010. He was replaced on the Board by Bernard Dwyer, a highly-experienced and well-regarded tourism industry executive.

It is also important to note the important support of Premier Lara Giddings, our former Minister, and David O'Byrne, our current Minister, to the operations of the company.

**Denis Rogers AO**
Chairman

*The safe operation of our vessels continues to be a priority for the Board. Passenger and crew safety is discussed in detail at each of our monthly Board meetings.*

# REPORT FROM THE *Chief Executive*

In last year's Annual Report I reported that the forecast for 2010/11 pointed to continuing challenges in the travel market.

It was an accurate prediction.

But at a time when more Australians chose to holidays overseas, with Tasmania experiencing strong competition from other domestic destinations and the impact of continuing cheap airline fares, TT-Line was able to deliver some good results for tourism in the State.

The company carried 407,636 people (405,554 passengers in 2009/10) and 182,889 passenger vehicles (187,274). The company also transported 91,826 units of freight (94,371).

As the Chairman noted in his message, the company's direct and indirect contribution to the State's economy continues to be significant.

Because of the recent difficulties experienced by the tourism industry, it is particularly pleasing to be able to report that *Spirit of Tasmania* passenger numbers increased in 2010/11 compared to the previous financial year.

The company was well prepared for the challenging period. We updated our advertising, introduced new loyalty programs and worked to increase website traffic to spiritoftasmania.com.au (the website received nearly 1.42 million hits in 2010/11, an increase of 34 per cent compared to the previous financial year) after enhancing our online booking platform.

I am also pleased to report that customer satisfaction surveys conducted for night and day sailings revealed 92 per cent of night passengers said their travel experience met or exceeded their expectations while 90 per cent of day passengers rated their overall travel experience as being excellent or good. In addition, 96 per cent of passengers said they would travel with *Spirit of Tasmania* again.

Just as pleasing was the fact that in the Melbourne market, brand research showed that travel to Tasmania continued to have significant appeal.

These are positive results, not only for the company, but for the Tasmanian tourism industry and the State's economy.

Looking forward to 2011/12, our forecast points to a continuing "flat" period for the tourism sector.

During difficult economic times, people look for value and experience. TT-Line and the broader Tasmanian tourism industry need to sell the Tasmanian experience and the State's unique and iconic attractions. It is a message we have delivered before, and will continue to deliver going forward.

People who travel on the Spirits tend to spend between seven to 10 days touring Tasmania, so we are well placed to play a prominent role in helping the industry to develop further and prosper.


## SPIRIT PEOPLE

TT-Line achieved a significant reduction in lost time injuries in 2010/11. This is a direct result of a safety program known as Look Out that is designed to raise safety awareness throughout the company. It reminds all employees to be vigilant about their own safety and the safety of their work mates.

(See Community support for further information about how money raised through the company's lost time injury program, which rewards lost time injury free periods, was donated to Tasmanian charities and worthwhile organisations.)

As part of the overarching Look Out program, the organisation also launched Look Out Live Well in March 2011, a program that promotes and supports the physical, mental and well-being of employees at work and home.

Its purpose is to encourage employees to lead a healthy, happy, balanced and more active lifestyle.

The health and well-being options available to TT-Line employees include on-site skin checks, on-site health screenings, healthy heart checks, mental health training for managers, smoking cessation program, stress management, a 26-week weight loss program, individual exercise programs, eat well guides and subsidised gym memberships. In addition, stretching and lifting programs for employees were developed in conjunction with Work Cover Tasmania.

TT-Line assesses the specific health and well-being needs of its workforce through task analyses developed in conjunction with Medibank Health Solutions.

Each task analysis identifies an employee's specific area of work and was developed for the following purposes:

» Assisting in the development of rehabilitation and return to work programs for injured or ill employees.
» To inform medical and/or allied health practitioners providing in-rooms treatment, assessment and reporting services for injured workers.
» To identify musculoskeletal hazards for consideration in future risk assessment.
» To inform the development of recruitment and selection assessments (functional or medical).
» To aid in the development of physical conditioning programs for workers and to assist in the development of injury prevention training programs.

> *TT-Line achieved a significant reduction in lost time injuries in 2010/11. This is a direct result of a safety program known as Look Out...*


## TRAVEL EXPERIENCE

*Passengers' intention to travel again remained strong with 96 per cent of the overall sample saying they would travel with Spirit of Tasmania again.*

Independent research commissioned by the company regarding the travel experience of our customers has once again delivered very positive results for TT-Line.

Customer satisfaction research was undertaken in March 2011. Interviews were undertaken with Tasmanian and interstate-based passengers who travelled in January 2011 on both day and night sailings.

Ninety two per cent of night sailing respondents said their travel experience met or exceeded their expectations. Accommodation, food and beverage options and the experience of sea travel were the given as the key reasons contributing to this result. Passengers' intention to travel again remained strong with 96 per cent of the overall sample saying they would travel with *Spirit of Tasmania* again.

Ninety per cent of day sailing respondents rated their overall travel experience as being excellent or good. On board service, activities and entertainment on day sailings exceeded passengers' expectations. Importantly, the intention of day passengers to travel again with *Spirit of Tasmania* increased from 91 per cent to 96 per cent.

Brand research was undertaken in May 2011 in Tasmanian and Melbourne markets. Interviews were undertaken with past passengers, existing enquirers and random consumers.

In Tasmania, while travel to New Zealand, Queensland and intrastate visits continued to be appealing travel destinations, travel to Melbourne was rated as the second most likely place to travel. *Spirit of Tasmania* continued to have the highest top of mind awareness for travel between Tasmania and Victoria.

Overall, the key relative brand strength for *Spirit of Tasmania* was "reliability". "Uniqueness of travel" also remained a significant strength, along with a relatively high association with "safety", "relaxing or stress-free way to travel" and being "honest and trustworthy".

*Spirit of Tasmania* continued to dominate top of mind brand awareness for travelling between Melbourne and Tasmania and continues to have higher brand favourability compared to airlines.

"Reliability" was also a significant strength for *Spirit of Tasmania* in the Melbourne market, as was being a "unique travel experience" and "honest/trustworthy".


## COMMUNITY SUPPORT

TT-Line is a strong supporter of a number of Tasmanian-based organisations, events and charities.

In January 2011 TT-Line donated the services of *Spirit of Tasmania II* to help raise money for flood victims in Queensland, Victoria and Tasmania. Working closely with high-rating Melbourne radio station 3AW to raise funds, *Spirit of Tasmania II* sailed around Port Phillip Bay for a three-hour cruise with 600 passengers who donated to the flood relief appeal. *Spirit of Tasmania* also donated proceeds from $75 Day Tickets booked on Australia Day. More than $100,000 was raised and all proceeds were donated to the Queensland Premier's Disaster Relief fund, Red Cross in Victoria and the Tasmanian Salvation Army.

In 2010/11, TT-Line sponsored the *Spirit of Tasmania* Award for the sixth year as part of the Southern Cross Young Achiever Awards. The awards recognise, encourage and reward young Tasmanians pursuing excellence. This year the *Spirit of Tasmania* award was presented to 27-year-old Simon French, a junior Australian National Champion in downhill mountain biking who has established Dirt Art, a company that constructs mountain bike facilities. In addition, Simon is an advocate for the ongoing development of mountain bike parks in Glenorchy and Clarence in southern Tasmania and coordinates volunteer days to build tracks and trails.

The company also sponsored a seafarer scholarship to The Australian Maritime College in Launceston. *Spirit of Tasmania*'s Scholarship in 2011, made available to encourage and assist a student with a strong interest in a seafaring career, was awarded to Mark Gilbert from South Australia, who is studying a Diploma of Nautical Science.

*Spirit of Tasmania* was the official partner of the inaugural Devonport Food and Wine Festival, which launched in March 2011. The company included a special dish of the month in the on board restaurant, and the Edgewater Hotel (owned and operated by TT-Line) hosted two themed events.

In October 2010, the company donated $2,700 to four local Tasmanian charities, including Gran's Van, Down Syndrome Tasmania, Giant Steps and An Association of the Mentally Ill (Tasmania) Incorporated. Money was raised through the company's lost time injury program which rewards lost time injury free periods.

TT-Line continued its sponsorship of Targa Tasmania in 2010/11. The company has been a sponsor since the event's inception in 1992. Targa remains an important event for the Tasmanian economy and the company.

*In January 2011 TT-Line donated the services of Spirit of Tasmania II to help raise money for flood victims in Queensland, Victoria and Tasmania*

*... the website received more than 1.42 million visits - a 34 per cent increase compared to the previous financial year.*

## ENVIRONMENT

In 2010/11 TT-Line completed its second year of reporting under the Federal Government's *National Greenhouse Energy and Reporting (NGER) Act 2007*.

The Company's report under NGER was submitted to the Federal Government by the required deadline of 31 October 2010. TT-Line will report on the 2010/11 NGER data by 31 October 2011.

The Company is also now required to report under the Federal Government's *Energy Efficiency Opportunity (EEO) Act 2006*. The Company's first report under this Act was lodged and accepted by the Federal Department of Resources Energy and Tourism.

TT-Line has established an Energy Efficiency Opportunity Committee to review and analyse potential energy efficiency opportunities. An Energy Efficiency Opportunity Policy has also been established and endorsed by the company.

As part of the Company's recycling program more than 34,000 kilograms of glass has been removed from the vessels for recycling. The company also recycles paper and cardboard, both on shore and on the vessels.

TT-Line anticipates a new carbon tax regime to be in place by the middle of the 2012 calendar year. Any impact on TT-Line's operations is indirect as a carbon price will apply to fuels used in domestic aviation, marine and rail transport. TT-Line is in discussions with its fuel supply company to determine the exact impact of the carbon price. Until that information is provided, it is difficult for the company to accurately predict the outcome.

## BRAND

As reported under Travel experience, *Spirit of Tasmania* dominated top of mind brand awareness for travelling between Melbourne and Tasmania.

The company uses a number of distribution channels to promote its product / services to as many people as possible.

In 2010/11, more than 950,000 electronic direct mail and hard copy direct mail pieces were distributed to the company's consumer database. These targeted campaigns were very successful, generating more than 6,200 bookings and more than $4 million in revenue.

*Spirit of Tasmania*'s new online loyalty programs, officially launched on 1 April 2011, also proved extremely successful. As at 30 June 2011, nearly half of all qualified passengers who received a Sailors Club invitation signed up as a member.

The company's focus in increasing web traffic to spiritoftasmania.com.au was also highly successful.

Overall for the 2010/11 financial year, the website received more than 1.42 million visits - a 34 per cent increase compared to the previous financial year.

For the 2010/11 year, the average percentage of online bookings was 62 per cent up from 42 per cent the previous year.

By the end of the 2010/11 financial year, more than 40 per cent more passenger legs and nearly 60 per cent worth of additional revenue had been generated from online advertising, compared to 2009/10.

The website received nearly 80,000 visits from mobile devices during 2010/11. This represented a 916 per cent increase on the previous year (7,692 visits from mobiles in 2009/10).

## SAFETY AND RELIABILITY

*Spirit of Tasmania II* was dry-docked in 2010/11 at Garden Island in Sydney.

As the Chairman noted in his message in this report, *Spirit of Tasmania* vessels are dry-docked once every two years for scheduled maintenance and safety inspection. The company has an excellent safety and reliability history because of this approach.

Work undertaken on *Spirit of Tasmania* this year included the overhaul of bow and stern doors, including the insertion of several sections of a new bow ramp. Upgrading works for the fire alarm panel and the stabiliser fin control system were also completed. Extensive cleaning works were also undertaken.

The company commenced investigating the viability of in-water cleaning in the Port of Melbourne. This has the potential to reduce fuel costs between dockings. Talks with the Victorian Environment Protection Agency and the Port of Melbourne are continuing, but the company is confident that there are no invasive species adhering to the hull.

All voyages were completed during the year covered by this report. The ships also completed a number of extra voyages to help meet the demands of stranded airline passengers during the Chilean volcanic eruption.

A new CCTV system was fitted to the ocean recliner area on both vessels, to enhance passenger safety in this common sleeping area.

> *... the company is continually focused on delivering innovation and improving the sailing experience for passengers*

## HOSPITALITY

TT-Line continued its focus on sourcing Tasmanian produce (to ensure the company serves the very best local produce on board) during 2010/11.

Company representatives visited all areas of the State to source local produce. The a la carte restaurant is wholly committed to showcasing Tasmanian produce, with the menu changing seasonally. The wine list has been revamped to include Tasmania's extensive range of wines and a specially designed *Spirit of Tasmania* house wine was released in 2011. This wine was blended in association with Josef Chromy Winery.

On board the vessels, the names of the restaurants and bars have been changed to give an updated look and feel. Combined with the enhanced entertainment schedule, the company is continually focused on delivering innovation and improving the sailing experience for passengers.

The Edgewater Hotel (featuring 42 rooms, a restaurant, two bars, gaming facilities and function rooms) continues to operate well and is establishing a presence in the local corporate market. In 2011, the hotel opened its new refurbished restaurant, The Port, which also showcases local Tasmanian produce.

## PUBLIC INTEREST DISCLOSURE

TT-Line has a Public Interest Disclosure Policy which is 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 hours.

During the year ended 30 June 2011, the Company received no disclosures that were determined to be public interest disclosures.

**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 more than 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.*

TT-LINE COMPANY PTY LTD

# EXPLANATIONS OF THE NUMBERS STATEMENT - UNAUDITED

FOR THE YEAR ENDED 30 JUNE 2011

| | Jun-11 $'000 | Jun-10 $'000 |
|---|---|---|
| Revenue from operations | | |
| Devonport - Melbourne | 180,258 | 180,976 |
| Other Revenue | 2,763 | 3,031 |
| | 183,021 | 184,007 |
| Expenses from operations | | |
| Devonport - Melbourne | (153,935) | (150,368) |
| Other expenses | (2,572) | (2,894) |
| | (156,507) | (153,262) |
| **Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)** | **26,514** | **30,745** |
| Depreciation and Amortisation | | |
| Devonport - Melbourne | (12,264) | (14,456) |
| Other | (194) | (234) |
| | (12,458) | (14,690) |
| **Earnings before Interest and Tax (EBIT)** | **14,056** | **16,055** |
| Interest expense | | |
| Devonport - Melbourne | (1,743) | (2,330) |
| **UNDERLYING OPERATIONAL PROFIT** | **12,313** | **13,725** |
| **Represented as follows:** | | |
| Devonport - Melbourne | 12,316 | 13,822 |
| Other | (3) | (97) |
| | **12,313** | **13,725** |
| **Reconciliation to Audited Profit/(Loss) for the period** | | |
| Underlying operational profit | 12,313 | 13,725 |
| *Accounting adjustments* | | |
| Valuation of the ships adjustment | (11,600) | (24,995) |
| Defined benefits superannuation adjustment | (60) | (587) |
| Profit before taxation equivalent expense | 653 | (11,857) |
| Taxation (expense)/benefit | (147) | 32,057 |
| **Profit/(loss) for the period - audited** | **506** | **20,200** |

TT-LINE COMPANY PTY LTD

# ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2011

ABN 39 061 996 174

## CONTENTS

# CORPORATE GOVERNANCE BEST PRACTICE

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) with 30 June 2010 amendments.

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 and including annual reports and annual business plans;
- reviewing and monitoring risk management and internal compliance and control with the guidance of the Audit and Risk Committee;
- reviewing and monitoring of processes for compliance with all regulatory requirements and standards including environmental, health and safety obligations;
- reviewing and approving all major policies; and
- overseeing the operation and performance of all committees of the Board.

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

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; and
- Director Nomination.

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 is conducted as per the Guidelines for Tasmanian Government Business – Board Appointments.

The Board of Directors acts as the Director Nomination Committee. Any Director eligible for reappointment absents themselves from the discussions relating to their own nomination.

The Chairman of the Board is appointed annually by the Shareholders at the Annual General meeting.

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 pages 16 and 17.

A Board performance review is conducted on an annual basis. The Board appointed KPMG to conduct a Board performance review which was completed in March 2011.

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

### 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

The Company has an open and transparent recruitment policy that supports the appointment of individuals based on merit and qualifications without discrimination or favouritism.

### 4. Safeguard integrity in financial reporting:

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 (in an ex-officio capacity), 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 Australian 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 Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks.

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 system. Management has established and implemented a system for assessing, monitoring and managing risk. This includes operational, financial and compliance risks.

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

### 8. Remunerate fairly and responsibly:

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

Director fees are set by the Tasmanian Government.

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 2011. 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 Committee in an ex-officio capacity and Remuneration Committee.

**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 Transend Networks Pty Ltd and Company Secretary of Shellfish Culture Ltd. She is Chairperson of each of the Audit and Risk and Remuneration Committee.

**Mr. Michael Grainger**

Joined the Board in 2005 in a non-executive capacity. Mr Grainger is Managing Director of Liferaft Systems Australia, Director of Tasmanian Development Board and Director of Interferry. He is a member of the Remuneration Committee and Chairman of the Vessel Replacement and Procurement Committee.

**Mr. Anthony Tobin**

Joined the Board in 2005 in a non-executive capacity. Mr Tobin is a founding partner of Gilbert + Tobin lawyers and is now a consultant to that firm. Mr Tobin holds a number of directorships in the private and public sector. He is also a Director of the Committee for Economic Development of Australia and President of its NSW Advisory Council. He is a member of the Audit and Risk Committee and the Vessel Replacement and Procurement Committee.

**Dr. Jeffrey Hawkins**

Joined the Board in 2007 in a non-executive capacity. Dr Hawkins is Managing Director of the Asia Pacific Maritime Institute, Managing Director of Pivot Maritime International and Chairman of the Australasian Network of Maritime Education and Training. 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. He has held numerous public Company directorships in the past. He currently holds three directorships in the private sector. He is a member of the Audit and Risk Committee and the Vessel Replacement and Procurement Committee.

**Mr. Bernard Dwyer**

Joined the Board in 2010 in a non-executive capacity. Mr Dwyer is Director of Tourism at the Federal Group, Director of the Tourism Industry Council of Tasmania and Director of Business Events Tasmania.

**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.

The above directors held office during the whole of the financial year and since the end of the financial year except for;

Mr Simon Currant – term expired 12 November 2010

Mr Bernard Dwyer – appointed 12 November 2010

## 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 commercial passenger, vehicle and freight shipping service between Tasmania and mainland Australia.

**Review of operations**

The Company reported a profit after tax of $0.506 million for the year ended 30 June 2011 ($20.200 million profit for 30 June 2010). The Company reported a profit before impairment and other tax benefit of $8.626 million ($9.226 million). The Company first recognised the tax benefit from historical tax losses last year which resulted in a one off benefit of $33.517 million but the tax expense recorded now relates to continuing operations only.

The Company continued with its strategy of increased number of sailings during the year to grow market share against a backdrop of weaker economic conditions in both the passenger and freight markets. The holiday visitor segment of the Tasmanian tourism market has continued to deteriorate over the last two years and recorded a decline of 7% year ending March 2011 (Tasmanian Visitor Survey) and this has had a direct impact on business. The Company operated in an environment of heavy discounting from the airlines and responded through promotional and retail campaigns to build passenger numbers for the financial year. Passenger numbers were positively impacted in June 2011 due to the events surrounding the volcanic ash cloud impacting air travel between Tasmania and mainland Australia. The Company estimates that it carried approximately 4,500 additional passengers over this two-week period.

When comparing actual performance to last year, the Company maintained its market share position in a challenging passenger and freight market. The Company continuously faces cost pressures, specifically relating to wages, repairs and maintenance, fuel and port related charges which resulted in increasing costs within a declining yield and revenue business environment. Interest expenditure was reduced due to the Company's debt reduction strategy. The Company is now debt free and in accordance with our existing shareholder approved dividend policy, the Company will start investing surplus funds for the potential future replacement or refurbishment of its vessels.

The value of each vessel reduced from $111.818 million (78.000 million Euro) to $103,909 million (78.000 million Euro) between 2010 and 2011. The reduction in the value of the vessels is due to the movement in the AUD/EURO exchange rate. This devaluation of the vessels has resulted in an expense being recognised in the Statement of Comprehensive Income of $11.600 million.

### Market Performance

| | Jun-11 | Jun-10 | Jun-09 | Jun-08 |
|---|---|---|---|---|
| **Voyages** | 827 | 822 | 800 | 804 |
| **Passengers** | 407,636 | 405,554 | 390,746 | 385,028 |
| **Vehicles** | 182,889 | 187,274 | 182,595 | 177,265 |
| **Freight** (twenty foot equivalent units) | 91,826 | 94,371 | 85,288 | 85,594 |

### 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, 12 Board meetings, four Audit Committee, one Remuneration Committee and five Vessel Replacement and Procurement Committee meetings were held.

| | Board Meeting | | Audit and Risk Committee | | Remuneration Committee | | Nomination Committee | | Vessel Replacement and Procurement Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Director** | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| Mr. D. Rogers AO | 12 | 12 | 4 | 3 | 1 | 1 | 1 | 1 | | |
| Mr. S. Currant AO | 4 | 4 | | | | | 1 | 1 | | |
| Ms. J. Wilson | 12 | 11 | 4 | 4 | 1 | 1 | 1 | 1 | | |
| Mr. M. Grainger | 12 | 12 | 1 | 1 | 1 | 1 | 1 | 1 | 5 | 5 |
| Mr. A. Tobin | 12 | 11 | 4 | 3 | | | 1 | 1 | 5 | 5 |
| Dr. J. Hawkins | 12 | 12 | | | | | 1 | 1 | 5 | 5 |
| Mr. R. Chadwick | 12 | 11 | 4 | 4 | | | 1 | 1 | 5 | 5 |
| Mr. B. Dwyer | 8 | 7 | | | | | | | | |
| Mr. C. Griplas | 12 | 11 | | | | | 1 | 1 | 5 | 5 |

### 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, 10 August 2011

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

9 August 2011

The Board of Directors
TT-Line Company Pty Ltd
PO Box 168E
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 2011, 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)(c) 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 AUDITOR'S REPORT**
**To the Members of TT-Line Company Pty Ltd**
**Financial Report for the Year Ended 30 June 2011**
**Report on the Financial Report**

I have audited the accompanying financial report of TT-Line Company Pty Ltd (the Company), which comprises the statement of financial position as at 30 June 2011, the statements of comprehensive income, changes in equity and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

**Auditor's Opinion**

In my opinion:

(a) the Company's financial report is in accordance with the *Corporations Act 2001*, including:
  (i) giving a true and fair view of its financial position as at 30 June 2011 and its financial performance for the year ended on that date, and
  (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting standards as disclosed in Note 3.

*The Responsibility of the Directors for the Financial Report*

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; 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 the financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the directors' preparation and fair presentation of the financial report 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 report.

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 dated 9 August 2011 and included in the Directors' Report, would be unchanged if provided to the Directors as at the date of this audit report.

**TASMANIAN AUDIT OFFICE**

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

HOBART
10 August 2011

# 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 as stated in note 3 to the financial statements; 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, 10 August 2011

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| | Note | Jun-11 $'000 | Jun-10 $'000 |
|---|---|---|---|
| Revenue | 5 | 181,233 | 182,677 |
| Cost of sales | 10(a) | (112,356) | (112,815) |
| **Gross profit** | | **68,877** | **69,862** |
| Investment revenue | 6 | 1,450 | 886 |
| Other gains and (losses) | 7 | 66 | (13) |
| Other expenses | 10(b) | (56,397) | (55,267) |
| Finance costs | 8 | (1,743) | (2,330) |
| **PROFIT BEFORE IMPAIRMENT AND TAXATION EQUIVALENT BENEFIT** | | **12,253** | **13,138** |
| Tax equivalent benefit (expense) | 9 | (3,627) | (3,912) |
| **PROFIT FOR THE YEAR AFTER TAX AND BEFORE IMPAIRMENT AND OTHER TAX BENEFIT (EXPENSE)** | | 8,626 | 9,226 |
| Impairment of vessels | 13 | (11,600) | (24,995) |
| Other tax equivalent benefit (expense) | 9 | 3,480 | 35,969 |
| **NET PROFIT FOR THE YEAR** | | **506** | **20,200** |
| Other comprehensive income for the year net of tax | | | |
| Asset revaluation reserve | 9, 21 | - | (14,733) |
| Cash flow hedge reserve | 9, 21 | 6,056 | 7,010 |
| | | **6,056** | **(7,723)** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **6,562** | **12,477** |

Notes to the financial statements are included on pages 27 to 53.

# STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

| | Note | Jun-11 $'000 | Jun-10 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 26 | 16,184 | 24,881 |
| Trade and other receivables | 11 | 13,124 | 13,063 |
| Inventories | 12 | 1,957 | 1,670 |
| Other | 14 | 1,785 | 1,086 |
| **TOTAL CURRENT ASSETS** | | **33,050** | **40,700** |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 13 | 224,723 | 240,380 |
| Deferred tax asset | 9 | 35,191 | 38,329 |
| Other | 14 | 731 | 983 |
| **TOTAL NON-CURRENT ASSETS** | | **260,645** | **279,692** |
| **TOTAL ASSETS** | | **293,695** | **320,392** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 15 | 11,710 | 11,346 |
| Borrowings | 16 | - | 25,000 |
| Provisions | 17 | 7,892 | 7,411 |
| Other | 18 | 9,517 | 17,278 |
| **TOTAL CURRENT LIABILITIES** | | **29,119** | **61,035** |
| **NON-CURRENT LIABILITIES** | | | |
| Provisions | 17 | 5,943 | 6,523 |
| Deferred tax liability | 9 | 2,567 | 2,962 |
| Other | 18 | 192 | 560 |
| **TOTAL NON-CURRENT LIABILITIES** | | **8,702** | **10,045** |
| **TOTAL LIABILITIES** | | **37,821** | **71,080** |
| **NET ASSETS** | | **255,874** | **249,312** |
| **EQUITY** | | | |
| Issued capital | 20 | 328,981 | 328,981 |
| Reserves | 21 | 860 | (5,196) |
| Accumulated losses | 22 | (73,967) | (74,473) |
| **TOTAL EQUITY** | | **255,874** | **249,312** |

Notes to the financial statements are included on pages 27 to 53.

# STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| | Share Capital $'000 | Asset Revaluation Reserve $'000 | Cash flow Hedging Reserve $'000 | Accumulated Losses $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 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 | 0 | (5,196) | (74,473) | 249,312 |
| Profit for the year | - | - | - | 506 | 506 |
| Other comprehensive income for the year | - | - | 6,056 | - | 6,056 |
| Total comprehensive income for the year | - | - | 6,056 | 506 | 6,562 |
| **Balance at 30 June 2011** | **328,981** | **-** | **860** | **(73,967)** | **255,874** |

Notes to the financial statements are included on pages 27 to 53.

# STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

| | Note | Jun-11 $'000 | Jun-10 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash receipts in the course of operations | | 199,218 | 199,065 |
| Interest received | | 1,423 | 919 |
| Cash payments in the course of operations | | (174,163) | (172,324) |
| Borrowing costs paid | | (1,840) | (2,599) |
| Net cash provided by operating activities | 26 | 24,638 | 25,061 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | 185 | 137 |
| Payments for property, plant and equipment | | (8,520) | (14,041) |
| Net cash (used in)/ provided by investing activities | | (8,335) | (13,904) |
| **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 | | (8,697) | (13,843) |
| Cash and cash equivalents at the beginning of the financial year | | 24,881 | 38,724 |
| Cash and cash equivalents at the end of the financial year | 26 | 16,184 | 24,881 |

Notes to the financial statements are included on pages 27 to 53.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 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 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

**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 the 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**

| | |
|---|---|
| Amendments to AASB 7 'Financial Instruments: Disclosure' (adopted in advance of effective date of 1 January 2011) | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. |
| Amendments to AASB 101 'Presentation of Financial Statements' (adopted in advance of effective date of 1 January 2011) | The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. |
| Amendments to AASB 107 'Statement of Cash Flows' | 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. |

**Standards and Interpretations adopted with no effect on financial statements**

| | |
|---|---|
| AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | Except for the amendments to AASB 5 and AASB 107 described earlier this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements. |
| AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project' | Except for the amendments to AASB 7 and AASB 101 described earlier this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements. |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## NOTE 2 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS (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 on or after | Expected to be initially applied on the financial year ending |
|---|---|---|
| • 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' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)' | 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 |
| • AASB 2010-5 'Amendments to Australian Accounting Standards' | 1 January 2011 | 30 June 2012 |
| • AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets' | 1 July 2011 | 30 June 2012 |
| • AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets' | 1 January 2012 | 30 June 2013 |
| • AASB 1054 'Australian Additional Disclosures" (May 2011) | 1 July 2011 | 30 June 2012 |

## 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 Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 10th August 2011.

### Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally 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 AASB 7 'Financial Instruments: Disclosure' and Amendments to AASB 101 'Presentation of Financial Statements' in advance of their effective dates. The Standards are not required to be applied until annual reporting periods beginning on or after 1 January 2011. The impact of the adoption of these standards is disclosed in note 2.1 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, 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 income from a financial asset 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 income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount 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.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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

In preparing the financial statements of the company, transactions in currencies other than the company's functional currency are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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.

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

For defined benefit retirement 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 retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as 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

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 period, 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 current tax assets against current 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 are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

### (f) Property, plant and equipment

The ships are carried in the statement of financial position at fair value. Fair value is determined on the basis of an annual independent market valuation prepared by external valuation experts. (refer to Note 13)

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 and accumulated within equity, 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 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 assets 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.

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 the end of each reporting period, 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the 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 otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 revalued amount, 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 of inventories are determined 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. When 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 (where the effect of the time value of money is material).

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.

### (j) Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Financial assets

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. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instruments 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 debt instruments, 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

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 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.

#### Financial liability and equity instruments

*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.

#### Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### (k) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to bunker fuel 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 period. 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.

#### 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.

#### 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 sets out 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' and accumulated under the heading of 'cash flow hedge reserve'. 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 income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously in other income and 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 in other income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

### (l) Goods and services tax

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

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

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

Cash flows are included in the statement of cash flows 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 JUDGEMENTS 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 judgements, 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 judgements in applying the Company's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that Directors 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.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, 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 current year, the Directors 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 judgements 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 build price.

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

#### Valuation of financial instruments

As described in note 23, the Company uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Note 23 provides detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## NOTE 5 REVENUE

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Revenue from the sale of goods | 14,298 | 13,256 |
| Revenue from the provision of services | 166,935 | 169,421 |
| | 181,233 | 182,677 |

## NOTE 6 INVESTMENT REVENUE

| | | |
|---|---|---|
| **Interest revenue:** | | |
| Bank deposits | 1,450 | 886 |

## NOTE 7 OTHER GAINS AND LOSSES

| | | |
|---|---|---|
| Gain/(loss) on disposal of property, plant and equipment | 66 | (13) |

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

## NOTE 8 FINANCE COSTS

| | | |
|---|---|---|
| Interest on bank overdraft and loans | 1,743 | 2,330 |

## NOTE 9 INCOME TAX EXPENSE

**Income tax recognised in profit or loss before impairment**

| | | |
|---|---|---|
| Current year tax expense/(benefit) | 643 | 1,407 |
| Adjustments for prior years | (96) | 53 |
| | 547 | 1,460 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences: | | |
| Increase/(Decrease) in deferred tax liability | 2,907 | 2,292 |
| Decrease/(Increase) in deferred tax asset | 173 | 160 |
| | 3,080 | 2,452 |
| Total income tax expense recognised in the current year relating to profit before impairment | 3,627 | 3,912 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## NOTE 9 INCOME TAX EXPENSE (CONTINUED)

| Income tax recognised in profit or loss after impairment | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **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 | (3,480) | (7,498) |
| | (3,480) | (35,969) |

**The total income tax expense for the year can be reconciled to the accounting profit as follows:**

| | 2011 | 2010 |
|---|---|---|
| Profit before tax | 12,253 | 13,138 |
| Prima facie tax expense at 30% (2010: 30%) | 3,676 | 3,941 |
| Non-deductible entertainment | 47 | 65 |
| Investment allowance | - | (105) |
| Other items | - | 4 |
| Under/over provided in prior years | (96) | 7 |
| Tax on de-valuation of vessel | (3,480) | (7,498) |
| Recognition of previously unrecognised temporary differences | - | 2,949 |
| Recognition of previously unrecognised tax losses | - | (31,420) |
| Income tax expense recognised in the current year relating to continuing operations | 147 | (32,057) |

The tax rate used for the 2011 and 2010 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

**Income tax recognised in other comprehensive income**

| | 2011 | 2010 |
|---|---|---|
| **Deferred tax** | | |
| Tax impact of revaluation of property, plant and equipment | - | (6,314) |
| Tax impact of revaluation in cash flow reserve | 2,596 | 3,004 |
| Net income tax expense/(benefit) attributable to transactions recognised in equity | 2,596 | (3,310) |

## NOTE 9 INCOME TAX EXPENSE (CONTINUED)

### Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following;

| 2010 | Balance 1 July 2009 $'000 | Recognised in profit or loss (previously unrecognised) $'000 | Recognised in profit or loss (movement) $'000 | Recognised in other comprehensive income $'000 | Balance 30 June 2010 $'000 |
|---|---|---|---|---|---|
| **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 | (132) | - | 133 |
| Property, plant and equipment | - | 1,354 | (173) | - | 1,181 |
| Provisions | - | 60 | 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) | 5,206 | 6,052 | (2,962) |
| Net | - | 28,471 | 3,586 | 3,310 | 35,367 |

| 2011 | Balance 1 July 2010 $'000 | Recognised in profit or loss (Prior years) $'000 | Recognised in profit or loss (movement) $'000 | Recognised in other comprehensive income $'000 | Balance 30 June 2011 $'000 |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Derivative liability – fuel hedge | 2,542 | - | - | (2,343) | 199 |
| Employee provisions | 4,223 | 1 | (73) | - | 4,151 |
| Other accruals | 196 | - | 3 | - | 199 |
| Other items | 133 | - | (133) | - | - |
| Property, plant and equipment | 1,181 | (7) | 46 | - | 1,220 |
| Provisions | 94 | - | (16) | - | 78 |
| Tax losses | 29,960 | 27 | (643) | - | 29,344 |
| | 38,329 | 21 | (816) | (2,343) | 35,191 |
| **(Deferred tax liabilities)** | | | | | |
| Accrued income | (34) | - | (14) | - | (48) |
| Consumables | (410) | - | (93) | - | (503) |
| Derivative liability – fuel hedge | (315) | - | - | (253) | (568) |
| Other accruals | (104) | 75 | 29 | - | - |
| Property, plant and equipment | (2,099) | - | 651 | - | (1,448) |
| | (2,962) | 75 | 573 | (253) | (2,567) |
| Net | 35,367 | 96 | (243) | (2,596) | 32,624 |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## NOTE 9 INCOME TAX EXPENSE (CONTINUED)

| Unrecognised deferred tax assets and liabilities | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Tax benefits not recognised | | |
| Deferred tax assets – capital losses | 116 | 116 |
| | 116 | 116 |

## 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**

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Employee benefits expense: | | |
| Defined contribution plans | 3,697 | 3,434 |
| Defined benefit plans | 60 | 587 |
| Termination benefits | 1,407 | 616 |
| Other employee benefits | 49,406 | 47,353 |
| | 54,570 | 51,990 |
| Cost of food and beverage | 4,211 | 4,164 |
| Consumables | 4,358 | 4,085 |
| Repairs and maintenance | 7,296 | 9,300 |
| Bunker fuel and oil | 41,921 | 43,276 |
| | 57,786 | 60,825 |
| Total cost of sales | 112,356 | 112,815 |

**(b) Other expenses**

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Depreciation of: | | |
| Buildings, plant and equipment | 1,520 | 1,279 |
| Ships | 10,561 | 12,929 |
| Amortisation of: | | |
| Leasehold improvements | 377 | 482 |
| | 12,458 | 14,690 |
| Tasmanian quarantine | 592 | 562 |
| Terminal operations | 21,700 | 20,552 |
| Administration | 10,526 | 7,840 |
| Security | 3,436 | 3,025 |
| Customer acquisition | 7,685 | 8,598 |
| | 43,939 | 40,577 |
| Total other expenses | 56,397 | 55,267 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## NOTE 11 TRADE AND OTHER RECEIVABLES

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Trade receivables | 11,470 | 11,902 |
| Allowance for impairment | (208) | (312) |
| | 11,262 | 11,590 |
| Other debtors | 1,862 | 1,473 |
| Total trade and other receivable | 13,124 | 13,063 |

The average credit period on sales of goods is 23 days. No interest is charged on trade receivables. The Company has recognised an allowance for impairment of 100% against all receivables over 120 days because historical experience has been that receivables that are past due beyond 120 days are not recoverable. Allowances for impairment are recognised against trade receivables between 60 days 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**

| | 2011 | 2010 |
|---|---|---|
| 60 – 90 days | 702 | 542 |
| 90 – 120 days | 294 | 235 |
| Total | 996 | 777 |

**Movement in the allowance for impairment**

| | 2011 | 2010 |
|---|---|---|
| Balance at the beginning of the year | 312 | 198 |
| Impairment (gain)/losses recognised on receivables | 198 | 126 |
| Amounts written off as uncollectible | (79) | - |
| Amounts recovered during year | (223) | (12) |
| Balance at the end of year | 208 | 312 |

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 period. 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

| | 2011 | 2010 |
|---|---|---|
| Shore stock at cost | 50 | 32 |
| Bunker fuel at cost | 1,225 | 1,065 |
| Maintenance stock at cost | 402 | 269 |
| Food and beverages at cost | 280 | 304 |
| | 1,957 | 1,670 |

The cost of inventories recognised as an expense during the period in respect of continuing operations was $41.724 million (2010: $40.867million).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## NOTE 13 PROPERTY, PLANT AND EQUIPMENT

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Carrying amount of: | | |
| Cost or valuation | 239,042 | 253,386 |
| Accumulated depreciation and impairment | (14,319) | (13,006) |
| | 224,723 | 240,380 |
| Leasehold improvements (cost) | 5,973 | 6,191 |
| Plant and equipment (cost) | 6,495 | 5,975 |
| Ships (fair value) | 207,817 | 223,636 |
| Buildings (cost) | 3,938 | 4,078 |
| Freehold land (cost) | 500 | 500 |
| | 224,723 | 240,380 |

| **Cost or valuation** | **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** |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2009** | **12,003** | **10,786** | **274,278** | **5,186** | **500** | **302,753** |
| Acquisitions | 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 1 July 2010** | **13,112** | **10,950** | **223,636** | **5,188** | **500** | **253,386** |
| Acquisitions | 159 | 1,965 | 1,671 | 54 | - | 3,849 |
| Major cyclical maintenance | - | - | 4,671 | - | - | 4,671 |
| Disposals | - | (703) | - | - | - | (703) |
| Gross revaluation increment/(decrement) | - | - | (22,161) | - | - | (22,161) |
| **Balance at 30 June 2011** | **13,271** | **12,212** | **207,817** | **5,242** | **500** | **239,042** |

## NOTE 13 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| **Accumulated depreciation / amortisation and impairment** | **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** |
|---|---|---|---|---|---|---|
| **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 1 July 2010** | **6,921** | **4,975** | **-** | **1,110** | **-** | **13,006** |
| Disposals | | (584) | - | - | - | (584) |
| Depreciation expense | 377 | 1,326 | 10,561 | 194 | - | 12,458 |
| Adjustments from revaluation increment/ (decrement) | | - | (10,561) | - | - | (10,561) |
| **Balance at 30 June 2011** | **7,298** | **5,717** | **-** | **1,304** | **-** | **14,319** |

### 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 $111.818 million (78.000 million Euro) to $103.909 million (78.000 million Euro) between 2010 and 2011. This resulted in a total reduction in the value of the ships of $22.161 million. The amount of this reduction directly attributable to movement in the exchange rate between the Australian Dollar and Euro was $15.818 million.

If the ships (*Spirit of Tasmania I and II*) had been carried at cost, the carrying value of both ships would be $203.351 million.

Estimations of economic life and residual value of the ships are key judgements in the financial statements. A 10% increase/decrease in residual value of the ships would have a $0.425 million decrease/increase in depreciation in the Statement of Comprehensive Income and a $0.425 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 $0.430 million decrease/$0.481 million increase in depreciation in the Statement of Comprehensive Income and a $0.430 million increase/$0.481 million decrease in the carrying value of property, plant and equipment in the Statement of Financial Position.

## NOTE 14 OTHER ASSETS

| | **2011 $'000** | **2010 $'000** |
|---|---|---|
| Current | | |
| Derivative asset – fuel hedge | 1,162 | 68 |
| Prepaid expenses | 623 | 1,018 |
| | 1,785 | 1,086 |
| Non-current | | |
| Derivative asset – fuel hedge | 731 | 983 |

# NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## NOTE 15 TRADE AND OTHER PAYABLES

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Trade payables | 11,710 | 11,346 |

The average credit period on purchases of goods and services is 24 days. The Company has financial risk management policies in place to ensure all payables are paid within the pre-agreed credit terms.

## NOTE 16 BORROWINGS

| | | |
|---|---|---|
| **Unsecured – at amortised cost** | | |
| Tasmanian Public Finance Corporation loans (i) | - | 25,000 |

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

## NOTE 17 PROVISIONS

| | | |
|---|---|---|
| Workers compensation (i) | 700 | 860 |
| Liability for long service leave | 3,768 | 3,374 |
| Liability for annual leave | 4,717 | 4,419 |
| Defined benefit superannuation (note 19) | 4,650 | 5,281 |
| | 13,835 | 13,934 |
| Current | 7,892 | 7,411 |
| Non-current | 5,943 | 6,523 |
| | 13,835 | 13,934 |

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

## NOTE 18 OTHER LIABILITIES

| | | |
|---|---|---|
| Derivative liability– fuel hedge | 663 | 8,473 |
| Revenue received in advance | 9,046 | 9,365 |
| | 9,709 | 17,838 |
| Current | 9,517 | 17,278 |
| Non-current | 192 | 560 |
| | 9,709 | 17,838 |

## NOTE 19 RETIREMENT BENEFIT PLANS

The Company has employees who belong to the State of Tasmania's Retirement Benefit 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 | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Present value of defined benefit obligations at beginning of the year | 6,697 | 6,271 |
| Current service cost | 183 | 169 |
| Interest cost | 355 | 354 |
| Estimated contributions by plan participants | 48 | 50 |
| Actuarial (gains) / losses | (461) | 166 |
| Estimated benefits paid | (1,138) | (300) |
| Estimated taxes, premiums and expenses paid | (14) | (13) |
| Transfers in | - | - |
| Contributions to accumulation section | - | - |
| Past service costs | - | - |
| Curtailments | - | - |
| Settlements | - | - |
| Exchange rate changes | - | - |
| Present value of defined benefit obligations at end of year | 5,670 | 6,697 |

### Funded status

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

| Reconciliation of the fair value of scheme assets | | |
|---|---|---|
| Fair value plan assets at beginning of the year | 1,416 | 1,355 |
| Expected return on plan assets | 98 | 96 |
| Actuarial gain / (losses) | (81) | 6 |
| Estimated employer contributions | 691 | 222 |
| Estimated contributions by plan participants | 48 | 50 |
| Estimated benefits paid | (1,138) | (300) |
| Estimated taxes, premiums and expenses paid | (14) | (13) |
| Transfers in | - | - |
| Contributions in accumulation section | - | - |
| Settlements | - | - |
| Exchange rate changes | - | - |
| Fair value of plan assets at end of the year | 1,020 | 1,416 |

## NOTE 19 RETIREMENT BENEFIT PLANS (CONTINUED)

| Reconciliation of the assets and liabilities recognised in the statement of financial position | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Defined benefit obligation | 5,670 | 6,697 |
| RBF Contributory scheme assets | (1,020) | (1,416) |
| Deficit/(Surplus) | 4,650 | 5,281 |
| Unrecognised past service cost | - | - |
| Unrecognised net (gain)/loss | - | - |
| Net liability / (asset) | 4,650 | 5,281 |
| | | |
| Current net liability | 87 | 85 |
| Non-current net liability | 4,563 | 5,196 |
| | 4,650 | 5,281 |

| Expense recognised in income statement | 2011 | 2010 |
|---|---|---|
| Service cost | 183 | 169 |
| Interest cost | 355 | 354 |
| Expected return on plan assets | (98) | (96) |
| Recognised actuarial (gains) / losses | (380) | 160 |
| Recognised past service cost | - | - |
| Curtailment / settlement (gain) / loss | - | - |
| Superannuation expense/(income): | 60 | 587 |

### Fund assets

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

| | 2011 | 2010 |
|---|---|---|
| Australian equities | 25% | 26% |
| International equities | 22% | 22% |
| Fixed income | 13% | 12% |
| Property | 19% | 20% |
| Alternative /Other | 18% | 14% |
| Cash | 3% | 6% |

### 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.

## NOTE 19 RETIREMENT BENEFIT PLANS (CONTINUED)

### 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 | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Actual return on plan assets^ | 17 | 102 |

*^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 | 2011 | 2010 |
|---|---|---|
| Discount rate: | 5.50% | 5.35% |
| Expected salary increase rate: | 7.50% | 4.50% |
| Expected rate of return on plan assets | 4.50% | 7.00% |
| Expected pension increase rate | 4.50% | 2.50% |
| Expected rate of increase compulsory preserved amounts | 2.50% | 4.50% |

The discount rate is based on the market yields on the longest dated Government bond as at 30 June 2011 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 below.

#### Operating costs

Operating costs for the Fund as a whole have been assumed to be incurred at the rate of 1.5% of salaries plus 1.0% of pension in payment. 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 0.2% of salaries of current contributory members. This cost has been allocated to each authority in proportion to assets.

| Historical information | 30 June 2011 $'000 | 30 June 2010 $'000 | 30 June 2009 $'000 | 30 June 2008 $'000 | 30 June 2007 $'000 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | 5,670 | 6,697 | 6,271 | 5,393 | 5,507 |
| Fair value of plan assets | (1,020) | (1,416) | (1,355) | (1,360) | (1,504) |
| (Surplus) / deficit in plan | 4,650 | 5,281 | 4,916 | 4,034 | 4,003 |
| Experience adjustments (gain) / loss - plan assets | 81 | (6) | (98) | 232 | (140) |
| Experience adjustments (gain) / loss - plan liabilities | (314) | (374) | 351 | 78 | 85 |

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 | 2012 $'000 |
|---|---|
| Expected employer contributions | 87 |

## NOTE 20 ISSUED CAPITAL AND FULLY PAID ORDINARY SHARES

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Ordinary shares, fully paid 328,981,230 (2010: 328,981,230) | 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.

## NOTE 21 RESERVES (NET OF INCOME TAX)

| | | |
|---|---|---|
| Asset revaluation | - | - |
| Hedging | 860 | (5,196) |
| | 860 | (5,196) |

### Asset revaluation reserve

| | | |
|---|---|---|
| Balance at beginning of financial year | - | 14,733 |
| Revaluation increment/(decrement) | - | (21,047) |
| Deferred tax liability arising on revaluation (note 9) | - | 6,314 |
| Balance at end of financial year | - | - |

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.

### Cash flow hedge reserve

| | | |
|---|---|---|
| Balance at beginning of financial year | (5,196) | (12,206) |
| Effective portion of changes in fair value of cash flow hedge | 865 | (919) |
| Transfer of hedge reserve to income statement | 7,787 | 10,933 |
| Net impact on equity | 8,652 | 10,014 |
| Deferred tax liability arising on market valuation (note 9) | (2,596) | (3,004) |
| Balance at end of financial year | 860 | (5,196) |

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 cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to profit or loss only when the hedged transaction affects the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

## NOTE 22 RETAINED EARNINGS

| | | |
|---|---|---|
| Balance at beginning of financial year | (74,473) | (94,673) |
| Profit/(Loss) for the year | 506 | 20,200 |
| Balance at end of financial year | (73,967) | (74,473) |

## NOTE 23 FINANCIAL INSTRUMENTS

### (a) Capital 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 2010.

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 note 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.

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Financial assets | | |
| Debt (i) | - | 25,000 |
| Cash and cash equivalents | (16,184) | (24,881) |
| Net debt | (16,184) | 119 |
| | | |
| Equity (ii) | 255,874 | 249,312 |
| Net debt to equity ratio | (6.325)% | 0.048% |

(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) Categories of financial instruments

| | | |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables | 13,124 | 13,063 |
| Cash and cash equivalents | 16,184 | 24,881 |
| Derivative instrument in designated hedge accounting relationship | 1,893 | 1,051 |
| **Financial liabilities** | | |
| Amortised cost | 11,710 | 36,346 |
| Derivative instrument in designated hedge accounting relationship | 663 | 8,473 |

### (c) Financial risk management objectives

The Company's treasury function provides services to the business, co-ordinates access to financial markets, monitors 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 where considered appropriate. The use of financial derivatives as required is governed by the Company's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a planned basis. 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.

## NOTE 23 FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Market Risk

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

The Company is exposed to cash flow variability in operating expenditure attributable to the purchase price of bunker fuel. 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 | |
|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| 10% increase in USD/AUD exchange rate | 2,089 | 2,038 | 3,694 | 4,351 |
| 10% decrease in USD/AUD exchange rate | (2,553) | (2,498) | (4,515) | (5,318) |

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 | |
|---|---|---|---|---|
| | 2011 $'000 | 2010 $'000 | 2011 $'000 | 2010 $'000 |
| 10% increase in price M/T of fuel | (2,298) | (2,248) | (4,063) | (4,787) |
| 10% decrease in price M/T of fuel | 2,298 | 2,248 | 4,063 | 4,787 |

### (e) Foreign currency risk management

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

### (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 end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended 30 June 2011 would increase/decrease by $0.030/$0.028 million (2010: decrease/increase by $0.116/$0.117 million). This is mainly attributable to the Company exposure to interest rates on its variable rate cash deposits.

The Company's sensitivity to interest rates has increased during the current period mainly due to the repayment of the fixed rate debt instrument.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## NOTE 23 FINANCIAL INSTRUMENTS (CONTINUED)

### (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. Credit exposure is reported to and reviewed 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.

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 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**

Non-derivative

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. 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.

## NOTE 23 FINANCIAL INSTRUMENTS (CONTINUED)

| | | Fixed interest rate maturity | | | | |
|---|---|---|---|---|---|---|
| **2011** | **Floating interest rate $'000** | **Less than 1 year $'000** | **1 -5 years $'000** | **Greater than 5 years $'000** | **Non-interest bearing $'000** | **Total $'000** |
| *Financial assets* | | | | | | |
| Cash | 16,061 | | | | 123 | 16,184 |
| Receivables | - | - | - | - | 13,124 | 13,124 |
| | 16,061 | | | | 13,247 | 29,308 |
| Weighted average interest rate | 4.98% | | | | | |
| *Financial liabilities* | | | | | | |
| Payables | - | - | - | - | 11,710 | 11,710 |
| Interest-bearing liabilities | - | - | - | - | - | - |
| | | | | | 11,710 | 11,710 |
| Weighted average interest rate | | | | | | |

| | | Fixed interest rate maturity | | | | |
|---|---|---|---|---|---|---|
| **2010** | **Floating interest rate $'000** | **Less than 1 year $'000** | **1 -5 years $'000** | **Greater than 5 years $'000** | **Non-interest bearing $'000** | **Total $'000** |
| *Financial assets* | | | | | | |
| Cash | 24,745 | - | - | - | 135 | 24,881 |
| Receivables | - | - | - | - | 13,063 | 13,063 |
| | 24,745 | - | - | - | 13,181 | 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% | | | | |

### 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.

## NOTE 23 FINANCIAL INSTRUMENTS (CONTINUED)

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

| 2011 | Expected Cash flows $'000 | Less than 1 year $'000 | 1 -5 years $'000 | Greater than 5 years $'000 |
|---|---|---|---|---|
| Bunker fuel swap: | | | | |
| Assets | 1,893 | 1,163 | 730 | - |
| Liabilities | (663) | (471) | (192) | - |

| 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) | - |

**Financing facilities**

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Unsecured bank overdraft facility, reviewed annually | | |
| amount used | - | (27,500) |
| amount unused | (15,000) | (12,500) |
| Unsecured bank loan facilities with a maturity date of June 2011 | | |
| amount used | - | (27,500) |
| amount unused | - | (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 are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions

Non-derivative

| | 2011 Carrying amount $'000 | 2011 Fair value $'000 | 2010 Carrying amount $'000 | 2010 Fair value $'000 |
|---|---|---|---|---|
| *Financial assets* | | | | |
| Cash | 16,184 | 16,184 | 24,881 | 24,881 |
| Receivables | 13,124 | 13.124 | 13,063 | 13,063 |
| *Financial liabilities* | | | | |
| Payables | 11,710 | 11,710 | 11,346 | 11,346 |
| Interest-bearing liabilities | - | - | 25,000 | 25,385 |

## NOTE 23 FINANCIAL INSTRUMENTS (CONTINUED)

### 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).

| 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial Assets at Fair Value Profit or Loss | | | | |
| Derivative financial assets | - | 1,893 | - | 1,893 |
| Total | - | 1,893 | - | 1,893 |
| Financial Liabilities at Fair Value Profit or Loss | | | | |
| Non-derivative financial Liabilities | - | - | - | - |
| Derivative financial liabilities | - | (663) | - | (663) |
| Total | - | (663) | - | (663) |

| 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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 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 $ |
|---|---|---|---|---|---|---|
| **2011** | 2,330,264 | 173,793 | 55,022 | - | - | 2,559,080 |
| **2010** | 1,902,846 | 181,784 | 28,442 | 229,784 | - | 2,342,856 |

## 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 $135,000 (2010: $130,000) in sponsorships to the Tourism Industry Council Tasmania. Mr. S. Currant is the chairman of the Tourism Industry Council Tasmania for which he receives no remuneration. Mr. B. Dwyer and Mr. C. Griplas are Directors of the Tourism Industry Council Tasmania for which they both receive 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 short term 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;

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Cash and cash equivalents | 16,184 | 24,881 |
| **Cash flows from operating activities** | | |
| Profit/(Loss) for the year | 506 | 20,200 |
| Gain on sale of non-current assets | (66) | 13 |
| Value Decrement *Spirit of Tasmania I* and *II* | 11,600 | 24,995 |
| Depreciation | 12,081 | 14,208 |
| Amortisation – leasehold improvements | 377 | 482 |
| Income tax benefit | 147 | (32,057) |
| Movements in working capital | | |
| (Increase)/decrease trade and other receivables | (61) | (2,475) |
| (Increase)/decrease inventories | (287) | 169 |
| (Increase)/decrease other assets | 395 | (508) |
| Increase/(decrease) trade and other payables | 364 | (820) |
| Increase/(decrease) revenue received in advance | (319) | 664 |
| Increase/(decrease) provisions | (99) | 190 |
| Net cash provided by operating activities | 24,638 | 25,061 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

## 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.

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Non-cancellable operating lease payments | | |
| Not longer than 1 year | 3,961 | 3,937 |
| Longer than 1 year but not longer than 5 years | 10,917 | 12,450 |
| Longer than 5 years | 11,175 | 14,528 |
| | 26,053 | 30,915 |

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 (Not longer than one year)

| | | |
|---|---|---|
| Ship improvements | - | 91 |

### (b) Lease commitments

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

## NOTE 29 REMUNERATION OF AUDITORS

### Auditor of the company

| | | |
|---|---|---|
| Audit of the financial report | 60,880 | 59,485 |

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 ASSETS AND LIABILITIES

There are no material contingent assets or liabilities as at 30th June 2011 or 30th June 2010.


**TT-LINE COMPANY PTY LTD** The Esplanade, East Devonport Tasmania 7310 spiritoftasmania.com.au