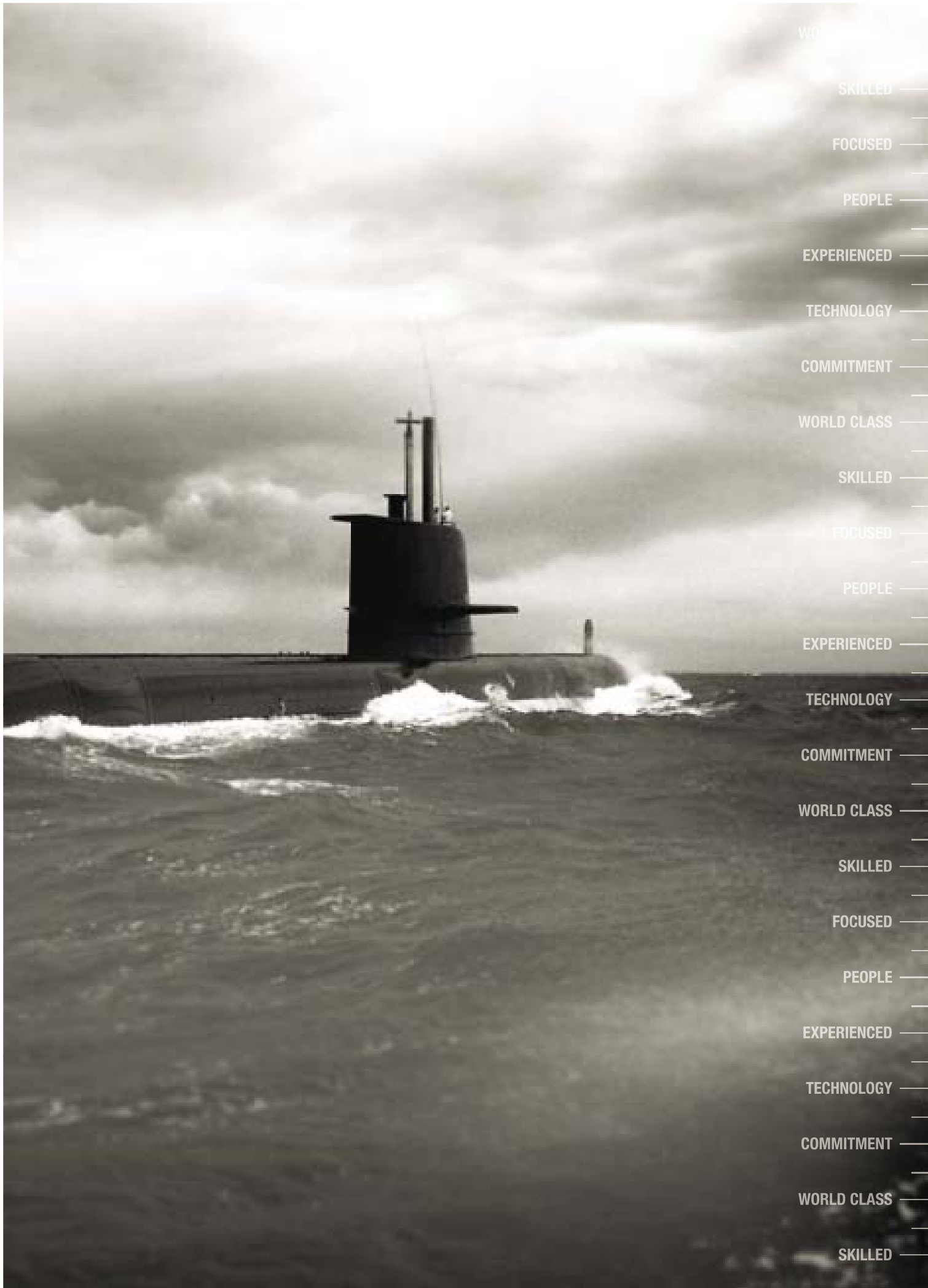




**AUSTRALIAN
SUBMARINE**
CORPORATION



WORLD CLASS
SKILLED
FOCUS
FOCUSED
PEOPLE
EXPERIENCED
TECHNOLOGY
COMMITMENT
WORLD CLASS
SKILLED
FOCUS
PEOPLE
EXPERIENCED
TECHNOLOGY
COMMITMENT
WORLD CLASS
SKILLED

OBJECTIVES//:

ASC is committed to achieving six fundamental objectives:



1 Six fully-operational submarines.



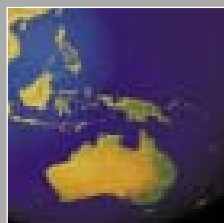
2 Optimum arrangements for through-life support – including access to key technologies from world suppliers.



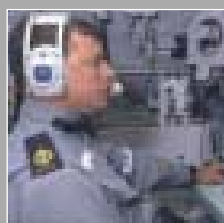
3 A sustainable industry to support submarine capability as part of the Australian naval shipbuilding and repair industry.



4 Optimum ownership arrangements for ASC, including disposing of the Commonwealth interest in ASC.



5 Optimum financial outcomes for the Commonwealth.



+ Plus exceeding our customer's time, cost, quality and value for money requirements.

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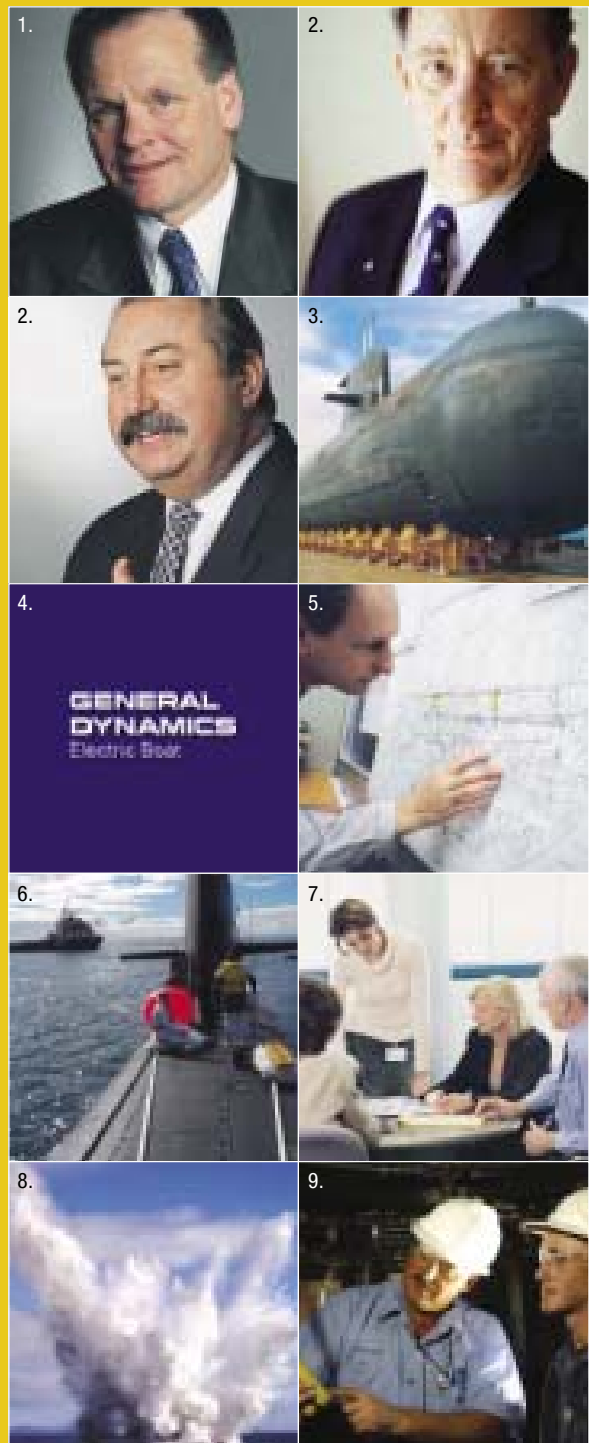
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2003 HIGHLIGHTS//:

1. Dr Stephen Gumley appointed Managing Director and Chief Executive Officer
2. General (Rtd) John Baker and Stephen Young appointed directors
3. Delivery of HMAS Rankin
4. Electric Boat appointed Capability Partner
5. ASC progress towards Submarine Designer
6. Negotiation of Through-Life support contract
7. Strengthening management team with key appointments
8. HMAS Rankin Shock Trial
9. Restructure of Western Australia to focus on maintenance





CHAIRMAN'S REPORT:

John B Prescott, AC
Chairman

The Board of ASC is charged with several objectives including ensuring:

- the operational capability of the six Collins Class Submarines;
- the Australian submarine community has access to the full range of intellectual property required to support the construction of the submarines and their maintenance, upgrade and enhancement through their life, having regard to requirements for new capabilities and the availability of new technologies;
- ASC contributes in a major way to Australia's industry capability to support these requirements;
- these objectives are met in a timely and cost effective manner and in a way that enhances the boats' ability to meet the requirements of the Royal Australian Navy (RAN) for interoperability with Australia's allies; and
- all of these objectives are met in a manner that facilitates the earliest possible sale of ASC to the private sector as a viable, sustainable entity.

These are matters of considerable complexity because:

- whilst there is equipment in the submarines that has counterparts in other navies, overall the Collins Class has a unique design to meet Australia's different operating requirements; and
- when conceived, the Collins Class was the world's largest non-nuclear submarine and different in concept to submarines previously operated by the RAN.

The RAN is the 'parent Navy' for this class of boat and it is not able to draw directly on others' experience for many of the technical challenges that must be met. The technology in the boats is a combination of contributions from several different nations involving interfaces and integration not previously executed.

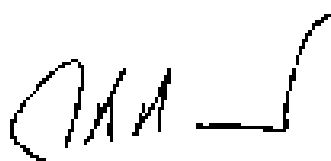
A fact not often recognised is that almost all the issues which ASC has been addressing arose when ASC was under different ownership and technical control. Very few of the difficulties experienced with the Collins Class have arisen from work actually directed by ASC. The current Board and management are largely addressing issues which were inherited.

With respect to the current reporting period, the following has been achieved:

- 1 The last of the six Collins Class submarines contracted to be built in 1987 was completed and delivered to the RAN in March 2003.
- 2 One of the most significant trials requirements for the Class, the shock trials, were successfully completed in June 2003.
- 3 Considerable progress has been made in resolving previous claims and other outstanding technical work on the submarines. Other enhancements to capability have also been completed or are underway and most warranty work has been completed.
- 4 The first two submarines, HMAS Collins and HMAS Farncomb, have completed five years of service and are currently undertaking their first Full Cycle Dockings at Outer Harbor. Associated with these activities has been the completion of certain one-off repairs not expected to be required on the other boats when they undertake their first Full Cycle Dockings.
- 5 Mid Cycle Dockings and Intermediate Dockings have also been completed on other vessels in service.
- 6 The so called 'fast track' enhancements to the vessels' platform and combat systems have been completed on four submarines and are underway on a further vessel.
- 7 Following the retirement from the Board of B R Kean, AM, who made a significant contribution to overcoming the difficulties described, General (Rtd) J S Baker, AC, DSM and Mr S E Young were appointed as Directors effective 1 July 2002.
- 8 Dr S J Gumley was appointed Chief Executive Officer from 23 July 2002 and in addition as Managing Director from 6 November 2002. His appointment has greatly broadened the skills base of the Board and management.
- 9 Significant changes have been made in ASC's management structure to shift focus from a project engineering build capability to one focussed on schedule and cost driven maintenance activities at both Outer Harbor, where the boats were built and HMAS Stirling, where they are based. The new management structure has also been strengthened by several other appointments.
- 10 A contract has been entered into between the major US submarine company Electric Boat, the Commonwealth and ASC under which Electric Boat will provide commercial, process and schedule expertise to the Defence Materiel Organisation (DMO) and ASC.
- 11 Arrangements have been made with the RAN for ASC to become the submarine designer for through-life support of the submarines and implementation of these arrangements has been accelerated.
- 12 Systems have been enhanced and other initiatives have been taken to improve the operating interface between ASC, DMO and the RAN.
- 13 Considerable progress has been made towards establishing a Through-Life support contract to govern the arrangements for ASC to provide maintenance, design enhancements and new capabilities for the submarines over the next 15 to 25 years. This contract is without precedent in Australian defence business in its scope and in its commercial aspects.
- 14 ASC has provided support to the Australian Government's consideration of future naval shipbuilding and repair industry structures and to other aspects of the identified prerequisites for the privatisation of ASC.
- 15 ASC has brought these initiatives together in a comprehensive business plan which also focusses on expanding ASC's business through high-level engineering and design capabilities for a wider range of combat vessels.

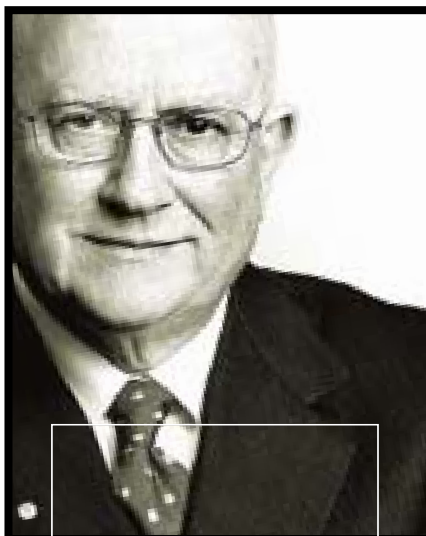
The Board seeks to be increasingly anticipatory and responsive on all of these matters.

The Board notes its appreciation of the support provided by management and employees.



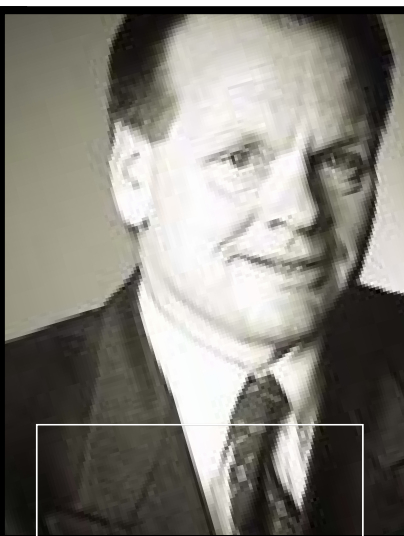
John B Prescott, AC
Chairman

BOARD OF DIRECTORS//:



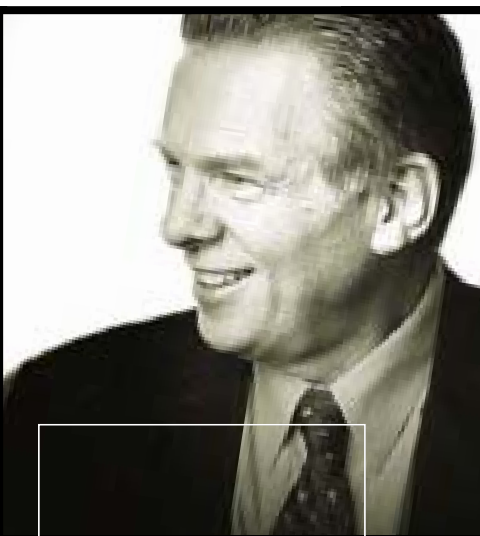
John B Prescott, AC
Chairman

Mr Prescott first became involved with ASC in 1999, when he and the late Dr Malcom McIntosh co-wrote the McIntosh Prescott Report. He was later appointed Chairman of ASC in 2000. Mr Prescott is also a director of Newmont Mining Corporation. Previously, he was the Managing Director and Chief Executive Officer of BHP. Mr Prescott is 62.



Dr Stephen J Gumley
CPEng, FIE(Aust)
Managing Director and Chief Executive Officer

Dr Gumley joined ASC in July 2002. Previously, he was the Vice President of Information Services for Boeing in Seattle, USA. Prior to Boeing, he was the CEO of The Preston Group, a supplier of high-performance information software simulation tools to the international aviation industry. From 1994 to 1997 Dr Gumley was CEO of the Global Lightning Technologies group, an electrical researcher and manufacturer who exported Australian technology to over 30 countries, with main markets in defence, communications and infrastructure industries. A former Rhodes Scholar, he has held senior roles in engineering, finance, marketing and general management since the early 1980s. Dr Gumley is 46.



Charles N H Bagot
Non-Executive Director

Mr Bagot was appointed a director of ASC in 2000. He is currently the partner in charge of law firm Piper Alderman's corporate section. In addition to his role with ASC, Mr Bagot serves on the boards of a number of companies, is a member of the University of Adelaide Council and president of the Australian Institute of Company Directors SA/NT. Mr Bagot has led teams of lawyers in major commercial transactions and in corporate litigation, most notably he was the lead lawyer for the \$3.6 billion bid by Utilicorp (US) for ETSA Utilities and ETSA Power. Mr Bagot is 56.



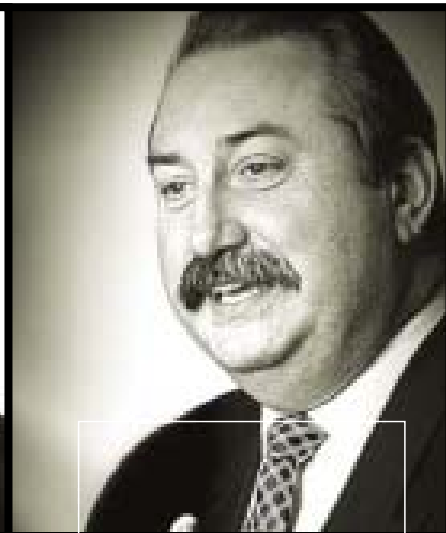
Graeme R Bulmer
Non-Executive Director

Mr Bulmer was appointed a director of ASC in 2000. He is also a director of Frontline Australia. Previously, Mr Bulmer was the CEO of BTR Automotive Asia Pacific and has served as Chairman on various boards including Eurovox, Unidrive, China General Plastics Corporation (Taiwan), Taita Chemical Company (Taiwan), Asia Polymer Corporation (Taiwan) and BTR Motherson Automotive (India). Mr Bulmer has been a director of BTR Nylex, Westlake Styrene Corporation (US), Titan Petrochemicals (Malaysia) and Titan Polymers (Malaysia). Mr Bulmer is 64.



General (Rtd)
John S Baker, AC, DSM
Non-Executive Director

General Baker was appointed a director of ASC in 2002. Previously he was the Chief of the Australian Defence Force. General Baker has held a number of key appointments with the Australian Defence Force, including Vice Chief of the Defence Force, Head of the Defence Intelligence Organisation, Chief of Logistics (Army), Commander of Second Military District and Director of Joint Services Policy. General Baker is 67.



Stephen E Young
Non-Executive Director

Mr Young was appointed a director of ASC in 2002. He is also the Executive Chairman of Equity & Advisory and is a director of Michell Australia Group, A Raptis & Sons, Shaw & Smith, aiLimited and Louminco. Previously, Mr Young was a member of the Premier's Roundtable, ETSA Corporation and Land Management Corporation. Mr Young is 48.



CEO'S REPORT:

Dr Stephen J Gumley
Managing Director and
Chief Executive Officer

The 2002/03 financial year marked ASC's transition from its past as a builder of submarines to its future as a designer and maintainer of the Collins Class fleet of six submarines.

BUILD PROGRAM

In March, ASC delivered the final Collins Class submarine, HMAS Rankin, to the Royal Australian Navy. The successful completion of the Shock Trials on HMAS Rankin outlined the inherent strength and stability of the Class.

Despite media criticism, informed commentators (including the United States Navy) recognise that the Collins Class submarines are the world's most advanced and lethal conventional submarines. The submarines are a credit to the Nation's vision and are a testament to the men and women who built them.

June 2003, with the completion of the Shock Trials, officially marked the end of the submarine build program.

PERFORMANCE

Management can be justifiably proud of a significant turn-around in ASC's performance. Revenue for the year increased by 8.5% to \$159 m with a significant lift in profit from \$127,000 to \$5.8 m.

During the year, ASC was responsible for maintenance availabilities in Western Australia, while conducting Full Cycle Dockings at Outer Harbor for HMAS Collins and HMAS Farncomb. This all took place while construction of HMAS Rankin was completed.

ASC's ability to simultaneously handle a number of complex engineering projects is a credit to the skills of ASC's staff built up over 15 years. Notwithstanding these skills, ASC is committed to ensuring that its staff continuously improve and enhance their qualifications. Over the course of the year, over 20 staff achieved Certified Practising Engineer status, the highest professional qualification for Australian engineers.

PUBLIC PERCEPTION

Despite a high level of recognition within the community, ASC continues to suffer from a poor public image. In response, ASC's Board endorsed a communications strategy intended to redress ASC's undeserved reputation. The recent appointment of a communications manager to implement this strategy is a welcome move.

DISPUTES

Regrettably, ASC's relationship with its former major shareholder, who held technical management rights, has deteriorated. The issues between the parties include weld defects in foreign-built sections of HMAS Collins, various design deficiencies and the use of intellectual property for submarine maintenance.

Despite ASC seeking a commercial settlement (with assistance from the Australian Government), the parties have been unable to reach an agreement and are now having their disputes arbitrated. ASC expects that it may be some time before these disputes are finally resolved.

CAPABILITY PARTNER

In October 2002, Electric Boat of Groton, USA commenced work as ASC's Capability Partner. Electric Boat has a long and distinguished history of submarine design, construction and maintenance.

We are fortunate indeed to have access to the benefits of over a century of activity in the submarine business. Already the benefits of Electric Boat are being seen in ASC's corporate focus on business unit performance.

SUBMARINE DESIGNER

A review by Electric Boat, the United States Navy and a professor from the University of Adelaide has concluded in support of ASC's capabilities and progress towards becoming Submarine Designer for the Collins Class.

With the Australian Government's backing, ASC is moving swiftly to meet this challenge. As a result, a positive new culture within ASC is emerging.

ASC's inevitable shift towards becoming Submarine Designer will further enhance the Nation's defence capability, which not only strengthens Australia's competency but highlights the exceptional skills and experience available within our shores.

CHALLENGES

The transition from builder to designer/maintainer requires a fundamental shift in ASC's business philosophy and culture. A short-term outlook and an adversarial business model have given way to a focus on long-term outcomes and a mutually beneficial relationship with the DMO and the RAN.

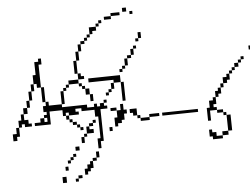
In embarking on this transition, ASC faced a number of challenges during the year including:

- meeting the stringent technical and regulatory requirements expected of ASC as Submarine Designer;
- restructuring ASC's operations to focus on maintenance and design activities;
- negotiating a long-term Through-Life support contract with the Australian Government;
- strengthening the management team through key appointments in the areas of legal, business development, people development and communications;
- rationalising ASC's Western Australian business to meet customer expectations; and
- repairing and, over time, developing the relationship with our key customer, DMO, through regular meetings with senior management.

I am pleased to report that management and staff have successfully responded to these challenges with a high level of professionalism, personal commitment and determination.

FUTURE

ASC's future as a provider of high-end skills as designer and maintainer of the Collins Class is assured. While we still have a way to go, ASC is now well-placed to support the submarine Fleet. We will deliver on our promise to our customers and the Nation to support and maintain "six fully operational submarines".



Dr Stephen J Gumley, FIEAust, CPEng

**Managing Director and
Chief Executive Officer**

EXECUTIVE//:



Ross Milton
Deputy Chief
Executive Officer

BE (Mech.Eng),
FIEAust, CPEng

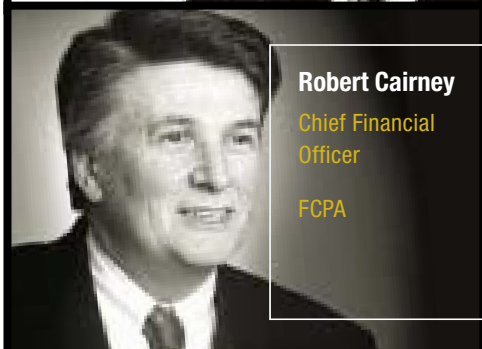
Mr Milton first became involved with the submarine project in 1984 when he participated in the negotiation of the shareholder arrangements leading to the establishment of ASC in 1985. His responsibilities include commercial negotiations and government liaison, as well as corporate assurance and compliance functions. Prior to joining ASC, Mr Milton was employed for 16 years with Chicago Bridge & Iron Company variously as a field engineer, design engineer and in commercial contracting. Mr Milton is 56.



Tony Kuhlmann
General Counsel
and Company
Secretary

BA, LLB, GDLP

Mr Kuhlmann joined ASC in 2002 and is the head of the Commercial and Legal Services Department with responsibility for contracts, insurance, risk, legal, communications and corporate governance. Before joining ASC, Mr Kuhlmann was a partner of Finlaysons, a leading Adelaide commercial law firm, where he practised as a commercial lawyer for 12 years. Mr Kuhlmann is 37.



Robert Cairney
Chief Financial
Officer

FCPA

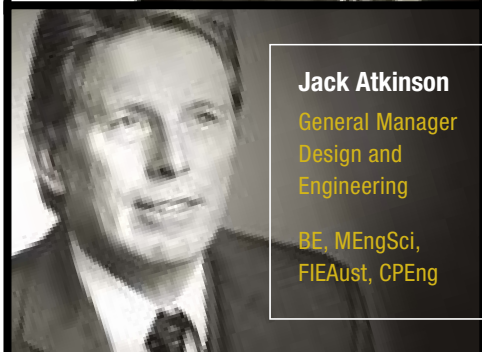
Mr Cairney joined ASC in 1999 and is responsible for ASC's financial, treasury, information technology and human resources functions. With a diverse background in engineering, construction materials, manufacturing, finance and mining, Mr Cairney has held a series of management positions with some of Adelaide's more prominent organisations, including SAFCOL, Hindmarsh Adelaide Building Society and Boral. Mr Cairney is 56.



Doug Callow
Chief Operating
Officer – Submarines

BSc (Mech.Eng),
MSc (Nucl.Sci.Tech),
FIEAust, CPEng

Mr Callow joined ASC in 1992 and is responsible for the production, project management and procurement activities relating to all submarine maintenance. He has over 36 years of submarine design experience having worked previously for Vickers Shipbuilding and Engineering (UK) where he held a variety of management roles. Mr Callow is 54.



Jack Atkinson
General Manager
Design and
Engineering

BE, MEngSci,
FIEAust, CPEng

Mr Atkinson has been with ASC for 15 years and is the head of the Design and Engineering Department. He has responsibility for the oversight and management of ASC's engineering organisation. Mr Atkinson has over 30 years of engineering experience within the defence industry having previously worked for the Department of Defence. Mr Atkinson is 53.

Peter Rowland

General Manager
Business Development

BSc (Elec.Eng), MBA,
MIEE, CEng, GAICD

Mr Rowland joined ASC in 2003 and is responsible for new business development. Previously, Mr Rowland was the managing director of Ellex Medical, chief executive officer of Invest SA and the director of business development for British Aerospace Australia. Mr Rowland is 50.

Andrew Johnson

People
Development
Manager

Mr Johnson joined ASC in 2002 and is responsible for people development, knowledge management, succession planning and cultural change. Previously, Mr Johnson was the employee development manager for the Port of Brisbane and a facilitator with the Queensland Police Service. Mr Johnson is 32.

Robert Lemonius

WA Submarine
Operations
Manager

Mr Lemonius joined ASC in 1990 and is the head of the WA maintenance organisation. He is responsible for defect investigation, maintenance and repair of submarine systems and the Submarine Training School. He has over 38 years of experience in the submarine and shipbuilding industry, including management positions with Cockatoo Dockyard. Mr Lemonius is 53.

Mark Gobell

Works Manager

B Tech.Mech.Eng,
Grad IEAust

Mr Gobell joined ASC in 1991 and was appointed works manager in 2003, where he is responsible for all production and maintenance activities at Outer Harbor. Mr Gobell has substantial experience in submarine component manufacture, heavy engineering and mechanical services having worked for ASC Engineering Pty Ltd and T O'Connor and Sons Pty Ltd. Mr Gobell is 50.

Alf Aschenbrucker

Group Quality
Manager

B.App.Sc (Sec
Met), Grad.Dip
(Bus.Admin)

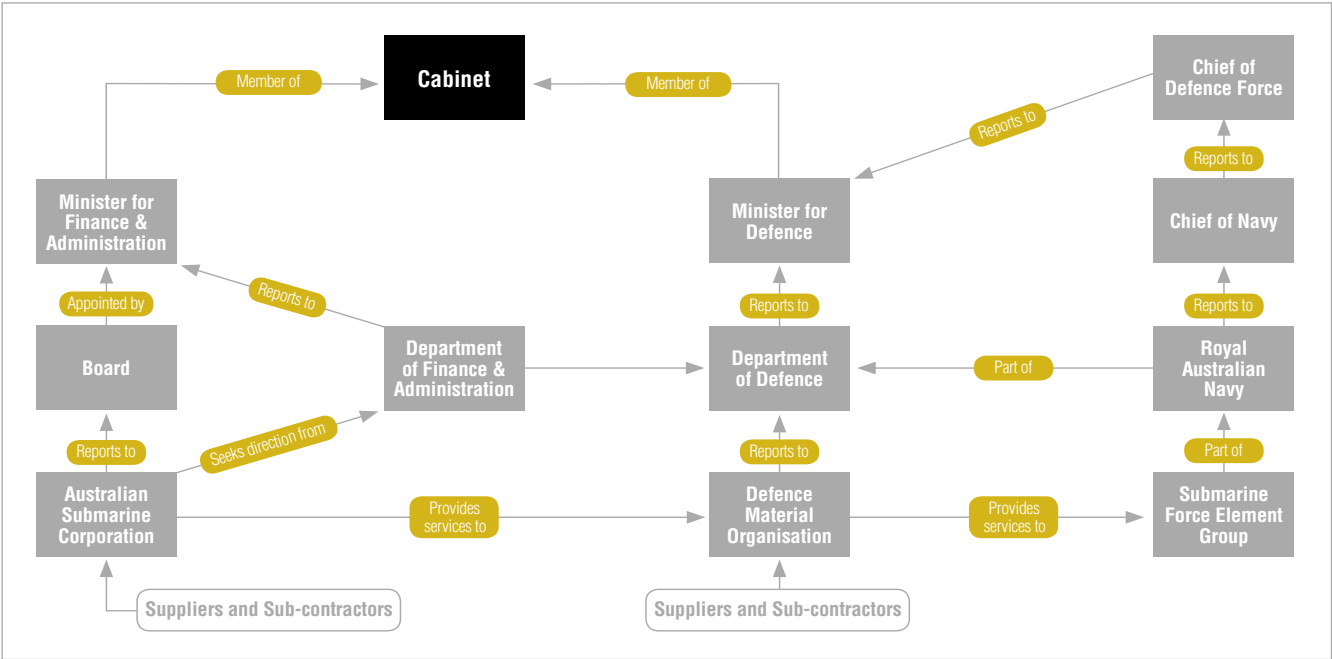
Mr Aschenbrucker joined ASC in 1997 and was appointed to his current position in 2001. He is responsible for ASC's quality system certification and the oversight of quality issues affecting ASC. He has worked for various defence projects throughout his career, namely with the DSTO and Perry Engineering. Mr Aschenbrucker is 54.

CORPORATE GOVERNANCE//:

ASC is a company limited by shares, incorporated under the Corporations Act. All the shares in ASC are owned by the Commonwealth. Shareholder responsibility is vested in the Minister for Finance and Administration. ASC operates in a complex business, governmental and regulatory framework.

- 31 October 2002: Retirement of Mr B R Kean, AM.
- 6 November 2002: Appointment of Dr S J Gumley as Managing Director.

All directors of ASC are appointed by the Minister for Finance and Administration for a finite term. Mr Prescott, General (Rtd) Baker and Mr Young have been appointed to 30 June 2006 while Messers Bagot and Bulmer were re-appointed until 31 December 2004. ASC and its Board are subject to Ministerial direction by virtue of ASC's Constitution.



BOARD OF DIRECTORS

The Board of Directors is responsible for the overall corporate governance of ASC. In conjunction with management, the Board sets goals and objectives and the strategic direction of the ASC Group.

As at 30 June 2003, the Board comprised Mr J B Prescott, AC (Chairman), Dr S J Gumley (Managing Director and Chief Executive Officer), Mr C N H Bagot, Mr G R Bulmer, General (Rtd) J S Baker, AC, DSM and Mr S E Young.

The following changes to the composition of the Board occurred during the year:

- 1 July 2002: Appointment of General (Rtd) J S Baker, AC, DSM and Mr S E Young.

Attendance of directors at Board and Audit Committee meetings was as follows:

Board Member	Board Meetings		Audit Committee Meetings	
	Held	Attended	Held	Attended
J B Prescott, AC	12	12	—	—
C N H Bagot	12	12	—	—
Gen (Rtd) J S Baker, AC, DSM	12	12	3	3
G R Bulmer	12	12	4	4
B R Kean, AM (retired 31 October 2002)	4	4	1	1
S E Young	12	12	4	4
S J Gumley (appointed 6 November 2002)	7	7	—	—

AUDIT COMMITTEE

The Board has established an Audit Committee to oversee ASC's finances.

As at 30 June 2003, Committee comprised three non-executive directors, namely Mr S E Young (Chairman), Mr G R Bulmer and General (Rtd) J S Baker, AC, DSM.

The following changes in the Audit Committee occurred during the year:

- Mr B R Kean, AM retired as Chairman and member of the Committee.
- Mr S E Young was appointed Chairman of the Audit Committee.
- General (Rtd) Baker was appointed member of the Audit Committee.

The Executive Director of the Australian National Audit Office is an ex-officio attendee and the Department of Finance and Administration is invited to send an observer.

Meetings of the Audit Committee are held on at least a quarterly basis.

The Committee operates under a charter approved by the Board. The roles of the Committee are to assist in the formulation of financial policies, to monitor the operation of internal controls including the management of financial risk, and to apply ethical standards.

It reviews all annual and half-yearly financial reports with ASC's auditor and makes recommendations to the Board.

Recently, the Committee commenced the process of reviewing ASC's major projects.

ASC's Board has noted developments in relation to the operation of audit committees in Australia and other companies and will seek to ensure that any changes appropriate to ASC are adopted.

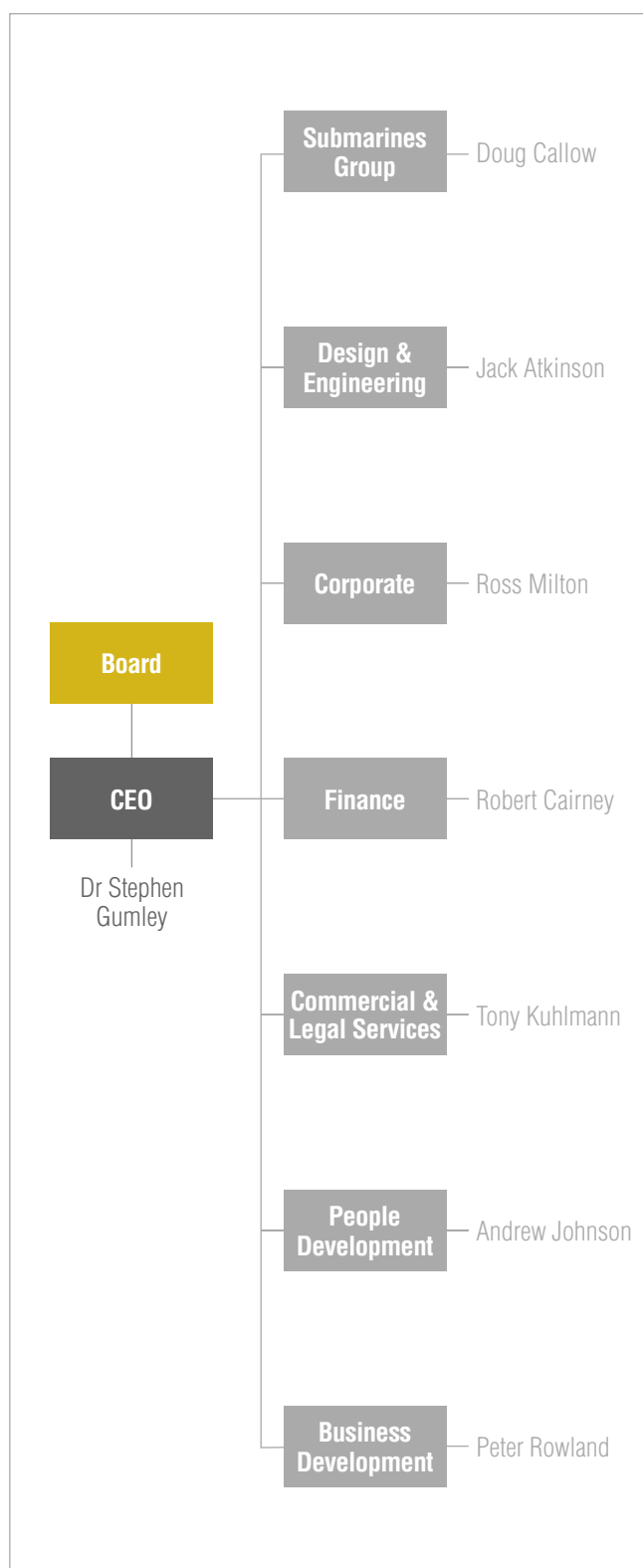
MANAGEMENT

ASC's management processes are documented in the Corporate Management System. The empowering document is known as CMS1001. The Board authorises this policy document which incorporates authorisation levels, delegations and corporate structure.

To assist in the governance of ASC and to monitor performance, ASC has instituted a Business Plan Review (BPR) process.

The BPR process involves ASC management meeting on a regular basis (usually fortnightly) to review ASC's performance and to make the necessary adjustments to ensure that corporate goals are achieved.

The business plan thereby becomes a live document, using the most relevant data.



ASC's Management Structure

CORPORATE GOVERNANCE//: (Continued)

REPORTING

Management provides monthly reports to the Board covering financial and contractual performance against approved budgets. Variances against budget are identified pro-actively where possible and appropriate remedial action recommended.

INTERNAL CONTROL

ASC maintains a Quality Assurance Department. The primary role of this department is to monitor compliance with the Corporate Management System (CMS) and work against specifications. The CMS outlines all functional areas, management plans, authorities, delegations and goals.

ASC was recently recertified by Det Norske Veritas (DNV) to ISO standard 9001:2000.

RISK MANAGEMENT

ASC is committed to risk management as an integral part of its business. Risk management is a shared management responsibility involving:

- identifying corporate risks;
- assessing the likelihood of their occurrence;
- estimating the likely consequences of risks should they occur; and
- implementing strategies to avoid, mitigate or minimise the consequences of risk.

As part of this risk management emphasis, the Board instituted:

- a risk management review of ASC's operations;
- implementation of an Engineering Management Plan to support ASC meeting the DMO's requirements for ASC to become the Collins Class 'Submarine Designer'; and
- a comprehensive analysis of the Collins Class design.

LEGAL COMPLIANCE

ASC embraces a legal compliance culture that focuses on awareness of compliance issues at the working level.

ASC has established and implemented policies and procedures addressing a range of compliance issues. These include occupational health and safety, harassment, prevention of bribery and corruption, trade practices and, in light of Electric Boat's involvement, the US Government's International Traffic Arms Regulations.

ETHICAL STANDARDS

As a responsible corporate citizen, ASC is expected to meet high standards of ethical corporate behaviour. In all their dealings, ASC employees are required to observe ASC's ethical standards.

ASX GUIDELINES

Although not a listed company, ASC is taking steps to comply with the ASX's corporate governance guidelines to the extent relevant.

ASC and its controlled entities achieved a consolidated profit for the year to 30 June 2003 of \$5.85 million compared to \$0.13 million in 2002, after an income tax expense of \$3.07 million.

The increase in this year's profit was, in the main, a result of the recognition of profit on the Full Cycle Docking for HMAS Collins and the increase in activity in ASC from providing In Service Support to the submarines.

No recognition was taken in 2002/03 of profit on the six-submarine build contract. This follows a decision that no further profit will be recognised on the six-submarine contract until the contract is effectively completed and any outstanding items have been fully taken into account.

No dividends were paid or provided for during the year. The increase in total assets to \$236.7 m (2002: \$196.7 m) and total revenue of \$158.7 m (2002: \$146.3 m) reflects the maturity of the six-submarine contract. Shareholders equity of \$59.1 m (2002: \$53.2 m) increased in the absence of a provision for dividends.

ASC and the Australian Government are currently working together to agree on a long term contract that will provide for better long term funding of submarine maintenance and enhancement activities, providing more operational certainty to both ASC and DMO.

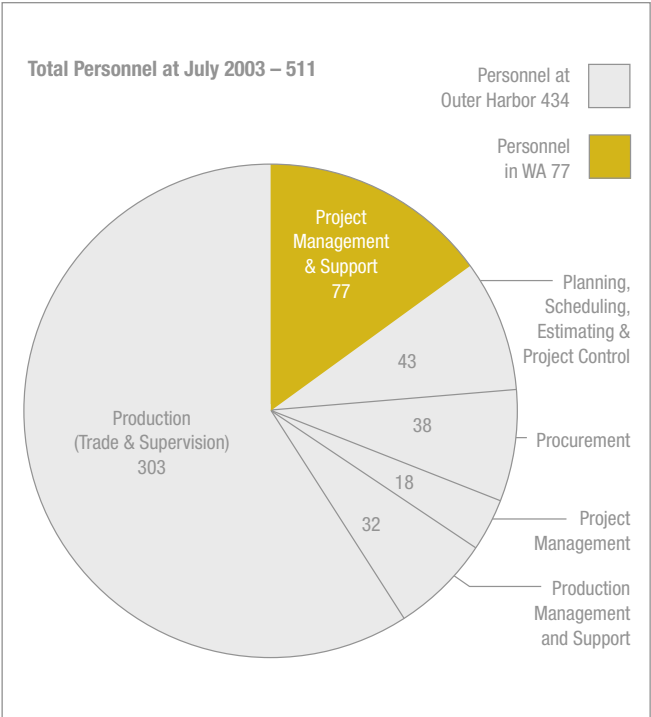
	2003 (\$m)	2002 (\$m)	% CHANGE
Total Revenue	158.7	146.3	8.5%
Operating Profit Before Tax	8.92	1.67	434.1%
Operating Profit After Tax	5.85	0.13	4400.0%
Total Assets	236.7	196.7	20.3%
Net Cash	8.4	5.2	61.5%
Total Shareholder Equity	59.1	53.2	11.1%
Revenue from rendering of services	148.4	141.8	4.6%
Other revenues from ordinary activities	10.3	4.5	128.9%
	158.7	146.3	8.5%

REVIEW OF OPERATIONS//:

SUBMARINES GROUP

Comprising over 500 personnel, the Submarines Group is responsible for the project management and conduct of submarine maintenance at ASC's Outer Harbor and WA sites.

The labour force is predominately based in Outer Harbor, where the management and conduct of Full Cycle Dockings (FCD) are carried out utilising ASC labour.



Submarines Group employee breakdown

In WA, ASC's function is to project-manage maintenance activities, both alongside at HMAS Stirling and on submarines docked at a nearby site in Henderson. Conduct of the maintenance is carried out by a mixture of contractors, RAN personnel and ASC Outer Harbor trade labour, all under the co-ordination of ASC's WA project managers.

Maintenance may be accompanied by other work to enhance performance, modernise capabilities or complete 'one off' repairs.

A FCD is typically made up of approximately 3500 individual maintenance tasks, involving over 400,000 man hours, which are scheduled to be performed within 70 weeks.

Much of the equipment on board the Collins Class is removed for refurbishment during a FCD and extensive surveys of tanks, the pressure hull, piping and machinery are then undertaken. The initial surveys lead to emergent work being identified, which must be estimated and approved by DMO before being included in the docking work scope.

The emergent work is responsible for much of the administrative burden and technical complexity faced by ASC and the Australian Government during the FCD periods.

It is envisaged that, as experience is built over successive FCDs, ASC and the Australian Government will include as much work as possible into the original fixed price work scope to ease the burden.

As well as integral maintenance tasks, the FCD periods provide optimum opportunities to introduce new capability into the submarines, with the proportion of this work expected to grow over time.

In WA, where the Collins Class submarines are based, maintenance occurs during much shorter periods alongside or in dock with an emphasis placed on in-situ planned maintenance and defect repairs.

An alongside maintenance period typically lasts between 3 and 4 weeks, whilst dockings in WA are scheduled for 10 to 16 weeks depending on the work scope at the time.

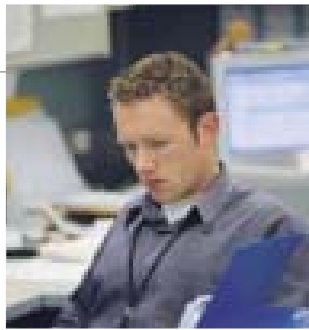
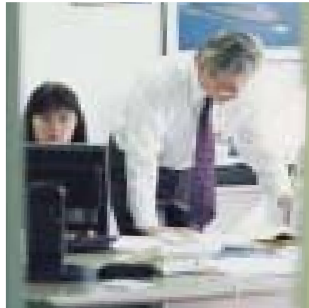
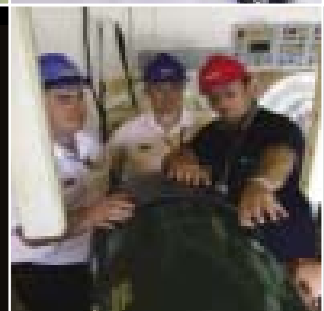
Outer Harbor is a long way from Merseyside, England (near Liverpool), which is where Jamie grew up. However, as Project Manager for the Submarine Build Contract, Jamie feels right at home, having spent the majority of his life in Britain's Royal Navy as a submariner, where he completed service in the position of Lieutenant Commander as the engineer of the nuclear submarine HMS Renown. Jamie is still a driving force within the submarine world (albeit a lot dryer).

PROJECT MANAGEMENT//:

The complexity of the Collins Class submarine project, with its large variety of different systems and equipment, and the integration tasks that follow, has spawned a strong project management focus at ASC. Experienced people who continually measure data, make judgements and take actions lie at the heart of ASC's Project Management capabilities and are supported by a variety of business measurement tools.

As part of recent management and organisational change, ASC is developing a strong project management focus.

The regular internal business plan review (BPR) process, which involves all senior ASC managers, quantitatively reviews progress on all work underway in ASC against committed outcomes. The process is designed to highlight any deviation from plans and schedules and engender company-wide commitments to corrective actions, when required.



JAMIE MASTERSON//

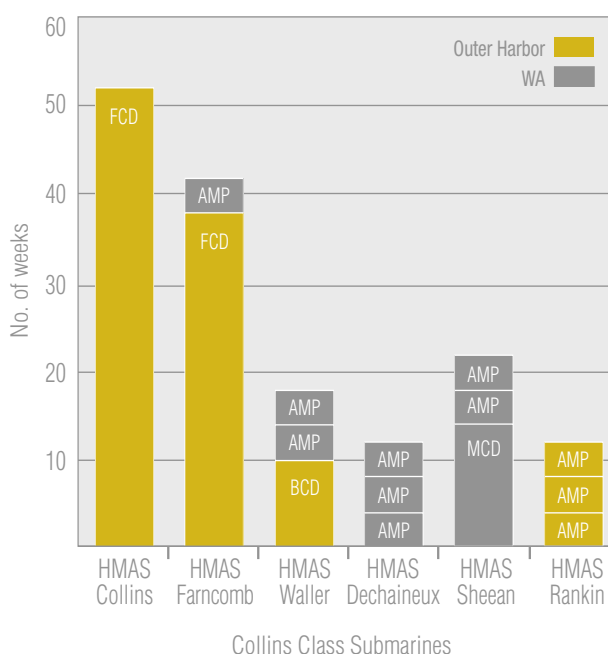
Project Manager – Submarine Build Contract



CHELSEA TOMNEY//

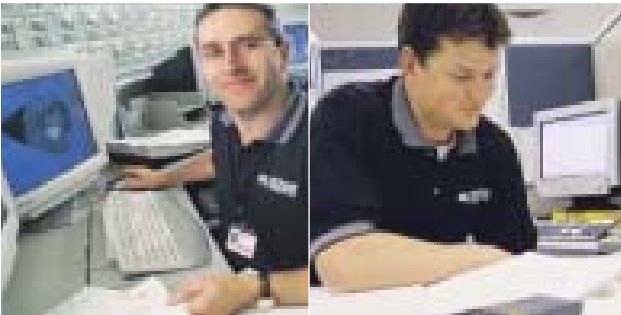
Business Graduate

A business graduate from the University of South Australia, Chelsea has spent 18 months with ASC, orbiting between HR, project control, ASC-E, subcontracts and finance as part of ASC's graduate rotation program. Her next challenge includes a three-month stint in WA.



FCD = Full Cycle Docking	AMP = Assisted Maintenance Period
MCD = Mid Cycle Docking	BCD = Battery Change Docking

2002/2003 Maintenance Availabilities



DESIGN//:

Utilising its knowledge and technical understanding of the Collins Class design, ASC has shifted focus and now seeks to become the principal submarine designer, maintainer and integrator of the Collins Class.

ASC's design processes have been developed from the premise that submarines operate in an inherently dangerous environment. The consequence of a design failure is always at the forefront of consideration. Multiple levels of design control are exercised, engineering competencies are measured and responsibilities are formalised and based on competency.

The planning and estimating departments are heavily involved in the whole process from initial scoping and tendering, through development of the work breakdown structure and allocation of budgets, to issuing work orders, production and running the emergent work process.

Material procurement and sub-contractor management are also functions undertaken within the Submarines Group.

Outer Harbor's production department provides extensive experience in mechanical and electrical systems, welding of various materials (to the most exacting standards) and pipe work manufacturing capabilities.

A submarine is a complex system of systems. ASC's advanced specialist knowledge of the most complex mechanical, electrical, hydraulic, pneumatic and electrical systems, and the ability to integrate and commission at a whole-of-boat level, positions ASC as uniquely qualified to be the RAN's major partner in maintaining the Collins Class at the forefront of technology.

Year	HMAS Collins	HMAS Farncomb	HMAS Waller	HMAS Dechaineux	HMAS Sheean	HMAS Rankin
1994	1	0	0	0	0	0
1995	3	0	0	0	0	0
1996	3	0	0	0	0	0
1997	3	4	0	0	0	0
1998	3	4	4	0	0	0
1999	2	4	2	3	0	0
2000	3	2	3	3	2	0
2001	1	3	3	5	2	0
2002		2	1	3	3	1
2003			2	2	1	2
Totals:	19	20	15	16	8	3

Total availabilities to date (end of August, 2003) is 81, 50 of which were undertaken in WA.

Maintenance Availabilities carried out to August 2003

REVIEW OF OPERATIONS//:

DESIGN AND ENGINEERING GROUP

Comprising 180 technical specialists, ASC's Design and Engineering Group provides through-life design and engineering support for the Collins Class submarines.

The team is responsible for developing design enhancements, introducing new operational capabilities, delivering reliability improvements and extending the submarines' performance.

ASC's Design and Engineering Group comprises professional engineers, specialist technologists, designers, software engineers and logisticians who support a broad range of engineering disciplines who interface with the original equipment designers in the on-going maintenance of the submarines.

ASC's specialist engineers are charged with the responsibility of ensuring the ongoing safety and reliability of the submarines' combat platform operating in the most hostile and dangerous of conditions.

During the construction of the Collins Class, ASC has been in charge of the design integrity of the submarines through the management and co-ordination of many equipment suppliers and the integration of equipment into the submarines.

Occupation	Current	Requirement by June 2004
C3 Engineers	4	7
Detail Designers	23	29
Electrical/Electronic Engineers	9	14
Logistics Engineers	7	9
Materials Engineers	3	6
Mechanical Engineers	20	32
Naval Architects	5	7
Signature/Acoustic Engineers	2	4
Software/IT Engineers	24	26
Structural Engineers	4	8
Systems/Project Engineers	12	22
Technical Officers	45	51
Administration	15	15
Welding Engineers	2	4
Weapon Systems Engineers	3	5
Shock Engineer	—	1

*178 (includes WA satellite team of 13) to increase to 240 by June 2004
High-end skills within the Design and Engineering Group

The opportunity now exists to further grow and formalise the role, credentials and integration of all Collins Class expertise to create a core Australian submarine engineering capability to support the submarines for the next 25 years.

ASC's Design and Engineering Group is pivotal to this process as its specialist engineers interface with equipment manufacturers and manage the configuration and co-ordination of design activities for the ongoing capability enhancements of the Collins Class.

Primarily based in Outer Harbor, but supporting ASC and the RAN's operations in WA, this Group records operational experience and lessons learnt, and investigates new technologies via liaison with overseas submarine builders and equipment suppliers.

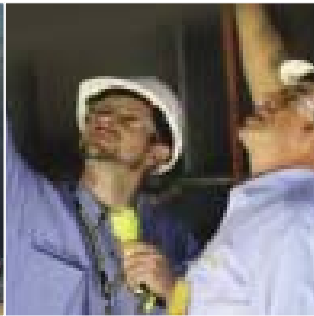
This process would not be possible without Outer Harbor's close interaction with ASC's WA site. Following the establishment of a satellite team of submarine specialists, the group will become even more dynamic.

The through-life support role of the Design and Engineering Group will be a significant extension of the current engineering management and integration work performed by ASC under the Build Contract.

ASC's knowledge and expertise has been, and continues to be, enhanced by direct involvement with key government organisations, universities, ASC's Capability Partner (Electric Boat) and specialist technology providers.

To meet the rapidly growing workload within this Group, it is anticipated that an abundance of new engineering and operations staff will be appointed during the next year.

Specialising in vessel design, Peter has worked in the Middle East, Far East, US, UK, Spain, Jebrota, Morocco and Cambodia (to name a few). Braving the weather in Renfrew, Scotland, Peter was most notably involved in the design of rescue submersibles for the British Navy. So what brings Peter to ASC? "If you want to work on submarine systems' design in Australia, then ASC is the place to do it."



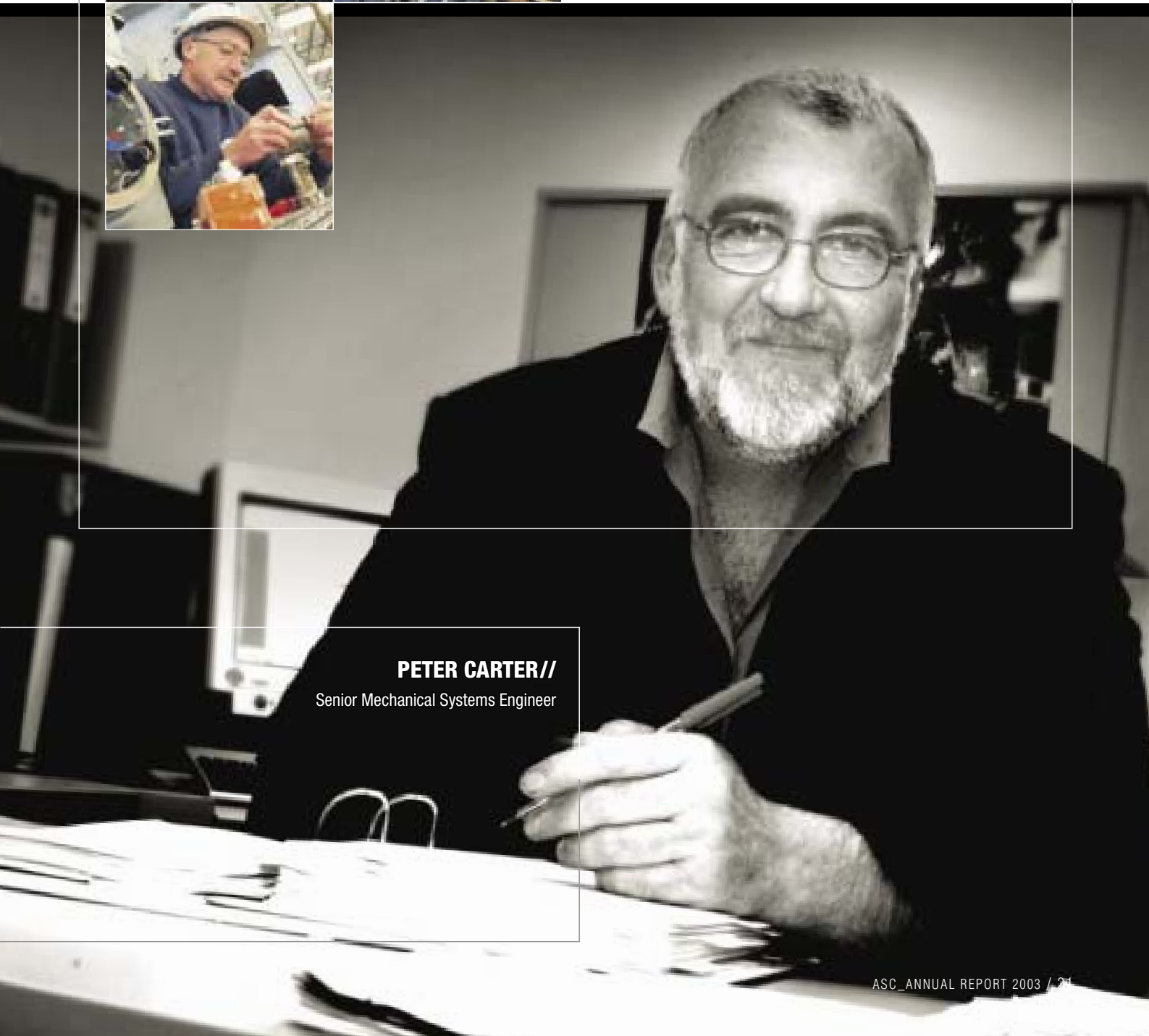
INTEGRATED LIFE-CYCLE SUPPORT//:

ASC has the organisational capability to provide integrated life-cycle support (ILS) services for the Collins Class submarines.

ASC's logistic engineering activities include the use of reliability maintainability analysis, failure mode analysis, criticality analysis, level of repair analysis, hazard risk analysis and safety and operability analysis. Additionally spares stock recommendations and support/test equipment requirements are supplied to support services.

The task of maintenance engineering builds on the data developed. The output includes maintenance plans schedules, tasks and procedures for machinery assets.

In support of these ILS capabilities, ASC routinely develops technical documentation including technical systems, sub-system equipment and operating manuals in a variety of formats.



PETER CARTER//

Senior Mechanical Systems Engineer

DEBBIE SPENCE//

Apprentice Fitter

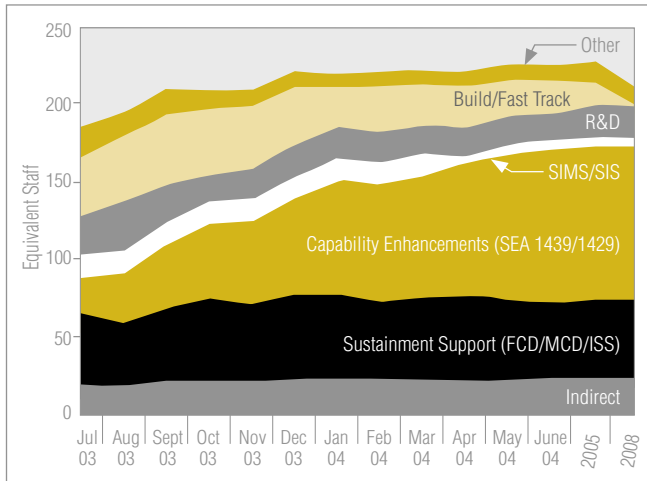


SUBMARINE TRAINING SCHOOL//:

ASC has been training submarine crews and RAN submarine maintainers at the RAN's submarine school located at HMAS Stirling since 1992. The training group provides theoretical and practical training services, with ASC conducting various courses specialising in submarine systems' operation and organisational-level maintenance procedures. The submarine training school has been set up to contain much of the equipment found on the Collins Class submarines, such as complete diesel engines, systems and simulators, to enable practical training to be conducted using relevant equipment.

REVIEW OF OPERATIONS//:

From fiddling with things at home with her Dad to working for ASC as an apprentice fitter, Debbie has come a long way. Currently working in ASC's weapons section, Debbie has been posted to ASC for four years as part of the Engineering Employers Association of South Australia – Group Training Scheme (EEASA-GTS). At only 18 years of age, Debbie is certainly getting a career's worth of knowledge by rotating every 6 months to a new section.



Planned project work

As ASC's organisational structure is guided by the requirements of the RAN's Technical Regulatory Authority and the subsequent rules and regulations that govern certification of the submarine design, an integral ASC design authority has been established for the long-term design support of the Collins Class.

ASC's Design and Engineering Group spans a broad range of submarine engineering disciplines necessary to support the submarines through-life, including electrical/propulsion, mechanical systems, weapon systems integration, naval architecture, structural, materials and signature/acoustics strengths.

In addition, specialist equipment suppliers interface with ASC's design team on defect investigations, reliability issues, enhancements and platform integration, ensuring that the submarine baselines are

maintained and any modifications comply with the design standards and specifications.

To support ASC's leading engineering disciplines, an Integrated Lifecycle Support (ILS) team is responsible for the development of equipment manuals, maintenance documentation, spare parts and training and related support products, whilst a software engineering team provides ongoing maintenance and upgrades to the ILS systems.

ASC's Design and Engineering Group utilises the most advanced engineering tools and technologies in the design and production of drawing packages.

The tools, including 3D concept models, simulation models used to optimise design solutions and computational analysis performed for structural, shock and noise evaluations, are considered amongst the most advanced in the field.

In addition, ASC's fluid flow system and electrical power distribution modelling tools assess the impact of the introduction of modifications of new equipment on the submarine platform.

Again, these systems are world-class and feature the most advanced engineering technology.

Underpinning the Group's activities are an array of processes and procedures to ensure design changes and improvements are thoroughly reviewed and risk assessed and meet the highest safety quality standards.

The Design and Engineering Group's continuous improvement programs ensure ongoing gains in efficiency, productivity, quality and cost effectiveness.

The RAN is the 'parent navy' for the Collins Class Submarines – Australia must be self reliant, with the in-country submarine engineering capability to maintain/modify the fleet for the next 25 years or more.

Systems/Equipments

Pressure Hull	Combat System
Hatches	Internal/External Communications
Resilient Mounted Platforms	Ship Control Systems (ISCMMMS)
Hull Mounted Equipment	Degaussing
Sonar Domes	Fluid Systems
Main Propulsion	Electrical Systems
Diesel Engines	Weapon Discharge System
Propellers	SIMS/SIS
Main Battery	

Technologies

Structural Analysis	Acoustics
Mechanical Systems	DC/AC Power Systems
Welding	Control Systems
Materials Engineering	Fluid Dynamics
Shock	Piping Systems
Composites	Electronics
Naval Architecture	Software Engineering
Hydrodynamics	

Specialist Capabilities

Finite Element Analysis	Submarine Simulation
Fracture Mechanics	Logistics Engineering
CAD & 3D Modelling	Systems Integration
Electrical Systems Modelling	Signature Analysis
Fluid Systems Modelling	

REVIEW OF OPERATIONS//:

ELECTRIC BOAT

Electric Boat was engaged in 2002 as a Capability Partner for ASC in an effort to assist ASC in becoming the Submarine Designer for the Collins Class submarines.

With more than a century of experience, Electric Boat has established standards of excellence in the design, construction and lifecycle support of submarines for the US Navy.

Regarded as the premier designer and builder of nuclear submarines in the US, Electric Boat is the lead designer of the Virginia Class submarine and is responsible for the construction of two of the first four boats of the class.

Based in Groton, Connecticut, Electric Boat has quickly become an integral partner to ASC by assisting ASC in the transition from a builder of submarines to a provider of design/engineering and maintenance services for submarines through the provision of commercial, process and scheduling advice.

A small team of Electric Boat personnel reside at both ASC's Outer Harbor and WA sites, with an initial contract of three years and an option to extend at the Australian Government's discretion.

ENVIRONMENT

ASC is firmly committed to the overall protection and improvement of the environment, which is a prime consideration in all of its operational activities.

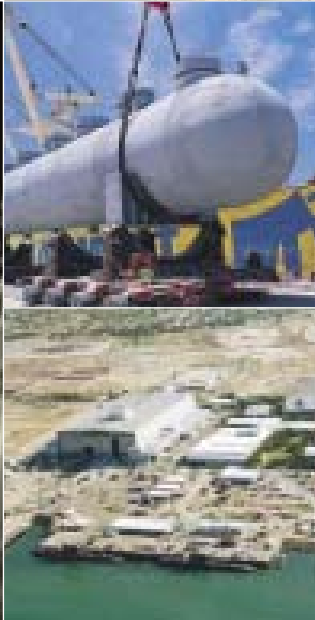
By ensuring the implementation of a sound environmental policy, ASC enhances the quality of ASC's activities and provides leadership in an area which is of concern to the community.

Through the active management and adherence of ASC's environmental policies and procedures, there have been no environmental incidents during the construction and maintenance of the Collins Class submarines at the Outer Harbor facility.

To further build on ASC's environmental record, ASC aspires to:

- promote environmental awareness and sensitivity amongst all employees;
- promote principles and practices of environmental responsibility by sharing knowledge and experience with other companies, governments, private organisations and community groups; and
- be aware of, implement, monitor and review compliance with legislative obligations in relation to the environment.

From a shop boy in Cockatoo Dockyard's drawing office to managing the performance build program to heading up ASC's WA operations, Robert's contribution to the shipbuilding industry has been nothing short of amazing, recently recognised by the Australian Government in the form of a Centenary Medal for his contribution to Australia's defence and submarines. After spending 25 years in Sydney Harbour, playing a major role in Australia's shipbuilding history with Cockatoo Dockyard, Robert jumped aboard ASC in 1990 and hasn't looked back.



PRODUCTION//:

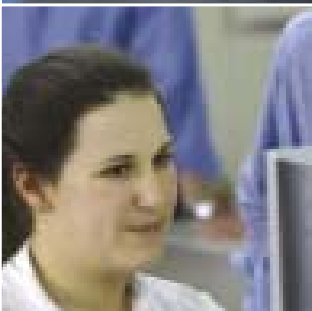
During more than a decade of Collins Class submarine construction at Outer Harbor, extensive experience was gained in the full range of submarine production skills. This is the background and experience that ASC brings to the tasks of submarine maintenance, repair and upgrade.

The production workforce has the knowledge and skills to refurbish, install, maintain and commission the wide variety of equipment, systems and fittings on the submarines, including mechanical, electrical, pipe fitting and welding, and fabrication and welding production capabilities.

ASC has extensive workshop facilities that include two submarine halls, a supporting pipe fabrication workshop with NC pipe-bending equipment, a light machining shop, clean rooms, hydraulic flushing and testing facilities, electrical, electronic card repair and plug workshops, blasting and painting facilities, fully-serviced wharf facilities, a submarine handling system and a ship lift.

ROBERT LEMONIUS//

WA Submarine Operations Manager



CONFIGURATION MANAGEMENT//:

An advanced discipline that applies technical and administrative direction, configuration management is imperative to ASC's transition to a designer and maintainer of the Collins Class.

ASC's configuration management department is responsible for the identification and documentation of functional and physical characteristics of hardware and software systems, equipment, parts and components. Other core functions of configuration management include the auditing of configuration items to verify that they conform with the technical requirements specified in the contracts, the control of changes to configuration items and their related documentations, and the recording and reporting of information needed to manage configuration items effectively.

The Configuration Management Information System forms part of ASC's integrated business systems. This system, together with experienced staff in configuration and documentation control, maintains the configuration baselines of the Collins Class submarines. The Collins Class has over 500,000 parts and is supported by 300,000 technical documents.

Land is something of a novelty for Jennifer who, prior to joining ASC, spent five intensive years at sea with the Navy, including active deployment to East Timor and the Gulf. These days, Jennifer stays dry but still interacts with the Navy as she looks after taskings for submarine maintenance in WA.



JENNIFER VEALE//
Maintenance Technician

SAFETY PERFORMANCE

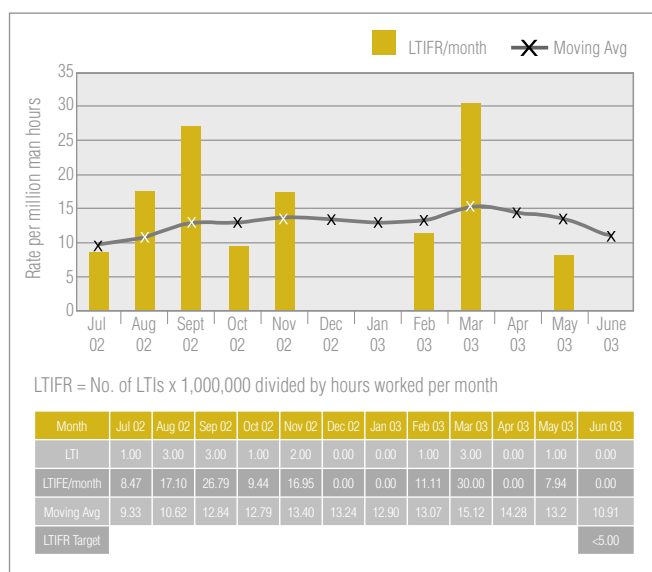
ASC's safety policy is to ensure that all employees are safe from injury and risk to health whilst at work.

ASC is committed to the continual improvement of health and safety systems and practices through the management of risk exposure, by the application of engineering and administrative controls and the provision of personal protective equipment.

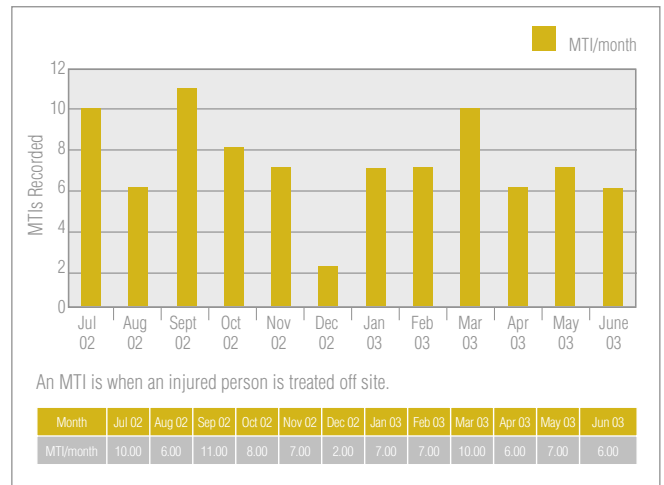
Given the nature of the repair and maintenance work on board the Collins Class, employees are often required to work in and around locations that may be potentially of high risk to employees' health and safety.

Section 74 of the Occupational Health and Safety (Commonwealth Employment) Act 1991 Act requires that measures taken during the year to ensure the health, safety and welfare at work of employees, and statistics of any accidents or dangerous occurrences during the year, be reported. Detailed information on Occupational Health and Safety Policies and Procedures implemented or modified during the year is contained in the Corporate Management System series of documents.

During 2002/03, across its three sites (Outer Harbor, ASC-E and WA) ASC reported to Comcare 6 accidents or incidents under section 68 of the Act. Comcare did not conduct any investigations into these occurrences. ASC investigated 80 incidents internally of which 22 related to Lost Time Injuries (LTIs).



2002/2003 Lost Time Injury Frequency Rate moving average



2002/2003 Medically Treated Injuries

ASC has reported a 72 per cent reduction in the annual lost time frequency rate over the last five years, which has in turn shown a significant reduction in Work Cover insurance premiums and Work Cover claims costs.

ASC's current lost time injury frequency rate of 10.9 per million hours worked has been achieved through:

- the ongoing provision of a safe workplace and a safe and healthy working environment;
- safe systems of work for all staff;
- the provision of information, instruction, training and supervision to ensure that every employee is safe from injury and health risks;
- effective consultation with employees on all issues which may effect health and safety at work, and the provision of rehabilitation following work-related injuries; and
- effective injury and illness reporting, recording and investigation, and effective claims management.

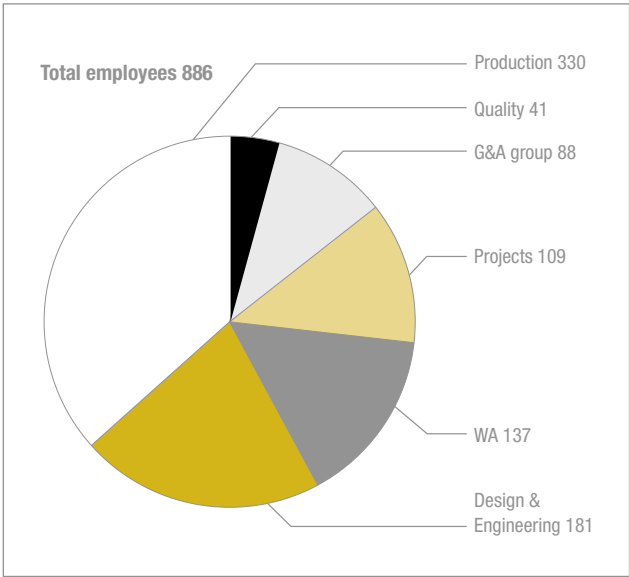
As of 1 October, 2003, ASC had worked 132 days free of LTIs.

REVIEW OF OPERATIONS//:

PEOPLE DEVELOPMENT

ASC is committed to attracting, developing and retaining high calibre employees with the high-end knowledge and skills necessary to drive business success and growth into the future.

In response to this challenge, and following the completion of the Build Contract, ASC has focused on driving cultural change and evolving from having a manufacturing-centred culture to a professional services and customer-oriented culture.



Employee numbers

This journey has further emphasised the immense value of ASC's people and galvanised the organisation's resolve to further develop and become an 'employer of choice'.

ASC's systematic implementation of numerous human resource and people development strategies and initiatives has occurred throughout the year.

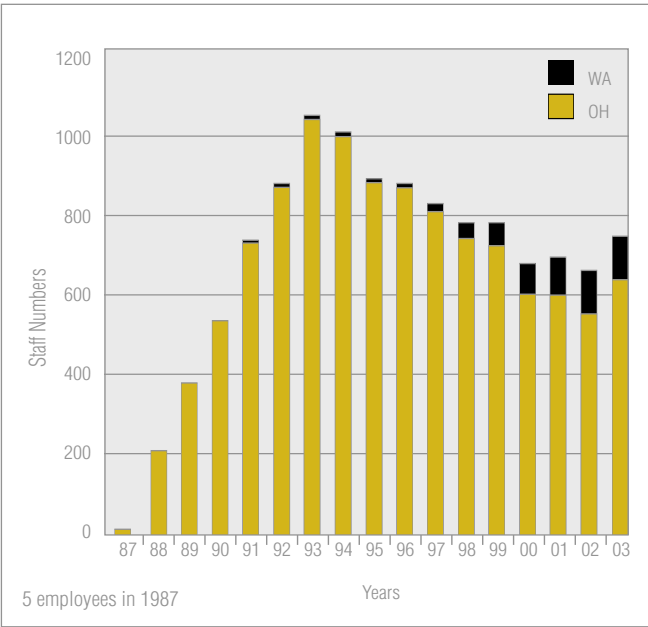
A new performance management system has been designed and is currently being introduced. This new process incorporates both results-oriented measures to align individuals with corporate-level goals, as well as behavioural objectives and indicators to ensure cultural change and development in line with the requirements of a 'learning organisation'.

Staff involvement throughout each stage of the process is encouraged, specifically in regards to the formation of appropriate goals and through the identification and definition of suitable behaviours that espouse corporate values.

Outcomes from ASC's performance management system will contribute to the annual Training Needs Analysis process that will soon be conducted. These protocols will result in personnel development plans being established for staff and will also shape the corporate training schedule for the year to come.

To further support this dynamic approach, a new competence profiling system designed to outline all knowledge, skills, qualifications and behavioural requirements for each position is also being implemented.

In addition to providing a useful recruitment tool, this matrix of job requirements will also form an important component of corporate knowledge management and ASC's succession planning strategies.



Total number of staff per year to 2003

EQUAL OPPORTUNITY

ASC acknowledges the importance of equal opportunity to the management of people within ASC and expects all employees to maintain a working environment which provides equal opportunity.

All employees are entitled to work in an environment which is free from discrimination, where discrimination means denying an individual fair and equal treatment in employment on grounds other than those based on the requirements of the job.

The merit principle will always form the basis of recruitment, development and promotion. Those with the abilities, skills, qualifications and experience which are required for a particular job will have an equal opportunity of being considered for the position.

ASC prohibits all kinds of discrimination based on sex, sexuality, marital status, pregnancy, race, age or physical or intellectual impairment.

INDUSTRIAL RELATIONS

ASC's industrial relations function revolves around the formulation, management and implementation of industrial awards and enterprise bargaining agreements.

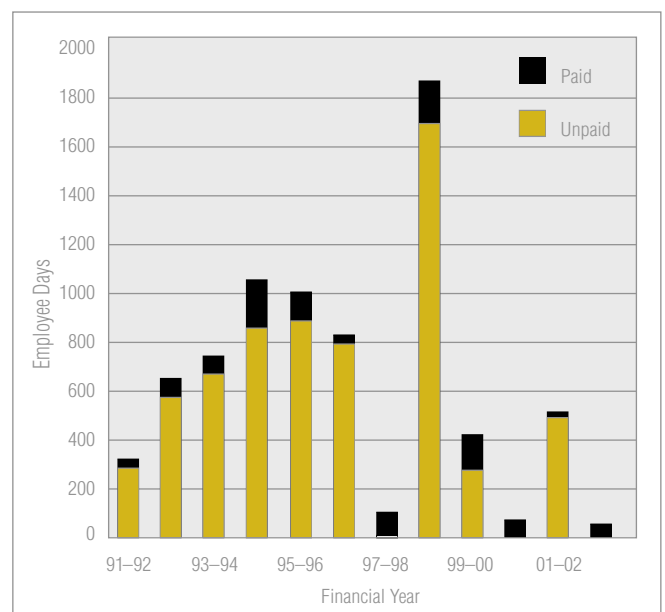
The blue-collar workforce is unionised with employees belonging to the Australian Manufacturing Workers' Union, the Communications Electrical and Plumbing Union or the Australian Workers' Union.

Like most metals and manufacturing organisations, ASC's industrial relations history has been difficult at times, resulting in industrial action and confrontation between management and employees.

ASC has actively met these challenges head-on and has reported significant improvements in the relationships between management, the workforce and the unions over the last five years.

In fact, ASC's last industrial action dispute took place in 2001 during enterprise bargaining agreement (EBA) negotiations and since then there have been no lost workdays due to industrial action.

Recently, ASC has successfully completed negotiations for a new 3-year EBA (2003–2006). This agreement was reached without any industrial action, signifying successful consultative processes between management and the workforce.



Loss days per year to 2003

REVIEW OF OPERATIONS//:

QUALITY GROUP

Comprising over 45 personnel, the Quality Group is responsible for quality assurance, the maintenance of corporate management systems, quality auditing and production quality control activities.

ASC reached a quality milestone in March 2003, following the re-certification of ASC's quality management systems to the revised standard of AS/NZS ISO9001:2000 by Det Norske Veritas (DNV).

As a consequence of this achievement, ASC has placed even more importance on customer satisfaction and ensuring continuous improvement of systems and processes takes place both in ASC's Outer Harbor and WA sites.

To this end, ASC has invested resources in developing a framework for the identification and definition of Key Performance Indicators (KPIs) for differing levels within the business.

The KPIs are based on data captured by ASC's business systems and will be used to report and benchmark performance.

Already considerable progress has been made at ASC's two facilities, particularly in the development and implementation of common business systems and processes, however further work is required to fully realise the potential benefits to be gained.

INSPECTION TESTS AND TRIALS AND SUBSAFE

The Inspection Tests and Trials (ITT) Group and SUBSAFE organisation is responsible for the formal system-testing and acceptance of the Collins Class submarines.

Specifically, the SUBSAFE section is responsible for ensuring that the watertight integrity components of the submarines are maintained to the highest degree.

Comprising 17 technically-skilled employees, the Department has an unparalleled level of submarine trials and safety experience.

2003 has proven to be a year of achievements for SUBSAFE inspection tests and trials.

The shock trials demonstrated the enormous capability of the Collins Class to withstand significant shock loadings, and the crew were successfully exposed to underwater explosions similar to those that may be experienced during conflict.

The analysis of the shock trials will be ongoing with a final report due at the end of 2003.

Throughout this year, SUBSAFE has been involved with the delivery of HMAS Rankin and the Full Cycle Dockings of HMAS Collins and HMAS Farncomb.

In addition, the SUBSAFE section has been assisting in the planning of future work for the department and working with the Commonwealth in rationalising procedures and documentation.

As part of this process, ITT and SUBSAFE have been collaboratively working to address the way in which ASC will support the Commonwealth in certification, safety and trials during all maintenance availabilities.

This responsibility will encompass activities in Outer Harbor and WA.

It is envisaged that ASC will consultatively work with the Australian Government to develop a comprehensive safety program.

SUBSAFE will initiate a comprehensive awareness program, which has been flagged for initiation towards the end of 2003.

The program will have a heavy concentration on design and engineering personnel, which will flow on to other ASC departments and contractors.

The group will tackle in-service test procedure development, the finalisation of all build test reports and commitments, and the management of SUBSAFE and certification training.

INTERNATIONAL BUSINESS DEVELOPMENT

ASC has made substantial progress in developing business and capability outside traditional submarine-related areas.

ASC has been developing surface ship building business capacities and now has the capability and experience necessary to tender for projects of considerable magnitude and complexity.

ASC's Graham Storah holds responsibility for international marketing and reports directly to the Chief Executive Officer. With over 30 years experience in national and international business-building for transport and specialist shipbuilding sectors, Graham provides a valuable contribution to ASC's future business opportunities.

ASC's surface ship design team has successfully designed and project-managed the build of the KEKA Class patrol boats for the Hong Kong Water Police and the Royal Thai Navy.

These vessels were built within the customer's shipyards and to each customer's unique requirements, demonstrating ASC's ability to manage projects remotely.

ASC has identified an international trend for patrol and littoral combat ships to require high-speed capability. This trend is derived from the increasing workload in the smuggling, illegal immigrant and terrorism sectors of littoral naval engagement.

Currently, average speeds of smaller patrol boats are within the 40-45 knot range, whilst threats from 'swarm' attack vessels continue to grow beyond this. In response, ASC have designed and tested a 30m patrol boat capable of operating at speeds in excess of 50 knots.

Known as the KRAIT Class, ASC predicts a growing demand for this type of vessel as navies and coastguards across the world re-equip to match the increased performance of their targets.

The priority of sales efforts toward the higher end of capability in patrol boats is a key component of ASC's future.

ASC's skills in naval architecture, propulsion, weapon and command systems integration firmly position ASC with a competitive advantage and capability to tender for the next generation of the RAN's surface ship requirements.

COLLINS CLASS SUBMARINES//:

The Collins Class submarines are a key element of Australia’s Defence Force, both as an intelligence-gathering platform during peace time and as a forceful opponent during times of war.

Their threat as part of an expeditionary force has been highly regarded, as they are practically invisible in the water, making them lethal to the enemy.

It is well known the world over that no conventional submarine matches the design and sophistication of ASC’s Collins Class.

The six-submarine Class of HMAS Collins, HMAS Farncomb, HMAS Waller, HMAS Dechaineux, HMAS Sheean and HMAS Rankin achieves an optimum match between innovation and proven technical superiority.

The names commemorate the memory of six members of the RAN who served their country with distinction.

Collins Class Submarines	ASC’s delivery date to the RAN
HMAS Collins	15 July 1996
HMAS Farncomb	15 December 1997
HMAS Waller	30 April 1999
HMAS Dechaineux	25 July 2000
HMAS Sheean	21 August 2000
HMAS Rankin	26 March 2003

Specifically developed to meet the ongoing stringent needs of the RAN, the Collins Class are long-range diesel-electric naval submarines of approximately 3,000 tonnes’ displacement. The design features low noise and magnetic signatures, high shock resistance and high submerged endurance.

Collins Class Specifications	
Length	78 metres
Diameter	8 metres
Displacement	3,000 tonnes
Propulsion	Diesel-electric
Crew	42 including 6 officers and 36 submariners
Weapons	Mk 48 torpedoes and sub harpoon missiles

Control and monitoring of shipboard functions, including manoeuvring, displacement, power and propulsion support are handled by the ship-wide integrated ship control, management and monitoring system.

The system uses special and general purpose processors linked by two sets of redundant serial data buses. In addition, the system provides a degree of automation not found in any similar submarine design, thus the Collins Class crew size is significantly smaller.

ASC’s Collins Class boasts features and specifications that are unparalleled by any other conventional submarine in the world.

Key features of the Collins Class submarines:

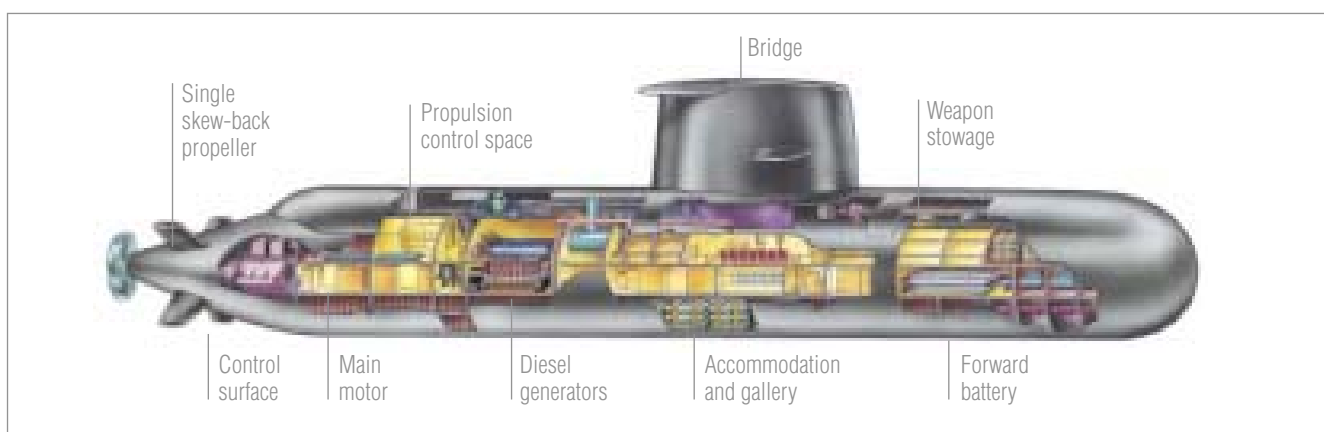
- Diesel- electric propulsion
- High capability battery, long range and high endurance
- High performance hull form, automated controls and exceptional manoeuvrability
- High shock resistance, optimal noise suppression and low magnetic signature
- State-of-the-art combat system
- Efficient weapons handling and discharge systems

In addition, the Collins Class’ manoeuvrability functions include four aft control surfaces individually actuated to provide superior manoeuvrability and inherent redundancy.

The Collins combat system is particularly unique. Incorporating a top-down operational approach, the functional division becomes surveillance and track prosecution and support, providing for an emphasis on functional need rather than on the elements of the system’s hardware.

				
PLATFORM COMPLEXITY METRICS	FAMILY SEDAN	NEW BATTLE TANK	BOEING 777	COLLINS CLASS SUBMARINE
Weight (tonne)	1.6	30	250	3,000
Length (metres)	4.9	7	60	78
Number of systems	20	25	40	108
Number of suppliers	500	600	550	1,600
Crew size	1	4	10	43
Patrol duration (hrs)	7	24	8-14	1,700
Number of parts to assemble	17,000	14,000	100,000	500,000
Number manhours/ unit to assemble	36	5,500	50,000	2,500,000
Production				
• Construction time (month)	0.05	7	14	60
• Rate (units/year)	200,000	600	48	1
Price (AUD \$M)	0.04	4	300	1000

Relative Complexity of Submarines



Design of the Collins Class Submarine

There is no more efficient destroyer of enemy shipping than a submarine fitted with modern weapons. ASC's Collins Class supports Australia's defence mechanism like no other weapons platform. With the ability to roam far and wide or get in close and undetected to observe and listen, the Collins Class submarines continually provide defence benefits well beyond their relative cost.

COLLINS CLASS SUBMARINES//:



HMAS RANKIN// Collins Class Submarine

On 29 March 2003, ASC delivered the sixth and final Collins Class Submarine to the RAN. This, and the successful completion of the shock trials in June 2003, marked the end of the successful build contract and the start of ASC's transition from submarine builder to Submarine Designer and Maintainer.



AUSTRALIAN SUBMARINE CORPORATION//:

Now wholly-owned by the Australian Government, ASC was established in 1985 and was subsequently chosen in 1987 as the prime contractor for the design, manufacture and delivery of the RAN's fleet of six Collins Class submarines.

The contract between the Australian Government and ASC represented the largest defence contract ever signed in Australia at the time.

ASC was owned by a consortium of four organisations until late 2000 when the Australian Government took full direct ownership of ASC. This acquisition kick-started the first phase of a reform process intended to facilitate the onward sale of ASC into the private sector.

A new Board of Directors was appointed during this time, under the leadership of Mr John Prescott, AC.

The Australian Government announced an indefinite deferment in the divesting of Government equity in ASC in late 2001.

This decision was designed to allow the Australian Government to concentrate on a number of key issues including the settlement of commercial arrangements between ASC and the Australian Government, the introduction of capability partner assistance for ASC and the resolution of intellectual property/design authority issues affecting ASC's capability for submarine through-life support.

Electric Boat was appointed as ASC's capability partner in a tripartite agreement between the Australian Government, ASC and Electric Boat.

Lead by a team of senior executives, ASC has shifted its focus in recent years from a world-class builder of submarines to a provider of design and maintenance services for the Collins Class.

With a highly skilled and experienced team of over 900 employees predominately located in Outer Harbor and WA, ASC continues to grow and develop into Australia's pre-eminent defence shipbuilder and maintainer in the Australasian Pacific region and beyond.

ASC's success can continue to be measured in five ways:

- To the Nation, ASC is measured by the provision of six fully-operational submarines;
- To the RAN, ASC is measured by the Navy's preference for ASC to provide through-life support of the Collins Class, operational sustainability and value for money;
- To ASC's employees, ASC is measured on the two-way commitment between employees and management;
- To investors, ASC is measured on acceptable and sustainable returns; and
- To the community, ASC is measured on its responsible corporate citizenship and reputation.

TIMELINE OF EVENTS

1985	← ASC was formed in August 1985 to tender and, once successful, design and build the new fleet of submarines for the Royal Australian Navy.
1987	← The lump sum contract between the Australian Government and ASC for the design and manufacture of six Collins Class submarines was signed on 3 June 1987. It was the largest defence contract signed in Australia to that date.
1989	← The Prime Minister opened ASC's Outer Harbor facility in South Australia (which became the established headquarters of ASC) on 16 November 1989. Outer Harbor offered easy access, good road and rail connections and plenty of room to grow.
1990	← The Chief of Navy announced the names chosen for the Collins Class submarines at the Keel Laying Ceremony for HMAS Collins. The names commemorate the memory of six members of the RAN who served their country with distinction: HMAS Collins, HMAS Farncomb, HMAS Waller, HMAS Dechaineux, HMAS Sheean and HMAS Rankin. Two original shareholders sold their respective holdings and later that year James Hardie Industries acquired a small share holding in ASC, which then became 51% Australian-owned and 49% Swedish-owned.
1992	← The RAN's submarine school (where ASC assists in the training of submarine crews and RAN submarine maintainers) opened at HMAS Stirling in Western Australia in July 1992.
1996	← The first of six Collins Class submarines – HMAS Collins – was delivered to the RAN on 15 July 1996. ASC expanded its presence at HMAS Stirling to assist the RAN with in-service support of the Fleet in August 1996.
1997	← The second Collins Class submarine – HMAS Farncomb – was delivered to the RAN on 15 December 1997.
1999	← The third Collins Class submarine – HMAS Waller – was delivered to the RAN on 30 April 1999.
2000	← The fourth Collins Class submarine – HMAS Dechaineux – was delivered to the RAN on 25 July 2000. The fifth Collins Class submarine – HMAS Sheean – was delivered to the RAN on 21 August 2000. The Australian Federal Government acquired the portion of the shareholding in ASC that it did not own in November 2000. ASC then became wholly-owned by the Australian Government.
2003	← The sixth Collins Class submarine – HMAS Rankin – was delivered to the RAN on 26 March 2003. This marked the end of ASC's Build Contract for the Collins Class submarines and the start of ASC's transition to a designer and maintainer of submarines.

FINANCIAL REPORT//:

30 JUNE 2003

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DIRECTORS' REPORT//:

FOR THE YEAR ENDED 30 JUNE 2003

The Directors present their report, together with the financial report of the Australian Submarine Corporation Pty Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2003 and the auditors' report thereon.

Directors

The Directors of the Company at any time during or since the end of the financial period are:

John Barry Prescott, AC	Appointed 3/11/00
Bruce Raymond Kean AM	Appointed 11/9/97 Retired 31/10/02
General (Rtd) John Stuart Baker AC, DSM	Appointed 1/7/02
Stephen John Gumley	Appointed 6/11/02
Charles Neville Hervey Bagot	Appointed 3/11/00
Graeme Richard Bulmer	Appointed 10/11/00
Stephen Elliott Young	Appointed 1/7/02

Principal Activities

The principal activity of the consolidated entity during the course of the financial year was the design, engineering, construction and maintenance of six submarines for the Royal Australian Navy. During the financial year there was no significant change in the nature of those activities.

Consolidated Result

The consolidated profit of the consolidated entity for the financial year attributable to the shareholders of the Australian Submarine Corporation Pty. Limited was \$5,846,000 after provision for income tax expense of \$3,070,000.

Review of Operations

Construction of the six submarines is substantially complete. The Company has increased its submarine support under the Full Cycle Docking and In Service Support Contracts.

Dividends

No dividends were paid or declared by the Company since the end of the previous financial year, for the year ended 30 June 2003.

State of Affairs

In the opinion of the Directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

Events Subsequent to Balance Date

On 4 July 2003, the Company gave Kockums AB (KAB) an arbitration notice under the Fabrication Subcontract between the Company and KAB.

The arbitration notice relates to a dispute between the Company and KAB for the cost of rectification of weld defects on HMAS Collins in Sections 300 and 600 which were fabricated in Sweden by KAB.

On 10 July 2003, the Company and KAB agreed to the appointment of an arbitrator.

It is expected that the arbitration will be resolved during the course of 2003/05.

There are no other matters that have arisen between the end of the financial year and the date of this report including any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

Likely Developments

It is the Commonwealth of Australia's stated intent to sell the Corporation into private ownership at some point in the future. As a step forward in this process the Directors are considering claims settlement with the Commonwealth of Australia to resolve the outstanding claims and counterclaims between the parties in relation to contract C218269. Further Information with respect to these matters is detailed in Note 21 of the Financial Statements.

As part of the transition of ASC to the role of Collins Class Designer, ASC, the Commonwealth of Australia and Electric Boat Corporation, a subsidiary of General Dynamics Inc. have entered into a consultancy agreement for Electric Boat Corporation to act in the role of Capability Partner by providing appropriate engineering and commercial skills to assist ASC to become the Collins Class Designer. Electric Boat costs for this consultancy will be borne by the Commonwealth of Australia.

DIRECTORS' REPORT//:

(CONTINUED)

Directors' Benefits

Since the end of the previous financial year no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors shown in the consolidated accounts) because of a contract made by the Company, its controlled entities or a related body corporate with the Director or with a firm of which the Director is a member, or with an entity in which the Director has a substantial interest.

Indemnification and Insurance of Officers Indemnification

The Company has entered into an agreement by which previous Directors and Officers and a current Officer of the Company are indemnified out of the property of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise in their capacity as Officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet, to the extent permitted by law, the full amount of any such liabilities, including costs and expenses.

Insurance Premiums

Since the end of the previous financial year the Company has paid insurance premiums of \$41,678.16 in respect of Directors' and Officers' liability insurance contracts for current and former Directors and Officers, including Executive Officers of the Company and Directors, Executive Officers and Secretaries of its controlled entities. The insurance premiums cover Directors and Officers for actual losses incurred in their capacity as Directors and Officers of the company which are not indemnified by the Company and which the Director or Officer becomes legally obligated to pay on account of certain claims made against him/her, individually or otherwise.

Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in this report and the accompanying financial statements have been rounded off to the nearest thousand dollars unless otherwise stated.

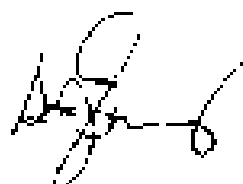
Dated at Adelaide this 2nd day of September 2003.

Signed in accordance with a resolution of Directors:



John B Prescott, AC

Chairman



Dr Stephen J Gumley, FIEAust, CPEng

Managing Director and
Chief Executive Officer

INDEPENDENT AUDIT REPORT//:

TO THE MEMBERS OF AUSTRALIAN SUBMARINE CORPORATION PTY LTD



Scope

I have audited the financial report of Australian Submarine Corporation Pty Ltd (ASC) for the financial year ended 30 June 2003 as set out on pages 42 to 75.

The financial report includes the financial statements of ASC and the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year. The Company's directors are responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance whether the financial report is free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion, the financial report of ASC is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Inherent Uncertainty – Submarine Build Contract

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note 21 to the financial statements, there are technical and commercial issues outstanding in relation to the submarine build contract that give rise to potential contingent liabilities and contingent assets.

As discussed in Note 21, due to the complexity of the unresolved issues, it is not possible to estimate the financial effect of these contingent liabilities and contingent assets. While the financial impact of the individual issues may be significant, negotiations are continuing on the basis that any overall settlement will not have a significant adverse financial impact upon the Company.

Australian National Audit Office

Yours faithfully

David C McKean

Executive Director

For the Auditor-General
Canberra

11 September 2003

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT

Phone (02) 6203 7300
Fax (02) 6203 7777

DIRECTORS' DECLARATION//:

FOR THE YEAR ENDED 30 JUNE 2003

1. In the opinion of the Directors of the Australian Submarine Corporation Pty. Limited:
  - (a) the financial statements and notes, set out on pages 43 to 75, are in accordance with the Corporations Act 2001, including;
    - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

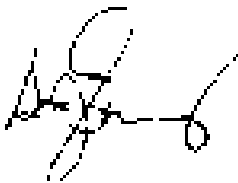
Dated at Adelaide this 2nd day of September 2003.

Signed in accordance with a resolution of the Directors:



John B Prescott, AC

Chairman



Dr Stephen J Gumley, FIEAust, CPEng

Managing Director and
Chief Executive Officer

STATEMENTS OF FINANCIAL PERFORMANCE//:

FOR THE YEAR ENDED 30TH JUNE 2003

	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue from rendering of services	2	148,389	141,792	124,628	135,838
Other revenues from ordinary activities	2	10,298	4,504	10,019	3,246
Total revenue		158,687	146,296	134,647	139,084
Expenses from ordinary activities					
Materials & subcontractors		(49,715)	(56,955)	(29,849)	(55,614)
Labour		(70,066)	(55,059)	(67,183)	(50,823)
Depreciation and amortisation	3	(4,490)	(5,154)	(3,894)	(4,423)
Repairs & maintenance		(2,998)	(2,526)	(2,445)	(2,304)
Professional fees		(3,258)	(3,377)	(3,139)	(3,191)
Utilities expense		(2,803)	(2,470)	(2,255)	(2,213)
Borrowing costs	3	(49)	(136)	(191)	(213)
Carrying amount of assets sold		(681)	(193)	(350)	(70)
Insurance		(735)	(1,220)	(469)	(1,007)
Motor vehicle expenses (including novated lease)		(1,179)	(1,034)	(1,138)	(977)
Operating lease		(1,284)	(1,509)	(1,219)	(1,352)
Production consumables and supplies		(1,506)	(886)	(1,021)	(811)
Shareholders/Directors Fees		(350)	(277)	(350)	(277)
Security expenses		(674)	(832)	(473)	(640)
Travelling expenses		(2,168)	(2,718)	(2,146)	(2,674)
Thailand losses provisions		—	(2,200)	—	(2,200)
Service Agreement Costs		(4,841)	—	(4,841)	—
Other expenses from ordinary activities		(3,135)	(8,330)	(2,862)	(8,179)
Total expenses		(149,932)	(144,876)	(123,825)	(136,968)
Share of net profits of associates and joint ventures accounted for using the equity method		161	247	—	—
Profit from ordinary activities before related income tax expense		8,916	1,667	10,822	2,116
Income tax (expense)/benefit relating to ordinary activities	5(a)	(3,070)	(1,540)	(3,646)	(1,765)
Profit from ordinary activities after related income tax expense		5,846	127	7,176	351

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 46 to 75.

STATEMENTS OF FINANCIAL POSITION//:

AS AT 30TH JUNE 2003

		CONSOLIDATED		THE COMPANY	
	NOTE	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
CURRENT ASSETS					
Cash assets	7	8,421	5,214	8,274	5,211
Receivables	8	38,801	46,967	36,466	42,391
Other financial assets	10	53,645	72,414	53,645	72,414
Inventories	9	10,749	657	10,197	—
Other	12	660	456	490	385
TOTAL CURRENT ASSETS		112,276	125,708	109,072	120,401
NON CURRENT ASSETS					
Receivables	8	30,937	31,776	30,937	31,776
Investments accounted for using the equity method	11	949	830	47	42
Other financial assets	10	50,127	—	63,127	13,000
Property, plant and equipment	13	33,252	36,396	27,700	30,672
Deferred tax assets	5	9,184	2,006	9,184	1,383
TOTAL NON CURRENT ASSETS		124,449	71,008	130,995	76,873
TOTAL ASSETS		236,725	196,716	240,067	197,274
CURRENT LIABILITIES					
Payables	14	122,234	92,358	118,476	87,937
Interest-bearing liabilities	15	684	848	8,357	8,057
Provision for Current Income Tax	5	5,302	1,631	5,302	1,631
Provisions	16	18,121	16,457	16,694	15,096
TOTAL CURRENT LIABILITIES		146,341	111,294	148,829	112,721
NON CURRENT LIABILITIES					
Interest-bearing liabilities	15	33	433	—	—
Deferred tax liabilities	5	29,723	30,845	29,723	30,843
Provisions	16	1,538	900	1,461	832
TOTAL NON CURRENT LIABILITIES		31,294	32,178	31,184	31,675
TOTAL LIABILITIES		177,635	143,472	180,013	144,396
NET ASSETS		59,090	53,244	60,054	52,878
EQUITY					
Contributed equity	17	10,000	10,000	10,000	10,000
Retained profits	18	49,090	43,244	50,054	42,878
TOTAL EQUITY		59,090	53,244	60,054	52,878

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 46 to 75.

STATEMENTS OF CASH FLOWS//:

FOR THE YEAR ENDED 30 JUNE 2003

	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		201,339	164,143	181,324	155,569
Cash payments in the course of operations		(164,507)	(160,462)	(142,894)	(151,554)
Income taxes refund/(paid)	5(b)	(7,651)	1,233	(7,651)	1,233
Net cash provided by/(used in) operating activities	30(b)	29,181	4,914	30,779	5,248
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		4,064	2,678	4,021	2,552
Leverage lease income		908	540	908	540
Proceeds from disposal of non current assets	2	906	208	566	63
(Increase)/decrease in invested funds	30(c)	(33,016)	(19,711)	(33,016)	(19,711)
Payments for property, plant and equipment		(2,026)	(580)	(1,268)	(186)
Loan (to)/from controlled entity		—	—	(945)	361
Loan (to)/from associates		2,142	3,659	552	3,336
Payments for other loans		—	621	—	—
Investment in associates	11	(5)	—	(5)	—
Net cash used in investing activities		(27,027)	(12,585)	(29,187)	(13,045)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		(563)	(340)	—	(90)
Borrowing costs paid		(47)	(137)	(192)	(215)
Net cash used in financing activities		(610)	(477)	(192)	(305)
Net increase/(decrease) in cash held		1,544	(8,148)	1,400	(8,102)
Cash at the beginning of the financial year		4,477	12,625	4,474	12,576
Cash at the end of the financial year	30(a)	6,021	4,477	5,874	4,474

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 46 to 75.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied by each entity in the economic entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

(b) Principles of Consolidation

The consolidated financial statements of the economic entity include the financial statements of the Company, being the parent entity, and its controlled entities ("the consolidated entity").

Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

The balances, and effects of transactions, between controlled entities included in the consolidated accounts have been eliminated.

(c) Revenue Recognition

Rendering of Services

Revenue from rendering services is recognised in the period in which the service is provided, having regard to the stage of completion of the contract.

Interest Income

Interest income is recognised as it accrues.

Asset Sales

The gross proceeds of asset sales are included as revenue of the entity at the date an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Other Revenue

The revenue recognition policy for construction work in progress is described in Accounting Policy Note 1(d) below.

(d) Construction Work in Progress

Valuation

Construction work in progress is carried at cost, plus profit recognised to date based on the value of work completed, less contract billings due and less provision for foreseeable losses. Provision for the total loss on a contract is made as soon as the loss is identified.

Cost includes all costs directly related to specific contracts, and those which can be attributed to contract activity in general and which can be allocated to specific contracts on a reasonable basis. Such costs include administration overhead costs which are directly related to the Company's contract with the Commonwealth of Australia.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Construction Work in Progress (continued)

Where the outcome of a contract cannot be reliably estimated contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is only recognised to the extent of costs incurred.

Recognition of Revenue

Contract billings due and receivable to balance date are recorded on the basis of claims approved, and claims submitted for approval, by the Commonwealth of Australia, in relation to construction contract costs incurred by the Company.

Revenue arising from the performance of the contract is recognised in the Statements of Financial Performance on the basis of the level of completion achieved. Recognition of revenue arising from progress billings received in advance of the performance of construction contract activities has been deferred and included in the measurement of construction work in progress.

Recognition of Profit

Profit on construction contracts is recognised using the percentage of completion method which is measured either by the cost of work completed and estimated total costs at completion of the contract or by physical completion. Estimated costs at completion include allowances which recognise the inherent risks associated with a long term construction contract of this nature. Profit recognition on these projects does not normally commence until the revenues, costs and a profit forecast can be reliably determined. Provision for the total loss on a contract is made as soon as the loss is identified.

Uncertainty exists with the responsibility for payment of some aspects of the work scope during full cycle docking on Submarine 01 which makes it prudent not to further recognise project profit on this Submarine Build contract (contract C218269) until issues are resolved.

Subsidiary company – ASC Engineering Pty. Limited measures its percentage of completion by the actual hours completed and estimated total hours at completion, and does not recognise profit on its construction contracts until a minimum of 50% of project completion has occurred. Provision for the total loss on a contract is made as soon as the loss is identified.

(e) Foreign Currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

The incurrence of liabilities denominated in foreign currencies is matched by the recognition of contract claims receivable denominated in the same foreign currencies.

Exchange differences arising in respect of foreign currency items are included in the measurement of the contract billings and work in progress costs.

Hedges

All non specific hedge transactions relating to non-contract exposures are initially recorded at the spot rate at the date of the transaction. Hedges outstanding at balance date are translated at the rates of exchange ruling on that date and any exchange differences are brought to account in the Statements of Financial Performance. Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

Where hedge transactions are designed to hedge the purchase or sale of goods and services, exchange differences arising up to the date of purchase or sale, together with any costs or gains arising at the time of entering into the hedge, are included in the measurement of the purchase or sale. Any exchange differences after that date are included in the Statements of Financial Performance.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur, the deferred gains and losses that arose in the foreign currency hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale when it occurs.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign Currency (continued)

Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur, deferred gains and losses that arose on the foreign currency hedge prior to termination are included in the Statements of Financial Performance for the period.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

(f) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

(g) Property, Plant and Equipment

Acquisitions

Items of property, plant and equipment are recorded at cost and depreciated as outlined below. The cost of property, plant and equipment constructed includes the cost of materials and direct labour and an appropriate proportion of fixed and variable overheads.

Complex Assets

Major items of plant and equipment comprising a number of components that have different useful lives, are accounted for as separate assets. The components may be replaced during the useful life of the complex asset.

Subsequent Additional Costs

Costs incurred on property, plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Where these costs represent separate components of a complex asset they are accounted for as separate assets and are separately depreciated over their useful lives.

Depreciation

Items of property, plant and equipment, including buildings but excluding freehold land, are depreciated over their estimated useful lives using the straight line method.

The depreciation rates used for each class of asset are as follows:

- Buildings 2.5 – 7.5%
- Plant and Equipment 9.0 – 33.0%

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Leased Plant and Equipment

Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the accounting period in which they are incurred. Capitalised lease assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the Statements of Financial Performance.

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representable of the pattern of benefits to be derived from the leased property.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Taxation

Income Tax

The Company is the Head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 28. The implementation date for the tax-consolidated group is 1 July 2002.

The Head entity recognizes all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intra-group transactions).

The tax-consolidated group has entered into a tax sharing agreement that requires wholly-owned subsidiaries to make contributions to the Head entity for tax liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation. The contributions are calculated as a percentage of the group's current tax liability. The contributions are payable annually.

The assets and liabilities arising under the tax sharing agreement are recognized as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

The Company adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on the operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statements of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the assets is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

Capital Gains Tax

Capital gains tax is provided for in the Statements of Financial Performance in the period in which the asset is sold except where the sale relates to a non-current asset which has previously been revalued.

Where a non-current asset is revalued, capital gains tax is provided at the time of revaluation only when it is known that the asset will eventually be sold. This provision is made against the asset revaluation reserve, with the result that when the asset is sold there is no charge to the Statements of Financial Performance for capital gains tax except to the extent of adjustments for over/under provisions in previous periods.

The tax effect of capital losses is not recorded unless realisation is virtually certain.

(i) Employee Entitlements

Wages, Salaries and Annual Leave

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates expected to be paid at reporting date including related on-costs.

Long Service Leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leveraged Lease

A lease receivable is brought to account (at the beginning of the lease term) at an amount equal to the aggregate amount of the investment in the leveraged lease plus unearned income. The consolidated entity does not record the gross investment and corresponding liability of the lease partnership. Total income receivable from the partnership and the related income tax expense is recognised in accordance with the "gross-of-tax" method of accounting for income tax.

Income and tax benefits are progressively brought to account over the term of the lease.

Where a change occurs in estimated lease cash flows during the term of the lease, total lease profit is recalculated and reallocated over the entire lease term.

(k) Non Current Assets

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value.

(l) Investments

Controlled Entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the Statements of Financial Performance when they are declared by the controlled entities.

Associates

An associate is an entity, other than a partnership, over which the consolidated entity exercises significant influence and where the investment in that entity has not been acquired with a view to disposal in the near future.

In the Company's financial statements investments in associates are carried at the lower of cost and recoverable amount. Income from interim dividends is brought to account in the Statements of Financial Performance as dividends are received. Income from final dividends is brought to account as revenue at the time the dividends have been declared by the associate in a general meeting.

In the consolidated financial statements investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's share of the associates' net profit or loss after tax is recognised in the consolidated Statements of Financial Performance after adjustments for: revisions in depreciation of depreciable assets and amortisation of goodwill arising from notional adjustments made as at the date of acquisition; dissimilar accounting policies; and the elimination of unrealised profits and losses on transactions between the associate and any entities in the consolidated entity or another associate of the consolidated entity.

Other movements in reserves are recognised directly in consolidated reserves.

(m) Derivative Financial Instruments

The consolidated entity is exposed to changes in interest rates and foreign exchange rates from its activities. The consolidated entity uses derivative financial instruments to hedge these risks. Derivative financial instruments are not held for speculative purposes.

Derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposure.

Gains and losses on derivative financial instruments hedging specific future purchases and sales are deferred until the date of purchase or sale and included in the measurement of that transaction.

The accounting for forward foreign exchange contracts is set out in Note 1(e).

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Receivables

Trade and Contract Debtors are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

(o) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 37 days from the end of the month in which the invoice was raised on the Company.

(p) Bank Loans

Bank loans are carried on the statements of financial position at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in "Other Creditors and Accruals".

(q) Warranty

No provision has been made this year for the estimated liability on products constructed/manufactured and still under warranty.

The estimate of warranty provision for Submarine 06 in its warranty period is based on warranty cost experience for previously delivered submarines. All the other submarines have passed their warranty period. This provision has been included in the calculation of estimate to complete for the submarine project and therefore no provision is required to be shown on the Statement of Financial Position.

The estimate for the other manufactured products is based on engineering assessments as to probable repair or restoration costs of the products arising from warranty claims.

(r) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statements of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(s) Provisions

The provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefit required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and is measured on a basis consistent with the measurement of the related provision.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Provisions (continued)

In the statement of financial performance, the expense recognised in respect of a provision is presented net of the recovery.

In the statement of financial position, the provision is recognised net of the recovery receivable when the entity:

- has a legally recognised right to set-off the recovery receivable and the provision:
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

(t) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on an average cost basis and include direct materials, direct subcontractors and direct labour.

CONSOLIDATED**2003**
\$000**2002**
\$000**THE COMPANY****2003**
\$000**2002**
\$000**2 REVENUE FROM ORDINARY ACTIVITIES**

Revenue from rendering of services

Related parties	124,576	135,351	124,502	135,351
Other parties	23,813	6,441	126	487
	148,389	141,792	124,628	135,838

Other revenues

From operating activities:

Interest

Related parties	—	—	—	1
Associate parties	20	86	—	—
Other parties	4,203	3,170	4,181	3,129

Equipment Rental:

Associate parties	208	420	—	—
Other parties	14	86	—	—

Secondment income received from:

Related parties	—	—	362	—
Associate parties	36	413	—	—

Rental income received from:

Other parties	—	68	—	—

From outside operating activities:

Insurance proceeds received	1	—	—	—
Service Agreement Income	4,841	—	4,841	—
Leveraged lease income	69	53	69	53
Gross proceeds from sale of non-current assets	906	208	566	63

Total other revenues

10,298	4,504	10,019	3,246

Total revenues from ordinary activities

158,687	146,296	134,647	139,084

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
3 PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE				
(a) Individually significant items included in profit from ordinary activities before income tax expense				
Due diligence expenses	–	117	–	117
Movement in Thailand Loss Provisions	–	2,200	–	2,200
(b) Profit from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:				
Depreciation of:				
Buildings	3,708	4,140	3,623	4,052
Plant & equipment	782	1,014	271	371
Total depreciation	4,490	5,154	3,894	4,423
Borrowing costs:				
Related parties	–	(1)	190	155
Other parties	49	137	1	58
	49	136	191	213
Net bad and doubtful debts expense including movements in provision for doubtful debts	97	52	76	33
Net expense from movements in provision for:				
Employee entitlements	2,714	1,191	2,226	1,137
Employee redundancies & terminations	22	(9,107)	(1)	(9,290)
Warranties	–	(40)	–	–
Operating lease rental expense:				
Minimum lease payments	1,284	1,509	1,219	1,352
Net (gain)/loss on disposal of non-current assets:				
Property, plant and equipment	(261)	(16)	(216)	5
Investments	(5)	–	(5)	–

CONSOLIDATED		THE COMPANY	
2003	2002	2003	2002
\$000	\$000	\$000	\$000

4 AUDITORS' REMUNERATION

Audit services:

Amount received or due and receivable by the Australian National Audit Office (ANAO) as auditors of ASC	177	176	141	140

Other services:

KPMG have been contracted by ANAO to provide audit services on the ANAO's behalf. Fees for these services are included above. In addition KPMG have earned the following fees for engagements where they have been separately contracted by ASC

– Other assurance services	87	180	87	180
– Taxation services	106	64	86	50
	193	245	173	230

5 TAXATION

(a) Income tax expense

Prima facie income tax expense calculated at 30% (2002:30%) on the profit from ordinary activities

2,670	404	3,246	634

Increase/(Decrease) in income tax expense due to:

Non deductible loss from joint venture

–	600	–	600

Sundry items (including entertainment)

434	264	434	263

434	864	434	863

Income tax expense on operating profit

3,104	1,268	3,680	1,497

Add: Income tax under/(over) provided in prior year

(34)	272	(34)	268

Total income tax expense

3,070	1,540	3,646	1,765

Total income tax expense is made up of:

Current income tax provision

9,916	838	10,495	1,068

Deferred income tax provision

(1,123)	476	(1,120)	475

Future income tax benefit

(5,656)	(44)	(5,660)	(48)

Under/(over) provision in prior years

(67)	270	(69)	270

3,070	1,540	3,646	1,765

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000

5 TAXATION (continued)

(b) Provision for Current Income Tax/(Current Income Tax Receivable)

Movements during the year were as follows:

Balance at the beginning of the year	1,631	(1,442)	1,631	(1,442)
Income tax paid	(7,651)	1,233	(7,651)	1,233
Current year's current income tax expense on operating profit	9,829	1,609	10,461	1,609
Controlled entity provision	—	—	(632)	—
Under/(over) provision in prior years	1,493	231	1,493	231
	5,302	1,631	5,302	1,631

(c) Provision for Deferred Income Tax

Provision for deferred income tax comprises the estimated expense at the applicable income tax rate of 30% (2002:30%) on the following items:

Deferred income arising from leveraged lease transaction	29,476	30,642	29,476	30,642
Sundry items	247	203	247	201
	29,723	30,845	29,723	30,843

(d) Future Income Tax Benefit

Future income tax benefit comprises the estimated future benefit at the applicable income tax rate of 30% (2002:30%) of the following items:

Provisions for accrued employee entitlements not currently deductible	3,809	251	3,809	34
Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes	1,540	1,171	1,540	1,001
Provisions for doubtful debts	—	15	—	10
Provisions for warranty not currently deductible	—	152	—	—
Difference in contract profit recognised for accounting and income tax purpose	3,292	302	3,292	291
Sundry items	543	115	543	47
	9,184	2,006	9,184	1,383

6 SEGMENT REPORTING

Segments results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Unallocated items mainly comprise income earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Business segments

The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

Build Project:	Submarine build project
Support Projects:	Submarine support projects which include full cycle docking, battery change out, submarine emergency rescue service and others submarine support projects
Other Projects:	Other non submarine related projects performed by the controlling entity
Heavy Engineering:	Design, construction and project management of heavy engineering projects performed by ASC-Engineering Pty Ltd (a controlled entity)
General Engineering and Maintenance:	Design, construction and project management of general engineering and maintenance projects performed by ASC Processing Pty Ltd (a controlled entity). This entity has not been trading for the whole financial year.

	BUILD PROJECT		SUPPORT PROJECTS		OTHER PROJECTS		HEAVY ENGINEERING		ENGINEERING & MAINTENANCE		ELIMINATIONS		CONSOLIDATED	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue														
External segment revenue	20,037	62,764	95,810	63,381	8,777	8,955	23,671	5,982	—	51	(75)	(352)	148,220	140,781
Inter-segment revenue														
Total segment revenue	20,037	62,764	95,810	63,381	8,777	8,955	23,671	5,982	—	51	(75)	(352)	148,220	140,781
Other unallocated revenue													10,467	5,515
Total revenue													158,687	146,296
Result														
Segment result	—	—	8,973	3,930	637	647	(1,627)	936	—	(31)	13	320	7,996	5,802
Share of net profit or loss of equity accounted investments													161	247
Unallocated corporate expenses													759	(4,382)
Profit from ordinary activities before income tax													8,916	1,667
Income tax expenses													(3,070)	(1,540)
Net profit													5,846	127
Depreciation and amortisation (1)													4,490	5,154
Non Cash Expenses other than Depreciation and amortisation:														
— Doubtful Debt Provisions			76	33			21	19					97	52
Assets														
Segment assets	2,571	1,286	23,476	30,351	2,468	1,414	2,628	3,425					31,143	36,476
Equity accounted investments														
Unallocated corporate assets (1)													205,582	160,240
Consolidated total assets													236,725	196,716
Liabilities														
Segment liabilities							543	295					543	295
Unallocated corporate liabilities													177,092	143,177
Consolidated total liabilities													177,635	143,472
Acquisitions of non-current assets (1)													2,027	579

Note (1): Unallocated assets include all fixed assets of the Company.

Fixed assets can not be allocated to segments on a reasonable and non arbitrary basis.

Geographical segments

The consolidated entity operates predominantly in one geographical segment being Australia.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
7 CASH ASSETS				
Cash	6,021	4,477	5,874	4,474
Term deposits	2,400	737	2,400	737
	8,421	5,214	8,274	5,211

8 RECEIVABLES

Current

Trade debtors	29,611	37,121	26,743	33,628
Less Provision for doubtful trade debtors	(2,231)	(2,133)	(2,191)	(2,114)
	27,380	34,988	24,552	31,514
Contract debtors	1,771	1,286	1,771	1,286
Other debtors	2,407	1,309	2,354	1,250
Loans to associates	1,262	3,231	1,808	2,188
Other loans	5,981	6,153	5,981	6,153
	38,801	46,967	36,466	42,391
Non current				
Leveraged lease receivable	33,868	34,776	33,868	34,776
Less – unearned income	(2,931)	(3,000)	(2,931)	(3,000)
	30,937	31,776	30,937	31,776

Contract Debtors and Other Debtors

These amounts arise from transactions relating to the submarine construction contract and other operating activities of the consolidated entity. Other debtors also includes interest receivable.

Interest may be charged on debtors balances that are not repaid by the due date. Further, interest may be charged, at agreed upon rates normally reflecting market rates, where contract terms of repayment fall outside of the consolidated entity's normal terms. Collateral is not obtained.

Further details of term deposits, brokers deposits and bonds are set out in note 29.

Other loans consist of amounts receivable in connection with the Thailand joint venture patrol boats projects and from Australian Submarine Corporation (Thailand) Limited. No interest has been charged on these loans for the whole financial year.

Other loans also include receivables from other parties and interest on these balances is calculated daily using the Reserve Bank of Australia cash rate target plus a 2% margin and is compounded monthly.

		CONSOLIDATED		THE COMPANY	
		2003	2002	2003	2002
		\$000	\$000	\$000	\$000
9 INVENTORIES					
Current					
Raw materials and stores – at cost		10,749	657	10,197	–
		10,749	657	10,197	–
10 OTHER FINANCIAL ASSETS					
Current					
Marketable interest securities (at cost)		53,645	72,414	53,645	72,414
		53,645	72,414	53,645	72,414
Non Current					
Marketable interest securities (at cost)		50,127	–	50,127	–
Unlisted shares at cost		–	–	20,000	20,000
Less – Provision for Diminution		–	–	(7,000)	(7,000)
		50,127	–	63,127	13,000
11 INVESTMENT ACCOUNTED FOR USING EQUITY METHOD					
Associates		949	830	47	42
		949	830	47	42
12 OTHER CURRENT ASSETS					
Prepayments		660	456	490	385
		660	456	490	385

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
13 PROPERTY, PLANT & EQUIPMENT				
Freehold land				
At cost	2,638	2,638	1,200	1,200
Buildings				
At cost	122,296	122,452	119,599	119,754
Accumulated depreciation	(95,560)	(91,937)	(94,726)	(91,187)
	26,736	30,515	24,873	28,567
Plant & equipment				
At cost	51,899	51,428	38,627	38,313
Accumulated depreciation	(48,829)	(48,275)	(37,560)	(37,442)
	3,070	3,153	1,067	871
Capital works in progress	808	90	560	34
Total property, plant & equipment net book value	33,252	36,396	27,700	30,672

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Freehold land

Carrying amount at beginning of year	2,638	2,638	1,200	1,200
Additions	—	—	—	—
Disposals	—	—	—	—
Carrying amount at the end of year	2,638	2,638	1,200	1,200

Buildings

Carrying amount at beginning of year	30,515	34,472	28,567	32,436
Additions	—	—	—	—
Transfers from capital works in progress	250	183	250	183
Disposals	(321)	—	(321)	—
Depreciation	(3,708)	(4,140)	(3,623)	(4,052)
Carrying amount at the end of year	26,736	30,515	24,873	28,567

CONSOLIDATED		THE COMPANY	
2003	2002	2003	2002
\$000	\$000	\$000	\$000

13 PROPERTY, PLANT & EQUIPMENT (continued)

Plant & equipment

Carrying amount at beginning of year	3,153	3,969	871	1,262
Additions	565	341	—	—
Transfers from capital works in progress	493	50	493	50
Disposals	(359)	(193)	(26)	(70)
Depreciation	(782)	(1,014)	(271)	(371)
Carrying amount at the end of year	3,070	3,153	1,067	871

Capital works in progress

Carrying amount at beginning of year	90	87	34	84
Additions	1,462	238	1,270	185
Transfers to property, plant & equipment	(744)	(235)	(744)	(235)
Carrying amount at the end of year	808	90	560	34

Valuations

The independent valuation of the Company's freehold land and buildings carried out as at 30 July 2002 on the basis of open market values for existing use resulted in a valuation of buildings of \$51,000,000 and a valuation of land of \$4,000,000.

The independent valuation of, its wholly owned subsidiary company, ASC-Engineering Pty Ltd's freehold land and building carried out as at 30 June 2003 on the basis of open market values for vacant possession resulted in a valuation of buildings of \$1,500,000 and a valuation of land of \$3,500,000. As land and buildings are recorded at cost, the valuation has not been brought to account.

14 PAYABLES

Trade creditors	10,374	13,446	9,981	12,484
Other creditors and accruals	4,369	5,636	4,148	5,491
	14,743	19,082	14,129	17,975
Advance income received:				
Contract billings due and receivable	4,930,434	4,785,964	4,850,513	4,725,622
Contract works in progress	(4,438,715)	(4,330,558)	(4,370,500)	(4,283,505)
Profit recognised to date	(384,228)	(382,130)	(375,666)	(372,155)
Net progress payments received and receivable	107,491	73,276	104,347	69,962
Total payables	122,234	92,358	118,476	87,937

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
15 INTEREST BEARING LIABILITIES				
Current				
Loans from controlled entities	—	—	8,197	7,897
Term loan	360	360	160	160
Hire purchase liabilities	324	488	—	—
	684	848	8,357	8,057
Non current				
Hire purchase liabilities	33	433	—	—
	33	433	—	—

Term loan consists of the interest free 99 year loans to the Australian Submarine Corporation Pty Ltd and ASC-Engineering Pty. Ltd. from the Department of Manufacturing Industry, Small Business and Regional Development (SA), for expenditure on capital items and to assist with site development costs.

- (i) ASCE (\$200,000): repayable in the year 2094 or at the option of the Company at any time prior to the year 2094.
- (ii) ASC (\$160,000): repayable in the year 2092 or at the option of the Company at any time prior to the year 2092.

Financing arrangements

The consolidated entity has discontinued the bank overdraft and bank loans lines of credit:

16 PROVISIONS

Current

Employee entitlements, including on costs	11,164	9,300	10,444	8,846
Warranty	507	507	—	—
Redundancy & Termination	—	200	—	—
Other	6,450	6,450	6,250	6,250
	18,121	16,457	16,694	15,096

Non current

Employee entitlements, including on costs	1,538	900	1,461	832
	1,538	900	1,461	832
Number of permanent employees at the end of the year	823	717	745	666

CONSOLIDATED		THE COMPANY	
2003	2002	2003	2002
\$000	\$000	\$000	\$000

17 CONTRIBUTED EQUITY

Issued and paid-up share capital

10,000,000 (2002:10,000,000) ordinary shares, fully paid	10,000	10,000	10,000	10,000
	10,000	10,000	10,000	10,000

18 RETAINED PROFITS

Retained profits at beginning of year	43,244	43,117	42,878	42,527
Net profit attributable to members of the parent entity	5,846	127	7,176	351
Retained profits at the end of the year	49,090	43,244	50,054	42,878

19 DIVIDENDS PAID AND PROPOSED

Dividends provided for or paid by the Company are:

Dividends year ended 30 June 2003:

No dividend is declared or paid for the year	—	—	—	—

Dividends franking account

Class C (30%) franking credits	18,684	32,267	18,684	27,199

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of the dividends recognised as a liability at year-end
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at year-end
- (d) franking credits that the entity may be prevented from distributing in subsequent years

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends

From 1 July 2002 the New Business Tax System (Imputation) Act 2002 requires measurement of franking credits based on the amount of income tax paid, rather than on after-tax profits.

The amount of franking credits available to shareholders disclosed as at 30 June 2003 has been measured under the new legislation and represents income tax paid amounts available to frank distributions. The balance disclosed as at 30 June 2002 has been measured under the legislation existing at 30 June 2002 and represents after-tax profits able to be distributed fully franked at the current tax rate. This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credit benefits.

Comparative information has been restated for this change in measurement.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

	NOTE	CONSOLIDATED		THE COMPANY	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000

20 COMMITMENTS

(a) Capital Expenditure Commitments

Contracted but not provided for and payable:

Not later than one year	145	68	145	68

(b) Operating Lease Commitments

Non-cancellable future operating lease rentals not provided for in the financial statements and payable:

Not later than one year	906	1,100	859	1,058
Later than one year but not later than five years	954	526	918	469
Later than five years	—	—	—	—
	1,860	1,626	1,777	1,527

The consolidated entity leases computer and other equipment under operating leases expiring from one to three years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

(c) Hire purchase commitments

Hire purchase payments are payable as follows:

Not later than one year	339	488	—	—
Later than one year but not later than five years	34	451	—	—
Later than five years	—	—	—	—
	373	939	—	—

Less future interest expense charges

16	18	—	—
357	921	—	—

Hire purchase liabilities provided for in the financial statements

Current	14	324	488	—	—
Non Current	14	33	433	—	—
		357	921	—	—

(d) Superannuation Commitments

The Company and its controlled entities contribute to a superannuation fund that provides for a combination of accumulation and defined benefits. Employees contribute to the fund at various percentages of their gross income.

The Company and its controlled entities also contribute to the fund at varying contribution rates depending on the category of fund membership of each member. After serving a qualifying period, all employees are entitled to benefits on retirement, disability or death. The fund is managed by Australian Submarine Corporation Superannuation Fund Pty. Ltd.

20 COMMITMENTS (continued)

(d) Superannuation Commitments (continued)

An actuarial assessment of the fund as at 1 July 2002 was carried out by Jules Gribble Fellow of the Institute of Actuaries of Australia a principal of Ask IT Consulting Pty Ltd on 5th February 2003. The actuary concluded that the assets of the fund are sufficient to meet all benefits payable in the event of the fund's termination, or the voluntary or compulsory termination of employment of each employee of the Company and other controlled entities.

The accrued benefits, fund assets at net market value and vested benefits of the fund are as follows:

	CONSOLIDATED \$000
Fund assets at net market value at 30 June 2002	38,844
Accrued benefits at 30 June 2002	37,798
Excess of fund assets over accrued benefits at 30 June 2002	1,046
Vested benefits as at 30 June 2002	37,769

Accrued benefits have been determined based on the amount calculated by the actuary at the date of the most recent actuarial review, being 1 July 2002. Accrued benefits are benefits which the fund is presently obliged to pay at some future date, as a result of membership of the fund.

The directors, based on the advice of the trustees of the fund, are not aware of any changes in circumstances since the date of the most recent financial statements of the fund which would have a material impact on the overall financial position of the fund.

The next actuarial review of the fund is planned to be conducted as at 30 June 2005 in September 2005.

(e) Other Commitments

The Company has commitments for expenditure in respect of contracts let to subcontractors for the supply of constituent elements required under the Company's contract with the Commonwealth of Australia. The final amount of these commitments is not quantifiable. The timing of the Company's commitment for this expenditure is matched by a corresponding receivable from the Commonwealth of Australia. These future receivables are expected to exceed the maximum value of the commitments for expenditure.

21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The completion of the submarine build project is expected to occur by 30 June 2004. In achieving completion there are a significant number of technical and commercial issues outstanding that give rise to potential contingent liabilities and contingent assets.

Given the complexity and material nature of these unresolved issues the company ceased recognising profit on the submarine build contract from 1 July 2001.

The key issues to be resolved with the company's customer, former shareholders and sub-contractors are as follows:

- Rectification of weld defects on HMAS Collins in Sections 300 and 600 which sections were fabricated in Sweden by Kockums AB (KAB).
- The repair of the main motor of HMAS Farncomb.
- Completion of residual work in relation to increasing the safety of certain Trelleborg hoses.
- Resolution of claims (including propellers, weapons discharge system, battery sump corrosion, hull valve forgings and potable water contamination).
- Settlement of delay claims, superannuation cost recovery and other claims against the company's customer.

Due to the complexity of the unresolved issues it is not possible to estimate the financial effect of these contingent liabilities and contingent assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

The Company has commenced negotiations with its customer to attempt to resolve the above outstanding issues existing between the two organisations. While the financial impact of the individual issues may be significant negotiations are continuing on the basis that any overall settlement will not have a significant adverse financial impact upon the Company.

In relation to the weld defects identified in Sections 300 and 600 on HMAS Collins the Company, on 4 July 2003, gave KAB, a former shareholder, an arbitration notice under the Fabrication Subcontract between the Company and KAB. The arbitration notice relates to a dispute between the Company and KAB for the cost to repair weld defects. On 10 July 2003, the Company and KAB agreed to the appointment of an arbitrator. It is expected that the arbitration will be resolved during the course of 2003/05. All costs associated with the rectification of the weld defects have been included in the total costs of the Submarine Build Contract, the total project billings for the contract make no allowance for this potential recovery from KAB.

In addition to the above matters, KAB claim that the Company is not entitled to use KAB's intellectual property for maintenance of the submarines. The Company refutes this assertion and has received legal advice consistent with this position. The CoA has granted the company a licence to use KAB's intellectual property.

In the directors' opinion, disclosure of any further information about the above matters would be prejudicial to the interests of the company.

The company has entered into various business arrangements that call for the granting of various performance guarantees and issuance of letters of credit.

22 REGISTERED CHARGES

The Commonwealth Government of Australia and the South Australian State Government hold registered charges over the facilities of the Company, procured for the purpose of the construction of submarines.

The above charges are held against default of the contract.

23 ECONOMIC DEPENDENCY

The normal trading activities of the Australian Submarine Corporation Pty. Limited depend on contracts the Company has with the Commonwealth Government of Australia for the construction and maintenance of six submarines. That dependency existed during all of the financial year.

24 PRINCIPAL AREAS OF ACTIVITY OF THE COMPANY

The principal activity of the Company during the course of the financial year was the design, engineering, construction and maintenance of six submarines for the Royal Australian Navy.

25 DIRECTORS' REMUNERATION

Directors' Income

The number of Directors of the Company whose income from the Company or any related party falls within the following bands:

	2003 NUMBER	2002 NUMBER
\$0 – \$9,999	–	1
\$20,000 – \$29,999	1	–
\$30,000 – \$39,999	–	2
\$40,000 – \$49,999	1	2
\$50,000 – \$59,999	3	–
\$100,000 – \$109,999	–	1
\$120,000 – \$129,999	1	–
\$290,000 – \$299,999	1	–
\$560,000 – \$569,999	–	–
\$2,850,000 – \$2,859,999 (1)	–	1

	CONSOLIDATED		THE COMPANY	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Total income paid or payable, or otherwise made available, to all Directors of the Company and controlled entities from the Company or any related party	645	3,139	645	3,139

(1) This band in the comparatives included the termination package paid to previous Managing Director, in accordance with the conditions of his employment, upon his employment termination on 4/1/2002.

The number of directors and their total income disclosed above excludes the directors of controlled entities that are executive officers of the controlling entity but not directors of the controlling entity.

26 EVENTS SUBSEQUENT TO BALANCE DATE

As a result of the strengthening of the Australian Dollar the future of ASC-Engineering Pty Ltd is currently under review.

Other than the matters described in Note 21 Contingent Liabilities and Contingent Assets there are no other matters that have arisen between the end of the financial year and the date of this report including any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

27 RELATED PARTY DISCLOSURES

Directors

The names of each person holding the position of Director of the Australian Submarine Corporation Pty. Limited during the financial year are Messrs J.B. Prescott AC, General (Rtd) J.S. Baker AC, DSM, C.N.H. Bagot, S.E. Young, G.R. Bulmer and S.J. Gumley.

During the year, B.R. Kean AM resigned as director of the Company.

Piper Alderman an organisation of which C.N.H. Bagot is a partner, has received fees from a controlled entity for the provision of consultancy & professional services. The value of these fees was \$39,000 for the financial year (2002: Nil).

From time to time directors of related parties or their director related entities may purchase goods from the consolidated entity. These purchases are on the same terms and conditions as those entered into by the consolidated entity customers and are trivial or domestic in nature.

Other Related Parties

Shareholders

In performing its contracts, the Company has transacted on normal commercial terms and conditions with the following shareholder:

- the Commonwealth of Australia and their related entities.

The Commonwealth of Australia has provided auditing services to the Company through ANAO.

The Commonwealth of Australia is the ultimate parent entity.

The Company is a large proprietary company, incorporated in Australia. The registered office and principal place of business is Mersey Road, Outer Harbor SA 5018.

Transactions with Shareholders

During the year, the amounts received or receivable by the Company from the Commonwealth of Australia for various projects was \$124,502,000 (2002: \$135,351,000).

During the year, the amounts of audit fees paid to ANAO was \$177,000 (2002: \$221,000)

Certain expenditure incurred by the Company on behalf of shareholders has been recharged and will be settled in accordance with normal commercial terms and conditions.

Balances with Shareholders

	2003 \$'000	2002 \$'000
The aggregate amounts payable to the shareholders in relation to these transactions are:	–	–
The aggregate amounts receivable from the shareholders in relation to these transactions are:	24,997	31,748

27 RELATED PARTY DISCLOSURES (continued)

Wholly-Owned Controlled Entities

Details of interests in wholly-owned controlled entities are set out at note 28. Details of dealings with these entities are set out below.

Loans

Amount receivable from or owing to ASC- Engineering Pty. Ltd. (wholly owned controlled entity) attract interest at the 30 day Bank Bill Swap rate on the average outstanding balance each month. Refer to Notes 2 and 3 for details of interest revenue and interest expenses in relation to this loan.

No interest is charged on the current loans receivable from or owing to ASC Shipbuilding Pty. Ltd. and ASC Processing Pty. Ltd. (wholly owned controlled entities).

No interest has been charged on the amounts receivable from Australian Submarine Corporation (Thailand) Limited (a wholly owned controlled entity) for the whole financial year.

The Company engages ASC Engineering Pty. Limited for construction of submarine sub-assemblies. These transactions are in the normal course of business and, on normal terms and conditions.

Balances with Entities within the Wholly-Owned Group

	2003 \$'000	2002 \$'000
The amounts currently payable to the wholly-owned controlled entities by the Company at balance date:	8,197	7,897
The amounts currently receivable from the wholly-owned controlled entities by the Company at balance date:	—	—

28 PARTICULARS IN RELATION TO CONTROLLED ENTITIES

	CLASS OF SHARE	ENTITY INTEREST	
		2003 %	2002 %
Chief entity			
Australian Submarine Corporation Pty. Limited			
Controlled entities			
ASC-Engineering Pty. Limited	Ordinary	100	100
ASC Shipbuilding Pty. Limited	Ordinary	100	100
ASC Processing Pty. Limited	Ordinary	100	100

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

29 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES

(a) Interest rate risk

The consolidated entity enters into futures contracts and options on futures contracts to manage interest rate risk associated with the consolidated entity's holdings of fixed interest bonds.

As at balance date the following contracts (disclosed at face value) were outstanding:

	2003 \$'000	2002 \$'000
Futures contracts	—	—
Options on futures contracts	—	—
	—	—

At balance date the consolidated entity carried an unrealised gain of \$6,570 (2002: loss of \$4,901) in the market value of money market securities held (bank accepted bills and negotiable certificates of deposit).

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

		Fixed interest maturing in:					TOTAL \$'000
		FLOATING INTEREST RATE \$'000	1 YEAR OR LESS \$'000	OVER 1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'000	NON INTEREST BEARING \$'000	
30TH JUNE 2003	NOTE						
Financial assets							
Cash	7	6,021	—	—	—	—	6,021
Term Deposits	7	2,400	—	—	—	—	2,400
Marketable interest securities (at cost)	10	53,645	—	50,127	—	—	103,772
		62,066	—	50,127	—	—	112,193
Weighted average interest rate		4.81%	0.00%	4.35%	0.00%		
Financial liabilities							
Bank overdrafts and loans	15	—	—	357	—	—	357
Accounts Payable	14	—	—	—	—	14,743	14,743
Term Loan	15	—	—	—	—	360	360
		—	—	357	—	15,103	15,460
Weighted average interest rate		0.00%	0.00%	7.57%	0.00%		

29 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES (continued)

(a) Interest rate risk (continued)

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities for the previous financial year is set out below:

30TH JUNE 2002	NOTE	Fixed interest maturing in:					TOTAL \$000
		FLOATING INTEREST RATE \$000	1 YEAR OR LESS \$000	OVER 1 TO 5 YEARS \$000	MORE THAN 5 YEARS \$000	NON INTEREST BEARING \$000	
Cash	7	4,477	—	—	—	—	4,477
Term Deposits	7	737	—	—	—	—	737
Marketable interest securities (at cost)	10	72,414	—	—	—	—	72,414
		77,628	—	—	—	—	77,628
Weighted average interest rate		4.84%	0.00%	0.00%	0.00%		
Financial liabilities							
Bank overdrafts and loans	15	—	—	921	—	—	921
Accounts Payable	14	—	—	—	—	19,082	19,082
Term Loan	15	—	—	—	—	360	360
		—	—	921	—	19,442	20,363
Weighted average interest rate		0.00%	0.00%	7.57%	0.00%		

(b) Foreign exchange risk

The consolidated entity enters into forward foreign exchange contracts to hedge certain anticipated purchase and sale commitments denominated in foreign currencies.

The following table sets out the gross value under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity (amounts denominated in \$AUD equivalents):

	2003 \$000	2003 WEIGHTED AVERAGE RATE	2002 \$000	2002 WEIGHTED AVERAGE RATE
Buy Euro				
Not longer than one year	—	—	1,082	0.59
Sell Euro				
Not longer than one year	90	0.55	—	—

If the consolidated entity closed out these forward foreign exchange contracts at balance date, a gain of \$3,077 (2002: profit of \$51,400) would have arisen.

For forward exchange contracts, the net fair value is taken to be the unrealised gain or loss at balance date.

(c) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

29 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES (continued)

(c) Credit risk exposures (continued)

Recognised financial instruments

The credit risk on financial assets of the consolidated entity which have been recognised on the statements of financial position, is the carrying amount, net of any provision for doubtful debts.

A substantial proportion of the consolidated entity's operations are in relation to the construction contract for six submarines and therefore a material exposure with an individual customer exists (the Commonwealth Government of Australia).

Credit risk for the recognised financial instruments derivative contracts is minimised by transacting with counterparties with acceptable credit ratings determined by a recognised rating agency. Exposure limits, based on these credit ratings, are set for each counterparty to ensure that counterparty credit risk is diversified.

Off Balance Sheet Financial Instruments

Credit risk on the unrecognised financial instruments derivative contracts is minimised as counterparties are financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the consolidated entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the consolidated entity.

The full amount of the exposure is disclosed in Note 29(B).

As all futures contracts are transacted through a recognised futures exchange, there is considered to be no credit risk associated with these contracts.

(d) Net fair values of financial assets and liabilities

Valuation approach

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

Recognised financial instruments

The net fair value of cash and cash equivalents and non interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices.

Unrecognised financial instruments

The valuation of off-balance sheet financial instruments detailed in this note reflects the estimated amounts which the consolidated entity expects to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using standard valuation techniques.

Unrecognised financial instruments

The net fair value of the unrecognised financial instruments held as at reporting date are:

	2003 \$000	2002 \$000
Forward foreign exchange contracts	3	51
Interest rate futures contracts	—	—
Interest rate options on futures contracts	—	—
	3	51

NOTE	CONSOLIDATED		THE COMPANY	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000

30 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the balance sheets as follows:

Cash	6,021	4,477	5,874	4,474
	6,021	4,477	5,874	4,474

(b) Reconciliation of operating profit after income tax to net cash provided by operating activities

Operating profit after income tax		5,846	127	7,176	351
Add/(less) items classified as investing/financing activities:					
Interest received		(4,223)	(3,256)	(4,182)	(3,132)
Leverage lease income		(69)	(54)	(69)	(54)
Borrowing cost paid		49	136	191	213
(Profit)/loss on sale of non current assets		(15)	(22)	(5)	–
Consideration paid for tax losses		–	–	1,247	327
Add/(less) non-cash items:					
Doubtful debts		97	52	77	33
Depreciation		596	731	–	–
Increase/(decrease) in income taxes payable	5(b)	3,669	3,074	3,669	3,074
(Increase)/decrease in future income tax benefits	5(d)	(7,175)	97	(7,801)	74
Increase/(decrease) in deferred taxes payable	5(c)	(1,123)	(476)	(1,120)	(476)
Share of associates' net (profit)/loss		(114)	(169)	–	–
Net cash provided by operating activities before change in assets and liabilities		(2,462)	240	(817)	410
Change in assets and liabilities					
(Increase)/decrease in receivables (1)		6,075	7,055	5,450	9,354
(Increase)/decrease in inventories	9	(10,092)	105	(10,198)	–
(Increase)/decrease in prepayments	12	(199)	(88)	(105)	(54)
(Increase)/decrease in net progress payments received (2)		37,893	3,248	38,062	1,899
Increase/(decrease) in trade creditors (3)		(4,335)	108	(3,840)	(410)
(Increase)/decrease in provisions (4)		2,301	(5,754)	2,227	(5,951)
Net cash provided by operating activities		29,181	4,914	30,779	5,248

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS//:

FOR THE YEAR ENDED 30 JUNE 2003

		CONSOLIDATED		THE COMPANY	
	NOTE	2003 \$000	2002 \$000	2003 \$000	2002 \$000
30 NOTES TO THE STATEMENT OF CASH FLOWS (continued)					
(b) Reconciliation of operating profit after income tax to net cash provided by operating activities (continued)					
(1) (Increase)/decrease in receivables is comprised of:					
Prima-facie movement in trade debtors	8	7,510	3,474	6,885	5,773
Prima-facie movement in contract debtors	8	(486)	3,486	(486)	3,486
Prima-facie movement in sundry debtors and other loans	8	(1,104)	(485)	(1,104)	(485)
Add/(less) item included in movement of invested funds:					
Accrued interest income		155	580	155	580
		6,075	7,055	5,450	9,354
(2) (Increase)/decrease in progress payments is comprised of:					
Prima-facie movement in net progress payments	14	34,229	15,087	34,384	13,500
Adjustment for unrealised intercompany profit		(14)	(240)	—	—
Profit on release of loan		—	(18,109)	—	(18,110)
(Profit)/loss on sale of Fixed assets		(216)	6	(216)	6
Movement in Provision for Doubtful Debt in work in progress		—	2,080	—	2,080
Depreciation		3,894	4,424	3,894	4,423
		37,893	3,248	38,062	1,899
(3) Increase/(decrease) in trade creditors & accruals is comprised of:					
Prima-facie movement in trade creditors & accruals	14	(4,341)	107	(3,846)	(411)
Movement in unrealised gain/loss on Foreign exchange on NSMP		6	1	6	1
		(4,335)	108	(3,840)	(410)
(4) Increase/(decrease) in provisions is comprised of:					
Prima-facie movement in provisions for employee entitlements	16	2,501	1,192	2,227	1,138
Prima-facie movement in provisions for warranty	16	—	(40)	—	—
Prima-facie movement in provisions for redundancy & termination	16	(200)	(9,106)	—	(9,289)
Prima-facie movement in other provisions	16	—	2,200	—	2,200
		2,301	(5,754)	2,227	(5,951)

		CONSOLIDATED		THE COMPANY	
		2003	2002	2003	2002
	NOTE	\$000	\$000	\$000	\$000
30 NOTES TO THE STATEMENT OF CASH FLOWS (continued)					
(c) Reconciliation of net (increase)/decrease in invested funds					
(Increase)/decrease in term deposits	7	(1,664)	920	(1,664)	919
(Increase)/decrease in marketable interest securities	10	(31,357)	(20,631)	(31,357)	(20,630)
Profit/(loss) on sale of securities		5	—	5	—
		(33,016)	(19,711)	(33,016)	(19,711)

CORPORATE DIRECTORY//:

Directors

J B Prescott, AC
(Chairman)

Dr S J Gumley
(Chief Executive Officer
and Managing Director)

C N H Bagot

G R Bulmer

General (Rtd) J Baker,
AC, DSM

S E Young

Company Secretary

T Kuhlmann

Auditors

Australian National Audit
Office and KPMG
(as agent for ANAO)

Solicitors

Mallesons Stephen Jaques

Bankers

Westpac Banking Corporation

ASC Offices:

Office of the Chairman

28/140 William Street
Melbourne VIC 3000

Telephone: +61 3 9642 2518

Facsimile: +61 3 9642 2517

Registered Office

Mersey Road
Outer Harbor SA 5018

GPO Box 2472

Adelaide SA 5001

Telephone: +61 8 8348 7000

Facsimile: +61 8 8348 7001

Western Australia

PO Box 599

Rockingham WA 6168

Telephone: +61 8 9553 5566

Facsimile: +61 8 9553 5560

Canberra

Level 11, St George Centre,

60 Marcus Clarke Street

Canberra ACT 2601

Telephone: +61 2 6243 5131

Facsimile: +61 2 6243 5143



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