



ASC Pty Ltd
Annual Report

05

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Key Highlights

- ASC selected as preferred shipbuilder for the Air Warfare Destroyer project.
- Successful completion of the first Full-Cycle Docking of a Collins Class submarine.
- Achievement of 'designer' status for the Collins Class submarines.
- Repositioning of Australian Submarine Corporation as ASC.
- ASC awarded an Engineers Australia Excellence Award for the in situ main motor repairs on HMAS *Farncomb*.
- HMAS *Rankin* wins the Royal Australian Navy's Gloucester Cup for 2004.
- ASC and Defence Science and Technology Organisation sign a three year industry alliance agreement to improve submarine-related technology and innovation.
- ASC strategically aligns with the Australian Institute of Project Management to become a Project Managed Organisation.
- Awarding of a \$20 million continuation of ASC's submarine training services contract for the Royal Australian Navy.
- Agreement with Engineers Australia to facilitate the professional development of all ASC engineers to meet Australian Government requirements.
- Achievement of over 80% of performance incentives in the first year of the Through-Life Support contract.



Company Profile

Formerly known as Australian Submarine Corporation, ASC was established in 1985 and was chosen in 1987 as the prime contractor for the design, manufacture, upgrade and delivery of the Royal Australian Navy's (RAN) fleet of Collins Class submarines.

The six submarine class of HMAS *Collins*, HMAS *Farncomb*, HMAS *Waller*, HMAS *Dechaineux*, HMAS *Sheean* and HMAS *Rankin* are widely considered the best conventional submarines in the world.

Designed to meet the unique needs of the RAN, the six submarines are key elements of the Australian Defence Force. The submarines operate using the most advanced technology available. The sixth and final submarine, HMAS *Rankin*, was delivered to the RAN in 2003.

ASC was privately owned until late 2000 when the Australian Government took full ownership of the company. The first phase of a reform process intended to facilitate the onward sale of ASC into the private sector followed this acquisition.

The Electric Boat division of the US corporation General Dynamics was appointed ASC's capability partner in a tripartite agreement between the Australian Government, ASC and Electric Boat in 2002. The appointment recognised the need for ASC to shift its focus from building world-class submarines to providing design and maintenance services for them.

In December 2003, ASC signed a 25 year, \$3.5 billion contract for the through-life support of the Collins Class submarines. The contract awards ASC with responsibility for the ongoing design enhancements, maintenance and support of the submarines until the end of their operational lives.

In recognition of the company's changing role within the Australian Naval Shipbuilding and Repair Sector, Australian Submarine Corporation relinquished its name and old branding in favour of a new name – ASC – and a fresh new identity. The change sent a clear signal to Australia's defence industry that ASC was ready and capable of taking on new challenges.

On 31 May 2005, ASC, in collaboration with its shipbuilding capability partners – Bath Iron Works and Sinclair Knight Merz, was selected as the preferred shipbuilder for Australia's \$6 billion Air Warfare Destroyer project.

Home to over 1,000 employees predominantly located in South Australia and Western Australia, ASC remains Australian Government-owned and is Australia's largest repository of high-end naval engineering and design skills.

Financial Summary

ASC and its controlled entities achieved a consolidated after tax profit for the year ended 30 June 2005 of \$16.2 million compared to \$16.1 million after tax profit in 2004.

The directors have declared a fully-franked final dividend of \$7.2 million. The dividend will be payable at a date yet to be determined. The final dividend is in addition to the interim fully-franked dividend of \$2.5 million, paid on 18 April 2005. The 2004/05 total dividend represents a distribution to the shareholder of \$9.7 million, compared with \$5 million in the 2003/04 financial year.

During the 2004/05 financial year, ASC has undertaken several key initiatives to position itself for continued success:

- ASC achieved the status of 'self insurer' under the Workers' Rehabilitation and Compensation Act. Under this initiative, ASC will look after the interests of its workers and will subsequently expect to lower its workers' insurance compensation costs.

- ASC elected under AASB 1041 to value all land and buildings on a fair value basis. All land and buildings were independently valued, resulting in an increase to the asset revaluation reserve of \$42.7 million.
- ASC examined the likely impact of the implementation of the Australian equivalent of the International Financial Reporting Standards (AIFRS), resulting in an estimated reduction in net assets of \$11.7 million in the year 2004/05 and a further reduction of \$0.8 million in the following year.

ASC Group - 5 Year Financial Overview

	FY 2004/05 \$m	FY 2003/04 \$m	FY 2002/03 \$m	FY 2001/02 \$m	FY 2000/01 \$m
Revenue from rendering of services	217.0	243.6	148.4	141.8	195.4
Other revenues from ordinary activities	12.3	12.3	10.3	4.5	5.7
Total revenue	229.3	255.9	158.7	146.3	201.1
Operating profit before tax	20.6	23.6	8.9	1.7	12.4
Operating profit after tax	16.2	16.1	5.9	0.1	7.1
Total assets	293.9	243.5	236.7	196.7	206.7
Total shareholder equity	119.4	70.2	59.1	53.2	53.1
Total fully-franked dividend declared	9.7	5.0	-	-	-

Chairman's Report



2005 marks ASC's fundamental transition from a single project business to a sustainable, multi-project company.

The measure of ASC's success in 2005 is highlighted by the:

- Successful completion of several submarine projects;
- Continued strengthening of ASC's 'designer', management and technical capabilities; and
- Appointment as the Air Warfare Destroyer preferred shipbuilder.

ASC also recorded a before tax profit of \$20.6 million.

Submarine Business

In the year under review, there was a double milestone for submarine work:

- The original submarine build contract, signed in 1987, was closed. This marked the completion of all work, including warranty work and many submarine upgrades, under that contract; and
- It was the first period in which most submarine maintenance work was carried out under ASC's Through-Life Support (TLS) contract, signed in December 2003.

The Collins Class' first Full-Cycle Docking (FCD) was successfully completed on HMAS *Farncomb*, while several other maintenance periods were undertaken on the fleet in South Australia, Western Australia and overseas ports.

Notwithstanding the relatively high levels of emergent work identified during some of the activities, ASC ensured that substantial compliance to the submarine schedule was maintained. In fact, the company's Western Australia operations achieved 11 consecutive maintenance activities on time and, as a result, significant incentive payments for performance were earned.

In the future, all submarine maintenance work will be undertaken under the TLS contract with the criteria for incentives shifting from schedule achievement to available sea-days, consistent with the Royal Australian Navy's (RAN) requirements. It is pleasing to report that the schedule details and the cost of TLS work for the 2005/06 period was agreed on time, which reflects a continuing improvement in ASC's relationship with its customer organisations – Defence Materiel Organisation (DMO) and the RAN.

Air Warfare Destroyer Shipbuilder

ASC's appointment as the Air Warfare Destroyer shipbuilder was not simply a matter of winning a competitive bid. It was the culmination of a strategy developed and implemented over many years. The key elements of that strategy included:

- Cultural change from an adversarial contractor to a committed service delivery partner;
- Organically growing ASC's high-end skills;

- Focusing on customer outputs;
- Transitioning to submarine 'designer';
- Stabilising ASC's underlying submarine maintenance business; and
- Establishing alliances with world-leading capability partners.

Achieving our strategy was only possible due to the sustained contribution of ASC's management and staff over many years.

Management and Capability

Improvement in relations with those we serve has been a high priority for the Board and this will continue. As ASC diversifies, it will be a great challenge and we seek to embed the necessary attitudes within the workforce and through all future appointments.

In October 2004, Greg Tunny was appointed Managing Director and Chief Executive Officer, following Dr Stephen Gumley's departure to head DMO the previous year. Greg Tunny brings valuable defence industry and systems development experience to the role, and already the company is experiencing benefits from his contribution.

In the period between Dr Gumley's resignation and Greg Tunny's appointment, Graeme Bulmer stood down as a company director to become the Acting Chief Executive Officer. The Board acknowledges the significant contribution Graeme Bulmer made in pursuing the company's objectives; the outcomes achieved during the year reflect Graeme Bulmer's efforts.

Many other key additions to our technical and specialist workforce were made during this period, significantly adding to the high-end skills base that reinforces ASC as the largest repository of naval designer, shipbuilding and repair personnel in Australia.

Further appointments made to ASC's executive ranks will broaden the company's management capabilities for both submarines and surface warships, and subsequently strengthen the team working with Greg Tunny and John Gallacher, Chief Executive Officer of ASC Shipbuilding.

Capability Partners

Perhaps one of ASC's greatest strengths is its ability to recognise its shortcomings and to achieve harmonious and effective long-term partnerships to fill those shortcomings.

With Electric Boat's support, ASC achieved 'designer' status for the Collins Class submarines on 31 December 2004; another major milestone for the year. ASC is the only Australian company to have achieved designated warship designer status under the RAN's regulatory framework.

In terms of the AWD program, ASC identified gaps in its shipbuilding knowledge and sought to fill those gaps. In 2004, ASC formed long-term alliances with Electric Boat's sister company, Bath Iron Works (the designer and builder of the US Navy's Arleigh Burke AEGIS guided missile destroyers), and with the Australian engineering firm, Sinclair Knight Merz.

Sale Readiness Preparation

Currently owned by the Australian Government, ASC will return to the private sector at some stage. The 2005/06 Federal Budget has allowed a provision for a scoping study of ASC to determine the most appropriate method and timing of the sale.

The Board has a responsibility to support Senator Nick Minchin, Minister for Finance and Administration, and his directions with regard to the progression of ASC into the private sector, and as such the Board has the following objectives:

- Protection of the national interest;
- Maintenance of a competitive naval shipbuilding and repair industry;
- Ensuring the sustainability of ASC post-privatisation;
- Minimising ongoing risk to the Australian Government; and
- Enhancing the sale value of ASC.

To achieve these objectives, the Board continues to implement aggressive sale readiness preparations.

Going Forward

The support of our shareholder, Senator Nick Minchin, has provided comfort to the Board in formulating and executing its strategies throughout the year.

In many ways 2005 is the end of the beginning. Legacy issues have been addressed and a course set for the future. ASC in 2005 is a much more capable organisation than it was when the Australian Government assumed full ownership in 2000.

The challenge for the Board, management and staff is to ensure that the lessons of the past are remembered and the momentum thus far achieved is sustained.

On behalf of the Board, I thank management and staff for their contribution to the company's success in 2005 and look forward to ASC capitalising on that success in the future.



John Prescott AC
Chairman

Board of Directors



Charles Bagot (58)

Non-Executive Director
LLB (Hons)

Director since 2000 and a member of the Nomination and Remuneration Committee. Mr Bagot is a member of the councils of the University of Adelaide and St Marks College. He has practised as a commercial lawyer for more than two decades as a partner at the firm Piper Alderman. During this time he has led teams of lawyers in major commercial transactions and in corporate litigation.

General (Rtd) John Baker AC DSM (69)

Non-Executive Director
BEng

Director since 2002 and a member of the Audit Committee. General Baker was previously the Chief of the Australian Defence Force. He has held a number of other key appointments with the Defence Force, including Head of the Defence Intelligence Organisation, Chief of Logistics (Army), Commander of Second Military District and Director of Joint Services Policy.

Greg Tunny (45)

Managing Director and Chief Executive Officer
MBA, BSc (Physics)

Appointed Managing Director and Chief Executive Officer in 2004. Previously, Mr Tunny was the Managing Director of Thales Air Traffic Management (ATM) (Australia) and Regional Director Asia. Prior to Thales, Mr Tunny was the Director of Business Development at ADI Limited, one of Australia's largest defence contractors. He also spent six years as the General Manager of ADI's software and systems business.



John Prescott AC (64)

Chairman
BComm (Industrial Relations)

Appointed Chairman in 2000 and is Chairman of the Nomination and Remuneration Committee. Mr Prescott is also a Director of Newmont Mining Corporation, Chairman of Sunshine Coast Business Council, a global counsellor for The Conference Board and a member of WorkCover (Victoria) Safety Development Fund Panel. Previously, he was the Managing Director and Chief Executive Officer of BHP. Mr Prescott has served on many Australian and international industry committees and advisory bodies, and was also an advisor to the Minister for Defence.

Graeme Bulmer (66)

Non-Executive Director
Dip.Chem, Dip.ChemEng

Director since 2000 and a member of the Audit Committee. Previously, Mr Bulmer was the Acting Chief Executive Officer of ASC, the Chief Executive Officer of BTR Automotive Asia Pacific, and has served as Chairman on various Australian and international 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 also been a director of BTR Nylex, Westlake Styrene Corporation (USA), Titan Petrochemicals (Malaysia) and Titan Polymers (Malaysia).

Stephen Young FCA (50)

Non-Executive Director
BEc

Director since 2002 and Chairman of the Audit Committee. Mr Young is the Executive Chairman of Adelaide-based merchant bank, Equity & Advisory. Mr Young is a director for Louminco, HarvestRoad, A Raptis & Sons Group and Shaw & Smith, while also being a council member of The University of Adelaide. Previously, Mr Young was a member of the Premier's Roundtable, ETSA Corporation and Land Management Corporation.

Managing Director's Report



ASC has achieved many successes in the 2004/05 financial year. As well as being selected as the preferred shipbuilder for the Air Warfare Destroyer (AWD) project, the company also completed the first Full-Cycle Docking of a Collins Class submarine, achieved 'designer' status for the Collins Class submarines and was awarded an Engineering Australia Excellence Award for the in situ motor repairs on HMAS *Farncomb*. It has been a year of great progress and of many achievements for which the company can be proud.

Air Warfare Destroyer Success

Winning the AWD project was a company changing event; no more will ASC be defined solely as a submarine builder and maintainer. With the announcement that ASC Shipbuilding was unanimously chosen as the preferred shipbuilder for this contract, the company earned the right to construct some of the world's most technologically advanced ships for the Royal Australian Navy (RAN).

To win this amazing opportunity, members of ASC worked tirelessly with the company's partners and advisors – Bath Iron Works, Sinclair Knight Merz and Macquarie Bank. In addition, the South Australian Government deserves special recognition for its contribution, which was important to ASC's success.

The AWD will be one of the most significant shipbuilding projects ever undertaken in this country and, like the Collins

Class submarine project before it, will provide enormous opportunity for Australian industry.

Performance

The company once again produced a strong profit of \$16.2 million for the 2004/05 financial year, which is in line with the previous financial year's profit of \$16.1 million.

This is an excellent result, despite the one-off cost the company incurred bidding for the AWD contract, as well as the company's ongoing commitment to providing outstanding services to the customer at a lower cost.

Through-Life Support

The signing of the Through-Life Support (TLS) contract in December 2003 provided a stable basis to plan for the future.

The first full year of the TLS contract has proved highly beneficial for Defence Materiel Organisation (DMO) in that it has focussed ASC's attention on achieving customer outcomes; in particular value for money and schedule achievement. This innovative contract has played an important role in forming a closer relationship between ASC and DMO.

While there is still work to be done, ASC now enjoys a much closer relationship with DMO than at any other time in the

company's 20 year history. The strength of this relationship will be important as the company faces challenges from both the AWD program and the Collins TLS programs over the next 20 years.

High-End Skills

ASC has established itself as a key repository of high-end skills for naval shipbuilding. While during the latter part of the submarine build program these skills had been allowed to greatly diminish, ASC has actively sought to reverse this trend in recent years.

From 2002, ASC embarked on an ambitious program of increasing its high-end skills set to meet the growing demands of the submarine community. After recruiting from around the world, ASC now boasts a team of over 250 naval engineers and technicians – by far the single largest repository of naval engineering skills in Australia. This team will provide the core of ASC's design and engineering effort, for both the Collins TLS and the AWD programs in the years to come.

Customer Outcomes

With the goal of improving ASC's performance with regard to the key customer outcomes of schedule and available sea-days, ASC restructured its Western Australian operations in 2003.

During 2004/05, ASC's Western Australian operations achieved 11 consecutive maintenance availabilities on time; a great result. The company is now focused on achieving the RAN's available sea-days requirements and has agreed to incentivise its performance to focus on achieving these outcomes.

Submarine Designer

With the progressive withdrawal of technical support by the designer of the Collins Class submarines from 2000, ASC was forced to develop its own design capability. In October 2002, ASC proceeded down a path aimed at achieving certification as submarine 'designer' under the RAN's Technical Regulatory framework. With assistance from ASC's submarine capability partner, Electric Boat, the company achieved submarine 'designer' status in December 2004.

While this is a great achievement – ASC is the only Australian shipbuilder to achieve warship design authority status – it is important that ASC continues to increase its capability to capitalise on future opportunities.

Achievements

While the AWD win has rather overshadowed all other significant achievements during the 2004/05 period, there are other milestones attained during the period that should be acknowledged:

- The completion of the first Full-Cycle Docking of a Collins Class submarine was recognised on 25 August 2004 when ASC transferred materiel control of HMAS *Farncomb* back to the RAN;
- On 5 October 2004 the company changed its name from Australian Submarine Corporation to ASC Pty Ltd in an effort to better represent the company's changing role;
- ASC was awarded Australia's highest engineering honour – an Engineering Australia Excellence Award – on 24 November 2004 for an in situ refurbishment of HMAS *Farncomb*'s main motor;
- ASC signed a three-year industry alliance agreement with Defence Science and Technology Organisation on 26 April 2005, which will see a more strategic approach and collaboration between the two organisations in the development of innovative submarine-related technologies; and
- HMAS *Rankin*, the sixth Collins Class submarine, won the RAN's prestigious 2004 Gloucester Cup for being foremost in all aspects.

Future

While the excitement of winning the AWD shipbuilding project is still rippling throughout the organisation, ASC has recognised that now is the time for only modest celebrations.

The 2005/06 financial year will bring its own wave of challenges, including the beginning of infrastructure development at the Osborne Maritime Precinct to support construction of the AWDs; working with DMO and the other members of the AWD alliance towards 'second pass' approval by government; and beginning the exciting challenge of training, sourcing and recruiting a shipbuilding workforce that will build the three AWDs.

ASC is much stronger, smarter and better prepared than at any other time in its history and is looking forward to its future challenges.



Greg Tunny
Managing Director

Executive Group



Top Row, L-R:

Alf Aschenbrucker (56)

Group Quality Manager
B.App.Sc, Grad.Dip (Bus Admin)

Doug Callow (56)

Chief Operating Officer – Submarines
BSc, MSc, FIEAust, CPEng

Brian Archer (54)

General Manager – Human Resources
Dip (Education)

Bottom Row, L-R:

Vladimir Malcik (50)

Chief Financial Officer
MBA, Grad.Dip (Finance), B.Bus, FCPA

Tony Kuhlmann (39)

General Manager – Commercial and Legal
General Counsel
Company Secretary
BA, LLB, GDLP



Top Row, L-R:

Robert Lemonius (54)

Western Australia Submarine Operations Manager
Commonwealth Centenary Medal 2003

Ross Milton (58)

Deputy Chief Executive Officer
BE, FIEAust, CPEng

Martin Edwards (41)

Business Development Manager – ASC Shipbuilding
BMgt, Dip.Eng, CPEng

Bottom Row, L-R:

Mark Gobell (52)

Works Manager
BTech.Mech.Eng, Grad IEAust

Jack Atkinson (55)

General Manager – Design and Engineering
BE, MEngSci, FIEAust, CPEng

John Gallacher (56)

Chief Executive Officer, ASC Shipbuilding

Osborne Maintenance and Upgrades

Financial year 2004/05 started with the completion of HMAS *Farncomb*'s Full-Cycle Docking (FCD) in August 2004. The boat sailed from Osborne to re-join the operational fleet in November following sea trials.

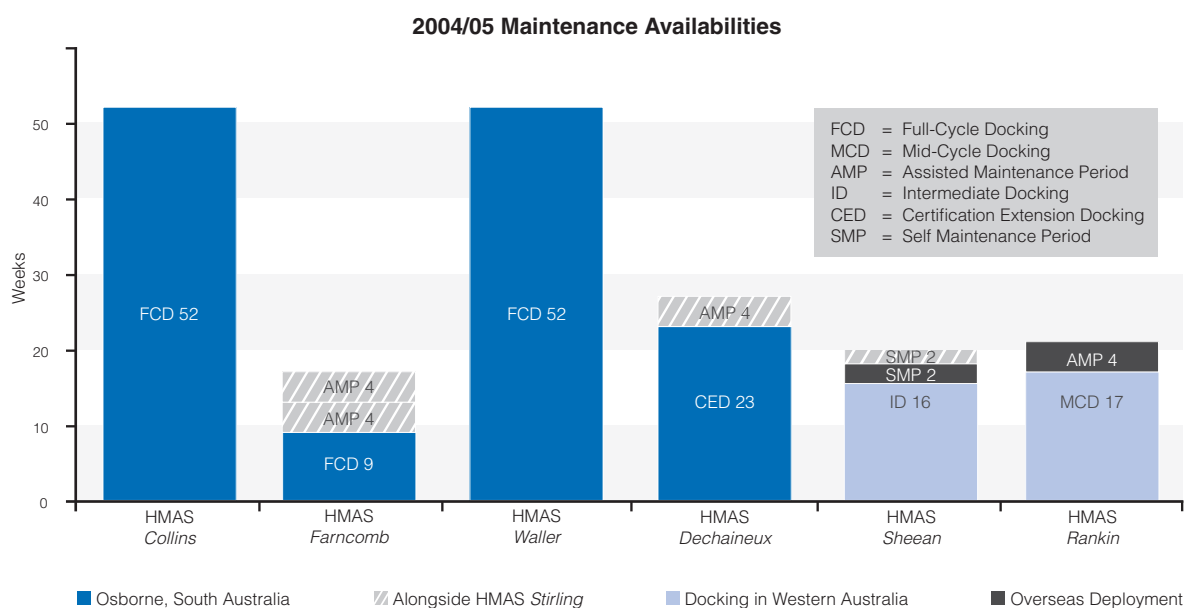
The FCD of HMAS *Collins* continued throughout the year, with the boat returning to the water for the first time in four years on 9 March 2005. The incorporation of special forces modifications was successful, with exit/re-entry capability, including modifications to the Conning Tower, implemented during the FCD. In addition, Halon Distribution System modifications were also implemented on HMAS *Collins* during the 2004/05 period. Subsequent harbour trials were successful and the boat was returned to the Royal Australian Navy at the end of July 2005.

HMAS *Waller* arrived at Osborne to begin its FCD just prior to the start of the financial year. As part of the docking, HMAS *Waller* is being significantly enhanced to incorporate an upgrade of the Halon Distribution System (fire fighting), a new combat system and heavyweight torpedoes.

The submarine will remain at ASC during the whole of the 2005/06 financial year. Sewage Automation design enhancements have also been developed during the period, with full implementation to take place on HMAS *Waller* during its FCD.

In November 2004, HMAS *Dechaineux* arrived at Osborne to undertake a Certification Extension Docking (CED). The CED was completed successfully on schedule, with the boat returning to service in May 2005.

The 2004/05 financial year was an extremely busy time in Osborne. Future years will see a more measured pace of activities with one boat in the facility undergoing an FCD for the majority of the time. The remaining boats of the fleet are based in Western Australia, where all other maintenance activities are undertaken.



Western Australian Maintenance

The first year of operation under the Through-Life Support contract has provided the Western Australian team with the opportunity to improve the management and conduct of maintenance work carried out in support of the Collins Class submarines.

Major improvements in teamwork between ASC and its subcontractors, suppliers and customer organisations have resulted in significantly improved outcomes for the Royal Australian Navy (RAN). The results of this effort are very encouraging and are enabling clearer definition for the respective roles each organisation plays in supporting the submarine fleet. The measure of this outcome is visible through the results of the quarterly and end-of-activity two-way feedback forms completed by ASC personnel and ASC's customers.

During the 2004/05 financial year, six submarine maintenance activities were undertaken in Western Australia. An additional two Self Maintenance Periods (SMP) involving RAN and ASC personnel were conducted in Singapore and Japan.

Following the completion of HMAS *Farncomb*'s FCD at Osborne, two Assisted Maintenance Periods (AMP) were undertaken alongside HMAS *Stirling* in December 2004 and during April/May 2005. HMAS *Dechaineux* undertook an AMP in July 2004 prior to its Certification Extension Docking at Osborne.

HMAS *Sheean* had an SMP in August 2004 at HMAS *Stirling* and in June 2005 while deployed in Japan. An Intermediate Docking of sixteen weeks duration between October 2004 and February 2005 followed the SMP.

An AMP was undertaken on HMAS *Rankin* in October/November 2004, while the submarine was alongside at HMAS *Stirling*. A Mid-Cycle Docking was also completed on HMAS *Rankin* from March to July 2005.

The management and provision of submarine training services has continued throughout the year. The maintenance of training school equipment, systems and simulators has been performed in accordance with the training plan, with no defects causing any lost time within the training schedule.

In recognition of ASC's continued excellence in the provision of training school services, a new 5 year, \$20 million contract was signed on 24 June 2005. This contract with Naval Training Command provides ASC with the opportunity to continue supporting the RAN with the high level of training support required to operate and maintain the Collins Class submarines over the next five years.

ASC has welcomed the decision by the Western Australian Government to redevelop the Australian Marine Complex Common User Facility. As part of this development, ASC will be constructing a new submarine facility, creating improved submarine docking and maintenance capabilities, as well as an improved working environment for staff.

Maintenance Availabilities

Availability	Result
HMAS <i>Dechaineux</i> AMP	✓
HMAS <i>Sheean</i> SMP	✓
HMAS <i>Rankin</i> AMP	✓
HMAS <i>Farncomb</i> AMP	✓
HMAS <i>Sheean</i> ID	12 days late
HMAS <i>Dechaineux</i> CED	4 days late
HMAS <i>Farncomb</i> AMP	✓
HMAS <i>Sheean</i> SMP	✓
HMAS <i>Rankin</i> MCD	✓
HMAS <i>Collins</i> FCD	✓

FCD = Full-Cycle Docking
MCD = Mid-Cycle Docking
AMP = Assisted Maintenance Period
ID = Intermediate Docking
CED = Certification Extension Docking
SMP = Self Maintenance Period

Completion of the First Full-Cycle Docking of a Collins Class Submarine

2004/05 Highlight



L-R: HMAS *Farncomb* in ASC's Outfitting Shop, in the midst of its Full-Cycle Docking (FCD).

HMAS *Farncomb* docked alongside ASC, undertaking Harbour Acceptance Trials.

HMAS *Farncomb* sails, following the completion of its FCD, accompanied by Adsteam's tug-boat *Tingar*.



Transfer of Materiel Control of HMAS *Farncomb* to the Royal Australian Navy (RAN) was undertaken on 25 August 2004, bringing to a successful close ASC's first Full-Cycle Docking (FCD).

An FCD constitutes a major overhaul and refurbishment, which takes up to two years to complete, at a cost of more than \$100 million. HMAS *Farncomb*'s FCD included capability improvements.

Completion of the FCD represented a significant milestone for ASC, the RAN and the subcontractor community. It provided a baseline for future FCDs, with many lessons learnt already being put to good use in other projects.

The work scope included significant milestones that were achieved through inter-departmental collaboration within ASC as well as collaboration with the Australian Government.

To complete HMAS *Farncomb*'s FCD:

- Over 4,120 line items of work, plus 1,251 Emergent Work Proposals were undertaken;
- Some 642,000 ASC personnel hours, including some 108,000 hours of emergent work, were completed; and
- More than 4,600 new components were purchased.

The successful completion of ASC's first FCD is an illustration of the technical capability and strength that has been established within ASC.

Design and Engineering

ASC's Design and Engineering group has grown in depth and diversity during the 2004/05 financial year, strengthening its role as submarine designer for the Collins Class submarines.

Specialist submarine engineering skills have been recruited from Sweden and the United Kingdom to accelerate the maturity of the team, support major design enhancements on HMAS *Collins* and HMAS *Waller*, and support ongoing maintenance activities across the fleet.

Electric Boat, ASC's capability partner, has continued to support Design and Engineering. Under its recently signed strategic agreement with the Defence Science and Technology Organisation, ASC is working in cooperation on specialist areas of submarine design, such as structural analysis, noise and vibration signature improvements, and sensor integration.

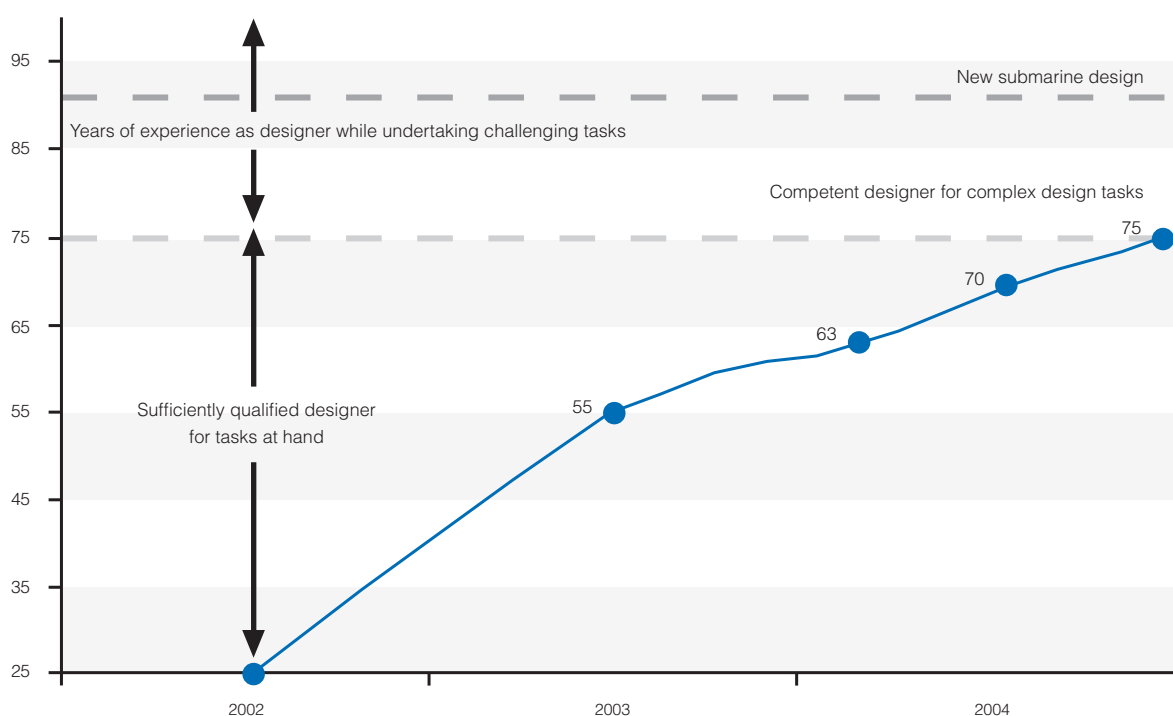
ASC has continued to broaden the technical support network for the submarines and has strengthened its in-country skills base, with a comprehensive technical and personnel development training program.

Electric Boat's benchmarking system, to assess 'designer' status, continues to be utilised to measure the company's growth in maturity and capability. Design and Engineering's objective is now set on achieving the necessary strength, in the coming years, to be able to deliver the next generation replacement for the Collins Class.

The involvement of key subcontractors and universities in research is also building upon Australia's in-country skills base.

During the 2004/05 financial year, the number of Design and Engineering personnel has increased by 17% to 250 engineering and technical specialists, with an expectation that the team will consolidate to 260 personnel during the next financial year.

ASC's 'Designer' Capability Maturity



Continuous improvement with the introduction of more efficient work processes, improved engineering tools, better integration of engineering management systems and focused training have been key objectives this past year. Measurement techniques, such as Capability Maturity Model Integrated (CMMI) appraisals, are being introduced to supplement the group's Key Performance Indicator (KPI) measures, to enable a broader assessment of performance trends.

During the year, Design and Engineering has undertaken a series of complex tasks, including:

- The integration of a new combat system, based on the United States Navy Tactical Command and Control system on the Virginia Class nuclear submarines;
- Structural changes to accommodate a new heavyweight Mk48 torpedo;
- Design changes to improve the reliability and safety of the submarine; and
- The installation of special forces' capability to support covert operations on HMAS *Collins*.

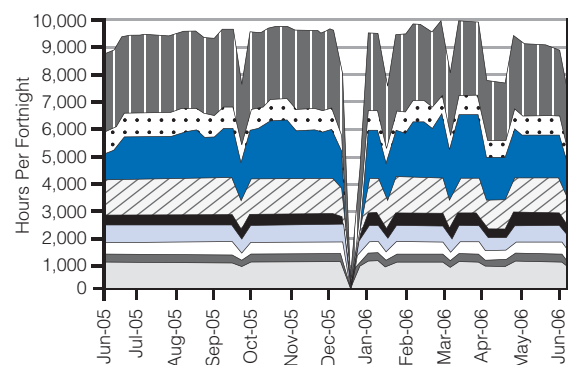
Comprehensive earned value management systems ensure all design and engineering tasks are closely tracked, with scheduling tools integrated within the whole-of submarine project management systems.

The coming 2005/06 period presents some interesting challenges for Design and Engineering, following ASC's success in being selected as shipbuilder for the Air Warfare Destroyer project.

Objectives for the next financial year include:

- Planning integration of the engineering organisation to accommodate both the new shipbuilding project and submarine through-life support objectives;
- Consideration of a skills mix and targeted resource development;
- Continuous improvement programs and expansion of the technical support network;
- Additional training; and
- Research and development.

2005/06 Planned Work



Graph includes company shutdown over the Christmas period.



ASC Achieves Submarine 'Designer' Status

2004/05 Highlight



L-R: HMAS *Rankin* prepares for Collins Class shock trials, designed to prove the class' technical capability, design strength and superiority.

Detonation of a mine during shock trials to test the submarine's ability to withstand stresses caused by explosions.

HMAS *Rankin* returns to ASC having suffered no ill effects from the shock trials, thereby reinforcing the strength of the Collins Class design.



In December 2004, ASC became Australia's only shipbuilder that is also a warship technical design authority – an achievement measured by the company's 'designer' scorecard.

The score is a measure of a number of criteria, as determined by representatives of Electric Boat (ASC's capability partner) and the United States Navy, as competencies required by a capable warship designer.

ASC's achievement of its warship 'designer' status provides credibility for ASC's submarine and shipbuilding business going forward, and will underpin the value of ASC in the future.

The achievement follows more than two years of hard work, stringent monthly assessments, doubling engineering staff numbers and revamping ASC's engineering processes and procedures.

The result was worthwhile – ASC now has an engineering organisation with the size, depth, breadth and experience to be a capable warship designer.

While the benefits this milestone brings to ASC's business practices and its customer outcomes are numerous, most importantly the achievement recognises ASC as a repository of people with all the skills required to competently handle any significant submarine or shipbuilding requirement.

Capability Partners

Electric Boat Corporation

General Dynamics' subsidiary, Electric Boat (EB), was engaged in 2002 as a capability partner to assist ASC in becoming the submarine 'designer' for the Collins Class submarines.

With more than a century of experience, EB has established standards of excellence in the design, construction and lifecycle support of submarines for the United States Navy (USN).

Regarded as the premier designer and builder of nuclear submarines in the United States, EB is the lead designer of the Virginia Class submarine and is responsible for the construction of two of the first four boats within the class.

Based in Groton, Connecticut, EB has become an integral partner by assisting ASC in its transition from a builder of submarines to a provider of design, engineering, upgrade and maintenance services.

Bath Iron Works

Bath Iron Works (BIW), another General Dynamics' subsidiary, was engaged in early 2004 to undertake a capability assessment and planning study to identify ASC's strengths and weaknesses to undertake Air Warfare Destroyer design and construction activities.

BIW's experience, gained as the lead designer and builder of the Arleigh Burke Class AEGIS guided missile destroyer for the USN, enabled them to utilise their own premier standards and procedures to provide valuable planning information for ASC to respond to the SEA 4000 Air Warfare Destroyer Request for Proposal.

Since the 1950s, BIW has served as the lead shipyard for ten surface ship classes produced by the USN – more than any other United States' shipyard. Today, BIW is the most technologically advanced surface combatant shipbuilder in the world.

Based in Bath, Maine, BIW has entered into a strategic partnership with ASC for the provision of project management, technical and production management support for ASC's future shipbuilding activities.

Sinclair Knight Merz

Sinclair Knight Merz (SKM) was engaged as a strategic partner in 2004 for ASC's shipbuilding activities.

SKM is Australia's largest independent technology consulting organisation, with over 3,000 personnel across Australia and another 1,350 globally. In addition to its capability in assessing, developing and managing the delivery of significant infrastructure and development projects, SKM also has a large independent naval platform design capability.

SKM has had experience on almost all vessels within the Royal Australian Navy's surface fleet, including work in design authority roles in naval platform engineering disciplines. ASC entered into a strategic partnership agreement with SKM for support in the delivery of the Air Warfare Destroyer project.

Submarine Through-Life Support

The Through-Life Support (TLS) contract for the Collins Class submarines was signed by Defence Materiel Organisation (DMO) and ASC on 8 December 2003. The fifteen-year agreement, with two five-year options, awards ASC with the responsibility for the ongoing design enhancements, maintenance, upgrades and support of the submarines throughout their operational lives.

The 2004/05 financial year was the first year that ASC's submarine business operated under the TLS contract.

Prior to the award of the contract, ASC recognised the need for the company to evolve from a submarine builder to a submarine 'designer', upgrader and maintainer.

Equally important to ASC's success, the company recognised the need to 'team' with DMO and other stakeholders while also strengthening the 'team' culture within ASC. This approach has proven to be the best way to make effective use of the company's inherent skills and capabilities.

As a supplier of design, capability and maintenance services, this past year ASC has focused on:

- Predictable and consistent performance;
- Responsiveness and flexibility in light of changing requirements;
- Adding value to the customer's operations; and
- Continual improvement.

During the year, ASC continued to strive towards achieving a positive, service oriented and responsive relationship with DMO.

The TLS contractual arrangements have provided new opportunities that have been accepted and embraced by both organisations.

Under the TLS contract, ASC has the opportunity to earn financial incentives based upon performance milestones. During the 2004/05 period, ASC achieved over 80% of the available performance incentives and, in turn, these incentives have positively influenced the accomplishment of desired outcomes, including the progression of designs, schedule achievement and improved cooperation.

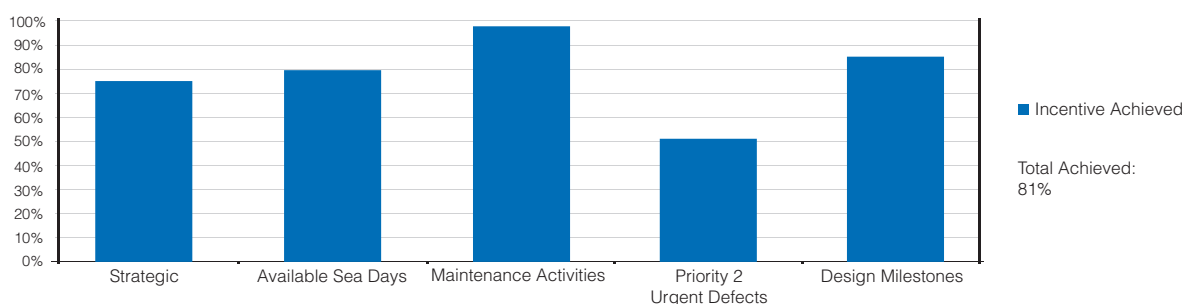
With each maintenance activity, ASC continues to build deeper knowledge of work scopes associated with submarine maintenance. An increasing level of predictability of estimating against both budgets and schedules has also been a positive side effect.

Further enhancement of ASC's TLS business processes, in order to generate greater value for the customer, is a priority with assistance being provided by an external consultancy within a number of key areas.

Going forward, ASC's strategic objectives under the TLS contract are to:

- Optimise the balance of submarine availability and capability, and the logistic cost of ownership;
- Sustain Australia's industry capability to support and enhance the Collins Class submarines through-life;
- Ensure the Australian Government receives increasing value-for-money services and in turn enable ASC to earn a reasonable commercial return; and
- Ensure personnel and materiel safety.

2004/05 Performance Incentive Achievement



ASC Selected as Shipbuilder for the Air Warfare Destroyer Project

2004/05 Highlight



L-R: Vice-Admiral Russ Shalders (Chief of Navy), General Peter Cosgrove (then Chief of the Defence Force) and Senator Robert Hill, Minister for Defence, announce ASC as the preferred shipbuilder for the Air Warfare Destroyer project (*photo courtesy of Australian Associated Press*).

The proposed ASC Shipbuilding facility next to the existing ASC site.

ASC employees celebrate the company's Air Warfare Destroyer project success in ASC's Outfitting Shop (*photo courtesy of The Advertiser*).



On 31 May 2005, Senator Robert Hill, Minister for Defence, announced ASC as the preferred shipbuilder for Australia's \$6 billion Air Warfare Destroyer project.

In a changing global defence environment, the Air Warfare Destroyer program will be of critical national importance to maintaining Australia's security and is one of the most significant shipbuilding projects ever undertaken in the country.

As a maritime nation, it will become increasingly important for Australia to maintain its current level of freedom in its maritime approaches. With the onset of highly capable combat aircraft and deadly air to surface missiles, air warfare destroyers will be crucial for the defence of Australia's maritime interests.

The National Security Council's decision to award ASC the Air Warfare Destroyer contract was made after it accepted a unanimous recommendation from the Department of Defence's Source Selection Board. Senator Robert Hill described ASC's bid as that which provided the "best value for money".

The long awaited decision recognised ASC's expertise, highly-skilled personnel and proven track record in delivering highly complex naval platforms.

The contract will have huge economic benefits for South Australia, creating thousands of new jobs and further attracting people with high-end skills to the state.

Awarding the contract to ASC strengthens the company's defence capabilities and prospects for future naval defence projects.



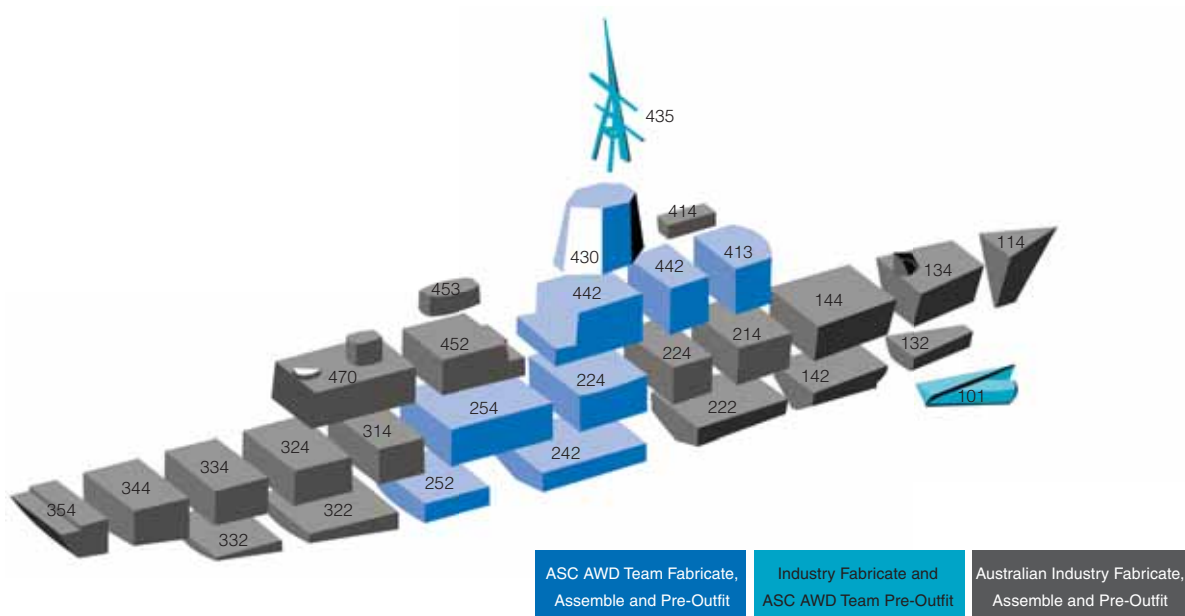
Shipbuilding

ASC Shipbuilding has concluded a very successful operating year, having achieved all of its strategic objectives, the most important being selected by Defence Materiel Organisation (DMO) as the preferred shipbuilder for the Air Warfare Destroyer program.

Much of the activity undertaken by Shipbuilding during the 2004/05 period was in support of ASC's bid for the Air Warfare Destroyer program. Key accomplishments include:

- A number of overseas visits to competing air warfare destroyer ship designers and shipyards;
- Engagement of Bath Iron Works and Sinclair Knight Merz as strategic capability partners in support of future shipbuilding activities;
- Finalised negotiations with Australian Workers Union, Australian Manufacturing Workers Union and the Communications, Electrical and Plumbing Union, for a new Enterprise Bargaining Agreement for the future ASC Shipbuilding production workforce;
- Development of costed infrastructure plans to support the Air Warfare Destroyer program, in consultation with the South Australian Government. These programs also consider options for future growth;
- Development and agreement with the South Australian Government of support plans for covering the Osborne Maritime Precinct's Common User Facility infrastructure, including the shiplift, wharf, hardstand and transfer system. Personnel recruitment and workforce skills development, in particular the establishment of a Maritime Skills Centre adjacent to the shipyard, were also developed and agreed upon. This support will total in the order of \$140 million for the Air Warfare Destroyer program; and
- Response to the Air Warfare Destroyer Shipbuilder Request for Proposal from October 2004 to December 2004.

Notional AWD Distribution of Work



In parallel to activities related to securing the Air Warfare Destroyer program, ASC Shipbuilding also responded to the JP 2048 Amphibious Ship Request for Quotation, from December 2004 to March 2005 in addition to other activities, including:

- Visits to overseas competing amphibious ship designers and shipyards;
- Support for DMO's Amphibious Ships project team by participating in the Australian Shipbuilding Advisory Group; and
- Development of costed infrastructure plans to support the Amphibious Ship program in consultation with the South Australian Government.

Following Senator Robert Hill's announcement on 31 May 2005 that ASC was the preferred Air Warfare Destroyer shipbuilder, ASC will now work closely with DMO to formalise its role within the Air Warfare Destroyer alliance contract framework.

Once complete, the team will commence implementation of the various shipbuilding strategic plans to support the program. Some of these activities include:

- Supporting the alliance with Phase Two ship design activities;
- Finalising and implementing the infrastructure development, in conjunction with the South Australian Government; and
- The transfer, recruitment and training of project personnel.

The objective is that these activities will lead to formal endorsement by the Australian Government for the full project implementation budget and schedule in 2007.

From Australian Submarine Corporation to ASC

2004/05 Highlight



L-R: Chairman John Prescott launches the company's new name, ASC, and new identity.

Prime Minister John Howard congratulates ASC employees on the company's repositioning.

Senator Nick Minchin, Minister for Finance and Administration, speaks with the media at ASC's launch event.

Prime Minister John Howard speaks with ASC employees.



On 5 October 2004, Australian Submarine Corporation became ASC – a new name for a new era.

In the shadow of HMAS *Waller*, Prime Minister John Howard was joined by Senator Nick Minchin, Minister for Finance and Administration, Senator Robert Hill, Minister for Defence, The Hon. Alexander Downer, Minister for Foreign Affairs and Attorney General Philip Ruddock to congratulate ASC on its new image.

The company is intensely proud of a heritage which positioned ASC as one of the leading defence contractors in Australia. However, the change of identity was crucial in sending a clear and powerful message that ASC is ready and capable of taking on new challenges, and is primed to build and maintain Australia's future frontline naval defence capabilities.

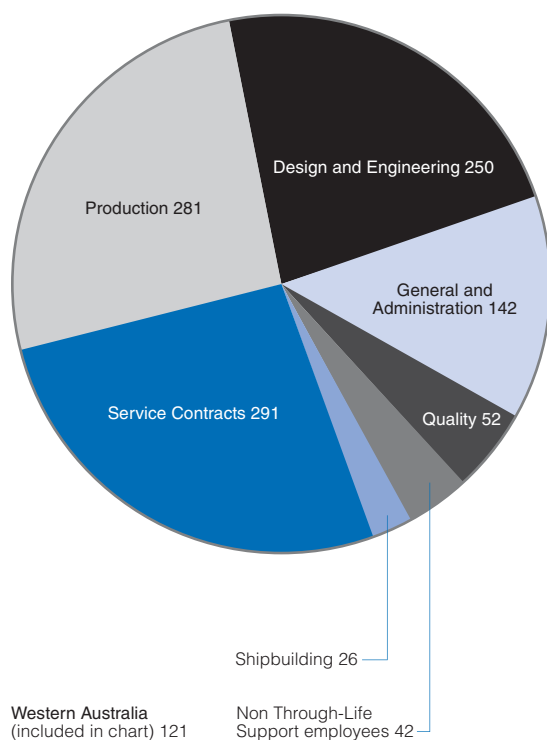
In the 20 years since the company was formed, ASC has gained the necessary skills and tools to take on these future challenges. When people look at the new ASC, it is company pride, unparalleled capability and a future driven business approach they see.

People and Values

ASC's people set the company apart from its competitors, and it is because of its people that ASC has been able to claim the leading position in Australia's naval shipbuilding and repair industry.

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 addition, ASC's high-end skills are continuously enhanced and upgraded, ensuring the company remains the leader of innovation and cutting edge design and engineering.

Full Time Equivalent Departmental Numbers



During the 2004/05 financial year, ASC conducted its first company-wide cultural survey – 'ASC Aloud'. With a focus on facilitating 'top to bottom to top' honest communication throughout the company, ASC Aloud identified key areas for development and innovation across the company. ASC's leadership team, armed with substantial data, is now bridging the gap between the issues raised and subsequent action.

ASC continues to gain recognition as an employer of choice, enabling the company to meet its recruitment goals.

Building on relationships with development providers to broaden ASC's resources and create additional opportunities has been a highly successful initiative. The establishment of a People Development team and the appointment of two senior training consultants have also enabled ASC to dramatically move forward with professional development opportunities for staff.

Corporate Values

In support of ASC's evolving business environment, the company's corporate values were redefined during the 2004/05 period to provide a framework for employees' expectations. These values underpin ASC and how the company and its people conduct their business now, and in the future:

Performing through Teaming and Pragmatic Excellence

To perform in our complex technical and business environment, we work as a team and collaborate effectively with customers, partners and suppliers. We use our training, skills and experience in a pragmatic 'can do' manner to consistently achieve excellent outcomes within schedule and budget constraints.

Commitment to Customer Outcomes

We are an output centric team, focused on the delivery of all of our commitments – cost, schedule, technical performance and quality – to the customer. We are also committed to maintaining an outstanding working relationship with our customers.

Relentless Improvement and Learning

To remain competitive we continually improve all aspects of the business, even those aspects that are already achieving world's best practice. Our commitment to improve our processes, skills, knowledge, etc. is relentless. We are never too old or too good to learn or try new ideas. Innovation is prized.

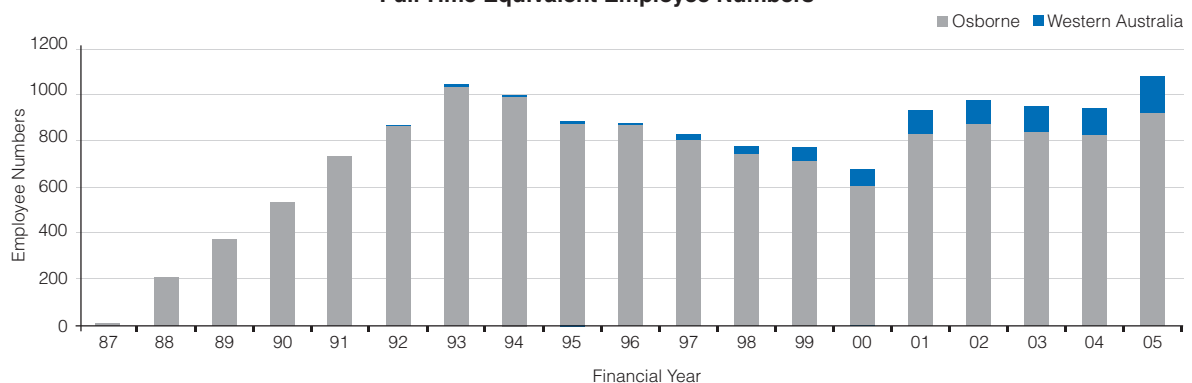
Safety, Integrity and Empathy for Others in all Endeavours

Our actions can critically impact the safety of customers, colleagues and ourselves. We take this responsibility seriously at all times and never compromise safety. Successful teamwork and outstanding customer, supplier and internal relationships all require integrity and a willingness to consider the other party's perspective.

To ensure ASC's corporate values strengthen its culture, the company has adopted a proactive approach to its 'people' strategy based on its values:

- ASC will continue to attract and retain the best people;
- ASC will ensure, through the development of its people, that a 'can do' attitude is maintained now and in the future;
- ASC will foster a performance culture supported by frameworks for performance management, remuneration and incentives, that both encourage and reward;
- ASC will work with its people to plan their career, ensuring that succession planning and career paths are visible at all levels within the company; and
- ASC will continue to encourage commitment from its people by ensuring flexibility and work/life balance principles and policies underpin the company's work place practices.

Full Time Equivalent Employee Numbers



People and Values continued

Industrial Relations

ASC's industrial relations function revolves around fostering and improving relationships with its employees and employee representatives, thereby ensuring better outcomes for the company and its workforce. This includes the formulation, management and implementation of industrial awards and enterprise bargaining agreements.

ASC has a 3 year Enterprise Bargaining Agreement (EBA) with its production workforce that will remain in force until 10 June 2006.

A separate EBA however, has been negotiated with the Australian Manufacturing Workers Union, the Communications, Electrical and Plumbing Union and the Australian Workers Union for ASC Shipbuilding. This EBA forms the foundation of a proactive industrial relations base for shipbuilding activities for the Air Warfare Destroyer project.

The EBA for ASC Shipbuilding's production workforce will remain in force until 14 December 2007.

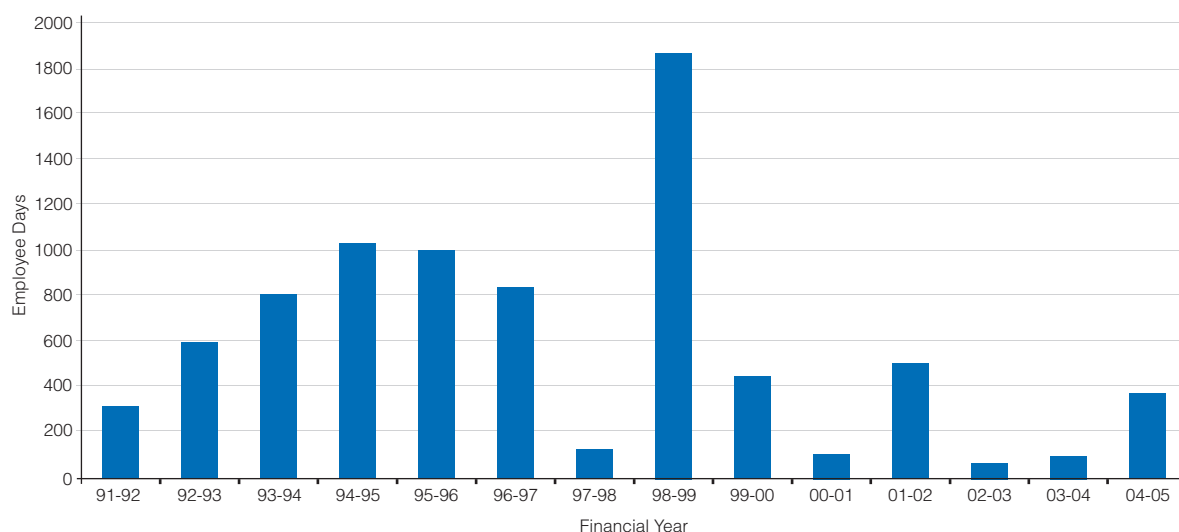
Safety Performance

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

ASC conducts internal audits to ensure compliance with Part 3 Division 1 – Health and Safety Representatives and Division 2 – Health and Safety Committees of the Occupational Health and Safety (Commonwealth Employment) Act 1991.

ASC is committed to the continual improvement of health and safety systems and practices through the management of risk exposure and through the elimination of hazards. This is achieved through the application of engineering and administrative controls, the provision of personal protective equipment and the substitution of hazardous materials with less hazardous materials.

Loss Days Per Year to 2005

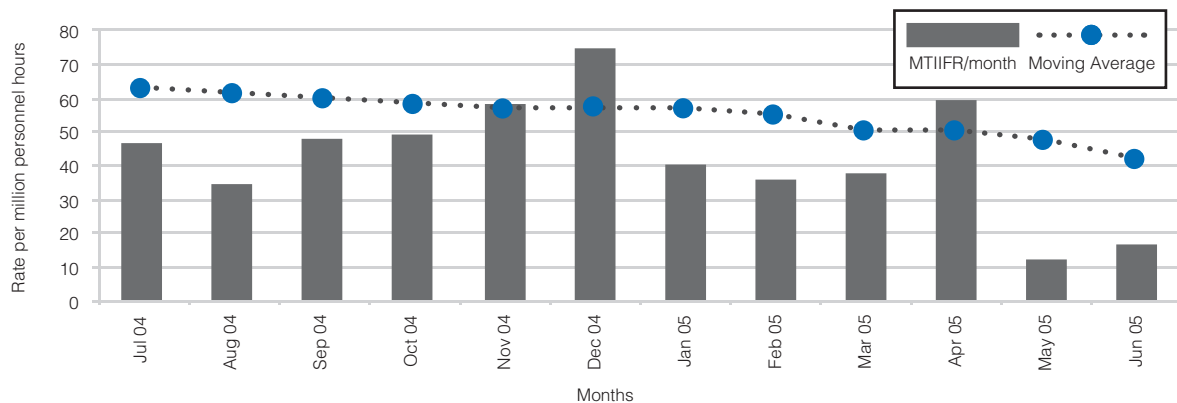


During the 2004/05 financial year, ASC reported 4 accidents or incidents to Comcare under Section 68 of the Act. While 2 of these occurrences were investigated by Comcare, only 1 notice was issued under Section 46 of the Act.

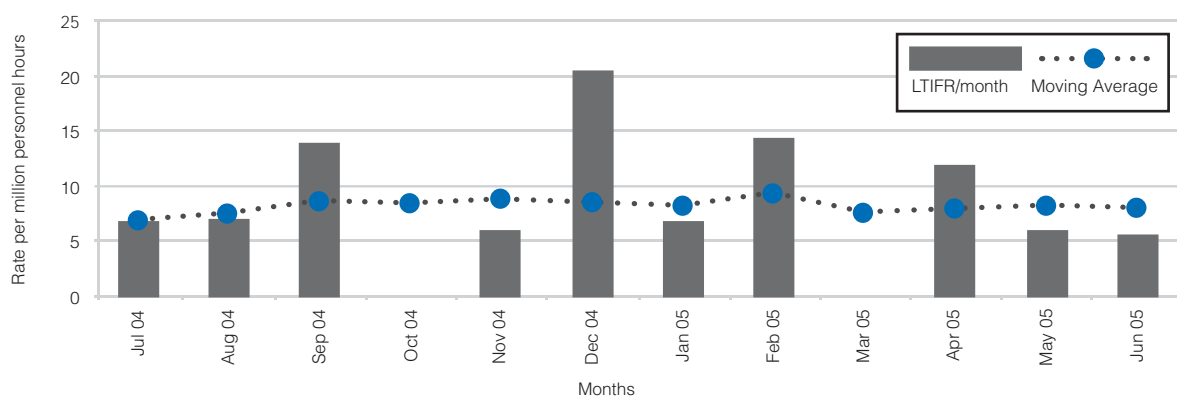
The company recognises the challenges it faces in these areas and is committed to resolving them in the future.

Some of the strategies ASC is investigating to improve its safety performance include the implementation of behavioural based safety systems; and the engagement of the University of Adelaide to conduct an analysis of existing safety data, conduct a safety climate survey and benchmark ASC's safety program.

2004/05 Medically Treated Injury Frequency Rate (MTIFR)



2004/05 Lost Time Injury Frequency Rate (LTIFR)



ASC Awarded Engineers Australia Excellence Award

2004/05 Highlight



L-R: ASC employee Paul Sanders (second from left) and Jeumont Industrie employees remove HMAS *Farncomb*'s main motor pole during the submarine's in situ main motor repairs.

Pascal Linden (Jeumont Industrie) rebinds insulation on the replacement main motor pole.

HMAS *Farncomb*'s in situ main motor repairs team celebrates ASC's Engineers Australia Excellence Award.



ASC proved once again that it has some of the top minds in the country when it was awarded Australia's highest engineering honour – an Engineers Australia Excellence Award.

Traditionally, main motor repairs have been conducted by cutting the aft section of the submarine and removing the 90 tonne motor to the shed floor. This method, however, would present certain problems – such as potential structural issues, added expense and a possible extension of the duration of the Full-Cycle Docking.

ASC decided the best option was to repair the motor in situ and worked with the original motor manufacturer, French company Jeumont Industrie, on the project.

In light of its success, the in situ propulsion motor refurbishment will be used as a benchmark for going forward.

Every engineering discipline was used during this project and it was ASC's innovation and engineering expertise insuccessfully carrying out the work in situ that was recognised by the Australian Engineers Excellence Award judges.

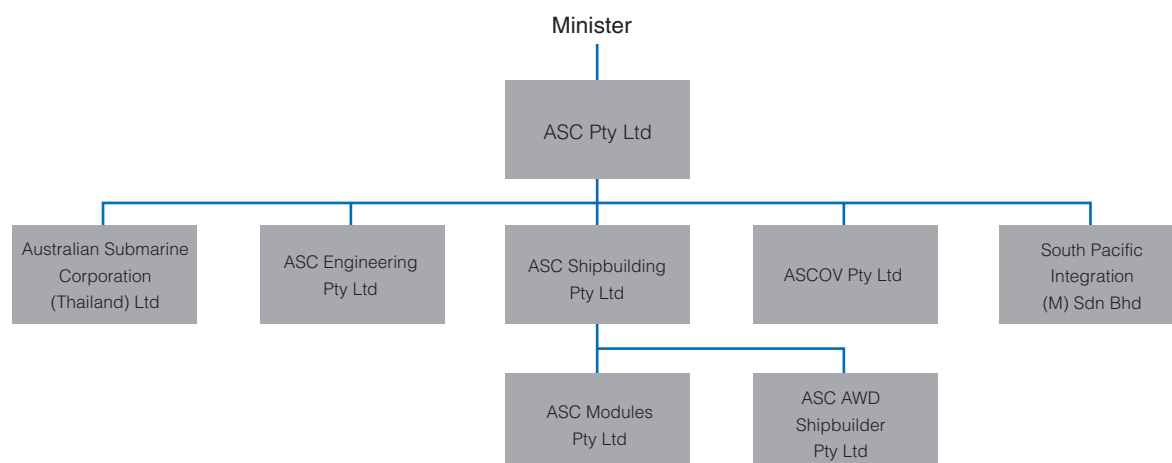
The award acknowledges ASC's exceptional high-end skills, production, project management and engineering capability.

Corporate Governance

Status

ASC is a proprietary company limited by shares registered under the Corporations Act and is subject to the Commonwealth Authorities and Companies Act 1997 (Cth) (CAC Act). All the shares issued in the capital of ASC are owned by the Minister for Finance and Administration (Minister).

The ASC Group is comprised as follows:



On 11 June 2004, ASC was proclaimed as a Government Business Enterprise under the CAC Act.

Ministerial Directions

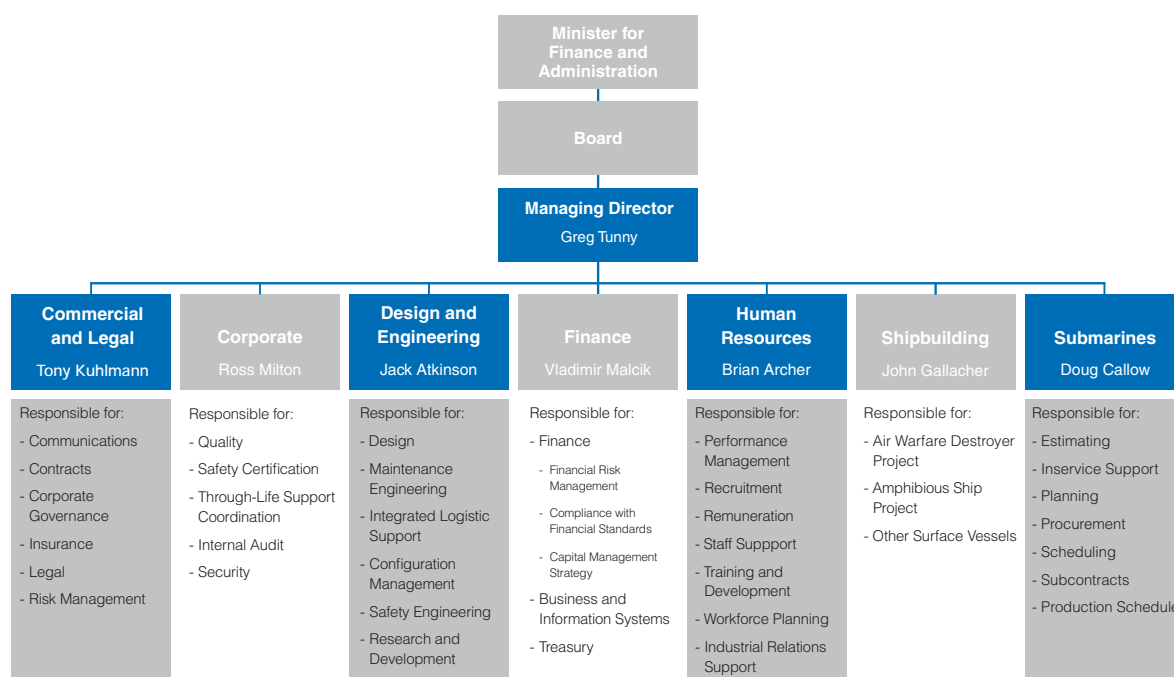
In accordance with its Constitution, ASC is subject to direction by the Minister. No directions were given to ASC by the Minister during the 2004/05 year.

Directors

All directors, other than the Managing Director are appointed for a term by the Minister. The remuneration of the directors is determined by the Remuneration Tribunal under the Remuneration Tribunal Act 1973 (Cth). As at 30 June 2005, the Board was comprised as follows:

Name	Appointed	Expires
John Prescott AC (Chairman)	3 November 2000	30 June 2006
Greg Tunny (Managing Director)	11 October 2004	-
Charles Bagot	3 November 2000	31 December 2007
Graeme Bulmer	10 November 2000	31 December 2007
General (Rtd) John Baker AC DSM	1 July 2002	30 June 2006
Stephen Young	1 July 2002	30 June 2006

Management Structure



Corporate Governance

ASC has adopted a corporate governance protocol which establishes:

- Charters for the Board, Audit Committee and Nomination and Remuneration Committee; and
- A Code of Conduct for directors and executives.

The Board monitors performance against its corporate governance objectives at each Board meeting.

Board

Under the Board Charter, the Board is responsible for:

- Overseeing ASC, including control and accountability systems;
- Appointing and monitoring the performance of the Managing Director and the Company Secretary;
- Approving other executive appointments, organisational changes and senior management remuneration policies and practices;
- Monitoring and reviewing senior management's performance and implementation of strategy, and ensuring appropriate resources are available;

- Determining the strategy for ASC and monitoring the performance of objectives;
- Approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures, as well as financial and other reporting;
- Approving budgets and other key performance indicators, reviewing ASC's performance against them and ensuring that corrective action is devised and implemented as necessary;
- Reviewing and ratifying systems of risk management and internal control and legal compliance to ensure appropriate compliance frameworks and controls are in place;
- Reviewing and overseeing the implementation of ASC's code of conduct for directors and executives; and
- Appointing Board committees and approving the composition, and any charters, of Board committees.

Corporate Governance continued

Audit Committee

Under the Audit Committee Charter, the objectives of the Audit Committee are to:

- Help the Board achieve its objectives in relation to:
 - financial reporting;
 - the application of accounting policies;
 - business policies and practices; and
 - internal control;
- Maintain and improve the quality, credibility and objectivity of the financial accountability process (including financial reporting on a consolidated basis);
- Ensure effective internal and external audit functions, and communication between the Board and the external and internal auditors; and
- Ensure compliance strategies and compliance functions are effective.

As at 30 June 2005, the committee comprised Stephen Young (Chairman), Graeme Bulmer and General (Rtd) John Baker AC DSM.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established on 5 August 2004, and under its charter, the objectives of the Committee are to:

- Make recommendations to the Board on the following matters:
 - suggested appointments to the Board for consideration by the Minister;
 - remuneration of the Managing Director (after considering the performance of the Managing Director against agreed goals and the requirements of the Remuneration Tribunal);
 - remuneration of the Managing Director's direct reports (after considering the performance of those direct reports against their agreed goals); and
 - guidelines for the remuneration of ASC management;
- Consider any other item referred to it by the Board from time-to-time; and
- Consider any material to be included in ASC's Annual Report.

As at 30 June 2005, the committee comprised John Prescott, AC (Chairman) and Charles Bagot.

Attendance

Attendance at Board and committee meetings during 2004/05 was as follows:

Director	Board		Audit Committee		Nomination and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
John Prescott AC (Chairman)	22	22	-	-	2	2
*Greg Tunny (Managing Director)	17	17	-	-	-	-
Charles Bagot	22	22	-	-	2	2
† Graeme Bulmer	12	12	3	3	-	-
General (Rtd) John Baker AC DSM	22	22	5	5	-	-
Stephen Young	22	22	5	5	-	-

*Greg Tunny (Managing Director, appointed 11 October 2004)

†Graeme Bulmer (stood down 16 March 2004, resumed duties 11 October 2004)

During the year:

- Graeme Bulmer stood down from the Board and the Audit Committee on 16 March 2004 while he undertook the role of Acting Chief Executive Officer. Mr Bulmer resumed his position on the Board on 11 October 2004;
- Greg Tunny was appointed Managing Director and Chief Executive Officer on 11 October 2004; and
- The Nomination and Remuneration Committee was established, and John Prescott AC and Charles Bagot were appointed as members of that committee.

Code of Conduct

ASC has implemented a Code of Conduct for directors and executives which seeks to:

- Articulate the high standards of honest integrity, ethical and law-abiding behaviour expected of directors and executives;
- Encourage the observance of those standards to protect and promote the interests of shareholders and other stakeholders;
- Guide directors and executives as to the practices considered necessary to maintain confidence in the ASC Group's integrity; and
- Set out the responsibility and accountability of directors and executives to report and investigate any reported violations of this Code of Conduct or unethical or unlawful behaviour.

Audit

ASC's external auditor is the Australian National Audit Office (ANAO). KPMG has been appointed as ANAO's agent for the purposes of ASC's audit.

The Audit Committee is charged with responsibility for the internal audit. The scope of the internal audit function is in the process of being defined and implemented.

Risk Management

Sound and visible risk management practice underpins ASC's planning and decision making. As such, ASC adopts a structured and consistent approach to the effective management of risk, which complies with Australian Standard AS/NZ 4360:2004 Risk Management.

As part of this risk management framework, the Board has instituted:

- Implementation of an enterprise wide Risk Management policy;
- A Risk Management Committee; and
- A tailored ASC Insurance Program.

The Audit Committee is responsible for approving the program and monitoring compliance.

Legal Compliance

ASC has established a legal compliance program which complies with Australian Standard 3806. The program is managed by ASC's Legal Department and covers:

- Trade Practices;
- Occupational Health and Safety;
- Environment;
- Employment and Industrial Relations;
- Commonwealth Criminal Code;
- Privacy; and
- Defence Export Controls.

The Audit Committee is responsible for approving the program and monitoring compliance.

Environment

ASC is firmly committed to the overall protection and improvement of the environment, which results in prime consideration given to environmental factors associated with operational activities.

ASC records and reports to the Environmental Protection Authority any deviation from its standards.

In the 2004/05 financial year, one incident was reported, but was immediately resolved with the relevant authorities.

To further build on ASC's environmental record, the company:

- Promotes environmental awareness and sensitivity amongst all employees; and
- Is aware of, implements, monitors and reviews compliance with legislative obligations in relation to the environment.

ASC currently has a licence with the Environmental Protection Agency in South Australia for stormwater discharge and river to river cooling water discharge.

HMAS *Rankin* Awarded 2004 Gloucester Cup

2004/05 Highlight



L-R: HMAS *Rankin* on the hardstand completing the last of its construction activities at ASC in 2003, before it was handed over to the Royal Australian Navy.

HMAS *Rankin* sails from ASC's Osborne site following completion of a maintenance availability, accompanied by Adsteam's tug-boat Huskey.



The final Collins Class submarines to be delivered to the Royal Australian Navy, HMAS *Rankin*, was named the 2004 recipient of the Gloucester Cup.

The Gloucester Cup is awarded each year to the major fleet unit or submarine that has been foremost in all aspects of operations, safety, seamanship, reliability and unit level training.

ASC would like to congratulate the officers and crew of HMAS *Rankin* for this outstanding achievement.

In winning this award, HMAS *Rankin* is entitled to display the coveted 'gold star' for twelve months.

As well as due recognition to the submarine's crew, the achievement is also a reflection of the whole submarine community's contribution to the operational support of the vessel.

The last submarine to win this award was HMAS *Orion* in 1986.



Financial Report

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Directors' Report

For the year ended 30 June 2005

The Directors present their report, together with the consolidated financial report of the consolidated entity, being ASC Pty Ltd (the Company) and its controlled entities, for the year ended 30 June 2005 and the auditors' report thereon.

Directors

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

John Barry Prescott AC	Appointed 3/11/00
Charles Neville Hervey Bagot	Appointed 3/11/00
Graeme Richard Bulmer	Appointed 10/11/00
General (Rtd) John Stuart Baker AC DSM	Appointed 1/7/02
Stephen Elliott Young	Appointed 1/7/02
Gregory Roy Tunny	Appointed 11/10/04

Principal Activities

The principal activity of the consolidated entity during the course of the financial year was the design, engineering, upgrading and maintenance of six submarines for the Royal Australian Navy (RAN). These activities are undertaken for the Collins Class submarines under the Through-Life Support Contract. This contract is of fifteen years duration with options for a further ten year period.

Consolidated Result

The consolidated profit of the consolidated entity for the financial year attributable to the shareholders of ASC Pty Ltd was \$16,153,000 after provision for income tax expense of \$4,439,000.

Review of Operations

The Company is currently operating in the second year of the Collins Class submarines Through-Life Support Contract. All other submarine related contracts will either be completed or converted to this Through-Life Support Contract in the near future.

The Company and its wholly owned subsidiary entities have elected under AASB 1041 to value all land and buildings on a fair value basis from 1 July 2004.

On 31 May 2005, ASC was chosen as the preferred shipbuilder for the new RAN Air Warfare Destroyer Project (SEA 4000).

Dividends

The Directors have declared a fully franked final dividend of \$7,200,000. The dividend will be payable at a date yet to be determined.

The final dividend is in addition to the interim fully franked dividend of \$2,500,000, paid on 18/4/2005. The 2004/05 total dividend represents a distribution to the shareholder of \$9,700,000, compared with \$5,000,000 in the 2003/04 financial year.

State of Affairs

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

- The appointment of Mr Gregory Roy Tunny as Managing Director and Chief Executive Officer commencing his appointment on 11 October 2004; and
- The awarding of the preferred shipbuilder for the new RAN Air Warfare Destroyer Project (SEA 4000).

Events Subsequent to Balance Date

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 periods.

Directors' Report continued

For the year ended 30 June 2005

Likely Developments

It is the Commonwealth of Australia's stated intent to privatise the Company at some point in the future.

ASC Pty Ltd has been established as a Government Business Enterprise under the Commonwealth Authorities and Companies Act, which will require the Company to operate efficiently, earn at least a commercial rate of return and observe a more standardised and transparent reporting framework. Strict procedures governing the relationship between ASC Pty Ltd, the Department of Defence and the Department of Finance and Administration have been put in place.

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 reimbursement of expenses and 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 agreements by which current and previous Directors and Officers 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 Directors and Officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreements stipulate 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, its Directors and Officers have paid insurance premiums 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. The terms of insurance policy prohibit disclosure of the amounts of the premium payable.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's Independence Declaration is set out on page 45 and forms part of the Directors' Report for the year ended 30 June 2005.

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 14th day of September 2005.

Signed in accordance with a resolution of Directors:



John B Prescott AC
Chairman



Gregory R Tunny
Director

Independent Audit Report



To the members of ASC Pty Ltd

Matters relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial report of ASC Pty Ltd and the consolidated entity for the year ended 30 June 2005. The Company's directors are responsible for the integrity of both the annual report and its web site.

The audit report refers only to the financial report named below. It does not provide an opinion on any other information which may have been hyperlinked to/from the audited financial report.

If the users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report in ASC Pty Ltd and the consolidated entity's annual report.

Scope

The financial report and directors' responsibility

The financial report comprises:

- Directors' Declaration;
- Statements of Financial Performance, Financial Position and Cash Flows; and
- Notes to and forming part of the Financial Report

for both ASC Pty Ltd and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the Company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with accounting standards and other mandatory reporting requirements in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with accounting standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of ASC Pty Ltd's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by management.

Independence

Independence requirements of the Australian professional ethical pronouncements and the *Corporations Act 2001* have been met. I have given to the directors of the company a written Auditor's Independence Declaration [a copy of which is included in the Directors' Report].

Audit Opinion

In my opinion, the financial report of ASC Pty Ltd and the consolidated entity is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of ASC Pty Ltd's and the consolidated entity's financial position as at 30 June 2005 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 financial reporting requirements in Australia.

Australian National Audit Office

Michael White
Executive Director

For the Auditor-General

Canberra
15 September 2005

Directors' Declaration

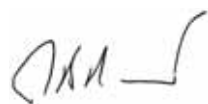
For the year ended 30 June 2005

1. In the opinion of the Directors of ASC Pty Ltd:

- (a) the financial statements and notes, set out on pages 46 to 80, are in accordance with Note 1 of the financial statements (page 49), including;
- (i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; 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 14th day of September 2005.

Signed in accordance with a resolution of the Directors:



John B Prescott AC
Chairman



Gregory R Tunny
Director

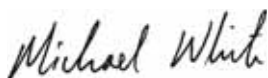
Auditor's Independence Declaration

to the Directors of ASC Pty Ltd and the consolidated entity

In relation to our audit of the financial report of ASC Pty Ltd and the consolidated entity for the year ended 30 June 2005, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contravention of any applicable code of professional conduct.

Australian National Audit Office



Michael White
Executive Director

15 September 2005

Statements of Financial Performance

For the year ended 30 June 2005

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
Revenue from rendering of services	2	217,043	243,593	210,991	237,741
Other revenues from ordinary activities	2	12,252	12,277	12,001	12,126
Total revenue		229,295	255,870	222,992	249,867
Expenses from ordinary activities					
Materials and subcontractors		(75,330)	(114,631)	(64,278)	(106,257)
Labour		(93,461)	(81,307)	(89,980)	(78,256)
Depreciation and amortisation	3	(3,363)	(3,760)	(2,968)	(3,266)
Professional fees		(4,592)	(6,723)	(4,192)	(6,515)
Repairs and maintenance		(3,106)	(2,929)	(2,960)	(2,430)
Utilities expense		(2,273)	(2,587)	(2,013)	(2,162)
Borrowing costs	3	-	(14)	-	(99)
Carrying amount of assets sold		(25)	(366)	(25)	(21)
Insurance		(1,966)	(1,271)	(1,671)	(923)
Motor vehicle expenses (including novated lease)		(1,010)	(1,319)	(941)	(1,276)
Operating lease		(1,847)	(557)	(1,702)	(444)
Production consumables and supplies		(1,108)	(1,318)	(1,038)	(997)
Security expenses		(713)	(678)	(491)	(472)
Travelling expenses		(1,261)	(1,462)	(1,227)	(1,445)
Service Agreement Costs		(6,324)	(7,324)	(6,324)	(7,324)
Self Insured Warranty		(4,160)	-	(4,160)	-
Self Insured Workers Compensation		(3,023)	-	(3,023)	-
Write Down of Land and Building		(612)	-	-	-
Other expenses from ordinary activities		(4,529)	(6,281)	(4,178)	(5,679)
Total expenses		(208,703)	(232,527)	(191,171)	(217,566)
Share of net profits of associates and joint ventures accounted for using the equity method		-	231	-	-
Profit from ordinary activities before related income tax expense		20,592	23,574	31,821	32,301
Income tax (expense)/benefit relating to ordinary activities	5(a)	(4,439)	(7,470)	(8,729)	(10,175)
Profit from ordinary activities after related income tax expense		16,153	16,104	23,092	22,126

The Statements of Financial Performance are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 49 to 80.

Statements of Financial Position

As at 30 June 2005

		CONSOLIDATED		THE COMPANY	
	Note	Jun-05 \$'000	Jun-04 \$'000	Jun-05 \$'000	Jun-04 \$'000
CURRENT ASSETS					
Cash assets	7	3,366	7,683	3,337	7,642
Receivables	8	59,702	50,577	59,511	49,602
Other financial assets	10	48,430	46,680	48,430	46,680
Inventories	9	13,002	9,691	12,931	9,574
Other	12	715	585	565	409
Total Current Assets		125,215	115,216	124,774	113,907
NON CURRENT ASSETS					
Receivables	8	27,544	29,419	27,544	29,419
Investments accounted for using the equity method	11	5	55	5	47
Other financial assets	10	56,239	59,652	69,239	72,652
Property, plant and equipment	13	73,567	31,179	65,699	26,466
Deferred tax assets	5	11,310	7,966	11,310	7,966
Total Non Current Assets		168,665	128,271	173,797	136,550
Total Assets		293,880	243,487	298,571	250,457
CURRENT LIABILITIES					
Payables	14	95,585	111,988	92,421	109,087
Non interest-bearing liabilities	15	360	-	3,329	7,753
Provision for Current Income Tax	5	5,948	2,508	5,948	2,508
Provisions	16	36,396	27,979	31,719	23,319
Total Current Liabilities		138,289	142,475	133,417	142,667
NON CURRENT LIABILITIES					
Non interest-bearing liabilities	15	360	360	160	160
Deferred tax liabilities	5	26,365	28,567	26,365	28,567
Provisions	16	9,473	1,891	9,444	1,883
Total Non Current Liabilities		36,198	30,818	35,969	30,610
Total Liabilities		174,487	173,293	169,386	173,277
Net Assets		119,393	70,194	129,185	77,180
EQUITY					
Contributed equity	17	10,000	10,000	10,000	10,000
Reserves	19	42,746	-	38,613	-
Retained profits	18	66,647	60,194	80,572	67,180
Total Equity		119,393	70,194	129,185	77,180

The Statements of Financial Position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 49 to 80.

Statements of Cash Flows

For the year ended 30 June 2005

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		185,414	215,813	182,277	208,303
Cash payments in the course of operations		(182,958)	(208,534)	(170,537)	(197,080)
Income taxes refunded / (paid)	5(b)	(6,546)	(10,204)	(6,546)	(10,204)
Net cash provided by / (used in) operating activities	31(b)	(4,090)	(2,925)	5,194	1,019
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		6,599	2,807	6,596	2,782
Proceeds from distribution on liquidation of associates		-	1,125	-	-
Leverage lease income		1,960	1,594	1,960	1,594
Proceeds from disposal of non current assets	2	300	427	31	71
(Increase)/decrease in invested funds	31(c)	2,538	(1,048)	2,538	(1,047)
Payments for property, plant and equipment		(3,641)	(2,055)	(3,610)	(2,055)
Loan (to)/from controlled entity		-	-	(9,074)	(3,149)
Loan (to)/from associates		404	1,220	406	1,765
Payments for other loans		(41)	-	-	-
Investment in associates	11	42	-	42	-
Net cash used in investing activities		8,161	4,070	(1,111)	(39)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(7,500)	-	(7,500)	-
Proceeds from/(repayment to) borrowings		-	(357)	-	-
Borrowing costs paid		-	(14)	-	(100)
Net cash used in financing activities		(7,500)	(371)	(7,500)	(100)
Net increase/(decrease) in cash held		(3,429)	774	(3,417)	880
Cash at the beginning of the financial year		6,795	6,021	6,754	5,874
Cash at the end of the financial year	31(a)	3,366	6,795	3,337	6,754

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 49 to 80.

Notes To and Forming Part of the Financial Statements

For the year ended 30 June 2005

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.

The financial report 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 land and buildings.

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 of 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.

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.

Tendering costs on contracts are expensed as incurred.

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Construction Work in Progress (continued)

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.

(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. 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**Valuation of Land & Building**

Refer to Note 1(u) for change in accounting policies.

Valuation of Plant and Equipment

Costs incurred on plant and equipment 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 – 13.0%
- Plant and Equipment 9.0 – 40.0%

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.

(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 29. The implementation date for the tax-consolidated group is 1 July 2002.

The Head entity recognises 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 recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

The consolidated entity 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.

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Taxation (continued)

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 Benefits

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 for 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.

Superannuation Plan

The Company and its controlled entities contribute to a defined benefit and several defined contribution superannuation plans. Contributions are recognised as an expense as they are made. There are eight members in the pure defined benefit plan and one hundred and fourteen members who retain a defined benefit that is attributable to prior membership of the defined benefit plan. The consolidated entity has a responsibility to ensure the members' benefit are adequately provided for. Further information is set out in Note 21(d).

(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 Company does not record the gross investment and corresponding liability of the lease partnership as it does not control the 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 or 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 or 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 or 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 reserves.

(m) Derivative Financial Instruments

The consolidated entity is exposed to changes in interest rates and foreign exchange rates from its activities. On occasion, 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).

(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) Payables

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 30 days from the end of the month in which the invoice was raised on the Company.

(p) Interest Bearing Liabilities

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

The estimate for the warranty obligation for design, engineering and maintenance activities is based on engineering assessments as to probable repair or restoration costs of the products arising from warranty claims. Provision for warranty is made for claims received and expected based on past sales and historical claim rates. Significant uncertainty relates to estimates for contracting activities as the estimates depend on circumstances particular to each contract.

(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.

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Goods and Services Tax (continued)

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

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Self Insurance

The company self insures for risks associated with Workers' Compensation. Outstanding claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the entity expects to incur in settling the claims, discounted using a rate that reflects current market assessments of the time value of money and risks specific to the liability.

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.

In the Statements of Financial Performance, the expense recognised in respect of a provision is presented net of the recovery.

In the Statements 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 or net realisable value. Costs of refurbished parts are assigned on an average cost basis and include direct materials, direct subcontractors and direct labour. Net realisable value is determined on the basis of each inventory line's expected recoverable amount. Selling expenses are estimated and deducted to establish net realisable value.

(u) Change in Accounting Policies

Properties, Plant and Equipment

Basis of revaluation:

The Company and its wholly owned subsidiary entities have elected under AASB 1041 to value all land and building on a fair value basis. An independent valuation of all land and buildings of the Company and its wholly owned subsidiary entities was carried out on 1 July 2004 on the basis of open market values for existing use. At that time the consolidated entity recognised a revaluation increment in relation to land and building of \$43,703,000 and the Company recognised a revaluation increment of \$37,141,000. Both amounts were taken to the Asset Revaluation Reserve. Buildings depreciation for the year is based on the revalued amounts at 1 July 2004.

(v) Comparative Information

Where applicable, certain comparative figures have been restated in order to comply with the current year's presentation of the Financial Statements.

(w) Impact of Adopting Australian Equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Management of the Transition to AIFRS

The consolidated entity has commenced transitioning its accounting policies and financial reporting from current Australian Standards to the AIFRS by allocating internal resources and engaging expert consultants to conduct impact assessments to isolate key areas of the consolidated entity that will be impacted by the transition to AIFRS.

The impacts of transition to AIFRS are based on AIFRS standards that management expect to be in place, when preparing the first complete AIFRS financial report. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the estimated impacts from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the estimated impacts provided in this Note.

Changes expected to apply from 1 July 2005**Financial Instruments**

The Company expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 Financial Instruments: Disclosure and Presentation, AASB 139 Financial Instruments: Recognition and Measurement. There are no expected adjustments in relation to these standards for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

Under AASB 139 financial instruments must be carried at fair value.

Leveraged Lease Receivable

With respect to the leveraged lease receivable, the amount of the receivable will be calculated as the present value of estimated cashflows, discounted at the effective interest rate. The impact of the change in measurement of the leveraged lease receivable on the consolidated entity is expected to be a reduction in the leveraged lease receivable of \$1,581,000 at 1 July 2005, with an associated charge to retained earnings at that time.

Non-interest bearing Loans Payable

With respect to the 99 year interest-free government loans, the amount of the loans will be calculated as the present value of estimated cashflows, discounted at a market interest rate applicable to similar loans. The impact of the change in measurement of the loans payable on the consolidated entity is a reduction in the loan payable of \$360,000 (Company \$160,000) at 1 July 2005, with associated increases to retained earnings at that time.

Employee Benefits**Defined Benefit Plans**

Under AIFRS, the consolidated entity's net obligation in respect of defined benefit superannuation plans will be calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit will be discounted to determine its present value, and the fair value of any plan assets will be deducted.

The discount rate will be the rate attaching to AAA credit rated bonds that have maturity dates which most closely match the terms of maturity of the related liabilities. Where AAA credit rated bonds are not available, and specifically for all Australian Dollar denominated obligations, the discount rate will be the rate attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

When the employee entitlements under the plan are improved, the proportion of the increased benefit relating to past service by employees will be recognised as an expense in the income statement on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense will be recognised immediately in the income statement.

Where the calculation results in a net benefit to the consolidated entity, the recognised asset will be limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Impact of Adopting Australian Equivalents to International Financial Reporting Standards (continued)

Employee Benefits (continued)

Defined Benefit Plans (continued)

Actuarial gains and losses that arise subsequent to the transition date are recognised in the income statement to the extent the net gain or loss exceeds 10% of the greater of the fair value of plan assets or the accrued obligation. Net gains or losses not exceeding the 10% threshold will be recorded in a reserve account in equity.

Under Australian GAAP, defined benefit plans are accounted for on a cash basis, with no defined benefit obligation or plan assets recognised in the balance sheet. Under AIFRS, at 1 July 2004 an amount of \$429,000 is expected to be recorded as an asset of the Company and consolidated entity with a consequential increase in retained earnings. For the financial year ended 30 June 2005 the Company and consolidated entity are expected to record an increase to the net pension asset of \$888,000, an increase to the Pension Actuarial Gain/Loss Reserve account of \$997,000 and a \$109,000 charge to the income statement.

Taxation

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

Under the balance sheet approach, income tax on the Statements of Financial Performance for the year comprises current and deferred taxes. Income tax will be recognised in the Statements of Financial Performance except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided will be based on the expected manner of realisation of the asset and settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

The expected impact on the consolidated entity at 1 July 2004 in relation to fixed asset revaluations, of the change in basis and the transition adjustments on the deferred tax balances is as follows:

	CONSOLIDATED ENTITY		THE COMPANY	
Deferred Tax Liabilities	13,111,000	increase	13,111,000	increase
Assets Revaluation Reserve	13,111,000	decrease	11,143,000	decrease

The expected impact on the consolidated entity at 30 June 2005 in relation to fixed asset revaluations, of the change in basis and the transition adjustments on the deferred tax balances is as follows:

	CONSOLIDATED ENTITY		THE COMPANY	
Deferred Tax Liabilities	127,000	decrease	127,000	decrease
Assets Revaluation Reserve	287,000	increase	441,000	decrease
Deferred Tax Expense	160,000	increase	160,000	increase

Tax Consolidation

The UIG is currently deliberating the recognition of tax amounts under the tax consolidation regime in the AIFRS framework. It is currently proposed that wholly owned subsidiaries in the tax consolidated group will be required to recognise their own tax balances directly, and the current tax liability or asset will be assumed by the head entity via an equity contribution or distribution.

As the Interpretation is yet to be issued the impact of any change has not been quantified.

2 REVENUE FROM ORDINARY ACTIVITIES

Revenue from rendering of services:

Related parties

Other parties

Other revenues

From operating activities:

Interest:

Other parties

Equipment Rental:

Other parties

Secondment income received from:

Related parties

Rental income received from:

Other parties

From outside operating activities:

Service Agreement Income

Leveraged lease income

Gross proceeds from sale of non current assets

Total other revenues

Total revenues from ordinary activities

Note	CONSOLIDATED		THE COMPANY	
	Jun-05	Jun-04	Jun-05	Jun-04
	\$'000	\$'000	\$'000	\$'000
	215,226	238,135	210,173	237,671
	1,817	5,458	818	70
	217,043	243,593	210,991	237,741
	5,494	4,375	5,490	4,350
	-	35	-	-
	-	-	70	307
	48	42	-	-
	6,324	7,323	6,324	7,323
	86	75	86	75
	300	427	31	71
	12,252	12,277	12,001	12,126
	229,295	255,870	222,992	249,867

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
3 PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE					
(a) Individually significant expense items included in profit from ordinary activities before income tax expense:					
Self Insured Warranty		4,159	3,492	4,159	-
Self Insured Workers' Compensation		3,023	-	3,023	-
Write Down of Land and Building		611	-	-	-
Profit from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:					
Depreciation of:					
Buildings		2,439	3,027	2,365	2,948
Plant and equipment		924	733	603	318
Total depreciation		3,363	3,760	2,968	3,266
Borrowing costs:					
Related parties		-	-	-	99
Other parties		-	14	-	-
		-	14	-	99
Net bad and doubtful debts expense including movements in provision for doubtful debts		-	707	-	707
Net expense from movements in provision for:					
Employee entitlements		2,885	2,002	2,624	2,046
Employee redundancies and terminations		172	-	163	-
Warranties		4,159	3,492	4,159	-
Inventory write down		-	1,699	-	1,276
Operating lease rental expense:					
Minimum lease payments		1,847	557	1,702	444
Net (gain)/loss on disposal of non current assets:					
Property, plant and equipment		(277)	(62)	(8)	(50)
Investments		14	(1)	14	(1)

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05 \$'000	Jun-04 \$'000	Jun-05 \$'000	Jun-04 \$'000
4 AUDITOR'S REMUNERATION					
Audit services:					
Amount received or due and receivable by the Australian National Audit Office (ANAO) as auditors of ASC		232	188	209	150
Other services:					
KPMG have been contracted by ANAO to provide audit services on the ANAO's behalf. In addition to fees earned from the subcontracted audit, KPMG have earned the following fees for engagements where they have been separately contracted by ASC					
- Other assurance services		32	43	31	43
- Taxation services		100	98	72	84
		132	141	103	126
5 TAXATION					
(a) Income tax expense					
Prima facie income tax expense calculated at 30% (2004: 30%) on the profit from ordinary activities		6,177	7,072	9,546	9,690
Increase/(Decrease) in income tax expense due to:					
Sundry items (including entertainment)		(1,395)	396	(758)	477
		(1,395)	396	(758)	477
Income tax expense on operating profit		4,782	7,468	8,788	10,167
Add: Income tax under/(over) provided in prior year		(343)	2	(59)	8
Total income tax expense		4,439	7,470	8,729	10,175
Total income tax expense is made up of:					
Current income tax provision		8,428	5,629	12,436	8,327
Deferred income tax provision		(276)	434	(275)	434
Future income tax benefit		(3,372)	1,412	(3,372)	1,412
Under/(over) provision in prior years		(341)	(5)	(60)	2
		4,439	7,470	8,729	10,175

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
5 TAXATION (continued)					
(b) Provision for Current Income Tax					
Movements during the year were as follows:					
Balance at the beginning of the year		2,508	5,302	2,508	5,302
Income tax paid		(6,546)	(10,204)	(6,546)	(10,204)
Current year's current income tax expense on operating profit		10,985	8,104	15,026	9,912
Controlled entity provision		-	-	(4,041)	(1,808)
Under/(over) provision in prior years		(999)	(694)	(999)	(694)
		5,948	2,508	5,948	2,508
(c) Deferred tax liabilities					
Deferred tax liabilities comprises the estimated expense at the applicable income tax rate of 30% (2004: 30%) on the following items:					
Deferred income arising from leveraged lease transaction		25,979	27,906	25,979	27,906
Sundry items		386	661	386	661
		26,365	28,567	26,365	28,567
(d) Deferred tax assets					
Deferred tax assets comprises the estimated future benefit at the applicable income tax rate of 30% (2004: 30%) of the following items:					
Provisions for accrued employee entitlements not currently deductible		6,066	4,322	6,066	4,322
Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes		1,690	1,411	1,690	1,411
Difference in contract profit recognised for accounting and income tax purpose		-	287	-	287
Sundry items		3,554	1,946	3,554	1,946
		11,310	7,966	11,310	7,966

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 include design and engineering projects

Other Projects: Other submarine support projects which include training school, Sea Otter and other non submarine support work

Heavy Engineering: Design, construction and project management of heavy engineering projects performed by ASC Engineering Pty. Limited (a controlled entity)

	BUILD PROJECT		SUPPORT PROJECTS		OTHER PROJECTS		HEAVY ENGINEERING		ELIMINATIONS		CONSOLIDATED	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue												
External segment revenue	12,871	77,847	191,758	156,494	6,360	3,397	735	5,885	4,975	(382)	216,699	243,241
Inter-segment revenue												
Total segment revenue	12,871	77,847	191,758	156,494	6,360	3,397	735	5,885	4,975	(382)	216,699	243,241
Other unallocated revenue											12,596	12,629
Total revenue											229,295	255,870
Result												
Segment result	5,859	9,891	26,576	20,751	369	(2,668)	77	(2,376)	(416)	174	32,465	25,772
Share of net profit or loss of equity accounted investments											0	231
Unallocated corporate expenses											(11,873)	(2,429)
Profit from ordinary activities before income tax											20,592	23,574
Income tax expenses											(4,439)	(7,470)
Net profit											16,153	16,104
Depreciation and amortisation (1)											3,363	3,760
Non Cash Expenses other than Depreciation and amortisation:												
- Doubtful Debt Provisions			0	(22)			0	0			0	(22)
Assets												
Segment assets	670	0	47,032	40,992	353	785	90	890			48,145	42,667
Equity accounted investments:												
Unallocated corporate assets (1)											245,735	200,820
Consolidated total assets											293,880	243,487
Liabilities												
Segment liabilities							13	366			13	366
Unallocated corporate liabilities											174,474	172,927
Consolidated total liabilities											174,487	173,293
Acquisitions of non current assets (1)											3,641	2,054

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 (continued)

For the year ended 30 June 2005

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
7 CASH ASSETS					
Cash		3,366	6,795	3,337	6,754
Term deposits		-	888	-	888
		3,366	7,683	3,337	7,642
8 RECEIVABLES					
Current					
Trade debtors		49,342	42,766	49,190	41,776
Less Provision for doubtful trade debtors		-	(2,209)	-	(2,169)
		49,342	40,557	49,190	39,607
Other debtors		4,340	3,996	4,340	3,971
Loans to associates		-	43	-	43
Other loans		6,020	5,981	5,981	5,981
		59,702	50,577	59,511	49,602
Non current					
Leveraged lease receivable		30,313	32,274	30,313	32,274
Less - unearned income		(2,769)	(2,855)	(2,769)	(2,855)
		27,544	29,419	27,544	29,419

Other Debtors

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 may or may not be obtained.

Further details of term deposits, brokers deposits and bonds are set out in Note 30.

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.

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
9 INVENTORIES					
Current					
Raw materials and stores (at lower of cost or net realisable value)		13,002	9,691	12,931	9,574
		13,002	9,691	12,931	9,574
10 OTHER FINANCIAL ASSETS					
Current					
Marketable interest securities (at cost)		48,430	46,680	48,430	46,680
		48,430	46,680	48,430	46,680
Non Current					
Marketable interest securities (at cost)		56,239	59,652	56,239	59,652
Unlisted shares at cost		-	-	20,000	20,000
Less - Provision for Diminution		-	-	(7,000)	(7,000)
		56,239	59,652	69,239	72,652

Unlisted shares at cost consists of investments in the Company's wholly owned subsidiaries.

The Company continues to fund the deficiency in net assets in its wholly owned subsidiary ASC Shipbuilding Pty Limited.

The deficiency is expected to be recovered from profits generated under the AWD contract.

11 INVESTMENT ACCOUNTED FOR USING EQUITY METHOD

Associates	5	55	5	47
	5	55	5	47

12 OTHER CURRENT ASSETS

Prepayments	715	585	565	409
	715	585	565	409

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
13 PROPERTY, PLANT AND EQUIPMENT					
Freehold land					
At cost			2,638		1,200
At independent valuation - June 2005		14,349		9,200	
Buildings					
At cost			122,338		119,662
At independent valuation - June 2005		52,520		51,000	
Accumulated depreciation		-	(98,512)	-	(97,620)
		52,520	23,826	51,000	22,042
Plant and equipment					
At cost		43,123	41,147	30,578	28,477
Accumulated depreciation		(38,367)	(37,893)	(26,997)	(26,713)
		4,756	3,254	3,581	1,764
Capital works in progress		1,942	1,461	1,918	1,460
Total property, plant and equipment		73,567	31,179	65,699	26,466
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		-	-	-	-
Revaluation increments/(decrements)		14,861	-	8,000	-
Write down		(3,150)	-	-	-
Carrying amount at the end of year		14,349	2,638	9,200	1,200
Buildings					
Carrying amount at beginning of year		23,826	26,736	22,042	24,873
Additions		-	-	-	-
Transfers from capital works in progress		708	118	710	118
Disposals		-	(1)	-	(1)
Revaluation increments/(decrements)		30,425	-	30,613	-
Depreciation		(2,439)	(3,027)	(2,365)	(2,948)
Carrying amount at the end of year		52,520	23,826	51,000	22,042

		CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
	Note	\$'000	\$'000	\$'000	\$'000
13 PROPERTY, PLANT AND EQUIPMENT (continued)					
Plant and equipment					
Carrying amount at beginning of year		3,254	3,070	1,764	1,067
Additions		6	-	-	-
Transfers from capital works in progress		2,445	1,282	2,445	1,034
Disposals		(25)	(365)	(25)	(19)
Depreciation		(924)	(733)	(603)	(318)
Carrying amount at the end of year		4,756	3,254	3,581	1,764
Capital works in progress					
Carrying amount at beginning of year		1,461	808	1,460	560
Additions		3,635	2,054	3,612	2,054
Transfers to property, plant and equipment		(3,154)	(1,401)	(3,154)	(1,154)
Carrying amount at the end of year		1,942	1,461	1,918	1,460

Valuations

ASC Pty Ltd and its wholly owned subsidiary entities have elected under AASB 1041 to value all land and buildings on a fair value basis. An independent valuation of all land and buildings of the Company and its wholly owned subsidiary entities was carried out on the basis of open market values for existing use as at 1 July 2004 and as at 30 June 2005.

14 PAYABLES

Trade creditors	31,568	30,015	27,985	29,446
Other creditors and accruals	48,705	12,374	48,606	12,161
	80,273	42,389	76,591	41,607
Advance income received:				
Contract billings due and receivable	5,185,111	5,138,494	5,097,134	5,052,710
Contract works in progress	(4,762,773)	(4,660,500)	(4,666,856)	(4,583,443)
Profit recognised to date	(407,026)	(408,395)	(414,448)	(401,787)
Net progress payments received and receivable	15,312	69,599	15,830	67,480
Total payables	95,585	111,988	92,421	109,087

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
15 NON INTEREST BEARING LIABILITIES					
Current					
Loans from controlled entities		-	-	2,969	7,753
Loans from associate entities		360	-	360	-
		360	-	3,329	7,753
Non current					
Term loan		360	360	160	160
		360	360	160	160

Term loan consists of the interest free 99 year loans to ASC Pty Ltd and ASC Engineering Pty. Limited 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) ASC Engineering Pty. Limited (\$200,000): repayable in the year 2094 or at the option of the Company at any time prior to the year 2094.

(ii) ASC Pty Ltd (\$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.

16 PROVISIONS

Current					
Employee entitlements, including on costs	14,745	12,516	14,318	12,069	
Warranty	6,256	4,000	2,256	-	
Self Insured Workers' Compensation	2,300	-	2,300	-	
Dividends	7,200	5,000	7,200	5,000	
Other	5,895	6,463	5,645	6,250	
	36,396	27,979	31,719	23,319	
Non current					
Employee entitlements, including on costs	2,451	1,891	2,422	1,883	
Warranty	3,344	-	3,344	-	
Self Insured Workers' Compensation	3,678	-	3,678	-	
	9,473	1,891	9,444	1,883	
Number of permanent employees at the end of the year	994	862	973	844	

		CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
17 CONTRIBUTED EQUITY					
Issued and paid-up share capital					
10,000,000 (2004:10,000,000) 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		60,194	49,090	67,180	50,054
Net profit attributable to members of the parent entity		16,153	16,104	23,092	22,126
Dividends		(9,700)	(5,000)	(9,700)	(5,000)
Retained profits at the end of the year		66,647	60,194	80,572	67,180
19 RESERVES					
Asset Revaluation Reserve					
Movements During the Year					
Opening Balance		-	-	-	-
ASC Pty Ltd and its wholly owned subsidiary entities have elected under AASB 1041 to value all land and buildings on a fair value basis					
Increase in Reserve 1 July 2004		43,703	-	37,141	-
Increase in Reserve 30 June 2005		(957)	-	1,472	-
Closing Balance		42,746	-	38,613	-
Asset Revaluation Reserve					
Comprises of:					
- Land		12,133	-	8,000	-
- Building		30,613	-	30,613	-
- Plant & Equipment		-	-	-	-
Closing Balance		42,746	-	38,613	-

Note

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Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

20 DIVIDENDS

Interim fully franked dividend, declared and paid

Final fully franked dividend, declared and provided for

Total fully franked dividend, represents a distribution to the shareholder

Dividends franking account

Class C (30%) franking credits

Note	CONSOLIDATED		THE COMPANY	
	Jun-05 \$'000	Jun-04 \$'000	Jun-05 \$'000	Jun-04 \$'000
	2,500	-	2,500	-
	7,200	5,000	7,200	5,000
	9,700	5,000	9,700	5,000
	55,342	30,089	55,342	30,089

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.

21 COMMITMENTS**(a) Capital Expenditure Commitments**

Contracted but not provided for and payable:

Not later than one year

CONSOLIDATED

THE COMPANY

Note

Jun-05

Jun-04

Jun-05

Jun-04

\$'000

\$'000

\$'000

\$'000

806

1,775

806

1,775

(b) Operating Lease Commitments

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

Not later than one year

Later than one year but not later than five years

Later than five years

1,795

794

1,795

794

2,043

908

2,043

908

430

-

430

-

4,268**1,702****4,268****1,702**

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

The Company and its controlled entities has no hire purchase commitments as at the reporting date.

(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.

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

21 COMMITMENTS (continued)

(d) Superannuation Commitments (continued)

Defined Benefit Category

The fund provides defined benefits based on years of service and final average salary.

An actuarial assessment of the fund as at 30 June 2005 was carried out by Jules Gribble, Fellow of the Institute of Actuaries of Australia, a principal of Ask IT Consulting Pty Ltd on 30 June 2005. The actuary concluded that the assets of the defined benefit category of the fund are sufficient to meet all benefits payable in the event of the defined benefit category'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 defined benefit category of the fund based on the actuary review are as follows:

	CONSOLIDATED
	\$'000
Defined benefit category assets at net market value at 30 June 2005 (i)	13,594
Accrued benefits at 30 June 2005 (ii)	12,277
Excess of fund assets over accrued benefits at 30 June 2005	1,317
Vested benefits as at 30 June 2005 (i)	11,603

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 2007 in September 2007.

(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.

22 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

As part of achieving the status of self insurer under the Workers Rehabilitation and Compensation Act, a bank guarantee has been established on 1 July 2005 with the ANZ Bank for \$10,411,000 to support this initiative.

23 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.

24 ECONOMIC DEPENDENCY

The normal trading activities of ASC Pty Ltd depend on contracts the Company has with the Commonwealth Government of Australia for the maintenance of six submarines. That dependency existed during all of the financial year.

25 PRINCIPAL AREAS OF ACTIVITY OF THE COMPANY

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

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

26 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:

	2005	2004
	NUMBER	NUMBER
\$40,000 - \$49,999	-	1
\$50,000 - \$59,999	2	1
\$60,000 - \$69,999	1	1
\$90,000 - \$99,999	-	1
\$100,000 - \$109,999	1	-
\$150,000 - \$159,999	-	1
\$220,000 - \$229,999	1	-
\$270,000 - \$279,999	1	-
\$470,000 - \$479,999	-	1

	CONSOLIDATED		THE COMPANY	
	Jun-05	Jun-04	Jun-05	Jun-04
	\$'000	\$'000	\$'000	\$'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	775	885	775	885

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.

27 EVENTS SUBSEQUENT TO BALANCE DATE

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.

28 RELATED PARTY DISCLOSURES**Directors**

The names of each person holding the position of Director of ASC Pty Ltd 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 & G.R. Tunny.

On 11 October 2004, the Company appointed Mr Gregory Roy Tunny as Managing Director and Chief Executive Officer of ASC Pty Ltd.

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 \$0 for the financial year (2004: \$3,815).

The expenses incurred by directors in discharging duties of their office are reimbursed.

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.



Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

28 RELATED PARTY DISCLOSURES (continued)

Other Related Parties (continued)

Transactions with Shareholders

During the year, the amounts received or receivable by the Company from the Commonwealth of Australia for various projects was \$214,630,000 (2004: \$237,671,000).

During the year, the amounts of audit fees paid to ANAO was \$232,000 (2004: \$188,000)

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

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:

2005	2004
\$'000	\$'000
-	-
45,739	41,604

Wholly-Owned Controlled Entities

Details of interests in wholly-owned controlled entities are set out at Note 29. Details of dealings with these entities are set out below.

Loans

No interest is charged on the current loans receivable from or owing to ASC Shipbuilding Pty Limited, ASC Engineering Pty. Limited and ASC Modules Pty Ltd (formerly ASC Pty Ltd) (wholly-owned controlled entities).

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

28 RELATED PARTY DISCLOSURES (continued)**Wholly-Owned Controlled Entities (continued)***Balances with Entities within the Wholly-Owned Group*

The amounts currently payable to the wholly-owned controlled entities by the Company at balance date:

The amounts currently receivable from the wholly-owned controlled entities by the Company at balance date:

2005	2004
\$'000	\$'000
2,969	7,753
-	-

29 PARTICULARS IN RELATION TO CONTROLLED ENTITIES**Chief entity**

ASC Pty Ltd

Controlled entities

	Class of Share	Entity Interest	
		2005	2004
		%	%
ASC Engineering Pty. Limited	Ordinary	100	100
ASC Shipbuilding Pty. Limited	Ordinary	100	100
ASC Modules Pty Ltd (formerly ASC Pty Ltd)	Ordinary	100	100
ASCOV Pty Ltd	Ordinary	50	50
ASC AWD Shipbuilder Pty Ltd (incorporated 13 December 2004)	Ordinary	100	
South Pacific Integration (M) SDN BHD	Ordinary	100	100

Both ASC Modules Pty Ltd and ASCOV Pty Ltd are non trading companies.

ASC AWD Shipbuilder Pty Ltd is the "Special Purpose Vehicle" required for the AWD Build Program.

South Pacific Integration (M) SDN BHD is a wholly-owned subsidiary company incorporated in Malaysia. This is a non trading company and will be wound up in the 2006 financial year.

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

30 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES

(a) Interest rate risk

At balance date the consolidated entity carried no unrealised gain or loss (2004: gain of \$0) 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
		Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non interest bearing	
30th June 2005	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Cash	7	3,366	-	-	-	-	3,366
Marketable interest securities (at cost)	10	48,430	-	56,239	-	-	104,669
		51,796	-	56,239	-	-	108,035
Weighted average interest rate		5.66%	0.00%	5.80%	0.00%		

		Fixed interest maturing in:					Total
		Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non interest bearing	
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities							
Accounts Payable	14	-	-	-	-	80,273	80,273
Term Loan	15	-	-	-	-	360	360
		-	-	-	-	80,633	80,633
Weighted average interest rate		0.00%	0.00%	0.00%	0.00%		

(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 2004	Note	Fixed interest maturing in:					Total
		Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non interest bearing	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Cash	7	6,795	-	-	-	-	6,795
Term Deposits	7	888	-	-	-	-	888
Marketable interest securities (at cost)	10	46,680	-	59,652	-	-	106,332
		54,363	-	59,652	-	-	114,015
Weighted average interest rate		4.60%	0.00%	5.72%	0.00%		

	Note	Fixed interest maturing in:					Total
		Floating interest rate	1 year or less	Over 1 to 5 years	More than 5 years	Non interest bearing	
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities							
Accounts Payable	14	-	-	-	-	42,389	42,389
Term Loan	15	-	-	-	-	360	360
		-	-	-	-	42,749	42,749
Weighted average interest rate		0.00%	0.00%	0.00%	0.00%		

(b) Foreign exchange risk

The consolidated entity has not entered into forward foreign exchange contracts to hedge anticipated purchase and sale commitments denominated in foreign currencies during the reporting period. The consolidated entity did not have any outstanding foreign exchange contracts as at reporting date.

(c) Credit risk exposures

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

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.

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

30 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES (continued)

(c) Credit risk exposures (continued)

A substantial proportion of the consolidated entity's operations are in relation to the Through-Life Support Contract for six Collins Class submarines and therefore a material exposure with an individual customer exists (the Commonwealth Government of Australia).

Off Balance Sheet Financial Instruments

The Company and its controlled entities have not entered into any off balance sheet financial instruments during the reporting period.

(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

No unrecognised financial instruments were held as at reporting date.

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
31 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	7	3,366	6,795	3,337	6,754
		3,366	6,795	3,337	6,754
(b) RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating profit after income tax		16,153	16,104	23,092	22,126
Add/(less) items classified as investing/financing activities:					
Interest received		(5,495)	(4,375)	(5,491)	(4,351)
Leverage lease income		(86)	(74)	(86)	(74)
Borrowing cost paid		-	14	-	99
(Profit)/loss on sale of non current assets		(260)	(63)	8	(50)
Consideration paid for tax losses		-	-	4,289	2,705
Add/(less) non-cash items:					
Doubtful debts		(40)	-	-	-
Depreciation		3,363	3,760	2,968	3,266
Revaluation decrements		612	-	-	-
Investments amortisation		7	-	-	-
Self insured warranty		4,160	-	4,159	-
Self insured workers' compensation		3,024	-	3,023	-
Increase/(decrease) in income taxes payable	5(b)	3,439	(2,792)	3,439	(2,794)
(Increase)/decrease in future income tax benefits	5(d)	(3,344)	1,215	(3,344)	1,215
Increase/(decrease) in deferred taxes payable	5(c)	(2,203)	(1,156)	(2,203)	(1,156)
Share of associates' net (profit)/loss		-	(232)	-	-
Net cash provided by operating activities before change in assets and liabilities		19,330	12,401	29,854	20,986
Change in assets and liabilities					
(Increase)/decrease in receivables (1)		(11,651)	(11,442)	(12,554)	(13,334)
(Increase)/decrease in inventories	9	(3,310)	1,057	(3,357)	623

Notes To and Forming Part of the Financial Statements (continued)

For the year ended 30 June 2005

	Note	CONSOLIDATED		THE COMPANY	
		Jun-05	Jun-04	Jun-05	Jun-04
		\$'000	\$'000	\$'000	\$'000
31 NOTES TO THE STATEMENT OF CASH FLOWS (continued)					
(b) RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES (continued)					
(Increase)/decrease in prepayments	12	(168)	91	(156)	80
(Increase)/decrease in net progress payments received (2)		(54,287)	(37,892)	(51,652)	(36,864)
Increase/(decrease) in trade creditors (3)		39,379	27,649	36,480	27,480
(Increase)/decrease in provisions (4)		6,617	5,211	6,579	2,048
Net cash provided by operating activities		(4,090)	(2,925)	5,194	1,019
(1) (Increase)/decrease in receivables is comprised of:					
Prima-facie movement in trade debtors	8	(8,744)	(13,177)	(9,582)	(15,056)
Prima-facie movement in contract debtors	8	-	1,771	-	1,771
Prima-facie movement in sundry debtors and other loans	8	(2,907)	(36)	(2,972)	(49)
		(11,651)	(11,442)	(12,554)	(13,334)
(2) (Increase)/decrease in progress payments is comprised of:					
Prima-facie movement in net progress payments	14	(55,813)	(37,717)	(51,652)	(36,864)
Adjustment for unrealised intercompany profit		1,526	(175)	-	-
		(54,287)	(37,892)	(51,652)	(36,864)
(3) Increase/(decrease) in trade creditors and accruals is comprised of:					
Prima-facie movement in trade creditors and accruals	14	39,379	27,649	36,480	27,480
		39,379	27,649	36,480	27,480
(4) Increase/(decrease) in provisions is comprised of:					
Prima-facie movement in provisions for employee entitlements	16	2,626	1,706	2,626	2,048
Movement in provisions for warranty	16	1,440	3,492	1,440	-
Movement in provisions for self insured workers' compensation	16	2,955	-	2,955	-
Prima-facie movement in provisions for redundancy and termination	16	163	-	163	-
Prima-facie movement in other provisions	16	(567)	13	(605)	-
		6,617	5,211	6,579	2,048
(c) RECONCILIATION OF NET (INCREASE)/DECREASE IN INVESTED FUNDS					
(Increase)/decrease in term deposits	7	888	1,512	888	1,513
(Increase)/decrease in marketable interest securities	10	1,665	(2,560)	1,665	(2,560)
Profit/(loss) on sale of securities		(15)	-	(15)	-
		2,538	(1,048)	2,538	(1,047)

Corporate Directory

Directors

John B Prescott AC
Chairman

Greg R Tunny
Managing Director and Chief Executive Officer

Charles N H Bagot

Graeme R Bulmer

General (Rtd) John Baker AC DSM

Stephen E Young FCA

Company Secretary

Tony Kuhlmann

Auditors

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

Solicitors

Mallesons Stephen Jaques

Bankers

Westpac Banking Corporation

ASC Offices:

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