Grant Thornton

Review of the Operating and Capital Expenditure of Sydney Ferries Corporation

Prepared by Grant Thornton for the Independent Pricing and Regulatory Tribunal of New South Wales

10 October 2006

Chartered Accountants
Business Advisers and Consultants

Grant Thornton

The Chief Executive Officer
Independent Pricing and Regulatory Tribunal of New South Wales
Level 2
44 Market Street
Sydney NSW 2000

10 October 2006

Dear Sirs

Independent Pricing and Regulatory Tribunal of New South Wales

We have pleasure enclosing our review of the operating and capital expenditure ("the Report") in respect of Sydney Ferries Corporation ("Sydney Ferries") for the 3 year period to 30 June 2009.

We draw your attention to the scope and limitations of our procedures in Section 2 and our key findings summarised in the Executive Summary in Section 3 of our Report.

If you have any questions regarding our Report, please do not hesitate to contact Garth Olling on (02) 8297 2400.

Yours sincerely
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Sydney Ferries

Important Notice

- The Report is based on the information provided by Sydney Ferries' Management and other publicly available information. The Recipient of this report is the Independent Pricing and Regulatory Tribunal ("the Tribunal") only. We authorise and consent for the Tribunal to make this report available on the Tribunal website.
- We will not assume responsibility for losses occasioned to Sydney Ferries, or to any other party as a result of the reliance or use of this Report.
- In addition to any other rights available to us, Grant Thornton expressly advises that it:
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- The estimates, Projections and outcomes contained in this Report involve significant elements of subjective judgement, therefore, no representation or warranty of any kind, expressed or implied, is or will be made in relation to them.
- This Report is also based upon financial information as provided by Sydney Ferries. Grant Thornton has considered and relied upon this information. The information provided to Grant Thornton has been evaluated through analysis, enquiry and review for the purposes of forming an opinion based on the scope of our engagement. However, in preparing reports such as this, Grant Thornton does not warrant that its enquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose.
- Preparation of this Report does not imply that Grant Thornton has audited in any way the management accounts or other records of Sydney Ferries. It is understood that the accounting information provided to us was prepared in accordance with generally accepted accounting principles.
- As at the date of this report, Sydney Ferries represented that the Projections for the 3 year period to 30 June 2009 utilised in our Report have to be considered high level Projections and that detailed underlying assumptions are not available. We understand that these Projections have been superseded by a subsequent detailed version of the Projections. Sydney Ferries have represented that the detailed Projections provided in their submission to IPART dated August 2006 are materially different from the Projections included in this Report. Notwithstanding these representations by Sydney Ferries, the Tribunal requested us to carry out our procedures based on the Projections available at the date of this Report. In this regard, we note that the FY07 Budget included in the Sydney Ferries Submission to the Tribunal on August 2006 is materially different from the FY07 Projections reviewed in this Report.

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1. Our Engagement

Introduction & Scope

Sydney Ferries Corporation was established as a State Owned Corporation ("SOC") on 1 July 2004, by amendments to the Transport Administration Act 1988 (NSW) passed by the NSW Parliament in December 2003.

The Independent Pricing and Regulatory Tribunal reports to the N.S.W. Government on the determination of pricing for Government monopoly services provided by State Owned Corporations. Sydney Ferries is a State Owned Corporation and accordingly it is subject to the authority of the Tribunal for the determination of it's fares trend. In accordance with this scope, the Tribunal establishes the pricing trend of the fares of Sydney Ferries. Usually Sydney Ferries submits to the Tribunal an annual submission for price increases, however in the 2005 submission to the Tribunal, Sydney Ferries requested that the Tribunal grant it a three year price path.

In order to grant a multi-year price path, the Tribunal wants to conduct detailed investigations of Sydney Ferries' patronage and costs to investigate the opportunity to achieve efficiency gains. Generally, the Tribunal sets price paths that support the efficient operation and expansion of the agency while maintaining service and safety standards at satisfactory levels. Accordingly, the Tribunal has engaged Grant Thornton to assist it in a review of the operating ("Opex") and capital ("Capex") expenditures of Sydney Ferries ("Scope") as set out in the 3 year forecasts ending 30 June 2009 ("Projections") provided by Sydney Ferries. We note that notwithstanding the 3 years price path requested by Sydney Ferries, the Tribunal will issue a one-year fare determination this year.

In accordance with the Consultancy Agreement, Grant Thornton has engaged the Marine Surveyors and Consultants MARINASSESS Pty. Ltd. ("MARINASSESS") in order to assist us in the review of the technical parameters related to the Opex and Capex of Sydney Ferries.

Our Engagement

This Report has been prepared by Grant Thornton at the request of the Tribunal in accordance with the Scope and terms and conditions contained in the Consultancy Agreement executed between the Tribunal and Grant Thornton. In accordance with the invitation to quote, the objective of this Report is to assist the Tribunal in assessing an efficient level of opex and capex of Sydney Ferries having regard to the following:

- establish a methodology for estimating efficient operating and capital expenditures of Sydney Ferries;
- best estimates of likely efficient operating and capital expenditures of Sydney Ferries in the Projections; and
- quantify, where possible, actual improvements in service over the period FY04 and FY05 and likely improvements in service for the 3 year period to 30 June 2009 ("FY09").

We note that in the performance of our engagement, we have had limited opportunities to verify and enquire the information provided to us. We have received 3 versions of the projections as at the date of this Report, with the last version being received on 12 May 2006. In addition, the Projections have been represented as high level Projections by Sydney Ferries which lack detailed underlying assumptions. Given the lack of assumptions underlying the Projections, we have not been able to perform an analysis of the individual cost items and we have not been able to apply our preferred methodology as discussed in Appendix 4.

We note that due to the lack of information we have been unable able to perform a review of the likely improvements in services for the 3 year period to 30 June 2009. We set out in Appendix 7 an assessment of the actual improvements in services over the 2 year period to 30 June 2005.

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2. Sources of Information, Methodology & Limitations

Notwithstanding the limitations and lack of information, the Tribunal have requested a Report to be completed based on the information available. We understand that since the completion of this Report, Sydney Ferries have completed detailed projections that differ materially from the Projections included in this Report. We note that we have not been given access to the detailed projections and assumptions.

This Report has been provided to Sydney Ferries for factual accuracy in relation to the Projections used in this Report.

Sources of Information

A comprehensive list of all information used in this Report is set out in Appendix 2.

Methodology

In the selection of the most appropriate methodology to assess an efficient level of operating and capital expenditure of Sydney Ferries we have had regard to the following:

- accuracy of the financial model provided to us underlying the 3 year Projections of Sydney Ferries;
- level of detail regarding the assumptions underlying the Projections;
- level of access to the management of Sydney Ferries; and
- the Tribunal's requirements having regard to the expected timetable to finalise our Report.

During our correspondence with the management of Sydney Ferries up until the time IPART had requested that we complete our Report in order for IPART to meet it's timetable for the price path determination, Sydney Ferries represented the following :

- the Projections provided to us are based on high level assumptions and detailed information is not available at this stage;
- the management of the Corporation is currently in the process of completing detailed Projections for the 3 year period to 30 June 2009 which is expected to be materially different to the Projections provided to us; and
- the Model underlying the Projections has not been built based on detailed analysis and assumptions but only assumes some variations based on the FY06 Budget.

We note that during the course of our engagement, we received three separate versions of the projections with the last version being received on 12 May 2006. We note that these projections were not approved by the CEO or ratified by the Board of Sydney Ferries.

The forecast financial information included in this report as provided by Sydney Ferries includes expected inflation or as otherwise specifically stated.

2. Sources of Information, Methodology & Limitations

Notwithstanding the lack of detailed information to properly fulfill the initial scope as set out in Section 1, the The Tribunal have requested us to finalise our Report with respect to the information available.

We set out in Appendix 4 our preferred methodology to review the opex and capex of Sydney Ferries. Given the limited access to detailed information, we have not been able to apply our preferred methodology which would have been further expanded during the course of the review.

Accordingly, in order to assess potential cost savings related to operating and capital expenditure of Sydney Ferries we have applied the following two methodologies:

- With the assistance of MARINASSESS, we have carried out a high-level review of the main opex and capex set out in the Projections, in order to assess potential cost savings for these items. Given the lack of detailed information, we have supported the analytical review of the main opex expenditures with local benchmark information where practicable; and
- A qualitative benchmark review against international companies carrying out comparable operations to those of Sydney Ferries.

Rounding

We note that some of the figures in this Report may not add due to rounding.

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3. Executive Summary

- We have conducted our review of the opex and capex for Sydney Ferries in accordance with the methodologies as outlined in section 2 of this Report.

- Due to informational constraints, we have not been able to employ our preferred methodology as outlined in Appendix 4 of this Report in regards to the determination of an efficient level of opex and capex. Notwithstanding, we have calculated a "best estimate" of potential cost savings relating to Opex and Capex having regard to the following methodologies:
    - An analytical review of the main opex of Sydney Ferries based on the level of information available; and
    - Qualitative Benchmark of Sydney Ferries' opex with the opex of international ferry operators.

- Subject to the limitations outlined in section 2 of this Report we present below a summary of our assessment of opex and capex.

Opex

- Based on the results of the analytical review methodology set out above, we summarise in figure 3.1 the potential cost savings achievable by Sydney Ferries were it operating in a commercial and private environment.

Figure 3.1 - Summary of Assessed Opex Savings

Operating Expenditure	2006/07 $'000s	2007/08 $'000s	2008/09 $'000s
Labour	5,807	4,710	6,235
Fuel	(630)	(188)	233
Repairs and Maintenance	785	805	825
Other Expenses	500	555	560
Variance to Assessed Opex Savings [1]	**6,461**	**5,882**	**7,853**

[1] Numbers may not add due to rounding

Source: Sydney Ferries Information, Grant Thornton & MARINASSESS calculations

- Based on the review of the high level information available, we have assessed that Sydney Ferries can achieve cost savings of between $5.9 million per annum and $7.9 million per annum in the Projections period, largely due to savings in labour costs. Details to support this analysis of operating expenditure are contained in section 5 of this Report.
- These findings should be considered and read in conjunction with our more detailed findings set out in the remainder of this report (sections 5 and 6)

3. Executive Summary

Capex

- We have carried out a high level review of each major capital project and compared, where possible, to commercial and private operators.
- Having regard to major vessel maintenance we have undertaken an analysis of the maintenance items, and compared to other industry norms to calculate a best estimate of major vessel maintenance for Sydney Ferries. We have assessed that there is scope for potential cost savings in Sydney Ferries' forecast capital program as shown in the figure 3.2 below.

Figure 3.2 - Assessed Capex Savings

Capital Expenditure	2006/07 $'000s	2007/08 $'000s	2008/09 $'000s
General Capital Program	500	-	-
Major Vessel Maintenance	179	353	197
Total Cost Savings	**679**	**353**	**197**

Source: Sydney Ferries Information, Grant Thornton & MARINASSESS calculations

- As shown above, we have assessed that there is potential for cost savings in capital expenditure for each year in the Projections period between $0.2 million and $0.68 million based on the information provided by Sydney Ferries as at the date of this Report.
- Details to support the analysis of capital expenditure are contained in section 6 of this Report.
- These findings should be considered and read in conjunction with our more detailed findings set out in the remainder of this report (sections 5 and 6)

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4. Business History and Operations

2004/05 Overview

Sydney Ferries Corporation was established as a State Owned Corporation on 1 July 2004, by amendments to the Transport Administration Act 1988 (NSW) passed by the NSW Parliament in December 2003.

Sydney Ferries operates ferry passenger services across Sydney Harbour and along the Parramatta River. Regular passenger services operate along 8 routes from Circular Quay:

- Parramatta / Rydalmere
- Balmain / Woolwich
- Darling Harbour
- Neutral Bay
- Mosman
- Taronga Zoo
- Eastern Suburbs
- Manly

Sydney Ferries operates a fleet of 31 vessels of 7 different classes. Sydney Ferries also owns and operates 9 public commuter wharves and 3 Shipyard repair and maintenance wharves. In accordance with its legislative objectives, the primary purpose of Sydney Ferries is to deliver safe and reliable ferry services.

We set out in figure 4.1 an overview of Sydney Ferries' fleet by vessel.

Figure 4.1 - Sydney Ferries Fleet

Vessel							
Class	First Fleet	Freshwater Class	Lady Class	Harbourcat	Jetcat	Rivercat	Supercat
No.	9	4	2	2	3	7	4
Capacity	393	1100	554 - 815	150	280	230	250
Age	19 – 21	18 – 23	26 – 31	7	14 – 15	10 – 13	4 – 5
Routes	Inner Harbour	Manly	Inner Harbour	Inner Harbour	Manly	Parramatta	Inner Harbour

Source: Sydney Ferries' Information

Sydney Ferries at a Glance

- 14.1 million passengers travelled with Sydney Ferries in the FY05, an increase of approximately 0.6% from the prior year;
- A detailed benchmarking study of the Balmain Shipyard maintenance operations was undertaken, identifying potential improvements and cost savings;
- No reported incidents of major environmental damage in FY05;
- There were 3 major vessel incidents in FY05 causing material damage to infrastructure and vessels;
- Operating loss of $2.6 million in FY05;
- Revenue of $66.3 million for the 9 month period to 31 March 2006 and a net loss of $13.2 million;
- Sydney Ferries did not have continuity of Senior Management (including the position of CEO) over the last year.

Sydney Ferries

4. Business History and Operations

Historical Income Statement

Figure 4.2 - Historical Income Statement

	12 mths to Jun-05 $000's	9 mths to Mar-06 $000's	Full Year Forecast 2005/06 $000's
Total Revenue	96,327	66,344	95,648
Expenses			
Fleet running	18,518	12,238	16,426
General operating	14,552	4,754	5,624
Employee benefits	46,736	41,677	52,682
Other	2,549	7,270	11,691
Operating Expenses	82,355	65,939	86,423
EBITDA	**13,972**	**405**	**9,225**
EBITDA MARGIN	*15%*	*1%*	*10%*
EBIT MARGIN	*0.02*	*(15.6%)*	*(6.1%)*
Other Expenses			
Interest and amortisation	4,511	2,827	3,912
Depreciation and amortisation	12,080	10,784	15,075
Total Other Expenses	16,591	13,611	18,987
EBT	(2,619)	(13,206)	(9,762)

Source: Sydney Ferries Information

The 2006 budget was prepared by Sydney Ferries at the beginning of the FY06. The 2006 forecast has been prepared in April having regard to the actual performance to March 2006.

Figure 4.2 shows that the EBITDA of Sydney Ferries is expected to increase from $0.41 million in March 2006 to $9.23 million for the year ended FY06, an increase of $8.8 million. We understand that this is due to increased Government funding rather than improvements in financial performance.

The activity of Sydney Ferries is characterised by a high level of seasonality during the summer period when the passenger numbers increase by up to 60% compared to an average day.

We understand that actual Government funding for 2005/06 was $42.9 million, excluding capital grants.

Sydney Ferries' fleet availability is presently below their target. The enhancement of the present level of availability of the vessels will increase the level of efficiency in terms of other operating expenses such as hire of buses and ferries. With a more reliable fleet, maintenance costs would also be reduced.

Fleet running expenses include fleet maintenance carried out at the Balmain Shipyard and fuel costs. These costs in FY05 and FY06 have increased substantially in comparison to an annualised FY04.

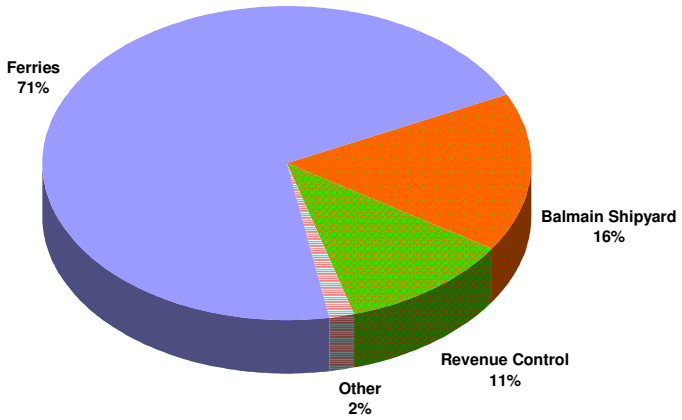
Wages have increased in FY06 due to the introduction of the 12 hour roster. Around 20 additional rosters lines have been required.

4. Business History and Operations

Historical Income Statement

We set out in figure 4.3 the split of staff by business unit as at 30 June 2005. We have not been provided with this information for the YTD management accounts or for the projections period.

Figure 4.3 - Staff Numbers



Source: Sydney Ferries Information

We understand that total year-to-date expenditure exceeds forecast. The key areas of over-expenditure for the 9 months to 31 March 2006 were:

- wages – due to unanticipated costs associated with introduction of the 12-hour rosters. In addition this result includes the utilisation of approximately 30 staff for crowd control duties during the summer period, and the coverage of shifts for crew undergoing Crew Resource Management (CRM) training;
- temporary staff – a number of contractors have been hired across the organisation to cover vacant positions;
- unplanned fleet maintenance costs;
- fuel costs; and
- ferry and bus hire – impacted by relatively low levels of vessel availability.

Sydney Ferries

4. Business History and Operations

Historical Balance Sheet

Figure 4.4 - Historical Balance Sheet

	12 mths to Jun-05 $000's Audited	9 mths to Mar-06 $000's Unaudited
Current Assets		
Cash	5,540	958
Investments	-	-
Receivables	1,140	1,298
Inventories	4,049	4,485
Other	4,788	1,882
Non-Current Assets		
Property Plant and Equipment	127,385	126,430
Intangibles	26	24
Total Assets	142,928	135,077
Current Liabilities		
Payables	8,819	2,576
Interest bearing liabilities	10,730	16,539
Provisions	6,120	10,376
Non-Current Liabilities		
Interest bearing liabilities	31,270	30,836
Provisions	5,473	6,336
Total Liabilities	62,412	66,663
Net Assets	80,516	68,414

Source: Sydney Ferries Information

For the completeness of our understanding of Sydney Ferries' operations we present the relevant unaudited financial information relating to the statement of financial position for 31 March 2006.

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5. Operating Expenditure Projections

We set out in this page a summary of the projections provided to us which we have reviewed in accordance with the scope. As mentioned previously, in the following pages we have reviewed the opex of the company having regard to the following 2 methodologies:

- An analytical review of the main opex of Sydney Ferries based on the level of information available; and
- A qualitative benchmark of Sydney Ferries' opex with the opex of international ferry operators.

Figure 5.1 - Sydney Ferries Opex Projections

Sydney Ferries	Forecast 2005/06 $'000s	Forecast 2006/07 $'000s	Forecast 2007/08 $'000s	Forecast 2008/09 $'000s
Revenue	95,648	94,733	96,697	98,425
Costs				
Labour	55,494	54,176	53,675	57,484
Fuel	7,455	7,828	8,219	8,630
Repairs & Maintenance	8,971	7,807	7,107	6,885
Other [1]	17,315	14,686	13,895	14,147
Depreciation	15,075	18,349	20,974	22,382
Interest	3,912	4,439	4,996	5,545
Total Costs	**108,222**	**107,286**	**108,865**	**115,074**
Surplus / (Deficit)	**(12,574)**	**(12,554)**	**(12,168)**	**(16,649)**
EBITDA ($)	6,413	10,235	13,801	11,279
EBITDA (%)	*6.7%*	*10.8%*	*14.3%*	*11.5%*
EBIT ($)	(8,662)	(8,114)	(7,172)	(11,104)
EBIT (%)	*(9.1%)*	*(8.6%)*	*(7.4%)*	*(11.3%)*

[1] Includes all other miscellaneous expenses including insurance, hire of private ferries / buses and rent expense.

Source: Sydney Ferries Information

Sydney Ferries

5. Operating Expenditure

Analytical Review

We set out in the following pages an assessment of the cost savings related to opex having regard to our analytical assessment of the major classes of expenses as set out in the projections. We note that this analysis has been constrained by the level of information available and the high level assumptions underlying the projections. We set out in the table below a brief summary of the opex items included in the projections and our ability to comment upon these items based on the information made available to us.

Figure 5.2 - Major Opex Items

Cost	Review	Comments
Labour	✓	Reviewed at a high level based on the available information
Fuel	✓	Reviewed at a high level based on the available information
Repairs and Maintenance	✓	Reviewed at a high level based on the available information
Insurance	✓	Reviewed at a high level based on the available information
Hire of Private Ferries & Buses	✓	Reviewed at a high level based on the available information
Rent	✓	Reviewed at a high level based on the available information
Other Expenses	✗	Partly reviewed due to the limitations of available information
Depreciation	✗	Not reviewed due to the limitations of the available information
Interest	✗	Not reviewed due to the limitations of the available information

Sydney Ferries

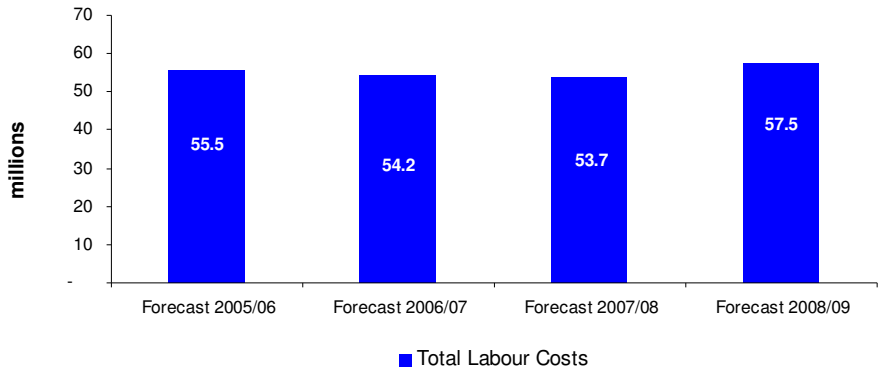
5. Operating Expenditure

Analytical Review – Labour

Labour

We set out in figure 5.3 below the total labour costs as set out in the Projections.

Figure 5.3 - Sydney Ferries Labour Costs



Source: Sydney Ferries Information

We note that we have not been provided with any details regarding the total number of employees, full time equivalent number, wages and salaries split by function, role and business unit, or with information regarding the utilisation of Sydney Ferries' staff. Accordingly, we have not been able to carry out a detailed review of Sydney Ferries' labour costs. We have only been able to carry out an assessment of labour costs based on Sydney Ferries' information regarding the draft EBA's.

Sydney Ferries' employees are remunerated based on Enterprise Bargaining Agreements ("EBA's"). There are five separate enterprise agreements:

- Master and Inner Harbour Engineers
- Senior and Salaried officers
- Balmain Shipyard
- Outer Harbour Engineers
- General Purpose Hands

All EBA's are presently expired and require renewal. At the time of this Report Sydney Ferries had not yet finalised the negotiations with the relevant unions, but we understand that negotiations are in advanced stages. Notwithstanding, we have based our assessment on the conditions proposed in the draft EBA's at the date of this Report, however we note that these conditions may differ materially from the finalised EBA's.

Sydney Ferries

5. Operating Expenditure

Analytical Review - Labour

Based on the available information provided to us by Sydney Ferries and based on the draft EBA's available at the date of this Report, we set out in Figure 5.4 a comparison between our assessed forecast estimate of Sydney Ferries' Labour costs based on the draft EBA's and the amounts included in the Projections.

Figure 5.4 - Assessed labour costs vs. Projections

	2007 $'000	2008 $'000	2009 $'000
Forecast Estimate	**54,601**	**56,771**	**59,041**
Operating Labour Costs from Projections [1]	53,076	53,047	56,840
Capital Labour Costs [2]	3,719	5,154	3,689
Total Labour Costs	**56,796**	**58,201**	**60,529**
Variance	**2,194**	**1,430**	**1,488**

[1] Operating Labour costs do not include the costs of temporary staff as we understand that they are not regulated under the EBA's included in our analysis. Accordingly, labour costs as set out in figure 5.4 differs from labour costs set out in figure 5.1 and 5.3

[2] This analysis includes labour costs that will be capitalised as part of the capital program ("Capital Labour") given they are also regulated by EBA's. The figures have been sourced from the projections. Capitalised labour costs or "Wage Recoveries" are presented as part of the Capital Projections in Figure 6.1.

Source: Sydney Ferries Information, Grant Thornton calculations

As set out above, differences between $1.4 million per annum and $2.2 million per annum exist between the assessed forecast estimate of labour costs based on the draft EBA's and the amounts included in the Projections. For the purposes of our review of the opex of Sydney Ferries, we have assumed that the annual difference as set out in the table above may represent cost savings achievable by Sydney Ferries in the Projections.

Sydney Ferries

5. Operating Expenditure

Analytical Review - Labour

In order to support our assessment of the level of labour costs, we have compared the Sydney Ferries' annual labour costs as a percentage of revenue with the benchmark labour costs of private operators. We summarise below our analysis in figure 5.5.

Figure 5.5 - Labour as a % of Revenue

	2006/07 $'000's	2007/08 $'000's	2008/09 $'000's
Sydney Ferries	57.2%	55.5%	58.4%
Benchmark [1]	47.2%	47.2%	47.2%
Difference / Savings Achievable	9.9%	8.3%	11.2%
Revenue	94,733	96,697	98,425
Efficiency Gains	**9,419**	**7,989**	**10,982**

[1] Refer to Appendix 6 for details of this calculation

Source: Sydney Ferries Information, Grant Thornton & MARINASSESS calculations

As set out in the table above, we have assessed efficiency gains achievable by Sydney Ferries between $7.9 million and $11.0 million per annum. The benchmark analysis set out in figure 5.5 is based on the following assumptions:

- based on several public statements by the Office of Financial Management – NSW Treasury, funding policy of the Government sector is based on efficient principles. Accordingly, the granting of public funds to Sydney Ferries should not distort the reliability of our benchmark with private operators; and
- level of funding granted to Sydney Ferries is limited to the level that ensures efficiency with private operators.

We set out in figure 5.6 a summary of our assessment of the cost savings achievable for labour costs:

Figure 5.6 – Average assessed Labour Savings

	2006/07 $'000's	2007/08 $'000's	2008/09 $'000's
Analytical Review of Sydney Ferries Labour Costs	2,194	1,430	1,488
Benchmark to Private Operators	9,419	7,989	10,982
Average assessed cost saving	**5,807**	**4,710**	**6,235**

Source: Grant Thornton calculations

As set out in the table above, Grant Thornton has assessed labour savings achievable by Sydney Ferries in order to perform consistently with the market benchmark of private operators being between $4.7 million as demonstrated for the FY08 year and $6.2 million as demonstrated for the FY09 year. We note that based on the lack of information, we have not been able to form an opinion regarding an efficient level of labour costs based on an analytical review of full time equivalent employees, utilisation of employees, wages and salaries and employees by function and role. This information was not supplied, despite a number of requests.

Sydney Ferries

5. Operating Expenditure
Analytical Review - Labour

For completeness of our Report, we set out in figure 5.7 a comparison between the estimated average annual salary of different categories of staff between private operators and Sydney Ferries.

Figure 5.7 – Annual Salary comparison

	Master / Engineer[1]	General Purpose Hand
	$	$
Benchmark	66,000	36,750
Sydney Ferries	95,000	68,224
Difference ($)	29,000	31,474
%	*43.9%*	*85.6%*

[1] The benchmark salary for masters and engineers operating on vessels up to 35m in length.
The Sydney Ferries figure is based on an estimate for masters / engineers provided by the Corporation.

Source: Sydney Ferries Information, MARINASSESS and Grant Thornton calculations

We also note that the pay rates for private operators are flat rates and no overtime or other penalties are paid with the exception being a work shift that finishes between 2am and 6am. This is in contrast to Sydney Ferries, hence the large discrepancies noted above.

We are aware that Sydney Ferries, as a State Owned Corporation of the NSW Government operates in a unique environment that differs significantly from private operators.

In collaboration with MARINASSESS and based on the information provided by Sydney Ferries, we have performed a review of the crewing on Sydney Ferries' vessels. Based on our preliminary review the manning of the Supercat may be revised in order to achieve some cost savings.

We understand that legislation (i.e. Uniform Shipping Law Code (USL) and the Commercial Vessels Act 1979**)** requires a minimum crew of three on the Supercat class of vessel, comprised of:

- Master
- Engineer
- General Purpose Hand ("GPH")

However, the legislation also allows for the Master to hold the Engineer qualification as long as the engineer is replaced by a GPH such that there is always a minimum of three crew on board the vessel.

We understand that it is common practice in the private sector to crew vessels of this class with a dual qualified Master / Engineer and two GPH's in accordance with the legislation. In contrast, we understand that the Master and Engineer roles for Sydney Ferries on the Supercats are separate.

If Sydney Ferries operated in a commercial environment and followed private crewing practice then the cost savings would be calculated as the difference between the salary of an Engineer and GPH per Supercat. We present below our calculations.

Figure 5.8 – Supercat savings

	Forecast 2006/07	Forecast 2007/08[1]	Forecast 2008/09[1]
Number of Supercats in Operation / Excess staff	4	4	4
Engineer Base salary p.a. (from Figure 5.7)	95,000	97,375	99,809
General Purpose Hand salary (from Figure 5.7)	68,224	69,930	71,678
Potential Savings per Supercat	**26,776**	**27,445**	**28,132**
Total Potential savings (4 Supercats)	**107,104**	**109,782**	**112,526**

[1] 2007/08 onwards has been adjusted for expected inflation of 2.5%

Source: Sydney Ferries Information, MARINASSESS and Grant Thornton calculations

Sydney Ferries

5. Operating Expenditure
Analytical Review - Labour

We have submitted enquiries to Sydney Ferries to understand and investigate the rationale behind the "excess" crewing on the Supercat class vessels. However as we have not been able to confirm our observation with Sydney Ferries, we have not specifically included the potential savings of approximately $0.11 million per annum as an opex saving albeit that the savings would form part of the average assessed cost savings as depicted previously in Figure 5.6. As can be seen from figure 5.7 and 5.8, there are examples where both pay rates and staff numbers for Sydney Ferries are in excess of what private operators would incur for labour costs. This further supports our conclusions raised in relation to assessed labour cost savings as outlined previously in Figure 5.6.

Sydney Ferries

5. Operating Expenditure

Analytical Review - Fuel

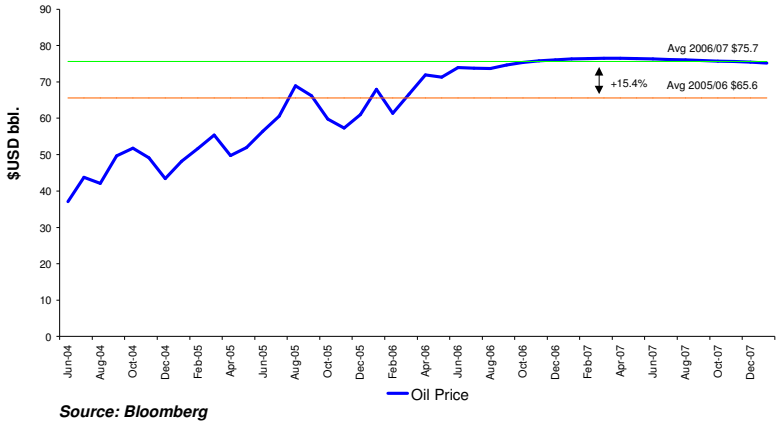
Fuel

Based on the information provided to us, we understand that Sydney Ferries' fleet consumes approximately between 10 and 15 million litres of fuel per annum (the exact fuel consumption is omitted for confidentiality reasons). The forecast opex model implicitly assumes steady fuel consumption and an increase in fuel prices by 5% each year for the Projections period.

Price Adjustments

We understand that Sydney Ferries participates in the NSW State Government bulk procurement strategy whereby the lowest prices for items such as fuel are obtained by the NSW Government through a competitive tender process. In the forecast model, fuel expenditure is expected to increase at 5% per annum based on constant consumption, meaning the expenditure rise is due wholly to an increase in the fuel price. We set out in figure 5.9 below the historical and future price for crude oil traded on the New York Mercantile Exchange (NYMEX) for the next 18 months.

Figure 5.9 - Historical and Forecast Oil Price



Source: Bloomberg

As set out in the graph above, the expected increase in the crude oil price traded on the NYMEX is 15.4% between the average price in FY06 and the average price in FY07. After FY07 the oil price is expected to stabilise. Based on the information provided to us, Sydney Ferries has assessed fuel costs in the Projections based on the following assumptions:

- level of fuel consumption in line with FY06;
- fuel price to increase by 5% per annum during the 3 year period to 30 June 2009 compared with the average level in FY06; and
- the base for the calculation of the fuel price is the 8 months actual period to 28 February 2006.

It is a market recognised standard to assume that the retail fuel price moves in line with the crude oil price traded on international markets. Sydney Ferries has referred to the average actual fuel price of FY06 as a base to calculate the future dynamics of this commodity and has assumed a 5% annual increase. Figure 5.10 shows the average annual movements in the crude oil prices, based on publicly available information together with a comparison with the oil price assumed by Sydney Ferries.

Figure 5.10 – Comparison of % change in Oil Price

	2005/06 $US	2006/07 $US	2007/08 $US	2008/09 $US
Average Price of Crude oil on International Markets	65.6	75.7	75.7 [1]	75.7
% Change from Prior Year		15.4%	0.1%	0%
Average Price of Crude oil utilised by Sydney Ferries	65.6	68.9	72.3	75.9
Sydney Ferries forecast change		5.0%	5.0%	5.0%
Variance		**9.9%**	**4.7%**	**(0.0%)**

[1] Average price for 2007/08 was calculated for the 7 months to 31/1/12006 as Oil futures are traded to a maximum of 18 months.
[2] No data available as Oil futures are traded to a maximum of 18 months. We have assumed a price in line with FY08.

Source: Bloomberg

Sydney Ferries

5. Operating Expenditure

Analytical Review - Fuel

As set out in figure 5.10, Sydney Ferries has under estimated the fuel price in FY07 and FY08. Based on our assessment as set out in the table above, we set out in figure 5.11 the required adjustments to the fuel cost included in the projections.

Figure 5.11 – Fuel Price Adjustments

	Base Period	Forecast Period			
	2005/06 $'000's	2006/07 $'000's	2007/08 $'000's	2008/09 $'000's	3 Year Avg $'000's
Sydney Ferries Fuel Cost	7,455	7,828	8,219	8,630	8,226
% Change Year on Year		*5.00%*	*5.00%*	*5.00%*	
Assessed Fuel Cost	7,455	8,602	8,610	8,610	8,607
% Change Year on Year		*15.38%*	*0.09%*	*0.00%*	
Required Adjustments to the Projections	**-**	**774**	**391**	**(20)**	(381)

Source: Sydney Ferries Information, Grant Thornton calculations

As set out in the table above we have assessed that Sydney Ferries has underestimated FY07 and FY08 expenses by $0.77 million and $0.39 million respectively.

Effect on Fuel Expenses of the Vessel Re-engining

As set out in section 6 of this Report, as part of the capex program, Sydney Ferries will re-engine some of the First Fleet and Rivercat vessels. We understand that Sydney Ferries has not included in the Projections any fuel related cost savings determined by the more efficient operation of the new engines. Based on the information provided by Sydney Ferries and with the support of MARINASSESS, we have estimated that replacement engines have a fuel consumption of approximately 66 litres per hour per engine.

Fuel cost figures provided by Sydney Ferries indicate average consumption of the existing engines equal to approximately 75 litres per hour.

Accordingly we have assumed the re-engining will generate cost savings related to the vessels involved of around 9 litres per hour or 12.0%. Figure 5.12 shows our assessment of the fuel savings related to the re-engining of the Rivercats (3 of 7 Vessels in FY07) and First Fleet (5 of 9 vessels in FY07 and 8 of 9 vessels in FY08).

Figure 5.12 – Impact of Vessel Re-engining

		% of Vessels Re-engined [1]		
Fuel Consumption	**Litres**	**2006/07**	**2007/08**	**2008/09**
Rivercats ('000's litres, at 31 March 2006)	Confidential	42.86%	42.86%	42.86%
First Fleet ('000's litres, at 31 March 2006)	Confidential	55.56%	88.89%	88.89%
Total Fleet ('000's litres. at 31 March 2006)	Confidential			
RC and FF Consumption as a % of Total Fleet [3]	31%	15.33% [2]	20.64% [2]	20.64% [2]

[1] Calculation = Vessels Re-engined / Total Vessels in the Class.
The information regarding the number of vessels to be Re-engined has been based on the tender documentation

[2] This is the amount of total fuel consumed that is expected to be affected by the Re-engining program, based on the assumption that the Rivercats and First Fleet Projected consumption will be approximately the same percentage as at YTD March 2006.
Calculation =
[(% of Rivercats Re-engined) x (Rivercats Fuel Consumption) +
(% of First Fleet Re-engined) x (First Fleet Fuel Consumption)]
/ Total Fleet Consumption

[3] Number may not add due to rounding

Source: Sydney Ferries information, Grant Thornton & MARINASSESS calculations

Table 5.12 shows that as at 31 March 2006, Rivercats and First Fleet vessels consumed approximately 31% of total fuel of the Sydney Ferries fleet. Those vessels that are expected to be re-engined in the coming years are expected to save approximately 12.0% on existing fuel costs.

Sydney Ferries

5. Operating Expenditure

Analytical Review - Fuel

Set out below are the calculations to support assessed fuel savings based on the % of re-engined vessels and expected fuel savings of 12.00%

Figure 5.13 – Assessed Fuel savings from Re-engining

	2006/07 $'000's	2007/08 $'000's	2008/09 $'000's
Forecast Fuel Consumption (Projections)	**7,828**	**8,219**	**8,630**
Fuel consumption affected by Re-engine (%)	15.33%	20.64%	20.64%
Fuel consumption affected by Re-engine ($) [4]	1,200	1,697	1,782
Estimated savings [5]	12.00%	12.00%	12.00%
Assessed gains achievable	**144**	**204**	**214**

[4] Calculation = Forecast Fuel Consumption reduced by fuel consumption affected by the Re-engining

[5] Calculation = (75 litres - 66 litres) / 75 litres

Source: Sydney Ferries information, Grant Thornton calculations

Based on the preceding analysis we have assessed that the vessel re-engining program will save between $0.14 million and $0.21 million per year for the projections period.

A summary of our review of fuel cost is presented in figure 5.14

Figure 5.14 – Net Impact on Fuel Projections

	2006/07 $'000's	2007/08 $'000's	2008/09 $'000's
Impact of Fuel Price Adjustments (Fig. 5.11)	774	391	(20)
Cost Savings from Re-engining (Fig 5.13)	(144)	(204)	(214)
Net Impact [1]	**630**	**188**	**(233)**

[1] Numbers may not add due to rounding

Source: Grant Thornton calculations

Based on the information available we have assessed that the fuel costs included in the projections should be reviewed as set out in figure 5.14. Without further information, we are not able to present an informed opinion as to whether this is an efficient level of fuel costs.

Sydney Ferries

5. Operating Expenditure

Analytical Review - Insurance

Insurance

Sydney Ferries is insured by Lloyds Insurance company. The ferry fleet comprises 82% of the fair value of all depreciable assets. We have not been provided with a detailed breakdown of the insurance costs or with a copy of the insurance agreements.

We understand that the expected premium for FY06 has been calculated based on estimates received from the insurer, and has been subsequently used as a base for future estimates of insurance costs.

We set out in figure 5.15 Sydney Ferries' assessment of the insurance costs of the fleet. The ferry fleet value has been assessed by an independent valuer during FY05. We have assumed that the fair value of the Fleet during the Projections period will remain consistent with the assessment performed in FY 05 given the capital additions will offset any decreases in fair value.

Figure 5.15 – Insurance as a % of Ferry Fleet Value

	2006/07 $'000's	2007/08 $'000's	2008/09 $'000's
Ferry Fleet Value (June 2005)	103,413	103,413	103,413
Insurance Costs	1,729	1,772	1,817
Insurance as a % of Fleet	1.7%	1.7%	1.8%

Source:Sydney Ferries Information, MARINASSESS and Grant Thornton calculations

As shown above, the current premium represents less than 2% of the total fleet written down value. Based on the assumption that the fair value is a rough approximation of insurable value, then this premium appears competitive compared to industry standards of approximately 2-3%. It appears that Sydney Ferries has obtained a favourable insurance premium when compared to private operators.

Without access to further information we are not able to form an opinion as to whether further efficiencies could be achieved.

We note that the current insurance premium has been affected by a number of vessel incidents that have occurred to Sydney Ferries' fleet over the last 3 years. We note that Sydney Ferries intends to increase the safety of it's fleet. In order to fulfill this goal, vessel data recorders will be installed into all the ferries and Sydney Ferries will implement the recommendations of a recent report into the maintenance and operations at Balmain Shipyard. We understand this will increase the reliability and utilisation of all the ferries and decrease vessel incidents. Accordingly, in theory it is reasonable to expect that the insurance costs will decrease during the Projections period. As previously mentioned, due to the lack of information we have not been able to form an opinion as to whether further efficiencies can be achieved.

Alternative Insurance Strategies

The Sydney Ferries fleet is currently insured to replacement value. As outlined in previous cost efficiency studies Sydney Ferries could consider insuring to a lesser value such as a portion of replacement value (say 80%) or written down value, with the difference to replacement cost being funded from other assets in the event of a major vessel incident.

As Sydney Ferries is a high-profile, public organisation that fulfils a necessary community service obligation, a realistic assessment between cost savings and risk assumed by Sydney Ferries must be undertaken by Sydney Ferries' management when considering alternative insurance strategies. The completion of the pending Risk Management framework initiative as commissioned by Sydney Ferries is likely to achieve this objective.

Sydney Ferries

5. Operating Expenditure

Analytical Review - Repairs and Maintenance

Repairs and Maintenance

This expense class consists of those Repairs and Maintenance expenses of a non-capital nature including:

- Oil & Lubricants
- Maintenance Parts
- Closed Circuit Television maintenance
- Contract Maintenance Labour

We have not been provided with detailed information and assumptions to review the rationale underlying these costs. Accordingly, we have not carried out an analytical review of these expenses. However, we believe that efficiencies relating to repairs and maintenance may arise as a result of the capital expenditure initiatives presented in section 7 of this Report. We set out below a summary of the capex items that will affect the value of repairs and maintenance.

- **Vessel Data Recording System (VDRS)**

  The implementation of this system will enhance the effectiveness of preventative maintenance and decrease repairs and maintenance expense.

- **Wharf Refurbishment**

  Savings are expected due to labour savings and utilisation as a result of the repair of Jetty 3 at Balmain Shipyard. Based on the available information from Sydney Ferries we have assessed that the repair will increase labour productivity and decrease maintenance expenses by approximately $0.15m per annum.

- **Collaroy Control System**

  The installation of the Collaroy Control System is expected to decrease future maintenance costs for this vessel.

- **Procurement Efficiencies**

  Based on the information available from Sydney Ferries, we have assessed that the implementation of initiatives such as preferred supplier agreements could result in savings between $0.15 million – $0.3 million per annum.

- **Re-engining of First Fleet and Rivercat vessels**

  With the support of MARINASSESS and based on the high level information provided to us by Sydney Ferries, we have assessed that repairs and maintenance cost savings of $0.21 million for First Fleet and $0.20 million for Rivercat vessels is achievable as a result of this capital initiative.

We set out in figure 5.16 on the following page a summary of our calculations. Please refer to section 6 for details of the above capex.

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5. Operating Expenditure

Analytical Review - Repairs and Maintenance

Figure 5.16 – Repairs and Maintenance summary

Repairs and Maintenance	2006/07 $'000s	2007/08 $'000s [3]	2008/09 $'000s [3]
Savings from:			
Wharf Refurbishment [1]	150	154	158
Sourcing and Procurement Efficiencies [2]	225	231	236
Maintenance savings from First Fleet Re-engining	210	215	221
Maintenance savings from River-cat Re-engining	200	205	210
Assessed Repairs and Maintenance cost savings	**785**	**805**	**825**

[1] Anticipated savings as a result of efficiencies from the refurbishment of Jetty 3 at Balmain Shipyard

[2] This has been calculated as the average savings between $0.15 million and $0.3 million

[3] 2007/08 onwards has been adjusted for expected inflation of 2.5%

Source: Sydney Ferries information, Grant Thornton & MARINASSESS calculations

In summary, as a result of the capital initiatives outlined above and ongoing improvements to the operations at Balmain Shipyard, cost savings of approximately $0.8 million per annum are achievable. We note that due to the lack of information provided, we have not been able to assess any cost savings related to the VDRS and Collaroy control system.

Based on the level of information provided we have been unable to conclude whether this is an efficient level of Repairs and Maintenance.

Sydney Ferries

5. Operating Expenditure

Analytical Review - Other Expenses

Other Expenses

Other Expenses includes all other operating expense categories including such items as:

- Management Fees
- Professional Services
- Rent
- Advertising
- Electricity
- Hire of Private Ferries / Buses
- Other Miscellaneous accounts

Given the lack of information available, we have not been able to undertake a review of these expenses. We have only been able to carry out a high level qualitative review of the efficiencies relating to "Hire of Private Ferries" and "Rent".

Hire of Private Ferries

Sydney Ferries incurs costs relating to the hire of Private Ferries and Buses when they are required to meet the service obligations of transporting commuters via alternative means due to unanticipated ferry downtime. The high cost of hiring private vessels is related to the relatively low fleet availability of Sydney Ferries. We understand that one of Sydney Ferries' objectives is to increase the current fleet availability towards a more commercial level. We note that if ferry availability was comparable to private operators there would be little need to incur this expenditure.

Sydney Ferries fleet availability is expected to increase due to the following capex programs:

- First Fleet Re-engining;
- Rivercat Re-engining;
- Balmain Shipyard Reforms; and
- Vessel Data Recording System.

Accordingly we estimate that the cost for hire of private vessels should materially decrease due to the increased availability. Presented in figure 5.17 is our assessment of this item together with a comparison of Sydney Ferries' assessment.

Figure 5.17 – Hire of Private Ferries Adjustment

Hire of Private Ferries	2006/07 $'000s	2007/08 $'000s	2008/09 $'000s
Sydney Ferries assessment	900	692	603
Assessed Expenditure [1]	600	342	253
Cost Savings	300	350	350
%	*33%*	*51%*	*58%*

[1] This is an estimate based on a conservative level of vessel utilisation for the Projection period

Source: Sydney Ferries Information, Grant Thornton calculations

As the full benefits of the ferry re-engining and Balmain shipyard reforms is likely to be fully realised only in FY08 and FY09 we have assumed the potential level of costs will be progressively achieved during the Projections period.

The assessed expected costs of approximately $0.25 million in 2008/09 is still adequate to cover a reasonable amount of downtime of 417 hours in FY09 having regard to a cost of hiring ferries and buses assumed to be approximately $600 per hour.

Sydney Ferries

5. Operating Expenditure

Analytical Review - Other Expenses

Rent

Review of forecast rental expense shows that Sydney Ferries have assumed a $0.2 million decrease in rental expense for FY07, with subsequent years rental expense inflated by a CPI of 2.5%.

We understand that Sydney Ferries lease multiple properties and the cost savings factored into the FY07 opex includes $0.2 million in expected savings from the relocation of the Revenue room from the State Transit Authority property under the Cahill Express way to "CQ3" wharf currently already leased by Sydney Ferries.

Based on our review of the available information we have assessed that annual savings of approximately $0.4 million may be achievable. Without access to additional information, we have further reduced rent expense by $0.2 million per annum to align the forecast rental expense to the assessed savings. We present below in figure 5.18 our calculations.

Figure 5.18 – Rent Expense Adjustment

Rent	2006/07 $'000s	2007/08 $'000s	2008/09 $'000s
Sydney Ferries	1,169	1,198	1,228
Assessed Expenditure	969	993	1,018
Cost Savings [3]	200	205	210
%	*17%*	*17%*	*17%*

[3] 2007/08 onwards has been adjusted for expected inflation of 2.5%

Source: Sydney Ferries Information Grant Thornton calculations

As shown in figure 5.18, the proposed adjustment to Sydney Ferries' forecast rent expense will result in savings of 17% for each year in the Projections period.

We note that due to the transfer of ownership of all wharves to the NSW Maritime Authority as discussed in section 6 of this report there is likely to be an increase in rental expense as Sydney Ferries will incur additional lease costs payable to the NSW Maritime Authority. However due to the lack of detailed information, we have been unable to quantify this amount.

Sydney Ferries

5. Operating Expenditure

Summary of Analysis

Based on the limited information available, we set out below in figure 5.19 a summary of cost savings achievable by Sydney Ferries

Figure 5.19 – Opex Analytical Review Summary

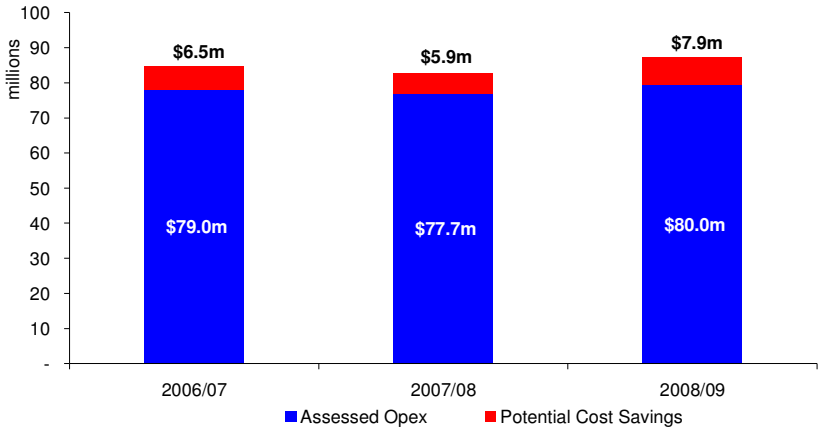
Operating Expenditure	2006/07 $'000s	2007/08 $'000s	2008/09 $'000s
Labour	5,807	4,710	6,235
Fuel	(630)	(188)	233
Repairs and Maintenance	785	805	825
Other Expenses	500	555	560
Variance to Assessed Opex Savings [1]	**6,461**	**5,882**	**7,853**

[1] Numbers may not add due to rounding

Source: Sydney Ferries Information, Grant Thornton & MARINASSESS calculations

The results in figure 5.19 can be summarised graphically as shown in figure 5.20. The blue section of the column represents that portion of opex as assessed in the preceding analysis. The red sections denote the excess of forecast opex over assessed opex.

Figure 5.20 – Total Assessed Opex (excl. depreciation and interest)



Source: Sydney Ferries Information, Grant Thornton & MARINASSESS calculations

Based on the review of the high level information available, we have assessed that Sydney Ferries can achieve cost savings of between $5.9 million per annum and $7.9 million per annum in the Projections period.

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5. Operating Expenditure

Comparable International Companies

We have also conducted a qualitative benchmark of Sydney Ferries with international companies with comparable operations to those of Sydney Ferries. We set out below the criteria utilised to select the basket of comparable companies:

- They provide mainly a ferry service or a passenger and cargo ferry service;
- Routes travelled must be based on very short distances such as domestically or very short international routes;
- The ferry business segment must contribute no less than 70% to total revenue; and
- The company must have detailed, publicly available financial information.

A summary of the margins and depreciation of comparable companies is set out in figure 5.22 having regard to the average performance of the last 3 reporting periods. We set out in Appendix 5 a brief description of the selected comparable companies.

We believe the EBITDA margin is the most reliable indicator of the average industry profitability given it is not affected by the capital structure of the companies and the accounting policies on depreciation and amortisation.

We have reviewed the majority shareholdings, and noted that that only 2 of the 8 Comparable Companies (Shanghai Ya Tong Co and Sado Steam Ship Co.) have Government entities as major shareholders. Accordingly, we believe that the comparable companies profitability levels shown opposite are on average indicative of efficient private operators.

It appears that Sydney Ferries' operating expenditure as a percentage of revenue is much higher than these comparable international companies.

Figure 5.21 - Average EBITDA and EBIT Margins

Company	Avg. EBITDA Margin	Avg. EBIT Margin	Avg. Dep'n
Shanghai Ya Tong Co. Ltd.	24.8%	10.0%	11.7%
Mols Linien A/S	19.4%	4.2%	15.2%
Blue Star Maritime S.A.	24.2%	14.5%	9.8%
Minoan Lines S.A.	27.9%	17.9%	10.1%
Kansai Kisen Kaisha	6.8%	(1.9%)	8.7%
Sado Steam Ships Co. Ltd.	11.6%	(1.3%)	12.9%
Tokai Kisen Co. Ltd.	9.3%	1.6%	7.7%
Aboitiz Transport System	9.3%	5.3%	11.2%
Average	**16.7%**	**6.3%**	**10.9%**

Source: Onesource, Reuters, Bloomberg, Grant Thornton calculations

We set out in figure 5.22 a comparison between the average profitability of comparable companies and Sydney Ferries having regard to the Projections.

Figure 5.22 - Comparison of EBITDA and EBIT Margins

	2006/07	2007/08	2008/09
Sydney Ferries EBITDA	10.8%	14.3%	11.5%
Average Comparable Companies	16.7%	16.7%	16.7%
Sydney Ferries EBIT	(8.6%)	(7.4%)	(11.3%)
Average Comparable Companies	6.3%	6.3%	6.3%
Sydney Ferries Depreciation % of Revenue	19.4%	21.7%	22.7%
Average Comparable Companies	10.9%	10.9%	10.9%

Source: Onesource, Reuters, Bloomberg, Grant Thornton calculations

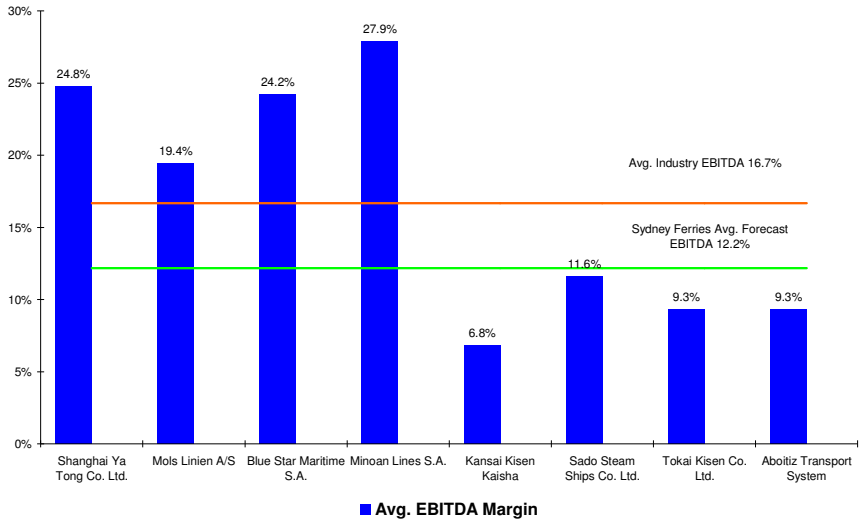
Sydney Ferries

5. Operating Expenditure

Comparable International Companies

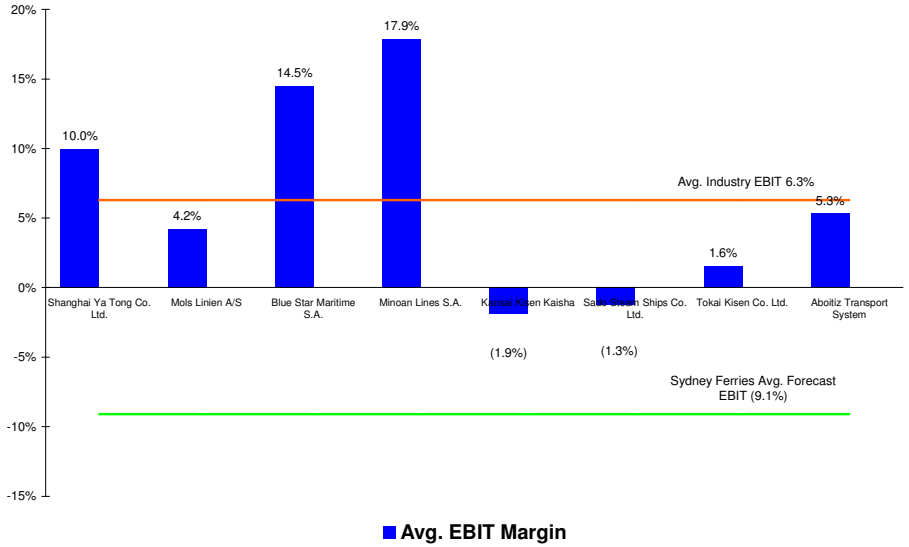
We set out below a summary of the average 3 year EBITDA and EBIT margins in figure 5.23 and 5.24

Figure 5.23 - EBITDA Margin



Source: Onesource, Reuters, Sydney Ferries Information, Grant Thornton calculations,

Figure 5.24 - EBIT Margin



Source: Onesource, Reuters, Sydney Ferries Information, Grant Thornton calculations,

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6. Capital Expenditure

Capital Program

Figure 6.1 is a summary of the capex program provided to us which we have reviewed in accordance with the scope.

Figure 6.1 – Capital Program Summary

Project Description	Forecast 2005/06 ($'000)	Forecast 2006/07 ($'000)	Forecast 2007/08 ($'000)	Forecast 2008/09 ($'000)
Vessel Data Recorders	**193**	1,141	1,034	0
First Fleet Re-engining (9 vessels)	**400**	2,300	1,200	0
RiverCat Re-engining (3 vessels)	**350**	950	0	0
Information Technology	**100**	**1,300**	**2,290**	**660**
Revenue Room Relocation	**200**	184	0	0
Shipyard Wharf Refurbishment	**500**	800	861	0
Wharf Enhancements/Maintenance	**400**	500	0	0
CCTV Project	**100**	1,028	443	162
Shipyard Annual Provision	**50**	200	200	200
Collaroy Control System	**200**	800	0	0
Other works*	**1,464**	**1,380**	**1,935**	3,808
Subtotal - General Capital Program	**3,957**	**10,583**	**7,963**	**4,830**
Fleet Maintenance - Parts	**2,549**	4,076	5,651	4,045
Fleet Maintenance - Wage Recoveries	**2,812**	3,719	5,154	3,689
Subtotal - Major Vessel Maintenance	**5,361**	**7,795**	**10,805**	**7,733**
TOTAL CAPITAL PROGRAM	**9,318**	**18,378**	**18,768**	**12,563**

Source: Sydney Ferries Information

We set out in the following pages a review of the level of capex having regard to our analytical assessment of the major items as provided to us. We note that this analysis has been constrained by the level of information available and the high level assumptions underlying the capex program. We set out in figure 6.2 a brief summary of the major capex items provided to us and our ability to comment based on the information made available to us.

Figure 6.2 – Summary of Major Capital Items

Cost	Review	Comments
Vessel Data Recording System	✗	Not reviewed due to the limitations of the available information
First Fleet Re-engining	✓	Reviewed at a high level based on the available information
Rivercat Re-engining	✓	Reviewed at a high level based on the available information
Information Technology	✗	Not reviewed due to the limitations of the available information
Wharf Refurbishment	✓	Reviewed at a high level based on the available information
Wharf Enhancements	✓	Reviewed at a high level based on the available information
CCTV Project	✗	Not reviewed due to the limitations of the available information
Shipyard Annual Provision	✗	Not reviewed due to the limitations of the available information
Collaroy Control System	✗	Not reviewed due to the limitations of the available information
Major Vessel Maintenance	✓	Reviewed at a high level based on the available information

Sydney Ferries

6. Capital Expenditure

Overview

The capital expenditure set out in the Projections is classified into two categories:

- General Capital Program
- Major Vessel Maintenance ("MVM")

The purpose of the capex program is to increase reliability, availability and above all safety of the Sydney Ferries' fleet.

General Capital Program

General Capital Expenditure are those major capital projects that have been proposed to or have been approved by the Board that are not repairs or maintenance in nature. Some examples of items in the forecast general capital program include Balmain shipyard wharf refurbishment, installation of a closed circuit television system, ferry re-engining and the installation of on-board vessel data recording systems for all ferries. "Other works" represents an aggregation of relatively small capex items that have not been assessed due to their relative size.

Major Vessel Maintenance

Major vessel maintenance relates to regular, scheduled vessel dockings or surveys that are required to be undertaken for each vessel by legislation. In figure 6.3, we present a summary of the capex program included in the Projections.

Figure 6.3 – General Capital Program and Major Vessel Maintenance

Project Description	2006/07 $'000's	2007/08 $'000's	2008/09 $'000's
General Capital Program	10,583	7,963	4,830
Major Vessel Maintenance	7,795	7,795	7,795
Total Capital Program	**18,378**	**15,758**	**12,625**

Source: Sydney Ferries Information

We understand that each of the major Capital Expenditure items have been approved by the board and awarded based on a competitive tender process. Accordingly, we do not anticipate many efficiency adjustments to the capital spend. However, we anticipate that as a result of many of the capital initiatives there will be associated opex impacts, especially for repairs and maintenance expenses.

As part of our engagement we have reviewed the nature and extent of the expenditure for each major capital project and compared, where possible, to market.

The following major capital projects has been subject to high level review based on level of information available:

- Vessel Data Recording System
- First Fleet Re-engining
- RiverCat Re-engining
- Information Technology Initiatives
- Shipyard Wharf Refurbishment
- Wharf Enhancements
- CCTV Project
- Shipyard Annual Provision
- Collaroy Control System

Having regard to major vessel maintenance we have undertaken an analysis of each of the maintenance items such as major part overhauls, maintenance and refurbishment for each of the vessel classes and compare to other industry norms to calculate a best estimate of major vessel maintenance for Sydney Ferries.

Sydney Ferries

6. Capital Expenditure

Vessel Data Recording System

The NSW Government has recently legislated that all ferry and charter vessel operators will require safety management systems to be implemented as part of their operations.

A safety management system is a documented system of policies, procedures and records that focuses on the management of risk (both identification and controls) in relation to operational and passenger safety. The NSW Maritime Authority safety management system requirements are based on the International Maritime Organisation's (IMO) standard for safety management systems, the International Management Code for the Safe Operation of Ships and for Pollution Prevention (ISM Code).

The benefits of a well implemented safety management system include:

- Improved safety culture
- Improved safety performance
- Improved operational reliability
- Improved industry safety credentials.

As part of the implementation of the overall safety management system, vessel data recorders ("VDRS") are to be implemented across Sydney Ferries' fleet. The vessel data recorders will record time, vessel speed, position, heading and GPS data, radar images and command and mechanical responses.

We understand Sydney Ferries has tendered the installation of a vessel data recording system on its fleet. The Board has awarded the tender at the end of a public and competitive process. Accordingly we have not reviewed the reasonableness of this capital item in dollar terms.

As a result of the above requirements, we believe that the implementation of the system across the Sydney Ferries fleet may have the following effects:

- reduce accidental damage through collision;
- potentially lower wear and tear on machinery;
- lower the likelihood of vessel incidents due to mechanical error through the preventative and detective maintenance; and
- reduced insurance premium costs.

Based on the assumptions outlined in the forecast model, it does not appear that Sydney Ferries has included any direct efficiencies that this system may have on other operating expenditure accounts e.g. repairs and maintenance, insurance etc.

With the support of MARINASSESS, we believe that it is reasonable to consider that the implementation of this safety initiative will generate some minor cost savings in terms of preventative repairs and maintenance. However due to the lack of information and detailed cost structure underlying the capex program, we have not been able to assess these cost savings.

Sydney Ferries

6. Capital Expenditure

Ferry Re-engining

First Fleet Re-engining

One of the main components of the capex program is the re-engining of eight of the nine First Fleet class ferries. It is expected that this capex will enhance reliability and availability of the First Fleet. The contract for the re-engining of the First Fleet vessels was approved by the Board and put to public tender earlier in the year. Accordingly we have not reviewed the reasonableness of this capital item in dollar terms.

Given the lack of detail underlying the assumptions included in the Projections, we are not aware of any efficiencies included in the Projections. With the support of MARINASSESS and based on the available information provided to us by Sydney Ferries, we have assessed that repairs and maintenance cost savings of $0.21 million per annum is achievable. This saving has been included as a saving to repairs and maintenance in section 5 of this Report.

No actual figures have been provided to us relating to down time for breakdown engine maintenance for this class of ferry, however it is expected that vessel availability and reliability would increase on the inner harbour services as a result of the re-engining program. As set out in section 5, we have also assessed that this capex will generate some efficiencies in terms of fuel costs and hire of private ferries given the enhanced availability.

Rivercat Re-engining

The capex program provided to us includes the re-engining of 3 Rivercats. This expenditure was approved by the Board and put to public tender earlier in the year. Accordingly we have not reviewed the reasonableness of this capital item in dollar terms.

Based on the information available, we note the following:

- historical information provided by Sydney Ferries shows that the maintenance and reliability of the Caterpillar motors to be installed on the Rivercats generated substantial savings in comparison to the Detroit motors.
- improved reliability should result in savings on replacement charter vessel hire, however without access to additional information we are unable to quantify the effect this will have on other expense items such as "Hire of Private Ferries".
- the new engines should generate fuel cost savings.

We have not been provided with enough information to assess if any cost savings have been included in the Projections having regard to this capital item. With the support of MARINASSESS and based on the available information provided to us by Sydney Ferries, we have assessed that maintenance cost savings of $0.2 million per annum is achievable. This saving has been included as a saving to repairs and maintenance in section 5 of this Report.

Sydney Ferries

6. Capital Expenditure

Other Capex

IT Information Technology

The above refers to the following items:

IT Systems and Infrastructure - $1 million

The purpose of this initiative is to ensure that the IT infrastructure at Sydney Ferries is able to support the business in light of the proposed application upgrades and developments. The upgrade is to include networks, servers, PC's, printers and associated software.

Integrated Information Management System and other IT Works - $3.4m

The purpose of this initiative is to implement improved processes and systems and achieve cost savings through greater automation of purchasing, inventory and maintenance management. This information management system is planned to be integrated with the new finance system.

We understand this capex relates to the requirement of Sydney Ferries to ultimately operate independently from the State Transit IT network and infrastructure.

The IT capex is not based on supplier quotations but on market research and knowledge of projects of a similar nature by the management of Sydney Ferries.

Without access to the detailed documentation to support the estimated project costs we have not been able to form an opinion on the efficiency of the projects or any related efficiencies that may affect other expenditure accounts.

Closed Circuit Television (CCTV) $1.6 million

This expenditure relates to the upgrade and expansion of the Sydney Ferries' CCTV network and associated infrastructure (including emergency help points and public address systems) to improve passenger safety and information, the security of ferry infrastructure (Balmain Shipyard and wharves) and operational monitoring.

The current CCTV system was installed in 1999 and requires replacement with more recent technology. In addition, the nature of the current system has resulted in service levels lower than current industry standards, resulting in poor availability and maintenance delays. Review of the information provided to us by Sydney Ferries reveals that Management have leveraged their estimates from the recent implementation of the CCTV network of Railcorp.

As the Board has awarded the tender at the end of a public, competitive and transparent process, we have not reviewed the reasonableness of this capital item in dollar terms.

Without access to more detailed information we are unable to quantify any other associated savings that may occur in other expense items such as insurance etc.

Collaroy control system upgrade $0.8 million

We understand that this expenditure relates to upgrades on the Collaroy vessel as part of an announced safety package.

We have been provided very limited information about this project. We note that it has been approved by the Board and communicated in the State Budget.

Due to the preventative nature of this capital initiative we believe that this initiative may result in associated efficiency gains in the area of repairs and maintenance.

As the Board has awarded the tender at the end of a public, competitive and transparent process, we have not reviewed the reasonableness of this capital item in dollar terms.

Without access to more detailed information we are unable to quantify any other associated savings that may occur in other expense items such as insurance or repairs and maintenance etc.

Source: Sydney Ferries Information

Sydney Ferries

6. Capital Expenditure

Other Capex

Wharf refurbishment $1.7 million

This capital expenditure refers to the refurbishment of Jetty 3 wharf at the Balmain Shipyard. The purpose of this capital expenditure item is to progressively replace the piling and decking on the wharves at Balmain Shipyard, to enable the safe ongoing use of the wharves for vessel maintenance, bunkering, provisioning and overnight berthing.

It is estimated that productivity of the shipyard will improve by allowing crane usage along Jetty 3 due to the following:

- Overall turnaround times of vessels will improve which will allow engine removal from Rivercats using cranes on Jetty 3;
- Refuelling of vessels on Jetty 3 will be easier given vehicles can be rolled out on the Jetty to transport hoses, pumps etc.

Based on the available information, we have assessed that the savings associated with this capex is approximately $0.15 million p.a. in terms of labour savings and improved vessel utilisation. We have included $0.15 million as an adjustment to repairs and maintenance expense. Please refer to section 5 for further details.

Wharf enhancements $0.5 million

This is a provision for major periodic maintenance of wharves and other miscellaneous improvement programs to the wharves operated by Sydney Ferries e.g. handrails, ramp upgrades, disabled access etc.

At the time of preparation of the capex model, the extent and timing of the above initiatives was still unknown. The model includes periodic maintenance to wharves within the Sydney Ferries network. However as announced in the FY07 State Budget, the Manly wharf upgrade and transfer of ownership of all wharves (including maintenance) has been commenced by the Maritime Authority of N.S.W.

Accordingly, we believe that the forecast expenditure in FY07 of $0.5 million is no longer required and should be removed from the forecast estimates as this expenditure will now be incurred by the Maritime Authority.

Annual shipyard provision $0.6 million

This is a provision for miscellaneous capital expenditure at Balmain Shipyard. Based on an analysis of historical trends in FY05 and forecast FY06, Grant Thornton believe that a provision of $0.2 million per annum ($0.6 million in total for the projections period) is excessive.

However given the lack of information and assumptions underlying this item, we are not able to form an opinion about the reasonableness of this amount.

Sydney Ferries

6. Capital Expenditure

Major Vessel Maintenance

This capital item relates to the periodic maintenance and dockings that are required by the Commercial Vessels Act 1979 and the Uniform Shipping Laws Code. During the major vessel maintenance, vessels undergo works such as major part overhauls, painting, maintenance and refurbishment.

Major vessel maintenance is a significant portion of Sydney Ferries' capital program, comprising between 42% - 62% of total capex for each year in the Projections period. However, we have received only limited information to support calculations regarding the major vessel maintenance for each of the years in the forecast period. We have been advised that the limited information provided was determined at a high level only, not at the work order level.

Without such information it is difficult to assess and quantify the efficiency of the forecast major vessel maintenance of Sydney Ferries. Due to the extent of the information gaps relating to our assessment of this capital item, we have only been able to quantify a level for those costs that are relatively easily and comparable to private operators such as docking, painting, repairs and maintenance, which represents a relatively minor component of the total major vessel maintenance.

With the assistance of MARINASSESS, we have undertaken a benchmark against private operator costs which indicate that the Sydney Ferries' budgeted costs for ferry classes, are generally in excess of private operator costs. Our conservative estimate of the potential efficiencies when compared to private operators is as follows:

- Docking & Painting 15%; and
- Repairs and Maintenance between 5% and 30%.

Presented in figure 6.4 and 6.5 is our assessment of potential cost savings.

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Figure 6.4 – Docking and Painting Cost savings

	2006/07 $'000's	2007/08 $'000's	2008/09 $'000's
Sydney Ferries Forecast Docking and Painting	265	845	280
Potential Cost Savings (%)	15.0%	15.0%	15.0%
Docking and Painting Cost Savings	40	127	42

Source: Sydney Ferries information, Grant Thornton & MARINASSESS Calculations

Figure 6.5 – Repairs and Maintenance (CAPEX) Efficiencies

	2006/07 $'000's	2007/08 $'000's	2008/09 $'000's
Sydney Ferries Forecast R&M	795	1,290	885
Repairs and Maintenance Cost Savings (%) [1]	17.5%	17.5%	17.5%
Repairs and Maintenance Cost Savings	139	226	155

[1] We have assessed the midpoint of the efficient range 5% - 30% as an efficient savings percentage

Source: Sydney Ferries information, Grant Thornton & MARINASSESS calculations

Sydney Ferries

6. Capital Expenditure

Major Vessel Maintenance

There are a number of other costs for major vessel maintenance that, on initial investigation, appear excessive but cannot be validated due to a lack of detail and elaboration.

It is believed these higher than expected costs figures result primarily from the high cost of maintenance services supplied by the Balmain Shipyard, as opposed to what could be incurred if maintenance was outsourced.

On review of the available information regarding Balmain Shipyard and similar anecdotal evidence for tradesmen at commercial shipyards in Sydney Harbour, we note that labour charge out rates for Balmain Shipyard exceed commercial shipyards by between 102% - 140%. This is in conjunction with labour utilisation rates that are between 10% - 20% higher in commercial shipyards, and despite the fact that commercial shipyard charge out rates include a profit component of between 20% - 30%.

Notwithstanding the above observations, we note that it would be difficult to outsource the functions of Balmain Shipyard due to the size and diversity of Sydney Ferries' fleet and the limited facilities that are now available around Sydney Harbour to carry out such maintenance due to the many shipyard closures over the last 20 years.

Sydney Ferries

6. Capital Expenditure

Summary of Analyses

A summary of the preceding analysis of capital expenditure is presented below in figure 6.6. The potential cost savings have been split into savings in the General Capital Program and Major Vessel Maintenance.

The $0.5m in General Capital Program savings relates to the removal of the provision for wharf enhancements in FY07. The savings in major vessel maintenance relates to savings in the area of docking and painting and repairs and maintenance (capex) as assessed against private operator costs.

Figure 6.6 – Assessed Capex Savings

Capital Expenditure	2006/07 $'000s	2007/08 $'000s	2008/09 $'000s
General Capital Program	500	-	-
Major Vessel Maintenance	179	353	197
Total Cost Savings	**679**	**353**	**197**
Forecast Capex	18,378	18,768	12,563
Assessed Capex [1]	**17,699**	**18,415**	**12,366**
% Variance	*3.7%*	*1.9%*	*1.6%*

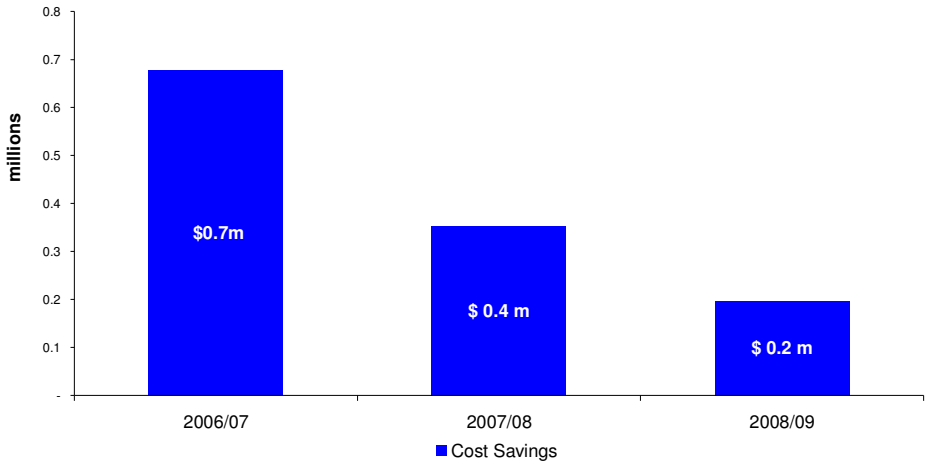
[1] Numbers may not add due to rounding

Source: Sydney Ferries Information, Grant Thornton & MARINASSESS calculations

As noted earlier, the cost savings related to projects in the General Capital Program are minimal due to the project approval by the Board and the public tender process by which projects are awarded. The major efficiency gains for capex items arise from the associated savings in operating expenses such as fuel and repairs and maintenance. These items are discussed in section 5 of this Report.

Graphically, the potential savings related specifically to the capital program is presented in figure 6.7

Figure 6.7 – Graph of Assessed Capex Savings



Source: Sydney Ferries Information, Grant Thornton & MARINASSESS calculations

Sydney Ferries

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Sydney Ferries

7. Appendix 1

Glossary of Terms

AASB	Australian Accounting Standards Board
AGAAP	Generally Accepted Accounting Principles
AUD or $A	Australian dollar
Capex	Capital Expenditure
CCTV	Closed Circuit Television
CFO	Chief Financial Officer
CPI	Consumer Price Index
CRM	Crew Resource Management
EBA	Enterprise Bargaining Agreement
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FY0X	Year until June 0X
GST	Goods and Services Tax
IMO	International Maritime Organisation
ISM Code	International Management Code for the Safe Operation of Ships
ITC	Information Technology and Communication
KPI	Key Performance Indicator
LSL	Long Service Leave
Opex	Operating Expenditure
MARINASSESS	MARINASSESS Pty. Ltd. Maritime Surveyors and Consultants
MUA	Maritime Union of Australia
MPM	Major Periodic Maintenance
MVM	Major Vessel Maintenance
NPAT	Net profit after tax
NSW	New South Wales
NYMEX	New York Mercantile Exchange
p.a	per annum
PBT	Profit before tax
Projections	Forecast period for FY07, FY08 and FY09
R&M	Repairs and Maintenance
VDRS	Vessel Data Recording System
USD of $U	United States Dollar
USL	Uniform Shipping Laws Code

Sydney Ferries

7. Appendix 2

References and Sources of Information

Report References

"Inland Water Transport in Australia - IBISWORLD Industry Report" IBISWorld, January 2006

"Sydney Ferries – IBISWORLD Company Profile Report" IBISWorld, October 2005

"Regulatory Impact Statement – Part D of the National Standard for Commercial Vessels" Hassal & Associates Pty Ltd, December 2005

"Private Ferry Fares Submission to IPART" Charter Vessel Association, 2005

"Review of Fares for Private Ferries in N.S.W." Independent Pricing and Regulatory Tribunal, December 2005

"Submission to the Independent Pricing and Regulatory Tribunal" Sydney Ferries Corporation, July 2005

"Report on the Determination of Fares for Sydney Ferries" Independent Pricing and Regulatory Tribunal, December 2005

"Report on the Determination of Fares for Sydney Ferries" Independent Pricing and Regulatory Tribunal, December 2004

State Transit Authority of N.S.W. Annual Report 2003-2004

"Report on the Determination of Fares for Sydney Ferries" Independent Pricing and Regulatory Tribunal, December 2004

"Report on Fares for Private Buses and Ferries" Independent Pricing and Regulatory Tribunal, August 2003

"Ministerial Inquiry into Sustainable Transport in NSW" December, 2003

"Revised Discussion Paper – Adoption of Part D of the National Standard for Commercial Vessels" N.S.W. Maritime Authority

Sydney Ferries

7. Appendix 2

References and Sources of Information

Sydney Ferries Information:

Information provided by Sydney Ferries Corporation relating to opex and capex has been used in this Report. The main sources of information received from Sydney Ferries includes, but is not limited to:

[This information has been deemed confidential]

Government / Legislative References:

Commercial Vessels Act, 1979

N.S.W. Government 2006/07 State Budget:

- Submission by the Minister for Transport; and
- Submission by the Minister for Ports and Waterways

Uniform Shipping Laws Code

Matilda and Captain Cook Cruises Operations Staff Certified Agreement, 2005

State Owned Corporations Act, 1989

Media Releases:

"Rocking a City's beloved boats" The Sydney Morning Herald, April 11, 2006

"Sydney Ferries should be Privatised" Tourism and Transport Forum, 20 February, 2006

"Will Australia Day be another ferry debacle?" NSW Greens Parliamentary Website, January 22, 2004

"Fair go as Tribunal rejects 9% fare increases for ferries" The Sydney Morning Herald, December 1, 2004

"Pirates Eye Sydney Ferries" The Guardian, November 5, 2003

Sydney Ferries

7. Appendix 2

References and Sources of Information

Global Information Databases

- Bloomberg
- Onesource
- Reuters

The above databases, in conjunction with the relevant Company Annual Reports have been used to compile information relating to the Comparable International Companies as outlined in sections 5 and Appendix 5 of this Report:

- Shanghai Ya Tong Co. Ltd.
- Mols-Linien
- Blue Star Maritime S.A.
- Minoan Lines S.A.
- Kansai Kisen Kaisha
- Sado Steam Ship Co. Ltd.
- Tokai Kisen Co. Ltd.
- Aboitiz Transport System Corp.

Sydney Ferries

7. Appendix 3

Industry Analysis

The following Industry Analysis has been sourced mainly from:

"IBISWorld Industry Report: Inland Water Transport in Australia" January 2006; and

"IBISWorld Company Profile Report: Sydney Ferries Corporation" October 2005.

Industry Background

Passenger Transport on Sydney Harbour is provided by a range of vessels, including the 31 ferries operated by Sydney Ferries. There are also 8 other smaller operators in regional areas.

Demand Determinants

The market for inland water passenger transport can be categorised into two different segments:

- commuter travel; and
- tourism related travel.

Demand for commuter travel is determined by capacity and frequency of routes relative to other modes as well as by employment levels, demographic factors and government policies.

Demand for tourist related travel is determined by movements in real household disposable income, price and quality of service.

Basis of Competition

Commuter

The level of competition is low in the commuter market as established providers of services such as Sydney Ferries are protected from competitive private operators as a matter of government policy. Deregulation of the commuter market in Sydney has been debated extensively, and the results indicate that no private operator would be able to provide existing capacity at existing prices and remain commercially viable without Government Subsidies. The NSW government views its ferry services as an integral part of its overall urban public transport strategy to reduce the use of the private motor vehicles in the CBD. Barriers to entry in the commuter segment are high given the lack of licenses to private operators who may wish to compete with Government Owned commuter services.

Tourism

The tourism related market can be very competitive. The basis of competition within the industry can be in the form of price, product differentiation and service levels. Entry into the tourist market is relatively easy, provided that a niche market is serviced.

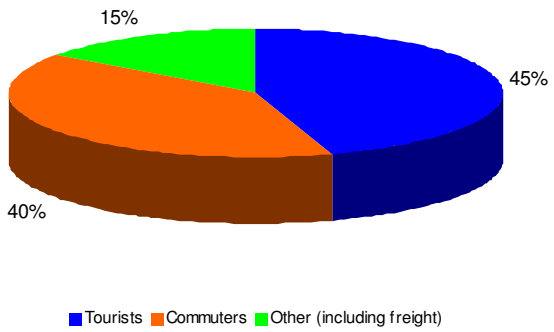
Sydney Ferries

7. Appendix 3

Industry Analysis

Industry Market Segments

Figure A.1 – Australian Market Segments



Source: IBISWORLD Report "Inland Water Transport in Australia" 2006

Profitability

The operations of private operators throughout the year varies according to location and the type of service operated. Those located in regions with more stable weather conditions tend to operate all year round with little disruption through weather. These include operators in the Northern Territory , Western Australia, Northern New South Wales and Queensland. Operators located in these areas tend to achieve economies of utilisation on vessels and therefore, in general, have a greater chance to be profitable. Those operators located elsewhere are restricted in their operations due to weather conditions (e.g. cruises on the Franklin River in Tasmania). Some locations can only accommodate seasonal operations.

The types of services provided can be a determinant of profitability. A no frills service competing against government-run services would have less chance of success. At the top end of the market, there are operators that are very profitable and provide an exclusive cruising and restaurant service. At this end of the market there is little danger or competition from the public sector. Profitability in the mid range of the market varies considerably, depending on the size and location of the operation.

Sydney Ferries

7. Appendix 4

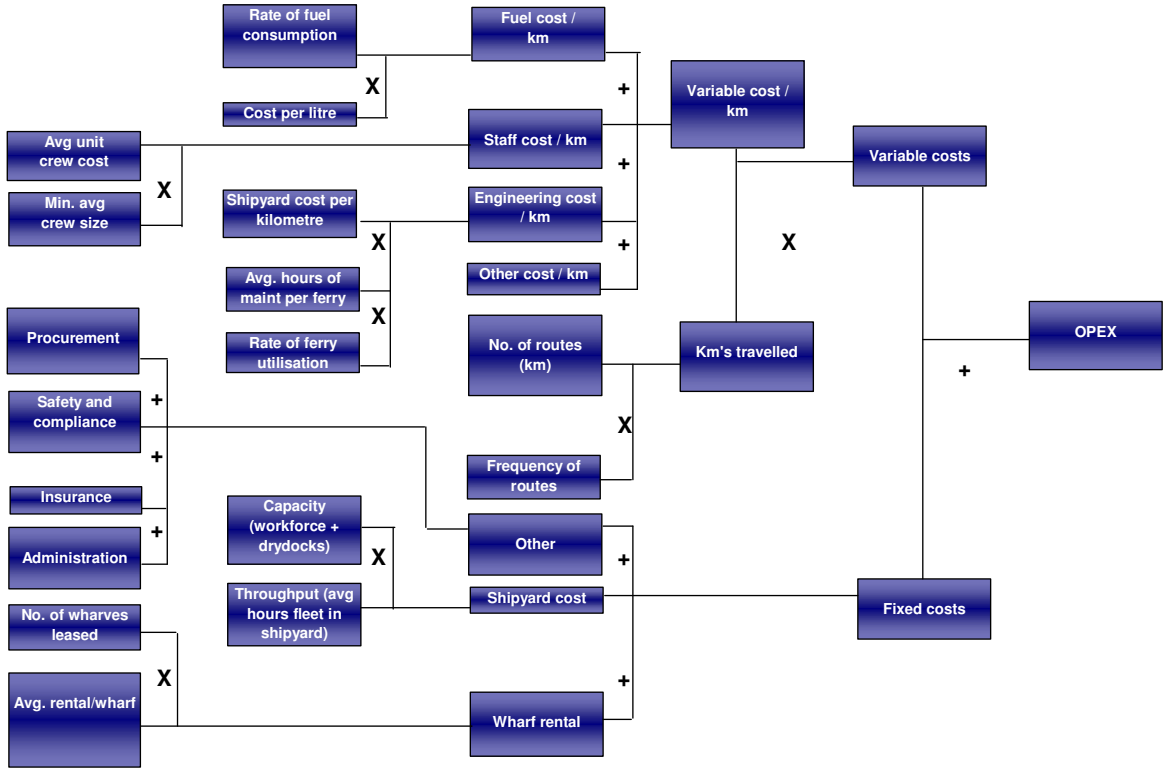
Preferred Analysis Methodology

In the determination of an efficient level of Operating Expenditure, Grant Thornton would ideally have regard to the Opex drivers as shown in figure A.2 and other considerations as outlined below:

Other Considerations:

- Fuel hedging
- Age of fleet
- Fleet size and composition
- No. and frequency of overhauls
- Safety and regulatory compliance
- Patronage/demand/passenger load factors
- Timetable/schedules (leisure v commuters
- Ferry and route selection
- Awards (EBA's) / Unions
- Frequency of incidents on insurance
- Support staff and infrastructure e.g. head office

Figure A.2 – Opex Methodology



Sydney Ferries

7. Appendix 4

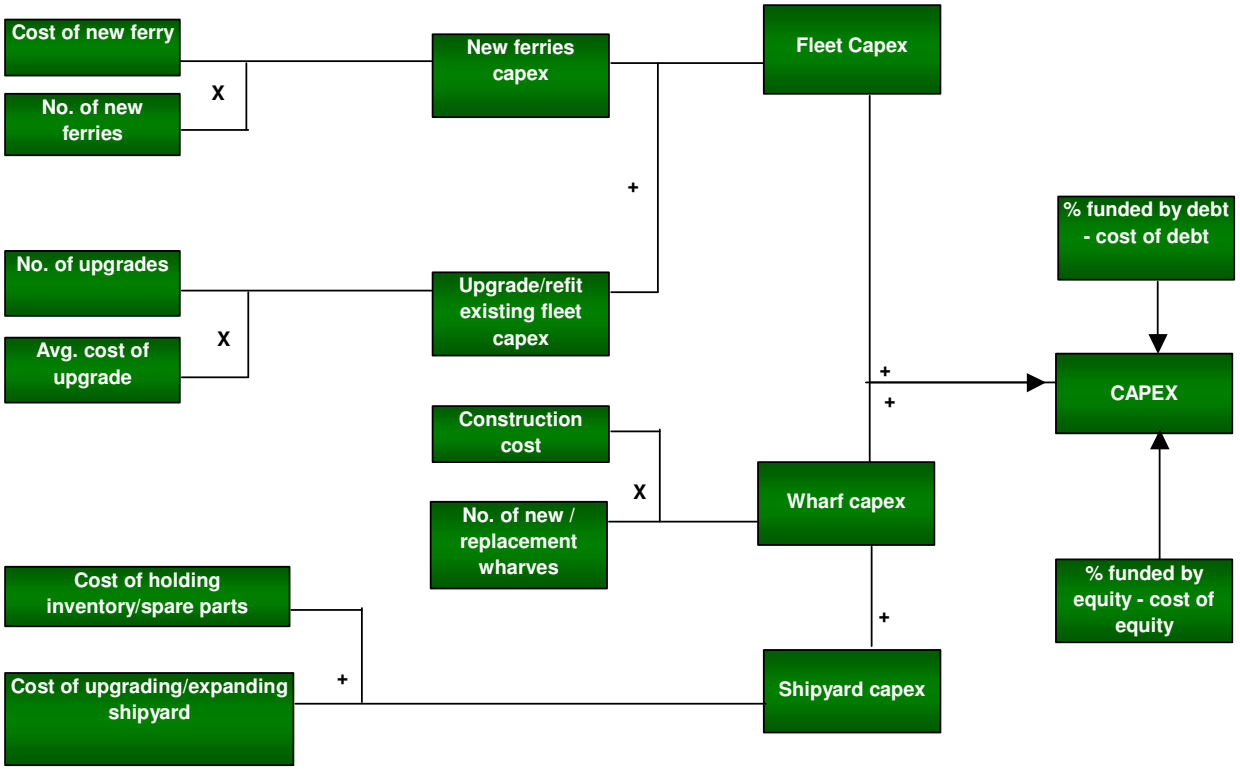
Preferred Analysis Methodology

In the determination of an efficient level of Capital Expenditure, Grant Thornton would ideally have regard to the Capex drivers as shown in figure A.3 and other considerations as outlined below:

Other Considerations:

- Age of fleet
- Fleet utilisation
- Patronage / demand / passenger load factors
- Fleet size and composition

Figure A.3 – Capex Methodology



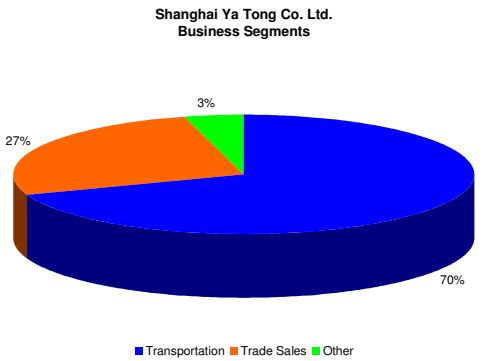
Sydney Ferries

7. Appendix 5

Comparable International Companies

Shanghai Ya Tong Co., Ltd. is mainly engaged in the transportation sector. It provides passenger and cargo transportation across destined water routes including Shanghai-Chongming, Liuhe-Haimen and Shanghai-Dalian. In addition, the Company is involved in such business sectors as taxi, cultural communication, organic agriculture and real estate. For the three months ended 31 March 2006, Shanghai Ya Tong Co., Ltd.'s revenues increased 38% to RMB89.8M. The Company's net income increased 3% to RMB5.0M compared with corresponding period. Revenues reflect an improvement in sales due to increased passenger transportation. Net income was partially offset by a higher cost of sales and increased non-operating, general and administrative expenses.

Figure A.4 – Shanghai Ya Tong

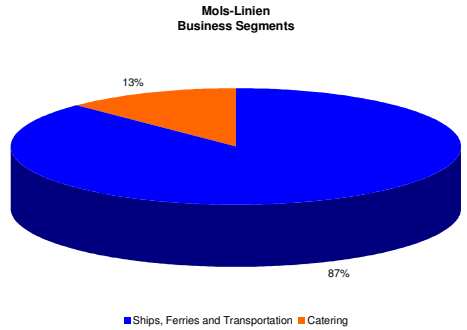


Key Financials	31-Dec-05 ($USD m)	31-Dec-04 ($USD m)	31-Dec-03 ($USD m)	3 Year Average
Sales	46.1	34	29.2	36.4
Gross Margin	21.2%	27.6%	28.1%	25.6%
EBITDA Margin	18.9%	27.1%	28.4%	24.8%
EBIT Margin	6.3%	12.4%	11.3%	10.0%

Source: Onesource, Reuters, Grant Thornton calculations

Mols-Linien is a Denmark-based company engaged in the operation of domestic ferry lines. The Company operates passenger and vehicle transport services on three principal routes. The high-speed ferries, Mai Mols and Mie Mols, are operated on the routes between the ports of Arhus and Ebeltoft in west Denmark and Kalundborg and Odden in the east. Onboard the ferries are restaurants, executive lounges, cafes, shops and reclining chairs. Between Odden and Arhus, the Company operates the high-speed ferry Max Mols. Maren Mols and Mette Mols are the two combi-ferries that operate the Kalundborg-Arhus route. Mols-Linen provides ferry services for approximately one million cars and 300,000 transport vehicles annually through its six vessels.

Figure A.5 – Mols Linien



Key Financials	31-Dec-05 ($USD m)	31-Dec-04 ($USD m)	31-Dec-03 ($USD m)	3 Year Average
Sales	119.5	119.5	119.5	119.5
Gross Margin	59.2%	66.3%	69.3%	64.9%
EBITDA Margin	21.4%	25.3%	11.6%	19.4%
EBIT Margin	8.1%	9.6%	-5.1%	4.2%

Source: Onesource, Reuters, Grant Thornton calculations

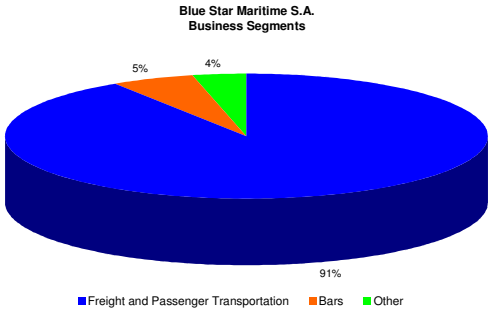
Sydney Ferries

7. Appendix 5

Comparable International Companies

Blue Star Maritime S.A., a member of Attica Enterprises Holdings S.A., is a Greek shipping company that is active in the area of passenger shipping and cargo. It's fleet comprises eight passenger vessels with an average age of nine years. The total capacity of the Company's fleet is 11,793 passengers and 3,090 cars, or alternatively 420 trucks and 606 cars. In 2004, the Company's fleet transported 3,853,418 passengers, 533,044 private vehicles and 129,619 freight units. The Company operates routes between Greece and Italy, and In the domestic market the Company operates routes in the Aegean Sea between the ports of Piraeus/Rafina and the Cycladic islands of Paros, Naxos, Mykonos, Santorini, Syros and Ios, as well as the Dodecanese islands of Patmos, Leros. Kos and Rhodes; it also connects Piraeus and Crete. In the Ionian Sea routes the Company is active on the Kefalonia-Ithaca routes.

Figure A.6 – Blue Star Maritime

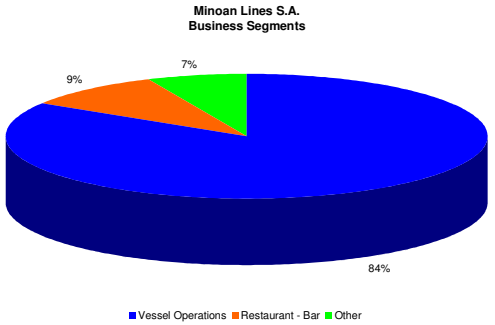


Key Financials	31-Dec-05 ($USD m)	31-Dec-04 ($USD m)	31-Dec-03 ($USD m)	3 Year Average
Sales	165.8	159.6	148.8	158.1
Gross Margin	45.1%	40.2%	31.0%	38.8%
EBITDA Margin	28.2%	23.7%	20.8%	24.2%
EBIT Margin	19.0%	13.4%	11.0%	14.5%

Source: Onesource, Reuters, Grant Thornton calculations

Minoan Lines S.A. is a Greek shipping company that operates in the passenger ferry sector. The Company's range of activities includes the acquisition and utilization of vessels for passenger shipping on domestic and foreign routes. Its fleet comprises eight car-passenger ferries, with a total transport capacity of 13,865 passengers and 5,595 vehicles, that may include both private cars and trucks. The ships are routed in the Adriatic Sea, covering itineraries between Greece and Italy, and in the Aegean Sea. In the Adriatic Sea the Company offers connections between the Greek ports of Patras, Igoumenitsa and Corfu, and the Italian ports of Venice and Ancona. In the domestic lines, the Company operates a Piraeus-Heraklion sea route, a Heraklion-Thessaloniki sea route and a Patras-Igoumenitsa-Corfu-Patras sea route.

Figure A.7 – Minoan Lines



Key Financials	31-Dec-05 ($USD m)	31-Dec-04 ($USD m)	31-Dec-03 ($USD m)	3 Year Average
Sales	253.8	238	219.5	237.1
Gross Margin	30.9%	35.4%	34.2%	33.5%
EBITDA Margin	27.4%	30.4%	26.0%	27.9%
EBIT Margin	17.3%	19.3%	17.0%	17.9%

Source: Onesource, Reuters, Grant Thornton calculations

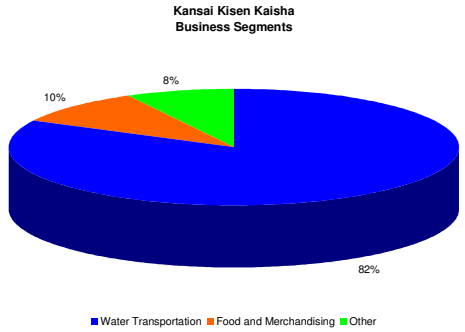
Sydney Ferries

7. Appendix 5

Comparable International Companies

Kansai Kisen Kaisha is a Japan-based company that is active in three business divisions. The Marine Transportation division provides automobile transportation and passenger transportation services by ferries mainly in the Kyushu, Shikoku and Seto inland sea areas. Its Restaurant and Product Sale division is involved in the operation of restaurants and shops in the ferries that the Company operates. This division also operates shops in waiting areas for the ferries. Through its subsidiary and associated company, it is engaged in the sale of agricultural food products, as well as the operation of service areas along highways and the toll collection business. The other divisions are involved in the sea freight and travel agency businesses, in addition to the land transportation business, such as the transportation of mail and the provision of bus services.

Figure A.8 – Kansai Kisen Kaisha

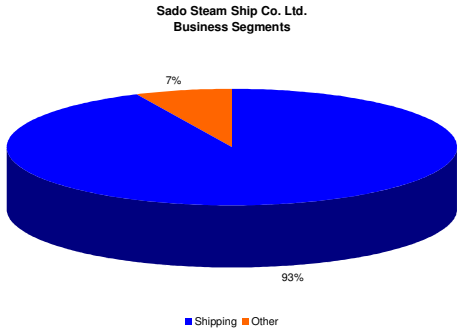


Key Financials	31-Dec-05 ($USD m)	31-Dec-04 ($USD m)	31-Dec-03 ($USD m)	3 Year Average
Sales	117.5	116.1	111	114.9
Gross Margin	11.1%	11.7%	11.1%	11.3%
EBITDA Margin	7.8%	8.2%	4.4%	6.8%
EBIT Margin	-0.7%	-0.9%	-4.2%	-1.9%

Source: Onesource, Reuters, Grant Thornton calculations

Sado Steam Ship Co. Ltd., headquartered in Niigata, Japan, is mainly engaged in the operation of ferry services. Through its subsidiaries, the Company is also engaged in the building services business, the information processing and provision services business, the cargo truck transportation business, the leasing of real estate, the printing business, the operation of tourist facilities and the provision of tour guide services. Sado Steam Ship has six subsidiaries and three associated companies.

Figure A.9 – Sado Steam Ship Co. Ld.



Key Financials	31-Dec-05 ($USD m)	31-Dec-04 ($USD m)	31-Dec-03 ($USD m)	3 Year Average
Sales	84	85.4	101.9	90.4
Gross Margin	5.9%	7.6%	17.0%	10.2%
EBITDA Margin	9.6%	11.9%	13.2%	11.6%
EBIT Margin	-3.7%	-1.5%	1.4%	-1.3%

Source: Onesource, Reuters, Grant Thornton calculations

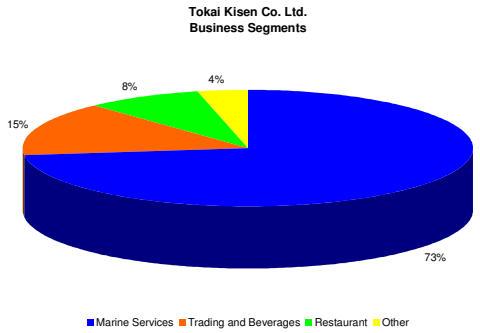
Sydney Ferries

7. Appendix 5

Comparable International Companies

Tokai Kisen Co., Ltd., based in Tokyo, Japan, is mainly engaged in the operation of ferry services. It has five main business segments. The Ferry segment is engaged in the provision of passenger and cargo transportation services from Tokyo, Kurihama, Atami, Ito and Shimoda to the islands of Izu, excursion trips within Tokyo Bay, and irregular services to various locales on the domestic coast. The Trading and Beverage segment is engaged in the sale of beverages on board ferries and at passengers meeting places and the operation of cafeterias. The Restaurant segment operates restaurants. The Hotel segment operates hotels in Oshima. The Tourists Automobile Transportation segment operates sightseeing buses on Oshima Island. The Company's other businesses include the provision of repair and maintenance services of vessels' bodies and engines. Tokai Kisen has 12 subsidiaries and three associates.

Figure A.10 – Tokai Kisen Co. Ltd.

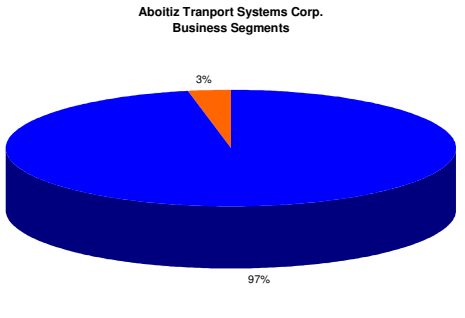


Key Financials	31-Dec-05 ($USD m)	31-Dec-04 ($USD m)	31-Dec-03 ($USD m)	3 Year Average
Sales	113.1	111.2	110.2	111.5
Gross Margin	14.2%	12.0%	12.8%	13.0%
EBITDA Margin	10.8%	8.1%	9.1%	9.3%
EBIT Margin	3.4%	0.0%	1.3%	1.6%

Source: Onesource, Reuters, Grant Thornton calculations

Aboitiz Transport System Corporation provides inter-island passenger transport and cargo liner services in containers or break bulk through a route network comprising 22 ports of call in the Philippines. As of December 31, 2005, its fleet included 14 owned operating vessels, with a combined gross registered tonnage of approximately 136,842 metric tons, total passenger capacity of approximately 29,437 passengers, and aggregate cargo capacity of approximately 1,799 twenty-foot equivalent units and 186 rolling cargoes. Its brand for passage services is SuperFerry. It offers freight services under its 2GO Brand that are classified into freight, express, logistics and solutions. 2GO Express offers less container load and parcel services. 2GO Logistics offers services that require international connection to and from the Philippines port.

Figure A.11 – Aboitiz Transport System



Key Financials	31-Dec-05 ($USD m)	31-Dec-04 ($USD m)	31-Dec-03 ($USD m)	3 Year Average
Sales	211.8	172.7	141.9	175.5
Gross Margin	14.8%	20.2%	33.7%	22.9%
EBITDA Margin	10.8%	8.1%	9.1%	9.3%
EBIT Margin	1.5%	5.4%	9.1%	5.3%

Source: Onesource, Reuters, Grant Thornton calculations

Sydney Ferries

7. Appendix 6

Comparable Domestic Companies

As set out in section 5 of this Report we have assessed the labour costs as 47.2% for private operators. This calculation was derived by applying the international EBITDA margin of 16.7% as outlined in figure 5.22 to the benchmark percentages of the Charter Vessel Association of NSW in order to convert the benchmarks from a % of Total Costs to a % of Total Revenue. (Source: CVA Submission to the Tribunal 2005, Grant Thornton calculations).

The average benchmark information refers to seven private operators that are part of the Charter Vessel Association of NSW (CVA). The members of this organisation are:

- Central Coast Ferries
- Church Point Ferry Service
- Clarence River Ferry Service
- Cronulla and National Park Ferry Cruises
- Dangar Island Ferry Service
- Matilda Cruises
- Palm Beach Ferry Service

Sydney Ferries

7. Appendix 7

Service Level Improvements

In Sydney Ferries' Submission to the Tribunal "Review of Ferry Fares 2005" improvements in service were presented as historical trends in Reliability and Safety key performance indicators ("KPI's").

Figure A.12 – Historical Reliability KPI's

Performance Indicator	2002/03	2003/04	2004/05
Percentage of services that run on time [1]	99.0%	98.7%	98.8%
Percentage of scheduled services that actually run [2]	99.3%	99.1%	98.9%
Number of service cancellations	986	1,147	1,915

[1] Number of actual trips less delayed trips, divided by the number of actual trips, expressed as a percentage. Measure of delays encompasses vessels departing cicrular quay more than 5 mins after the scheduled departure

[2] Total number of scheduled trips less number of trips cancelled, divided by total number of scheduled trips, expressed as a percentage.

Source: Sydney Ferries Submission to the Tribunal 205 and Sydney Ferries 2005 Annual Report

Figure A.13 – Historical Safety KPI's

Key Performance Indicator	2002/03	2003/04	2004/05
Number of Major Vessel incidents per year [1]	6	7	3
Number of Passenger injuries per million passenger journeys [2]	7.21	14.71	10.43
Number of minor vessel incidents per trip travelled [3]	0.09	0.19	0.04
Lost time injury incident rate (injuries per 100 employees) [4]	7.5	5.3	5.92
Lost time injury frequency rate (per million hours worked) [5]	40.12	28.8	33.75
Number of major incidents of environmental damage per year	0	0	0
number of minor reportable environmental incidents	0	0	8

[1] Major vessel incidents are defined as incidents causing multiple substantial injuries to persons, or death, or material damage to infrastructure or vessels

[2] Minor vessel incidents are defined as incidents not falling within the definition of a major vessel incident

[3] Passenger incidents are defined as any incident reported by passengers, including illness

[4] Lost Time Injury (LTI) is an injury with one hour or more lost from work

[5] Definition of LTI frequency used is one hour lost, compared to the industry definition of full shift

Source: Sydney Ferries Submission to the Tribunal 2005 and Sydney Ferries 2005 Annual Report

Sydney Ferries

7. Appendix 7

Service Level Improvements

The above results show mixed indicators in terms of trends in service quality.

The following KPI's have improved compared to FY04:

- Number of major vessel incidents;
- Passenger injuries per million passenger journeys;
- Number of minor vessel incidents per hundred services;
- Lost time injury incidence rate; and
- Percentage of services that run on time.

However, such improvements still fell short of the internal targets sets by Sydney Ferries for three of the four KPI's.

Figures A.13 and A.14 show deterioration in the following KPI's compared to FY04:

- Lost time injury incidence rate;
- Lost time injury frequency rate;
- percentage of scheduled services that run; and
- number of services cancelled.

Sydney ferries have indicated that it intends to extend its list of monitored KPI's and promote service improvements through the:

- development of a fleet replacement strategy;
- improved fleet availability to enable greater patronage; during peak times;
- route optimisation; and
- improved revenue protection measures.

Grant Thornton anticipates that the Balmain Shipyard Reforms, in conjunction with the preventative capital expenditure and fleet management initiatives, will have a positive effect on future service level quality through increased vessel utilisation and reliability. However, without access to additional information we are unable to quantify these efficiencies.

Sydney Ferries

7. Appendix 8

Figure Index