THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON MONDAY 7 SEPTEMBER 2026

INQUIRY INTO THE TT-LINE SPIRITS PROJECT

The Committee met at 10:32 am.

Tasmanian Public Finance Corporation (TASCORP)

CHAIR (Ms Forrest) - Thanks, Gary and Heath for appearing before the ongoing inquiry into the TT-Line's delivery of its new vessels and berthing infrastructure, but also its financial performance. We appreciate the willingness to reappear before the Committee in terms of TASCORP's role here, so thank you. We did have evidence more recently from the Chair and CEO of TT-Line where we did ask them about their debt and debt management, particularly to follow up on some of those matters.

This is a public hearing. Everything you say is covered by parliamentary privilege. That may not be the case speaking outside of the Committee process. If there are matters of a confidential nature or we go into areas that you'd rather answer in confidence, please let the Committee know and we'll consider that: otherwise, it's all public.

Do you have any questions before we start?

Mr SWAIN - No.

CHAIR - Okay. I'll ask you both to take the statutory declaration, please. Then did you want to make some opening comments, Gary?

Mr SWAIN - If I could. I think it might save some time.

Mr GARY SWAIN, CHAIR, and **Mr HEATH BAKER**, CHIEF EXECUTIVE OFFICER, TASMANIAN PUBLIC FINANCE CORPORATION, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED

CHAIR - Over to you, Gary.

Mr SWAIN - Thank you, Chair. I'll be brief. I just thought it might save some time to run through some quick chronology of events from TASCORP's perspective. So, TASCORP previously attended hearings in April and October 2025 and appreciate the opportunity to provide some updates today.

In October 2025, TT-Line advised TASCORP that it expected to remain in breach of its interest coverage and financial leverage ratios through to 30 June 2026. TASCORP consequently sought updated short-and long-term forecasts, maintained close oversight of TT's financial position and kept both the TASCORP Board and the Treasurer informed. I think that would all be knowledge to this Committee.

In November 2026, TT-Line requested an extension of the maturity of the temporary increase in borrowing from 31 October 2026 to 31 October 2028, and that was -

CHAIR - What date was that, sorry?

Mr SWAIN - November 2026.

CHAIR - November 2026?

Mr SWAIN - Yeah, that's when they first, I think, approached -

Mr WINTER - You mean in November 2025?

Mr SWAIN - Sorry, yes, you're quite right.

CHAIR - We're not quite there yet.

Mr SWAIN - Yes, you are quite right and I should have picked that up. My apologies.

Mr WINTER - You're ahead of the game.

CHAIR - Just say that again, sorry, just for the record.

Mr SWAIN - You miss nothing, Chair. In November 2025, TT-Line requested an extension of the maturity of the temporary increase in borrowing limit from 31 October 2026 to 31 October 2028. This was around that there was concern that it was coming into the current 12 months, it was related to the going concern - responsibilities.

In January 2026, the TASCORP Board considered TT-Line's request to extend the full $410 million temporary facility through to October 2028, and rather than approving the request in full, the Board extended $200 million to October 2027, subject to some safeguards, including: updated long-term forecasts, a direct assigned solvency statement for each drawdown, quarterly financial reporting - so, more frequent reporting - confirmation of Government support, and completion of TT-Line's capital structure review, which was underway.

The 2026-27 State Budget subsequently provided for $506 million of equity support over the Budget and Forward Estimates, including $200 million in 2026-27, which is obviously the only secure part of that funding. That was to address an important element of TASCORP's earlier concerns and support TT-Line's near-term position. That was a condition, effectively, of the $200 million being extended.

TASCORP's analysis indicated that TT-Line's longer-term recovery remains dependent on revenue growth, delivery of cost reductions and appropriate sustainable capital structure. So, it's acknowledged there is still uncertainty around that equity need and the associated lending need.

TASCORP has not yet made a recommendation on TT-Line's proposed longer-term borrowing limits or debt profile - so, remembering that all of this was an interim arrangement. We're talking -

CHAIR - When you say that, Gary, you're referring to the $410 million additional, that's just in relation to that part?

Mr SWAIN - Yeah. All the lending that was done from the middle of 2025 was all an interim facility leading up to in part what was to occur in the budget. Then the idea was that on the other side of the budget there would be further consideration of the longer-term, which we're now at that stage.

TASCORP has not yet made a recommendation on TT-Line's proposed longer-term borrowing limits or debt profile. We're awaiting finalisation of the potential material asset revaluations and updated long-term forecasts, including cashflow, P&L[1] and balance sheet. Subject to final outstanding information being received from TT-Line, a proposal is expected to go to the September Board for consideration, the TASCORP Board. So this is -

CHAIR - What date is that?

Mr SWAIN - I think it's 30 September [2026], from memory, the end of the month. There were three critical things: a review of the financial model, what's in the budget, and then I think as we had discussed last time I appeared, we have known that the boats being delayed would push out revenue and we knew that the infrastructure is costing more. So, the write-down, is a significant write-down as expected, and then that will flow back into depreciation and future profitability, which then goes to our loan assessment. So, we need the write-down to be finalised to finish off a review then of the updated financial model so that then TASCORP can make the determination around the longer-term buyer.

CHAIR - Just on the write-down there, Gary: as I understand, this is not my area of expertise, so correct me if I'm wrong, but the write-down on the vessel should have all been done and reflected in this year's financial statements, because they were handed over to the TT-Line last financial year, is that right?

Mr SWAIN - That's working through right now.

CHAIR - So, are you aware of what the write-down is on those?

Mr SWAIN - I've seen indicative numbers, but I'm assuming you would have covered that with the Chair of TT-Line?

CHAIR - Well, they didn't have a figure.

Mr SWAIN - Oh right.

CHAIR - It was the 7th of August when we heard from them, and they were due to provide all their financial information to the Auditor-General by 14 August [2026], I think it is under the RIS[2] act. So, there was still a week to go, and at that point they hadn't been provided all the detail, because it wasn't, as I understand.

Mr SWAIN - If it's okay, I think it would be a much better question for the Chair of TT-Line, but it is a substantial number.

CHAIR - One would expect so.

[1] Profit and Loss
[2] Regulatory Impact Statement

Mr SWAIN - It's not unexpected, and it will have material implications for their financials in an accounting sense, not a cash sense. We've just now got to track that through, which we'll do off the audited accounts.

CHAIR - When do you receive the audited accounts?

Mr BAKER - We expecting to receive them in the next few days. As we understand it, they were signed off a little bit later than what you indicated there. They are hopeful to provide those to us commercial in confidence, because they don't become publicly available until mid-October [2026]. We hope to have those in the next week or so, which will enable the next stages of our credit review to commence.

CHAIR - The expectation is that you'll have the audited financials to inform your meeting on 30 September [2026]. Is that the expectation?

Mr BAKER - Correct.

Mr SWAIN - The other thing, sorry, I should have mentioned, which I didn't, was we also going back to when the $200 million interim arrangement was put in place - the other issue of keen interest to the Board is the capital works up at Devonport. The closer that gets to completion, the more certainty there is around all those costs, and any outstanding or unused contingency then becomes available, or isn't required. By the time we get to the 30 September [2026] Board meeting, I expect there'll be a pretty clear picture around the asset, the state of the works as well.

CHAIR - I want to ask a couple of questions. Some of them you sort of touched on, but I just want to frame them up in a way that makes a bit more sense to me perhaps. The most recent evidence has TT-Line telling the Committee it has asked the Government, and via the Government TASCORP, to push the October 2026 temporary borrowing deadline out to October 2027, which you've referred to, on at least half of the $410 million uplift so they can present a longer-term sustainability plan, and we've talked about the $200 million being the number.

Mr SWAIN - If I could, Chair, originally they wanted that facility pushed out to [20]28, and the TASCORP Board went back with an interim solution that was meant to balance TASCORP's responsibilities to support clients in a way that is financially responsible for its shareholders, the Government.

CHAIR - Has TASCORP now formed a view on TT-Line's request on that matter? It seems to me that you've said no, you won't do that without the funding from Government: you need the $200 million. What I'm hearing from you is that $200 million will be required to pay that debt. Is that correct?

Mr SWAIN - Yes.

CHAIR - So, there's still going to be a significant interest bill on the rest of it, and it seems there's not much provision to pay that. The Chair did talk about paying down interest as well but I'm interested in TASCORP's view on that. Is it entirely to pay $200 million of the debt?

Mr BAKER - Just to clarify, the $200 million increase in borrowing limit or the $200 million equity injection?

CHAIR - The equity, sorry.

Mr BAKER - I probably can't talk about the equity injection in terms of what that is required to be used for. Essentially, what we've been advised by TT-Line is that $200 million has to meet partially the cost to complete the work still yet to be done and the remainder has to be paid off debt, so that is when that $200 million comes through, a portion of it will be required for the works to be completed on East Devonport, which is still outstanding, and the remainder will be to retire debt.

Mr SWAIN - I think it's really important to remember all the way through this that we were, and I'll only want to talk with my TASCORP hat on today, but I can reference the Treasury process very briefly. Both Treasury and TASCORP were working in uncertainty with a business that was financially challenged, had liquidity issues and we were trying to find an interim solution that provided the support needed to get through to the other side of the budget process when the capital works cost was more certain and the availability of the vessels was more certain but what effectively happened is that on the equity side of the budget and on the debt side TASCORP did enough to ensure that you could have the time to work through the analysis required on the other side of the budget.

CHAIR - Sorry, I'm still not really clear then, Gary. The $200 million, and I know it's the equity in the budget, but what TASCORP's expectation was that a portion of that debt would be paid down but also the borrowings were going to be used to finish the work. It seems like there's probably not enough money there to do both.

Mr SWAIN - The question is really about how much equity and debt will be required going forward. When TASCORP had agreed to the interim lend there was still modelling going on or still assessment of the financial modelling happening, certainly in Treasury, and Heath could talk to the timing of TASCORP.

It was recognised I think, as I say said in the opening statement, that there's still uncertainty around future revenues and future costs, so that will mean that future budgets will need to - on an ongoing basis - consider that equity -

CHAIR - Future state budgets.

Mr SWAIN - Future state budgets, so the $102 million which is across the forward Estimates for the next three years and then wherever that lands will also have implications for how much debt the business needs.

I think what you're alluding to is we're talking about a business that will have a high level of debt for a considerable period of time and will have to be monitored very carefully by the lender in TASCORP and it will be a matter for ongoing budget decisions.

CHAIR - That said, TASCORP has its responsibilities under the act, so from your perspective, do you believe that you can meet those responsibilities with the information you have to hand now?

Mr SWAIN - Yes, I think so. I think it's fair to say TASCORP's decisions are more nuanced as we've gone forward, so they can have conditions precedent and subsequent. In this case, they were both and they're both actively managed, and now we just need to work through that on the other side of a known write-down as opposed to a conceptual write-down of an uncertain amount. We now need to work through exactly what that means for the lender.

CHAIR - I'm not trying to verbal anybody here, but I'm just going to say that it seems to me from what I'm hearing that it's highly likely that the TT-Line is going to need ongoing equity from the Government to ensure it can maintain a serviceable level of debt.

Mr SWAIN - I think that's highly likely and that's why the Forward Estimates reflected equity payments for the next three years.

CHAIR - Not very big ones?

Mr WINTER - I think the Chair is referencing over and above what's already been announced.

Mr SWAIN - I don't know that. We have to do that analysis again on the other side of the write-down. We'll have to swing back through leading into this year's budget.

CHAIR - But you'll have the write-down soon, of the ships at least.

Mr SWAIN - I'm now drifting into Treasury's space, which I shouldn't be doing.

MR BAKER - Just to clarify, we don't want to conclude our assessment about the long-term sustainability of TT-Line until we have the most recent up-to-date financial forecasts. The reason we put a 26 October [2026] review date in there originally was that we felt that that was the time required because we had to get the long-term forecast: we had to understand what the Government's commitment in the budget was through the equity injections, and then we required TT-Line to recast all their long-term forecasts back to show - now they've got some of the known unknowns out of the way - i.e. the cost to complete East Devonport, the holding costs, potentially the sale proceeds of the existing ships, will give us a clearer picture around what the true long-term financial forecasts look from rather than assuming an opening revenue position or revenue and expenditure position. We have more robust numbers.

CHAIR - In your view, robust numbers about their forecasts?

Mr BAKER - We requested those to be updated with all the asset write-downs and all the known construction costs. Essentially, we received long-term financial forecasts from TT-Line in March -1st of March - and there were a lot of assumptions and unknowns in there. A lot of those have worked their way through. So, we've asked TT-Line to reproduce those long-term forecasts with all the updated information which we should receive in the next week or so.

CHAIR - Right, so that's what you're expecting to receive.

Mr BAKER - Yes, so the audited financial statements and -

CHAIR - And the more updated forecasts. Yes?

Mr BAKER - Yes.

Mr WINTER - Is that the same or similar to the corporate plan?

Mr BAKER - No, we're looking longer-term. We're looking over the full life of the asset when we're looking as a lender. It's a 30-year cashflow, P&L, balance sheet projections that we're after.

Mr WINTER - Has TASCORP received a copy of the new corporate plan?

Mr BAKER - We've received a draft. We understand that the corporate plan does need updating once again for the changes with the asset write-downs. We are expecting this with the package of information in the coming weeks.

CHAIR - You're expecting a final, no longer draft, corporate plan?

Mr BAKER - It probably will be still draft until the Treasurer signs off. It'll be the second draft resubmitted to the Treasurer.

Mr WINTER - In your opening statement, Mr Swain, you said that in January 2026 you requested a director-signed solvency statement. Did you receive one?

Mr BAKER - Yes, for every drawdown.

Mr WINTER - When was the last time you received a director-signed solvency statement?

Mr BAKER - The last drawdown of the facility was on 16 July [2026].

Mr WINTER - Is TASCORP confident that TT-Line remains solvent?

Mr SWAIN - I don't want to directly answer that. That's a role for the TT-Line directors. We have to form a view that they're capable of meeting their debt payments to TASCORP and I think we have that confidence supported by the guarantee from the Government.

Mr WINTER - What is the current guarantee around the borrowing?

Mr BAKER - The current guarantee is for the full $1.445 billion.

Mr WINTER - That was provided by the Treasurer back in January [2026] or earlier than that, last year?

Mr SWAIN - It was increased last year as part of the complicated set of events that occurred through the election process with which the guarantees, you would recall, was - originally TASCORP had written to the then-Treasurer saying that it would intend to seek an increase in the guarantee when the election was over, but the Auditor-General's comments around solvency prompted the Treasurer at a request from TT-Line, to respond more quickly and increase the guarantee.

Mr WINTER - And the guarantee remains over the full borrowing at this point in time?

Mr SWAIN - Yes, but there's a separate provision in the GBE legislation and TASCORP's own legislation that still requires it to act commercially. So, the guarantee doesn't mean that TASCORP doesn't or shouldn't do any of its standard assessments, it still has to do its work.

Mr WINTER - Mr Swain, I'll pass you this letter the PAC has received on Friday last week from ASIC in relation to the solvency question that's been raised by the Auditor-General. ASIC has outlined within this letter a number of things. One is that it's requested the through the Auditor-General an update on his concerns around the solvency of TT-Line, do you share the Auditor-General's concerns around the solvency of TT-Line?

Mr SWAIN - I think I share concerns around the financial challenges of that business and I think there are some lessons to be learned from that business and it relates to the level of ambition for recapitalisation or capital projects relative to the scale of a business. I think we've talked about this before that in TT-Line's case it was all four of its key assets were recapitalized. So, it's both berths and both boats, that would be equivalent to doing all 29 of hydro's power stations. Obviously, they're not divisible, so there were some challenges and the boats work in tandem, and there were some reasons why that occurred, but I think it's probably the structural implications of it in terms of TASCORP's clients which my focus is more sharpened on, what it means across other businesses.

Mr WINTER - So ASIC has written to this Committee saying that an audit breach report was lodged with ASIC in July 2025 pursuant to section 311 of the act. ASIC considered that reporting line with our standard processes. ASIC has written to the auditor of TT-Line seeking an update including the perspective of the 2026 financial year audit. Has TASCORP's Treasurer received any correspondence from ASIC in relation to these questions?

Mr SWAIN - I won't answer for Treasury, but for TASCORP, not that I'm aware of, no.

Mr WINTER - In terms of what you've received, director statements as recently as July [2026] from the directors stating presumably that they believe they are solvent, what further investigations does TASCORP undertake, or does it simply accept the view of the directors of the company?

Mr SWAIN - Well, there's the detailed analysis of the financials before we get to the lending point and there's the contractual framework that we then operate in which has a number of covenants that are actively monitored.

Mr WINTER - In terms of those audited financials, have the directors raised any concerns or given any guarantees around whether TT-Line is a going concern or solvent?

Mr SWAIN - My understanding is the directors are still of the view that it is both a going concern and solvent, and I would expect that there would be a notification immediately through to the shareholder if there was any change to that under the continuous disclosure mechanism and notification to TASCORP as the lender.

Mr WINTER - Have they raised any uncertainty about whether they are a going concern?

Mr SWAIN - Not a going concern. I think the engagement I've had with TT-Line directly has been they are conscious that their financial model is just that, a model. It has a whole range of assumptions in it that need to be actively monitored and that's what's occurring.

Mr WINTER - So they haven't raised any uncertainty around their position as being solvent or a going concern?

Mr BAKER - No, they've not raised any concerns at this stage and hence why we are awaiting the audited financial statements to understand what disclosures have been made in that which will help inform the credit assessment that we do about the long-term sustainability of their debt levels.

CHAIR - The TT-Line CEO and Chair confirmed there was continuing and ongoing breaches of the master line facility agreements, interest coverage, leverage coverage, ratio covenants. Instead, the $200 million equity injection will not cure the breach, that was their evidence to the Committee. So, given that the breaches are confirmed and to be ongoing, does TASCORP consider stronger contractual leverage such as revised covenant settings, additional reporting or a formal waiver process should be considered - rather than continued notice-only monitoring - because they've got the $200 million?

Mr SWAIN - Well, one of those things you mentioned, the more frequent reporting, is part of the conditionality, so that is occurring. I just want to take a step back, going back to this interim facility more broadly, TASCORP was very clear that the business needed some additional equity support from the Government and that was a condition to the $200 million extension. So, TASCORP's position has been that the business has more debt than it can comfortably manage given its revised financial model, and it's been very clear on that, too, to the shareholder -

CHAIR - Was TASCORP asked for advice on this matter before the budget was set?

Mr SWAIN - I'm just trying to think about that sequence. Certainly, TASCORP's lending position and concern about the level of debt and the capacity of the business to manage that debt was understood, because that had been communicated to the Treasurer -

CHAIR - By TASCORP?

Mr SWAIN - By TASCORP. The Treasurer would then share that advice with Treasury and Treasury provided advice to the Government about a whole range of budget matters, including that one.

CHAIR - So, I assume TASCORP would have provided written advice on this matter?

Mr SWAIN - Yes.

CHAIR - Are you able to provide a copy of that to the Committee?

Mr SWAIN - I thought we already had, but -

CHAIR - Regarding the budget? Of the $200 million equity? That's the question I'm asking, whether there's advice provided about what quantum should be considered in the budget, just for this current financial year we're in now as well as the out years - one would assume it was included, but -

Mr BAKER - We have to take it on notice, but I don't think it was in the pack that we sent last time.

CHAIR - Was it?

Mr BAKER - It wasn't in the information requested last time.

CHAIR - No, I don't think we would have seen you in the time since then - well it depends when the letter was sent I guess, but we can put that in notice to you.

Mr SWAIN - I think it would have been after that. Could we make a request that that's in camera?

CHAIR - Sure. Just make that request in the correspondence, Gary. I mean, the Committee has a standing commitment on these things.

Mr SWAIN - Just looking at these dates, I don' think we would have provided it because our last hearing was October [2025], we would have had a follow up in November [2025] and then our decisions were January [2026]. So, I think it would have been after February [2026], in any case.

CHAIR - We'll write to you about that, thank you. So, have any of the covenants been reset or restructured at all or are we relying on the Government guarantee?

Mr BAKER - So, the covenants are still in place, but you are correct that they're a notice of advice, not a notice of acceleration. These covenants were set, essentially, on the original business case. So, once again, TT-Line still have an obligation to let us know in advance if they're going to be in breach or in excess of these limits, but essentially these ratios will be reset when we look at the next borrowing, the longer-term borrowing limit for TT-Line.

CHAIR - So, after you got all the information with their audit financials and their updated corporate plan, then you'll potentially reset the covenants?

Mr BAKER - Correct.

CHAIR - Okay, if that occurs - and one assumes it will because the original business case has very little to do with reality - would you be able to provide details around the new covenants to the Committee once set?

Mr BAKER - I see no issue.

Mr SWAIN - No, I don't see an issue with providing them. So, yes, I think we can.

CHAIR - We'll write to you along those lines, acknowledging they won't be available straight away.

Mr WINTER – Just start following up from that, does that require TT-Line to provide updated notices of advice when things materially change? For example, when they got the equity injection, that they provided updated advice since that occurred?

Mr BAKER - They have to advise each time - there's three key ratios. There's the material adverse change. So, if the net assets decrease 10 per cent, an equity injection will actually increase their net assets. Once again, the write-downs or the asset revaluations will be, potentially, on the downside. So, they will be required to advise us of that. The financial leverage ratio and the interest coverage ratio are the three key financial ratios we've got. So, yes, they are still required to advise us.

Mr WINTER - From memory, I think it was late last year, when you came and gave evidence and gave us the update around the interest coverage ratio, the financial leverage ratio and the material adverse change - those ratios - have they provided any advice since then that things have materially changed or got worse?

Mr BAKER - Yes, they had formally advised us back in October 2025, that they're highly likely not to be able to meet the one-times interest coverage and they felt that they may push the financial leverage ratio, which was to be less than 75 per cent. Once again, we're waiting for audited financial statements to understand what those positions are. Yeah, they have been in discussions and advised us that they are likely to write down the assets which may trigger the excess of the material adverse change. But we haven't got -

Mr WINTER - So, the equity injection, so far, is $206 million. Is that correct?

Mr BAKER - 200 is expected this -

CHAIR - $200 million this year. $75 million last year.

Mr WINTER - $200 million this year of the 500 - yeah, it's plus 75. So, you're saying that even though they've received an equity injection of $275 million, the write-downs might be more than $275 million?

Mr BAKER - That is our understanding.

Mr WINTER - How significant are the write-downs then, if they're more than $275 million?

CHAIR - Did say earlier 'large'.

Mr WINTER - That's larger than I think people -

Mr SWAIN - I think that that's a question for the TT-Line chair in the first instance.

Mr WINTER - But doesn't that mean that TT-Line is actually in a worse financial position than it was before the equity injection?

Mr SWAIN - From what is in the public eye, is that the anticipation at the time of the budget was that $506 million of equity would be required. So, more than the 200 [million] in this year.

Mr WINTER - But the evidence we've just heard is that the material adverse change says that they need to advise you if that occurs. Then despite receiving $275 million in equity injection, they might still need to advise you there's been a change, which indicates that there's been asset write-downs of greater than $275 million.

Mr SWAIN - I was trying to in my opening statement - well, I'm trying to separate also - sorry, Heath may be able to talk to this more eloquently than I can, but the write-down methodology is under an accounting standard. There's a couple of different valuation approaches: they both involve a discount rate. The discount rate means that you might get a write-down number which does not directly relate to the cash needs of the business in any one given year. So, there's not a one-for-one relationship, as I understand it, between the write-down number and the level of support the business needs: it's a bit more complicated than that. There's going to be ongoing assessments from TASCORP, but also, I am aware that there will be an ongoing assessment of the assumptions underpinning the equity from the Treasury side as well.

Mr BAKER - Can I just make one point of clarification? The write-down will be for the financial year 2026: the $200 million equity is coming in this financial year. So, there's a sequencing timing issue between the equity coming in and the write-downs happening. So, under the master loan facility agreements, as of 30 June each year, we're looking at their balance sheet. So, these write-downs are happening as at 30 June -

Mr WINTER - So, it's only offsetting the $75 million from last year in the budget rather than -

Mr BAKER -The only equity that they've got to date is the [$]75 [million]. So, there is a timing difference between -

CHAIR - They did ask for [$]100 [million].

Mr WINTER - Have they been - this might be with you, oh no, it could be with TASCORP hat - have they received the equity injection this financial year? It might be with your Treasury hat on.

Mr SWAIN - The only knowledge I have of that is with the Treasury hat on.

Mr WINTER - I think they may have answered that question the other day anyway, Chair.

CHAIR - They hadn't got it, but -

Mr WINTER - They hadn't got it, but they were waiting for it very shortly I believe.

Mr SWAIN - There is a process where you have to demonstrate that it meets the definition of equity, and that has to [inaudible 11.08.30].

CHAIR - Is there likely, in this current financial year, to be another write down of the berth-side infrastructure that they've built?

Mr SWAIN - You'd have to ask TT-Line that, not that I'm aware of.

CHAIR - So [inaudible 11.08.51] just the vessels particularly we're dealing with here.

Mr SWAIN - No, I think the write-down is considering the two berths, the two new vessels and the two old vessels - so considering all their major assets.

CHAIR - But their Devonport berth, and the associated works they need to do at Berth One in Devonport, are not complete yet.

Mr SWAIN - No, but they have materially improved information than they would have a year ago. So, they've still got an ability to reconsider how that asset looks, in terms of future revenue and against an actual cost that's a lot more precise than they would have had a year ago.

CHAIR - So you wouldn't expect any further large write-downs in this financial year. Is that what you're saying? I'm just trying to understand what you're saying.

Mr SWAIN - Well, I don't think so, but then I'm not, I mean, I think that's a question for the directors really.

Mr WINTER - Have you issued any formal breach notices to TT-Line?

Mr BAKER - No.

Mr WINTER - Just notice of advice.

Mr BAKER - TT-Line get their obligation in that they need to advise us each time they become aware that they may exceed the limits under the covenants in the master loan facility.

Mr WINTER - Sure. Can you give us an understanding of the timeline you would expect to be able to resolve this? You're still waiting on those final financials and corporate plan, can you just take us through what your expectations are in terms of when you'll receive the information that you need, and when you'll be able to make a decision in terms of the restructure of the debt facility?

Mr BAKER - We have ongoing dialogue with TT-Line. We've made it very clear on the information that we require. We are in a good position because we have received information early. We did receive the initial long-term financial forecast, which is over a 30-year period, back in March [2026], which enabled our risk team to essentially undertake an in-principle review based on those numbers and based on those assumptions. The review is substantially complete, through that process the budget did come out, we know what the commitment from the Government is in the current financial year and in the forecast years. Once again, once we get the audited financial statements, updated long-term financial forecasts. We do have the benefit of Board meetings a little bit later this month, being the last day of the month. We've essentially got two weeks to finalise it and put it to our Board for September [2026]. As I mentioned early on, our original timeline was we were expecting to go to October [2026]. If there is more information required by our Board in September [2026], or if some of the information is complete, we've got that October meeting. Obviously, once we push past October [2026], that will become challenging for TT-Line having only debt maturities less than one year. We're confident we can meet.

Mr SWAIN - Just to reiterate, we'll try and work through as best we can through September [2026], but if we need to go to October [2026], we can do that.

Mr WINTER - In terms of that long-term forecast, when do you forecast TT-Line's debt will peak? What year?

Mr SWAIN - I think it's 2050 or so, it's a long way out.

Mr WINTER - That debt will peak?

Mr BAKER - We really need the updated financial forecast, because we need to profile the equity assumptions coming in each year.

Mr WINTER - Just in terms of that work, I know you've got work to do and you haven't received all the numbers, but in terms of that long-term forecast that you completed in March [2026].

Mr SWAIN - The note I have here is that meaningful debt reduction is expected to commence in the early 2040s.

CHAIR - That's meaningful debt reduction, that's when they can actually pay off their debt.

Mr SWAIN - That's when they start to get into the position to make meaningful reductions.

Mr BAKER - On the base case assumption, it assumes that they can fully amortise the debt over 25-years. But with debt amortisation it's slower in the first few years, and as the outer years come. Based on the 30-year useful life of a vessel, the base case back in March [2026] said that they can fully repay the debt with the equity injections assumed over a 25-year period.

Mr WINTER - By 2050?

Mr SWAIN - My reference to 2050 was incorrect. It should have been early 2040s.

Mr WINTER - You said that's when there'll be meaningful reduction of debt commencing in 2040. Then the full paydown of the debt by 2050.

Mr BAKER - 2052.

Mr WINTER - Are you saying that debt will continue to climb until 2040 under the modelling?

Mr BAKER - It remains high. I can't give you definitive - there may be, depending on actual cash flows and timings - debt may go up after equity injections, depending on their cash flow timing forecast.

Mr WINTER - Do you have a figure? Of what the figure is and where the debt peaks?

CHAIR - What the level of debt is.

Mr WINTER - Yes, the level of debt. Is it still around [$]1.4 [billion]?

Mr BAKER - It'll be under the [$]1.4 [billion] because obviously the $200 million is expected in the coming weeks, months. It's going to be $200 million less than that.

CHAIR - So, $1.2 billion?

Mr BAKER – [$]1.2 [billion] we would expect. I'm a bit hesitant because these are first draft numbers. These are only management numbers: these have not gone to the Board, but we think the debt will sort of come under a billion dollars by financial year [20]30, as that final equity injection comes through. It comes back to the original [$]990 [million].

Mr SWAIN - We'll ratchet down.

Mr WINTER - In 2030 it gets down to below a billion.

CHAIR - But they have still got to pay their interest. They've still got to plan for new vessels. They have still got to consider the fuel and operating costs, and staff costs. Fuel is one of their biggest expenses. Are you confident they can continue to run the business with that level of debt?

Mr SWAIN - I think they'll be constrained in what they can do from a capital perspective, but if you look at what's happened - and I did ask this question before and I can't remember if we talked about it - I'm not aware that there's ever been a Government-owned entity in Tasmania that's been allowed to go into liquidation or insolvency or administration. What we have seen through the TT-Line experience is the Board may change entirely and there may be flow throughs into the management team, but the reason that the business is in public ownership in the first place is that it's a service that's required by the community. If the Government were to let it fail, it would then have to set up another business, assuming it still had that view that the service was required, so it gets a little bit circular. You can't speak for future Governments, but it looks highly unlikely that a Government would let a business fail -

CHAIR - But what it's saying, Gary, is that -

Mr SWAIN - As well as the sovereign risk aspect of that.

CHAIR - It seems to be clearly the case that the business is highly likely to need ongoing additional support to continue to operate, at least until - I don't know - probably late 2030s, early 2040s.

Mr SWAIN - I think what we can say from - the best estimate of that is what's in the budget at the moment and when we work through this next budget, it'll be off the more recent financials, which include the write-down. It's going to be a progressive assessment, an ongoing assessment. The level of risk and uncertainty is reducing because the vessels will be in operation and the berths will be complete.

Mr WINTER - In terms of that evidence, is that the basis of the belief that the company remains solvent because the Government is going to continue to guarantee it? Or is there another argument that we're not aware of?

Mr SWAIN - I think that's a question for the TT-Line directors, but I'm certain that what's in the budget would factor into their assessment.

Mr WINTER - In terms of the equity injection? You've done draft modelling, you've looked at least some financials. Do you believe they can pay their debts when they fall due?

CHAIR - Debts to TASCORP, at least.

Mr SWAIN - Yes, otherwise, in the context of the Government guarantee, because we didn't believe that, we wouldn't have lent them the money.

Mr WINTER - What's the basis of you believing that? Because we don't have as much access to information as you do, but the financials that we've had access to and I can talk about here, it's difficult to see how they can pay their debts when they fall due. Can you give us an outline of how you think that's possible or is it just simply a case of the Government having -

CHAIR - How does TASCORP form the view that they will be able to, I think is probably the question.

Mr BAKER - So, it comes down to the base case assumptions. You know, we do analyse the base case assumptions. We also stress them. So once again, it's very important to note that this was all based on 25-year forecast revenue and expenditure and operating performance. So, there's a lot of uncertainty but based on the base case we've got, as I mentioned before, it demonstrates that they will have sufficient free cash flow to retire that debt in 25 years. So, retiring that full debt in 25 years and allowing a 5-year period to accumulate cash reserves to help with equity towards the replacement is sort of where we seize the base case. That's the minimum required.

That said, they could push that out over 30 years and not have any money to put towards a new ship. We wouldn't say that that's a prudent approach, that they should always be looking to have some equity towards new ships. The other is that the ships will have a value at the end. So, amortising it down to zero isn't always necessary as well. There's a lot of things that we look at. The big thing that we'll be looking at is their assumptions on revenue growth, both passenger and a freight, compared to historical numbers and obviously there are some cost reductions that they've got in their projections, in operating two new ships.

So, it all comes down to the certainty of those, but if they can deliver the outcomes that they are projecting in their longer-term financials, we are comfortable on that basis that there is a high probability that they can service and repay the $1.2 billion worth of debt.

CHAIR - Heath, on that then, you're saying that 25 years is a reasonable duration from TASCORP's point of view. Correct me if I'm wrong here: 30 would not be prudent from

TASCORP's point of view. So, is that the judgement you're making and the assessment that you're making in September, October this year?

Mr BAKER - That would be the starting principle. Obviously, if you're taking out debt, you want to retire that debt over the useful life of the vessel. Because of TT-Line's operation, because they have such large capex[3] at a point in time, most of the other Government businesses that we deal with have a very steady and even capex program so it's a lot easier to manage, whereas with TT-Line, having equity towards new ships is what we would say, as a lender, a more prudent approach.

CHAIR - During the process of considering this into the future, did you have communication with the Audit Office about the auditor's - I mean, obviously with regard to TASCORP, you do, but was there a particular focus on TT-Line in that work with the auditor-general in comparing their financials for the 2025-26 year?

Mr SWAIN - The Auditor-General sought information from TASCORP in relation to some of his audit functions. So, through that process, yes, but we wouldn't normally enter into a dialogue with the Auditor-General about a lending decision per se.

CHAIR - But the Auditor-General did request information specifically related to TT-Line? Is that what you're saying, just to be clear?

Mr BAKER - So yes, the Auditor-General did request information to assist him to prepare the audit of TT-Line's financial year 2026 financial statements from TASCORP, not in relation to TASCORP's financial year, financial statements, but specifically TT-Line.

CHAIR - Okay, so did you respond in writing to the Auditor-General in that?

Mr BAKER - Yes.

CHAIR - Would you be able to provide a copy of that correspondence to the Auditor-General?

Mr BAKER - I would have to take that on notice because it was information sought under his power, under his act, so I'd need to check-

CHAIR - If he's happy to release it to the Committee. Is that what you're saying?

Mr BAKER - It's sort of outside the scope. It's information that we probably wouldn't normally provide.

Mr SWAIN - It's quite detailed and sorry, the reticence is because the Auditor-General is entitled to ask for that information, but we're also conscious that we don't want TASCORP's clients to get nervous about giving full disclosure to TASCORP on the basis it's going to be requested by other parties.

Mr WINTER - Was this information that TT-Line didn't have and only TASCORP had? Why did the Auditor seek the information from TASCORP?

[3] Capital expenditure

Mr SWAIN - You'd have to ask the Auditor-General that.

Mr WINTER - It doesn't seem like a normal practice that the Auditor-General would seek the advice from the lender, that's all.

Mr SWAIN - I don't know if it was for verification purposes or otherwise, but I think it's really a question for the Auditor-General.

CHAIR - We might write to you and you can get that advice if you need, just along with the other matters we will write to you about, see if you can provide it.

Mr WINTER - Can you only just broadly tell us about what the sort of information was that you provided?

Mr BAKER - It is similar to the information that the Committee has requested, but it is full detailed management information, working sheets, business plans from the client. So, a lot of detail was requested.

Mr WINTER - You said from the client?

Mr BAKER - Sorry, the business case that we received from the client and our analysis, managements analysis on-

CHAIR - So, TT-Line is the client here?

Mr BAKER - Yes, yes. So, as I say, we had provided the Committee the outcomes, and details of the outcomes, in terms of our timelines and interactions with our Credit Committee and our Boards for providing that level of detail without a thorough review. As to the whole entire documents, that's probably what I'd have to take on notice. So, we're comfortable in sharing the outcomes and the Board deliberations and the minutes and any correspondence that we put up to the Board -

CHAIR - We want to see what you can provide to the Committee around this matter.

Mr SWAIN - The Board will usually see a couple of papers for key decisions, so there will be a situation analysis/context paper and then often the following month there is a decision paper, but there is a heap of workings and analysis that goes to the Credit Committee that the Board will never see. So, we're also potentially in a position where we would be providing information that the Board hasn't seen, which I'm a little uncomfortable with as well to be honest, because it's not really fair on Board members.

CHAIR - We'll write to you and see what you can provide, that's fine. Obviously it's a bit of a two-way street here though, because the Auditor-General will then inform your deliberations in terms of the ongoing decisions around TT-Line's borrowings.

Mr SWAIN - Well, not the Auditor-General directly, the audited financial statements.

CHAIR - That’s what I mean, sorry, through the reports he produces.

Mr SWAIN - Well, sorry, the financials will be developed by the business -

CHAIR - Produced by TT-Line?

Mr SWAIN - Yes. So, we will have access to some of that information, or maybe all of it, I'm not sure, pre-audit. The audit finalisation which we'll use as our working draft, but we won't finalise the position until we have the comfort that they are audited statements.

CHAIR - So what you will get to inform your decision in the September [2026] meeting will be audited financials.

Mr SWAIN - Yes, and they may not change very much from what we have now, but we'll still want to rely on audited statements. We leverage off the Auditor-General's work in that regard, but we're not seeking advice from him in relation to anything.

Mr BAKER - That's why it's important that we want the audited financial statements to understand what commentary is put in from the AG in respect to the letter that was handed over the table today, is there additional things that we need to take into consideration?

CHAIR – So, in terms of the modelling that you've seen, and I believe will be probably updated when you get the next lot of information in a few days, how do you assess their projections, like their freight, passenger, projections around revenues in order to make you're decisions, what do you do to do that?

Mr SWAIN - That's the sensitivity analysis that Pete talked about, but what we don't do is assume that we're a freight or tourism business and start coming up with our own financial model for the business. We tend to stress test their model with a range of sensitivities, some of which they might perceive to be somewhat pessimistic.

CHAIR - So you stress test their assumptions.

Mr SWAIN - We might ask for a sensitivity that says what if revenue was 15 per cent less in relation to this aspect of your revenue base, for example. Then we'll look to test which sensitivities are most impactful for the financials.

Mr BAKER - Once again, we'll ask for details around what advice they received around how they assume their base case; what external advice they got on passenger numbers, freight numbers, what's the future freight -

CHAIR - So, you do go back and test how they reach their projection?

Mr BAKER - Yes. Obviously, as a lender, we always take a conservative - as I said, their base case shows a 25-year repayment, we will want to understand what pushes them out past 30, or what pushes them out that they can't retire debt, and to understand -

CHAIR - This is one of the problems with the previous situation we had I think, was very optimistic assumptions, according to the evidence that this Committee's heard.

Mr BAKER - That was the reason we asked for the guarantee upfront on Day One, even though the base case - if we go back to 2017, this started 10 years ago - the debt was going to be repaid in 12 years. We thought those forecasts at that time looked very optimistic.

Things have happened. That's played out. So, relying on such long-term forecasts is always a level of risk as a lender, especially with a business that has such large one-off capex and they are reliant on growth. Once again, the more recent numbers we have, obviously are back from where the original business cases were back to 2017: the more recent updates in 2023 and 2025. Those forecasts are back but, once again, that's the analysis that we haven't quite completed yet, which is the comparison back to the previous models to understand how much they've reduced passenger increases, by how much freight has increased by. Have they moved from an optimistic to a pessimistic number, assuming that the $600 million will come through?

Mr WINTER - I've been listening to the evidence and thinking back to our credit rating downgrade. What impact does the Tasmanian credit rating have on TT-Line's debt servicing costs and potentially ongoing of the time in which it takes to repay the debt?

Mr SWAIN - In relation to the downgrade, we factor that into forward expectations around the cost to refinance and then that will be something that is shared with clients on an ongoing basis, so in terms of what their expectations should be when there's refinancing. As you know - Heath, correct me - I have forgotten how many different products of loans and bonds we have: 50 or something?

Mr BAKER - In the market?

Mr SWAIN - Yes. There's a progressive process where debt comes off and has to be refinanced, but it's not a step change. It's, obviously, a weighted average. It changes over time.

Mr WINTER - Sure. In terms of how much debt TT-Line's currently carrying, have they drawn down now on the whole [$]1.4 [billion] or are they still yet to draw down on the full amount?

Mr BAKER - No. They've drawn down probably $145 million to $155 million of the $200 million facility and the other $210 million facility they've not drawn down on.

Mr WINTER - What's the total amount of debt that has been drawn down?

Mr BAKER - Sorry, I don't have a portfolio report. I'm pretty sure it is around the $155 million that they've drawn on that $200 million, so $155 million plus $990 million is what their current exposure is and then they have -

Mr WINTER - So, it's a bit under [$]1.2 [billion].

CHAIR - Which is where the Government guarantee sits.

Mr BAKER - Yes. The Government guarantee goes right to [4]1.445 [billion].

Mr WINTER - So, they can still have another around $200 million they could draw down on if they required it.

CHAIR - Under the guarantee.

Mr WINTER - Under the guarantee. In terms of TASCORP's broader risk here, how does TASCORP consider its risk around this company, because you're now holding $1.2 billion-worth of debt with a company that's in, depending on who you ask - either according to the Auditor-General, potentially insolvent - and there are other positions? How does it balance that risk considering you are the Government lender?

Mr SWAIN - I don't want to get ahead of Board processes, but we have a strategic planning day coming up in January [2027] and one of the things that we have agreed to talk about is how we usefully give portfolio-level information about risk and capacity to the shareholders, so where the businesses are at and what the future borrowing capacity broadly is for each for those businesses.

Mr WINTER - Is it still correct that every GBE has some kind of Treasurer's Guarantee on it?

Mr SWAIN - Well, not all businesses borrow.

Mr WINTER - The ones that borrow, I should say.

Mr BAKER - Correct.

Mr WINTER - Is that something that Government or TASCORP has a position on in terms of potentially changing or is that arrangement set to stay?

Mr SWAIN - It’s legislatively based. It's a matter for the Government whether it would want to change those guarantees, the mechanism under the act.

Mr WINTER - Does TASCORP have a position on whether that's a sustainable position that all of the GBEs are requiring a Treasurer's Guarantee at the moment?

Mr SWAIN - I'm just hesitating because I think that's crossing over. TASCORP will have a lender perspective, but I think Treasury is likely to have a policy view on that.

Mr WINTER - What's the TASCORP perspective?

Mr SWAIN - We've talked internally about the need to be proactive about the credit standing of each business and the capacity of each business to bear substantially more debt, so not a micro discussion, $152 million, but broad-brush what the capacity of different businesses is to take on debt, so that the shareholders, in discussion with the businesses, can take that into account.

Mr WINTER - Sure. How's that done at the moment?

Mr SWAIN - We meet bi-monthly after every second Board meeting: we give feedback about key decisions, any emerging issues or risks that the Board sees. The idea I'm raising is just whether we can pull that together a bit more into a tight picture leading into the budget process each year.

Mr WINTER - Thanks.

CHAIR - We probably need to wrap it up. Is there anything that you would like to close with at this point or are happy to receive some questions on notice to follow up with?

Mr SWAIN - I don't think so. I think we're okay. Obviously, a lot of work has gone into the current position and there's a lot more to go for both TASCORP, and obviously Treasury has a role in relation to the equity monitoring component bit, so that's ongoing.

CHAIR - Thanks for your time today. We appreciate your appearing before the Committee.

The Committee adjourned at 11:35 am.