



ASC

2006 ASC Pty Ltd Annual Report

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This report contains content that was tabled in Parliament as well as additional promotional material.



Company Profile

ASC Pty Ltd is committed to building the most advanced naval warships in the nation. This commitment has seen ASC establish Australia's largest repository of naval high-end skills, as well as working relationships with over 1,400 suppliers, capability partners, universities and specialist providers.

Formerly known as Australian Submarine Corporation, ASC successfully built Australia's fleet of Collins Class submarines for the Royal Australian Navy (RAN) and, in doing so, established itself as a leader in the nation's defence industry.

For 21 years, ASC has built on its strengths and commitments which led to the company being awarded the role of shipbuilder for the RAN's Air Warfare Destroyer (AWD) Program. This project will see the most advanced and complex warships ever built in Australia being constructed by ASC at its Osborne, South Australia facility.

Today, ASC is also responsible for the ongoing design enhancements, maintenance and support of the Collins Class submarines as part of a 25 year, multi-billion Through-Life Support contract which the company signed in 2003. The support activities for the Collins Class submarines are carried out at ASC's South Australian and Western Australian facilities.

ASC employs over 1,000 of the very best personnel in their fields of speciality. The company's core business as a submarine builder, maintainer and up-grader, as well as the AWD shipbuilder, will ensure ASC retains and develops its high-end skills base in the future.

ASC aspires to a set of values which are the guiding principles that define how it conducts its business and what it stands for as a company:

- > Performing through teaming and pragmatic excellence
- > Commitment to customer outcomes
- > Relentless improvement and learning
- > Safety, integrity and empathy for others in all endeavours



2005/06 Highlights

Completion of HMAS *Collins*' Full-Cycle Docking, including repair of inherited defects and special forces' modifications.

Continuation of capability partnership with United States submarine designer and builder Electric Boat Corporation until 2008.

HMAS *Sheean* wins the Royal Australian Navy's prestigious 2005 Gloucester Cup for being foremost in all aspects of operations, safety, seamanship, reliability and unit level training.

Establishment of the Master of Marine Engineering course in collaboration with Defence Materiel Organisation's Skilling of Australia's Defence Industry (SADI) program and the University of Adelaide.

Establishment of the Master of Military Systems Integration course in collaboration with SADI, the University of South Australia, BAE Systems and Saab.

ASC signs its first supplier, Weir Strachan & Henshaw Australia, to provide services entirely under the Collins Class submarines Through-Life Support contract.

Completion of all platform modification design work required to support the installation of the Collins Class' replacement combat system on HMAS *Waller*.

Finalisation of all formal agreements with the South Australian Government's Port Adelaide Maritime Corporation for the delivery of the Osborne Common User facility, which includes a new wharf, ship lift, dredging and ship consolidation sites in support of ASC's shipbuilding role for the Hobart Class air warfare destroyers.

Completion of the design for a new, state-of-the-art, submarine maintenance facility in Western Australia, to be established behind the Common User Facility at Henderson.



Financial Summary

ASC and its controlled entities achieved a consolidated after tax profit for the year ended 30 June 2006 of \$18.5 million, compared to \$16.1 million after tax profit in 2005.

The directors have declared a fully-franked final dividend of \$6.35 million. The dividend was paid on 5 September 2006. The final dividend is in addition to the interim fully-franked dividend of \$4.75 million, paid on 24 February 2006. The 2005/06 total dividend represents a distribution to the shareholder of \$11.1 million, compared with \$9.7 million in the 2004/05 financial year.

ASC has adopted the Australian equivalent of the International Financial Reporting Standards (AIFRS) since 1 July 2005.

Good financial reporting is fundamental to efficient markets, which rely on the application of strong accounting standards. AIFRS provides that framework globally.

In light of the global nature of AIFRS, it is in Australia's long term strategic interest to keep pace with world developments and to adopt AIFRS.

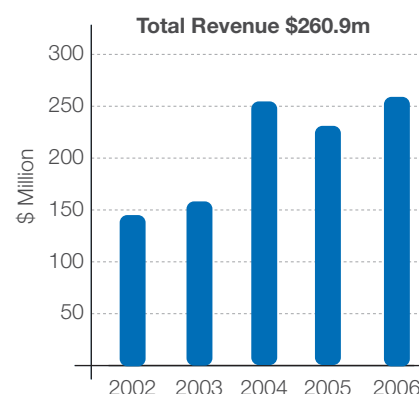
AIFRS is not a technical accounting change, but a strategic change to which ASC responded during the 2005/06 financial year by seeking to:

- understand the financial impact of AIFRS adoption;
- identify and implement required system changes;
- train its staff; and
- liaise with stakeholders and explain the changes to ensure a smooth transition.

The successful achievement of this required a significant commitment of time and resources by ASC, which would not have been possible without the dedication and professionalism of ASC's employees.

Financial Year	2005/06	2004/05	2003/04	2002/03	2001/02
	\$m	\$m	\$m	\$m	\$m
Revenue from rendering of services	254.7	217.0	243.6	148.4	141.8
Financial income	5.9	5.6	4.5	4.3	3.3
Other income*	0.3	6.7	7.8	6.0	1.2
Total revenue	260.9	229.3	255.9	158.7	146.3
EBITDA	24.2	18.3	23.0	9.2	3.6
EDIT	20.5	14.9	19.2	4.7	(1.6)
Operating profit before tax	26.3	20.5	23.6	8.9	1.7
Operating profit after tax	18.5	16.1	16.1	5.9	0.1
Shareholder's equity	114.2	107.3	107.3	59.1	53.2
Return on equity (%)	16.2	15.0	15.0	10.0	0.2
Dividend (fully-franked)	11.1	9.7	5.0	0.0	0.0
Total assets	245.9	283.9	243.5	236.7	196.7

* adjusted for rounding



Chairman's Report



The 2005/06 financial year marks ASC's first year as a multi-project company. Having successfully completed the Collins Class submarine build program, the company's challenges are to provide value for money through-life support (TLS) to the submarine fleet and support the Air Warfare Destroyer (AWD) Program Alliance that will design and produce the new generation of AWDs – the Hobart Class – for the Royal Australian Navy (RAN). The measure of ASC's success will be its ability to achieve the customer's time, cost, quality and capability requirements for both programs.

Financial

The ASC group achieved profit after tax of \$18.5m (\$16.2m in 2004/05) based on annual revenues of \$260.9m (\$229.3m in 2004/05), while also incurring substantial costs in supporting the AWD Program. Profits from the building of the AWDs will not flow for some time. The Board's objective in this regard is to ensure that ASC's earnings are sustainable and predictable over the longer term.

Submarines

It is pleasing that the company earned a high proportion of the performance incentives available for its submarine work in the year; up on 2005. This reflects the strong focus the Submarines business unit has brought to bear on ensuring that the customer's operational outcomes are paramount.

In May 2006, the Chief Operating Officer Submarines – Mr Doug Callow – was appointed as the AWD Alliance General Manager, for the Hobart Class AWD Program, by agreement between the AWD Alliance participants. We thank Mr Callow for his sustained contribution to the submarine business since 1992. In his place, the Board promoted Mr Stuart Whiley to the position of General Manager Submarines.

Design and Engineering

The Design and Engineering group continues to expand its capability to support submarines and to further develop the nation's largest repository of high-end naval engineering skills. Working closely with ASC's capability partner, Electric Boat, and a number of small/medium enterprises, the Design and Engineering group has supported key capability upgrades to the submarines to equip them for Special Forces, the Heavy Weight Torpedo, the Replacement Combat System and several other significant capability enhancements.

Shipbuilding

The AWD Program was ASC's primary new focus during 2005/06. The emphasis has been to establish a co-operative alliance environment with DMO and Raytheon Australia (the preferred Combat System Systems Engineer), and also the two competing ship designers, namely Gibbs & Cox and Navantia. Significant progress has been made towards meeting DMO's objectives. The establishment of the AWD Systems Centre in Adelaide has facilitated work on the next objectives, namely selection of the ship design and preparation of the business case for Second Pass Approval. This is the process required for Government 'go ahead' for the Program to proceed.

ASC's capability partner, Bath Iron Works, continues to provide valuable support to ASC.

Privatisation

The Commonwealth's plans to privatise ASC took an important step forward in 2005/06 with the Government commissioning a Privatisation Scoping Study by Carnegie Wylie & Company (business advisers) and Freehills (legal advisers). ASC supported the Scoping Study process and welcomes the Commonwealth's desire to return the company to private ownership.

During the coming year, the Board will continue to aid in the achievement of the Government's objectives for the sale of ASC, to be completed in 2008, which are:

- to preserve and enhance the long-term viability of ASC, both financially and operationally, including ASC's ability to perform its role in relation to the Collins Class Submarine Through-Life Support Contract and the Air Warfare Destroyer Program;
- to enable ASC to contribute to an efficient and competitive Naval Shipbuilding and Repair Sector which is capable of delivering the best defence technology available to meet Australia's national security needs;
- to ensure the fair and equitable treatment of ASC's employees;
- to minimise ongoing risk and liabilities to the Commonwealth following privatisation; and
- subject to the above, to maximise sale proceeds, and to achieve a value for money outcome for the Commonwealth on a whole-of-Government basis.

Board of Directors

Mr Stephen Young's term as a director expired on 30 June 2006. Mr Young made a valuable contribution to the Board's deliberations since his appointment in July 2002. In particular, his work as Chairman of the Audit Committee was greatly appreciated by his Board colleagues.

Looking Forward

ASC continues to build on its achievements with a vision to develop and deliver competitive advanced engineering design and integration services for major defence capability requirements; and to broaden this competence over time. To support this vision, ASC will continue to strive towards its objective of becoming the nation's pre-eminent builder of naval warships by achieving its customer's time, cost, quality and capability requirements.

The Board thanks our shareholder, Senator Nick Minchin, for his confidence and support, and thanks management and staff for their contribution to ASC's success in 2005/06.



John B Prescott AC
Chairman

Board of Directors

John Prescott AC
BComm (Industrial Relations)

Chairman



Age 46. Managing Director since 11 October 2004. Former Managing Director of Thales Air Traffic Management (Australia) and Regional Director Asia, and former Director of Business

Development for ADI Limited. Twenty years' experience in systems integration and development, including six years as General Manager of ADI's software and systems

business, and ten years with Vipac Engineers and Scientists. Companion of Engineers Australia and Member of the Australian Institute of Company Directors.

Charles Bagot
LLB (Hons)

Non-Executive Director



Age 67. Director since 10 November 2000 and Member of the Audit Committee. Former Chief Executive Officer of BTR Automotive Asia Pacific. Former Chairman of Eurovox,

Unidrive, China Feneral Plastics Corporation (Taiwan), Taita Chemical Company (Taiwan), Asia Polymer Corporation (Taiwan) and BTR Motherson Automotive (India). Former Director

of BTR Nylex, Westlake Styrene Corporation (USA), Titan Petrochemicals (Malaysia) and Titan Polymers (Malaysia).

General (Rtd) John Baker AC DSM
BEng

Non-Executive Director



Age 65. Chairman since 3 November 2000 and Member of the Nomination and Remuneration Committee. Chairman of Queensland Rail and Sunshine Coast Business Council.

Director of Newmont Mining Corporation. Former Chairman of Horizon Private Equity Management Pty Ltd and former Managing Director and Chief Executive Officer of BHP.

A Global Counsellor of The Conference Board and a Member of WorkCover (Victoria) Safety Development Fund Panel and President's Circle, AustralAsia Centre, Asia Society.



Gregory Tunny
MBA, BSc (Physics)

Managing Director and
Chief Executive Officer

Age 59. Director since 3 November 2000 and Member of the Nomination and Remuneration Committee. National Head of law firm Piper Alderman's Corporate Division. Council Member of the University of Adelaide and Saint Mark's College. Member of the Corporations

Law Committee of the Australian Institute of Directors, the Australian Institute of Directors South Australian Council, the Law Council of Australia's Business Law Section Corporations Law Committee, International Bar Association, The Australian Mining and Petroleum Law

Association and The Securities Institute. Former President of the Australian Institute of Company Directors SA/NT and former member of AICD's National Board of Directors.



Graeme Bulmer
Dip.Chem, Dip.ChemEng

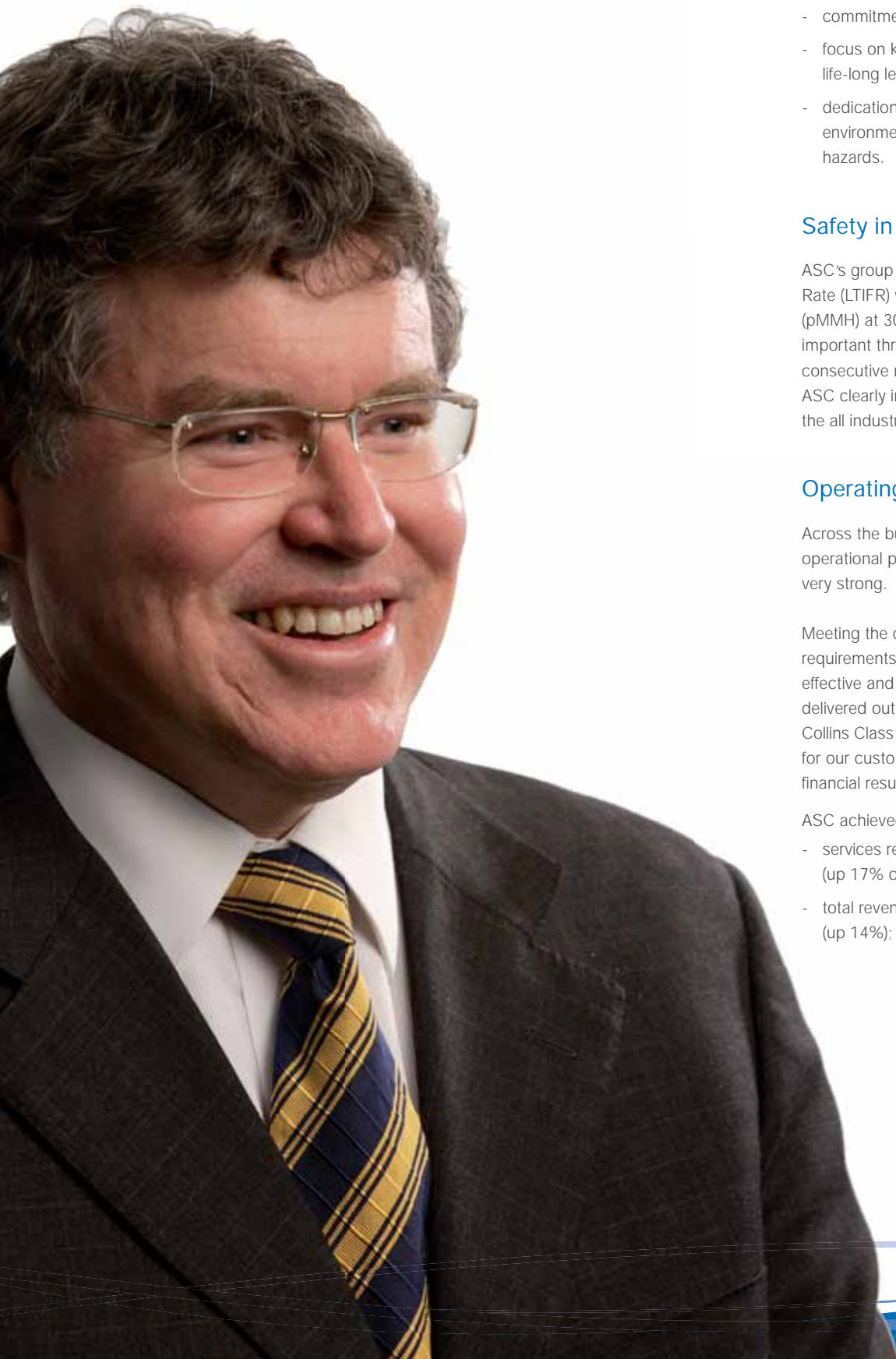
Non-Executive Director

Age 70. Director since 1 July 2002 and Member of the Audit Committee. Former Chief of the Australian Defence Force, Director Joint Services Policy, Commander

Second Military District, Chief of Logistics (Army), Head of Defence Intelligence Organisation and Vice Chief of the Australian Defence Force. Fellow of the Institute of

Engineers (Australia) and Academy of Technological Sciences and Engineering.

Managing Director's Report



ASC's success during 2005/06 reflected the implementation of several improvement strategies, including:

- improved internal and external collaboration;
- commitment to customer outcomes first;
- focus on knowledge capture and life-long learning; and
- dedication and resolve to operate in an environment free of injuries and safety hazards.

Safety in the Workplace

ASC's group Lost Time Injury Frequency Rate (LTIFR) was 3.4 per million man hours (pMMH) at 30 June 2006 and below the important threshold of 5 pMMH for four consecutive months. This safety result puts ASC clearly in best practice territory, given the all industries average of 14.9 pMMH.

Operating Performance

Across the business, our financial and operational performance has been very strong.

Meeting the customer's schedule requirements and operating within a more effective and cost efficient framework delivered outstanding outcomes on the Collins Class Through-Life Support Contract for our customer and, consequently, record financial results in 2005/06.

ASC achieved:

- services revenue of \$254.7 million (up 17% over 2004/05);
- total revenue of \$260.9 million (up 14%);

- operating profit after tax of \$18.5 million (up 14%); and
- shareholders equity of \$114.2 million (up 6%).

These impressive results confirm that ASC's core strategy of total commitment to meeting its customer's objectives, and thereby maximising incentive payments, is proving successful.

Twelve successful submarine maintenance activities were conducted by Western Australia personnel this year, all completed safely and to their required operational standards, with eleven accomplished on time.

This is a tremendous achievement in light of the fundamental shift ASC has experienced in the submarines' upkeep usage cycle, resulting in longer but less frequent maintenance activities. This change is designed to increase the overall availability of the submarines for the Royal Australian Navy (RAN).

Activities at Osborne this year centred on FCD work for HMAS *Waller*, which will be returned to the RAN in early 2007; the first submarine to have the US Navy-developed replacement combat system installed. HMAS *Dechaineux* arrived at Osborne just prior to the end of the 2005/06 year and will subsequently receive much attention throughout 2006/07 and 2007/08.

Enhancing ASC's Capability in Western Australia (WA)

There are now normally five operational submarines based in WA. This necessitates the need for ASC to provide a substantive, dynamic and responsive support capability in WA. The company has steadily built its skilled resource base in the west over the last decade to achieve this.

In order to deliver a world's best practice support service in WA, ASC is investing in a new, state-of-the-art submarine maintenance facility, located at the Australian Marine Complex at Henderson, south of Perth in WA.

This facility is designed with construction scheduled to commence in 2006. It will be operational in 2008.

Air Warfare Destroyer (AWD) Program

ASC is committed to the success of the AWD Program and has enjoyed a collaborative and integrated working relationship with the other AWD Alliance participants.

During the 2005/06 year, ASC mobilised almost 100 staff to the AWD Systems Centre in Felixstow, Adelaide, which was officially opened by the Minister for Defence, Dr Brendan Nelson, on 3 August 2006. ASC has eagerly supported both the Evolved and Existing AWD design options. The Australian Government will consider Second Pass Approval for the Program and select the design to be built around mid-2007.

Over the coming year, further mobilisation and recruitment will continue as ASC contributes to Phase 2 design studies and prepares for implementation/construction in Phase 3.

Extension of Capability Partnership

With an objective to continue to provide the RAN with greater Collins Class design capacity, ASC was pleased to extend its relationship with its submarine capability partner, Electric Boat, until 2008.

The new contract will see a continuation of Electric Boat's support to further enhance ASC's submarine technical capability with a particular focus on continuous upgrades and supporting the company in its long term objective of co-designing Australia's next generation of submarines.

ASC continues its shipbuilding capability partnership with Bath Iron Works and looks forward to their ongoing contribution and support during 2006/07 to the AWD shipbuilding task.

Meeting our Customer's Needs

While currently performing well, ASC is determined to achieve or exceed best practice standards in all of its core activities. The company has established the newly created position of Executive Manager - Change and Improvement to provide a focal point and an executive champion for the many change and improvement initiatives within ASC.

ASC's Executive Manager - Change and Improvement is responsible for ensuring the various change and improvement initiatives currently underway align with company strategy and consolidate to deliver a significant tangible and measurable benefit to the customer and the company.

Beyond 2005/06

There was no shortage of challenges throughout 2005/06, but the company overcame all. I expect the coming year will bring a new wave of opportunity and challenges; we are ready.

With 23 years of the Collins Class Through-Life Support program left to run, and with the critical role of shipbuilder for the AWD Program ongoing for at least ten years, ASC is strong and looks forward to an exciting future.



Greg Tunny
Managing Director

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).

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 2006, the Board was comprised as follows:

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.

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 2005/06 year.

Board

Under the Board Charter, the Board is responsible for:

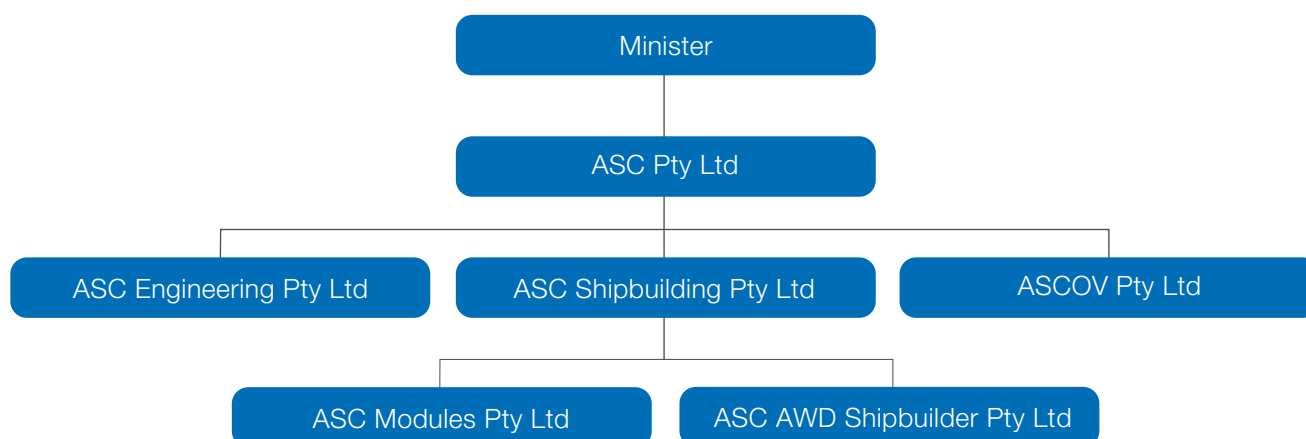
- overseeing ASC, including control and accountability systems;
- appointing and monitoring the performance of the Managing Director and the Company Secretary;
- approving other executive appointments, organisational changes and senior management remuneration policies and practices;
- monitoring and 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.

Name	Appointed	Expires
John Prescott AC (Chairman)	3 November 2000	30 June 2009
Greg Tunny (Managing Director)	11 October 2004	-
Charles Bagot	3 November 2000	31 November 2007
Graeme Bulmer	10 November 2000	31 December 2007
General (Rtd) John Baker AC DSM	1 July 2002	31 December 2007
Stephen Young	1 July 2002	30 June 2006

* Stephen Young resigned on 30 June 2006

Group Composition

The ASC Group is comprised as follows:



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

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 2006, 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. 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 2006, the committee comprised John Prescott AC (Chairman) and Charles Bagot.

Corporate Governance - continued

Attendance

Attendance at Board and committee meetings during 2005/06 was as follows:

Director	Board		Audit Committee		Nomination and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
John Prescott AC (Chairman)	16	16	-	-	6	6
Greg Tunny (Managing Director)	16	15	-	-	-	-
Charles Bagot	16	16	-	-	6	6
Graeme Bulmer	16	16	5	5	-	-
General (Rtd) John Baker AC DSM	16	16	5	5	-	-
Stephen Young	16	15	5	5	-	-

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 the responsibility for the financial internal audit function. The work scope for this function includes determining whether ASC's network of financial risk management, control and governance processes, as designed and represented by management, is adequate and functioning in an effective manner to ensure:

- financial risks are appropriately identified and managed;
- interaction with the various governance groups occurs as required;
- significant financial, managerial and operating information is accurate, reliable and timely;

- employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- resources are acquired economically, used efficiently and adequately protected;
- programs, plans and objectives are achieved;
- quality and continuous improvement are fostered in ASC's control process; and
- significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately.

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

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.

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.

ASC's Risk Management Committee held 10 meetings during 2005/06 to continue to support the Audit Committee in discharging its responsibilities for risk management at ASC.

Legal Compliance

In 2005 ASC established its Legal Compliance Program which complies with Australian Standard 3806. The program is managed by ASC's Legal and Risk and Business Assurance departments and covers:

- trade practices;
- occupational health and safety;
- environment;
- employment;
- criminal code;
- privacy; and
- defence export controls.

All employees undertake the compliance training annually.

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

Management

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



Submarines



Ross Milton (59)

Deputy Chief Executive Officer
BE, FIEAust, CPEng



Stuart Wiley (47)

General Manager Submarines
BSc(Hons), FIEAust, CPEng,
MAIPM MPD



Jack Atkinson (56)

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



Robert Lemonius (55)

Western Australia Submarine
Operations Manager
Commonwealth Centenary Medal 2003



Mark Gobell (53)

Works Manager
BTech.Mech.Eng, FIEAust

The 2005/06 year was dominated by maintenance activities undertaken in ASC's Western Australian operations, an increase in overall sea days from previous years and a corresponding decrease in maintenance days.

With the return of HMAS *Collins* into service in October 2005, and the successful certification extension of HMAS *Dechaineux* to May 2006, there were five in-service submarines for six months during the 2005/06 year. This was a first for ASC and the RAN, and has provided an excellent insight into the workload and resources required to support the Collins Class submarines in the future.

Also during the year, five submarine maintenance activities were completed in Western Australia, with an additional seven Self Maintenance Periods (SMP) supported involving RAN and ASC personnel – six alongside their home port of HMAS *Stirling* in Western Australia and one in Guam.

HMAS *Collins*

HMAS *Collins*' FCD was completed with the transfer of materiel control to the RAN on 29 July 2005 and the subsequent return to service in October 2005.

During the 2005/06 period, ASC completed two SMPs and one Intermediate Maintenance Availability (IMAV) on HMAS *Collins* with all activities completed on time.

HMAS *Farncomb*

Three maintenance activities, including two SMPs and one Intermediate Docking (ID) were undertaken on HMAS *Farncomb* in Western Australia. All activities were completed on time.



Alf Aschenbrucker (57)

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

As a result, the 2005/06 usage upkeep cycle changed resulting in longer, less regular maintenance activities designed to increase the overall availability of the submarines for the Royal Australian Navy (RAN).

Following the completion of HMAS *Collins*' Full-Cycle Docking (FCD) at ASC's Osborne facility, for the first time ASC's South Australian facility had one submarine to concentrate on, which resulted in a substantial change to the geographical location of the workload mix for the 2005/06 period. In light of this, ASC's Western Australian operations required additional Osborne support.

Submarines - continued

Dan Menis

Project Administrator

The refreshing, sunny lifestyle in Western Australia is a far cry from the deep, dark depths of the ocean, which is where we found Dan Menis.

Dan is one of our project administrators in the West and, amongst other things, offers us a unique perspective about what it's like to be a submariner. And he should know, for he was one – for three years!

Because Dan knows so much about the submarines and their mechanics, we immediately put him to work on tasks like urgent defects and self maintenance periods.

While we appreciate Dan for the knowledge and experience he brings to ASC as a former submariner, he appreciates the camaraderie and laughs he has with his ASC workmates – essential qualities we have learnt, both above and below the surface.



HMAS *Waller*

HMAS *Waller's* FCD continued during the 2005/06 year, with major upgrades incorporated into the maintenance activity, including platform design changes and installation of the majority of a new replacement combat system (RCS) platform, commencement of system set-to-work and completion of a large portion of equipment modifications to facilitate installation of a new (and more lethal) heavy weight MK48 torpedo. These changes are being implemented on a Collins Class submarine for the first time.

Other design enhancements undertaken on HMAS *Waller* include the introduction of special forces' capability, improvements to the halon fire fighting system; and changes to the fuel system, platform flexible hoses, gas detection system and external communication systems.

In addition, the 2005/06 period saw the following activities undertaken during HMAS *Waller's* FCD:

- completion of the first Collins Class submarine full 12A diesel engine overhaul and maintenance during a FCD;
- conduct of a world first in-situ armature main motor repair;
- undertaking of preparations to facilitate installation of enhanced main submarine battery cells;
- completion of all submarine pressure hull and tank corrosion repairs with re-preservation well in hand;
- commencement of modifications to provide automatic operation of the sewage system;
- introduction of modifications to improve the corrosion resistance of cable pressure hull penetrations; and
- completion of the majority of the overhaul of submarine equipment and systems with rebuild well in hand.

HMAS *Dechaineux*

HMAS *Dechaineux* arrived at Osborne to begin its FCD just prior to the start of the 2006/07 financial year. During the docking, HMAS *Dechaineux* will be significantly enhanced to increase its capability with inclusion of heavy weight torpedo enhancements, a replacement combat system, sewage automation, halon fire fighting pipe work and gas seals, shut all hull valves and special forces' modifications.

Dedicated resources are being allocated to HMAS *Dechaineux* to safeguard the FCD program and support the transition of labour from HMAS *Waller's* FCD.

HMAS *Dechaineux's* FCD has two critical elements:

- the volume of work to be undertaken, and the rate of expenditure, is far greater than previous FCDs; and
- final designs are yet to be completed for the implementation of critical enhancement activities.

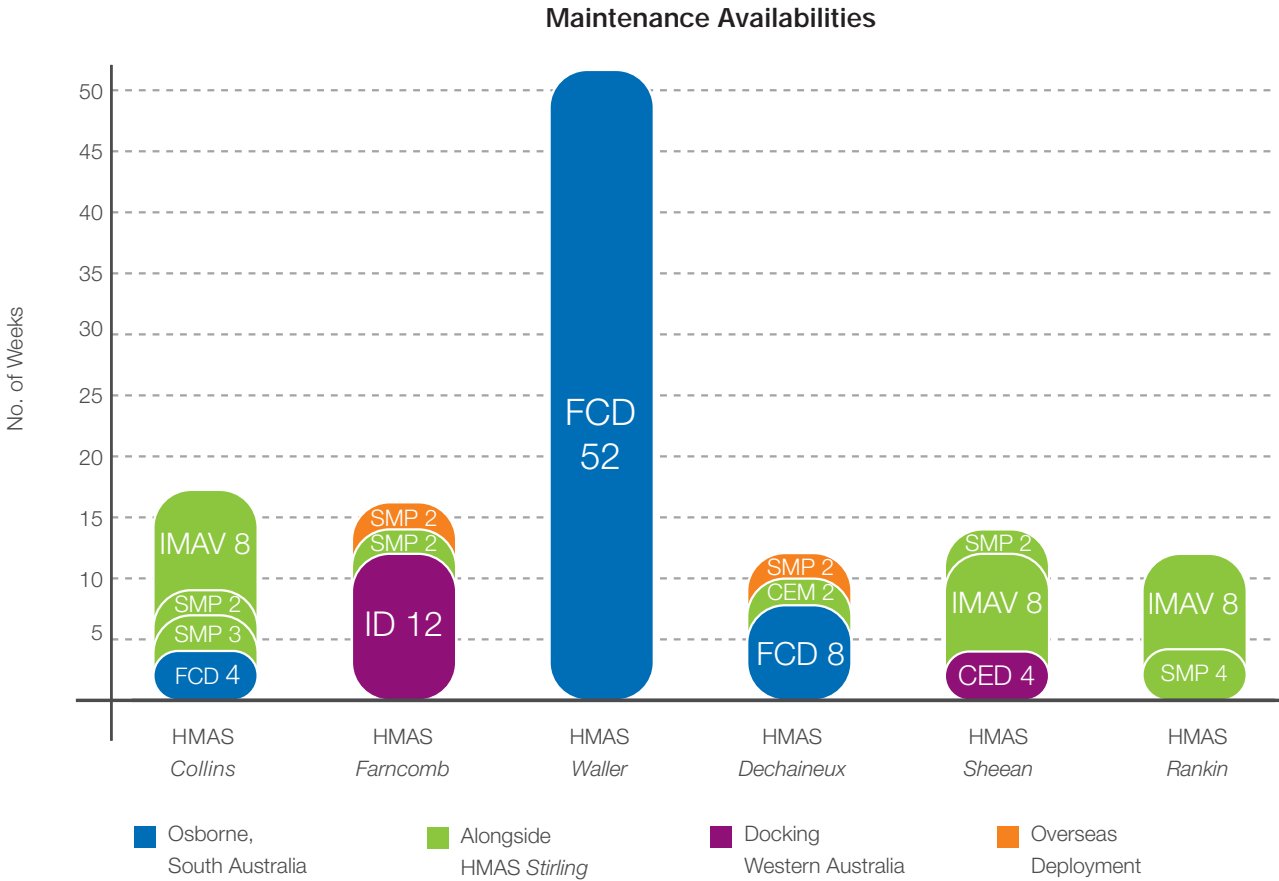
A large element of growth work was discovered during previous FCD maintenance activities, which has subsequently been included as part of the planned maintenance work scope for HMAS *Dechaineux*.

HMAS *Sheean*

During the 2005/06 year HMAS *Sheean* was named the 2005 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.

HMAS *Sheean* is the next submarine to undergo a Certification Extension Docking (CED), which will be undertaken



in Western Australia for the first time. Successful completion of HMAS *Sheean*'s CED will see another five boats simultaneously operational when HMAS *Waller* completes her FCD. Also during 2005/06, HMAS *Sheean* completed an IMAV and a SMP in Western Australia.

HMAS Rankin

HMAS *Rankin* completed two maintenance activities during 2005/06 – a SMP and an IMAV. Both activities were completed on time.

Availability	Result
HMAS Collins FCD	✓
HMAS Farncomb SMP	✓
HMAS Dechaineux CEM	✓
HMAS Rankin SMP	✓
HMAS Collins SMP	✓
HMAS Sheean IMAV	3 days late
HMAS Dechaineux CEM	✓
HMAS Farncomb ID	✓
HMAS Sheean SMP	✓
HMAS Collins IMAV	✓
HMAS Rankin IMAV	✓
HMAS Farncomb SMP	✓
HMAS Collins SMP	✓

SMP - Self Maintenance Period
CEM - Certification Extension Maintenance

IMAV - Intermediate Maintenance Availability
ID - Intermediate Docking



Performing and



through teaming 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.



Submarines - continued

John Black

Electrician

We doubt John Black ever thought he would eventually be working with his son when he joined ASC seven years ago.

You would think John's job is unique enough – electrical work often carried out in confined spaces with exacting demands of safety, specifications and standards. Couple that with working every day with his third-year electrical apprentice son Greg, it's no wonder John is always on his toes.

Born and raised in Scotland, John trained and worked as an electrician in the UK, including a stint working on North Sea oil rigs, before emigrating to Australia in 1990.

Today, we keep him plenty challenged with meticulous electrical work on the Collins Class submarines and, of course, passing along his knowledge to his son.

Design and Engineering

ASC's Design and Engineering (D&E) team supports the Collins Class submarines in maintenance and by implementing new technology and new capability designs as required.

At the completion of each submarine maintenance activity, D&E has the responsibility for certifying that the submarine is fit and safe to proceed to sea, based on a safety analysis and an assessment of the material state of the submarine platform.

D&E has continued to grow in maturity over the last twelve months, with a further twelve senior submarine experienced designers and engineers joining the team, as a result of ASC's successful international recruitment campaign.

ASC's D&E team is now comprised of 276 personnel with expertise in the following areas:

- platform engineers/technicians (mechanical, structural, acoustic, electrical);
- combat system and communications engineers/technicians;
- integrated lifecycle support;
- certification management;
- safety and SUBSAFE;
- maintenance support;
- detail designers/CAD operators; and
- project managers/engineers.

During 2005/06, the D&E team continued to aggressively deal with obsolescence and the imperative for technology upgrades. The availability of spares, optimisation of maintenance and reliability of improvements are key factors in lifting submarine availability levels and operational performance.

D&E made substantial progress in its designer capability, with much effort on achieving results with increased efficiencies. ASC's 'Designer Continuous Improvement' program will continue to push improvements in the areas of Key Performance Indicators, individual competency assessments matched to training needs, engineering tools, complex design and customer communication. In conjunction with this, the internationally recognised Capability Maturity Model Integrated (CMMI) improvement program will commence this coming year with a Level 3 'measure' to be achieved before the end of the decade.

ASC's submarine capability partner, Electric Boat, has continued to work with the D&E team in the refinement and improvement of maintenance support methods in the specialist areas of engineering for concept design studies and platform design.



The D&E business unit has also made further progress towards increased submarine reliability and improved efficiency. In addition, D&E continued to consolidate submarine design and knowledge, and build upon this learning by undertaking more complex design tasks, to ultimately provide the customer with the option to embark on a new submarine design in the future.

The Collins Class submarines continue to embrace technology from a wide range of international suppliers in their maintenance and design upgrades.

Submarine Training

ASC and the RAN completed the first year of the new five year training contract for the management and provision of submarine training services during 2005/06.

Throughout the year, implementation of the new contract has progressed very well with both ASC and the submarine community working closely together to train new submariners in the skills they require to enable them to become members of an operational submarine.

Infrastructure Development

ASC has completed the design of a new submarine maintenance facility, to be built, as part of the redevelopment of the Australian Marine Complex, in Henderson, Western Australia.

The site will be established on one of the super blocks behind the Common User Facility and will create improved submarine docking and maintenance capabilities, as well as an improved working environment for staff.

The Western Australian Government is developing the Common User Facility infrastructure, including the floating dock, that will allow ASC to undertake all docking work in the new facility from 2008.

Kathryn Varney

Non-Destructive Test Trainee

In two years' time, Kathryn Varney will become a highly qualified non-destructive testing technician, and will be able to apply her skills and knowledge to testing metals for defects – a pretty fundamental job in our business you would think.

At ASC, we believe that employee training and knowledge development is paramount to ensuring Royal Australian Navy vessels are in tip top condition and, as such, we devote considerable resources to up-skilling our people.

Kathryn is undertaking a Non-Destructive Testing traineeship with ASC and, as a part of the program, is also studying a Certificate III in Mechanical Engineering and an Advanced Diploma of Mechanical Engineering with TAFE. In addition to Kathryn's offsite learning, we give her plenty of time to study during work hours.

Upon completion Kathryn will be able to, as a highly qualified technician, work on significant projects at the very heart of submarine safety, or expand into other areas of engineering if she so desires.



Ships



John Gallacher (57)

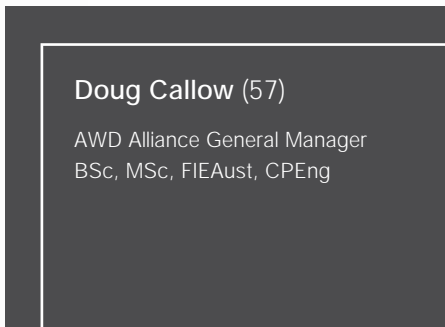
Chief Executive Officer
ASC Shipbuilding



Martin Edwards (42)

General Manager
ASC Shipbuilding
BMgt, Dip.Eng, CPEng

ASC's shipbuilding operations has concluded a very successful operating year building on its successful selection in May 2005 as the shipbuilder for the SEA 4000 Air Warfare Destroyer (AWD) Program.



Doug Callow (57)

AWD Alliance General Manager
BSc, MSc, FIEAust, CPEng



The Hobart Class AWD Program will provide the timely and efficient delivery of an affordable, effective, flexible and sustainable air warfare destroyer capability for the security of Australia.

SEA 4000 Hobart Class AWD Program

During the 2005/06 period, ASC entered into the Phase 1D support contract for the Hobart Class AWD Program. This crucial first step involved mobilisation of ASC's shipbuilding team to support project objectives, including transitioning the company's shipbuilding team to the AWD Systems Centre in Felixstow, Adelaide.

In addition, members of ASC's capability partner, Bath Iron Works, were integrated with ASC's shipbuilding personnel as well as the AWD Alliance to provide further support for Phase 1D activities.

The AWD Systems Centre manages the design schedule, budgets and work breakdown structures for this complex project and draws together defence and industry participants to ensure effective and efficient decision making, and provide a focus for design-related activity.

As ASC now enters Phase 2 of the Program, including undertaking parallel design activities of the Gibbs & Cox Evolved AWD Design and the Navantia F100 Existing AWD Design (in accordance with the 2003 Kinnaird Review), further mobilisation of ASC's shipbuilding personnel to the AWD Systems Centre will ensue.

These activities prepare the numerous deliverables to underpin Second Pass Approval in the second half of 2007, during which time a choice of the Preferred Designer will be made by the Australian Government.

Infrastructure Development

2005/06 saw much headway on the various infrastructure projects to support the AWD Program, including the finalisation of all formal agreements with the South Australian Government for the construction of the Common User Facility (CUF).

ASC has supported the Port Adelaide Maritime Corporation with preliminary design planning of the CUF, which includes a new wharf, ship lift, dredging and the development of ship consolidation sites, in addition to supporting master planning activities associated with Techport Australia (formerly known as the Osborne Maritime Precinct).

Development of the education and facility briefs for the future Maritime Skills Centre, to be located at Techport Australia, was also undertaken during the 2005/06 period.

JP 2048 Amphibious Ships Program

ASC was engaged by various Amphibious Ships Program tenderers and industry parties to provide module fabrication support and industry planning assessments during the year.

Chris Stevens Internal Auditor

Chris Stevens, the former KPMG and PriceWaterhouseCoopers accountant, had no idea what was in store for him when he signed up as a project accountant in 2002.

With an expectation of tinkering with some numbers, Chris in fact headed the team that developed ASC's costs and rates in our successful bid for the Air Warfare Destroyer Program.

To pull the numbers together, Chris worked with Macquarie Bank and ASC's shipbuilding capability partners Bath Iron Works and Sinclair Knight Merz.

Now that we know what he can do, we immediately put Chris in charge of ASC's internal audit function, where the numbers certainly add up.



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.



Corporate



Tony Kuhlmann (40)

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



Vladimir Malcik (51)

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



Brian Archer (55)

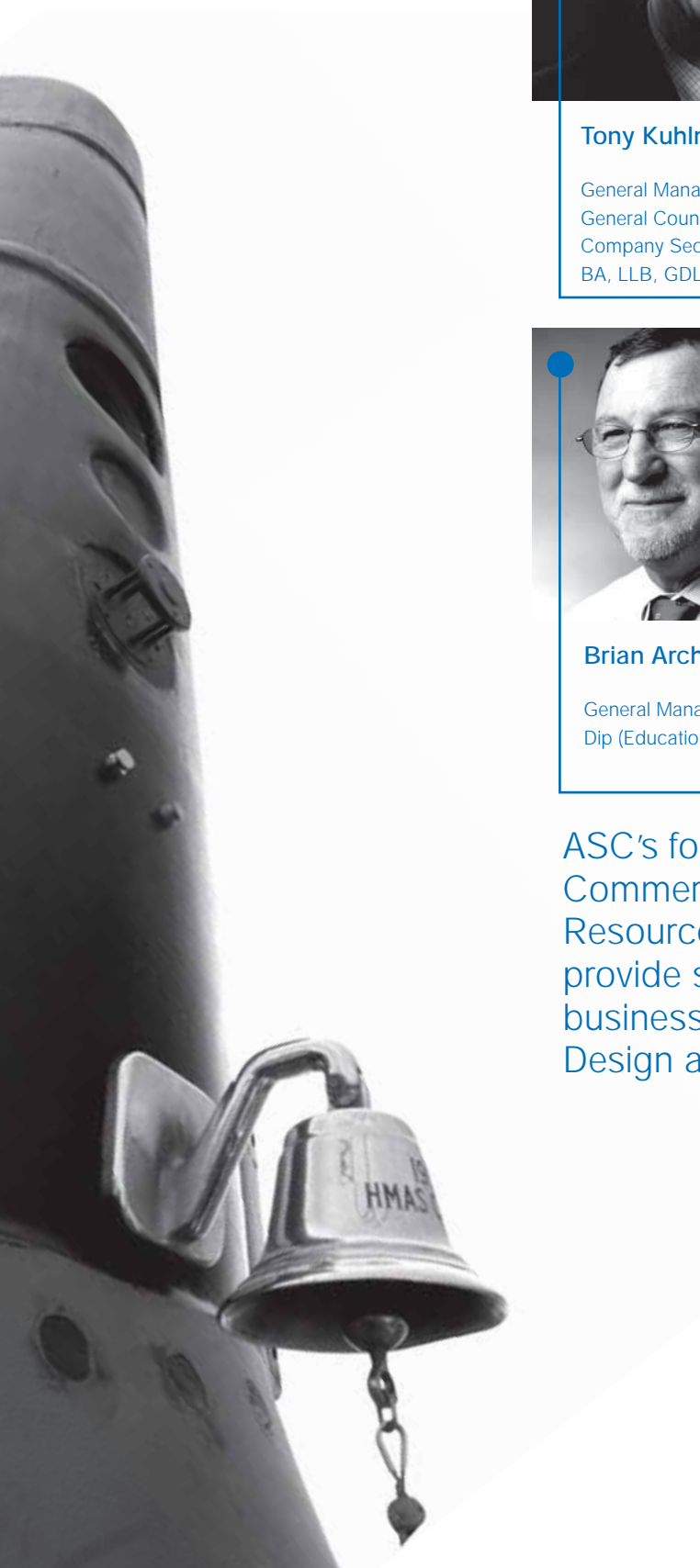
General Manager Human Resources
Dip (Education)



Jon Moore (38)

Executive Manager Change and
Improvement
BEng (Hons), CEng (UK)

ASC's four corporate departments – Commercial and Legal, Finance, Human Resources and Change and Improvement provide specialised services to ASC's functional business areas – Submarines, Shipbuilding and Design and Engineering.



Our People

Health

The health and wellbeing of our people are central to the success of our business and, accordingly, understanding the potential for health risks and establishing suitable mitigation measures are integral to ASC obtaining a lost time injury target of zero across the company.

Healthy Plus Program

ASC's Healthy Plus Program is a company-wide initiative that was launched during the year to inform staff on ways in which they can take better care of themselves.

The initiative seeks to promote various health concerns, including quit smoking, blood donations, skin cancer awareness, flu vaccinations, blood pressure / cholesterol checks and diabetes checks, and provide education and support for dealing with them.

The initiative recognises that many health issues not only have the potential to impact on ASC's safety performance, but can also cause community issues and consequently impact on our ability to contribute to the development of our nation.

During the 2005/06 year, ASC provided 300 flu vaccinations to its staff, made 214 blood donations and assisted 25 employees to quit smoking, demonstrating the success of the Healthy Plus Program.

Safety

The safety of our employees, contractors and customers is an integral part of our business. Our goal is to ensure all employees and visitors are safe from injury and risks to health while at work. Our lost time injury target is zero.

To this end, ASC is seeking to create a mindset and an environment where people believe it is possible to work injury free – regardless of what role they undertake or in which program they work.

ASC frequently conducts internal audits to ensure compliance with the Occupational Health and Safety (Commonwealth Employment) Act 1991 and AS.NZS 4801:2001 Occupational Health and Safety Management Systems.

As part of our commitment to the continuous improvement of ASC's health and safety performance, a hierarchy of control measures are used to identify hazards and manage risk exposure, including the:

- elimination of hazards;
- substitution of hazardous materials with less hazardous materials;
- application of engineering controls;
- application of administration controls; and
- provision of personal protective equipment.

ASC is confident that its standards and associated systems are the right ones and have directed efforts towards the effective and consistent implementation of these across the company.

David West

Project Manager – Submarine Equipment

You know those people who can adapt and do anything? Well, David West is one of those!

He joined us in 1998 as a weapon systems engineer and was one of the first engineers to head up our Western Australia operations in the provision of in-service support for the Collins Class submarines.

Eight years later, David returned to South Australia as a project manager.

While in the West, David quickly learnt that engineering skills represented just one requirement in our business, you also need project management skills.

Nothing makes David happier than having a start and finish date, seeing the outcome of a project and learning from any mistakes made.

Today, David is the project manager for change management in Maintenance Engineering. It's a position that perfectly encapsulates his career at ASC: improving himself by positively responding to change.



Our People - continued

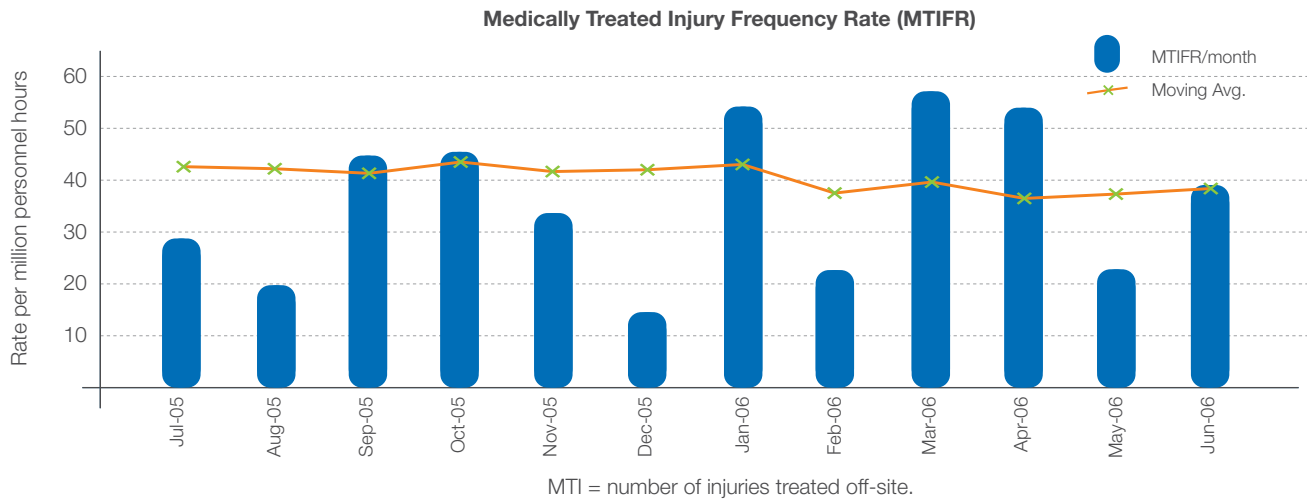
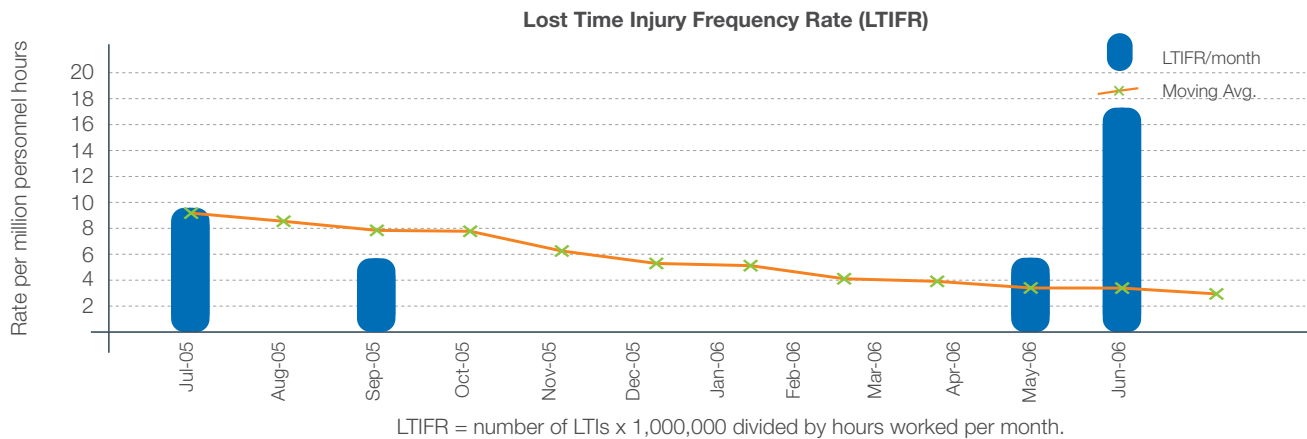
Lost Time Injuries

A lost time injury is when an employee is absent from work for a full shift as a result of a work related injury.

Across its three facilities, ASC achieved a consolidated Lost Time Injury Frequency Rate (LTIFR) for 2005/06 of 3.24.

Independently, ASC's Osborne facility, Western Australia facility and Osborne shipbuilding facility obtained 208, 729 and 819 respectively of continuous days free of lost time injuries.

In recent years ASC has achieved a reduction in its LTIFR by actively pursuing improvement in this area.



Reported Incidents

During 2005/06, ASC reported four notifiable incidents to Comcare under section 68 of the Act. None of these incidents were investigated by Comcare and no notices were issued.

A strategy to eliminate such incidents in the future has been considered in the development of the 2006/07 Safety Action Plan. The key objectives of this plan are to:

- improve the identification of hazards and mitigate risks through the development and implementation of a Job Safety Analysis process for hazardous activities;
- gain certification to AS/NZS 4801:2001 Occupational Health and Safety Management systems; and
- develop and promote employee health programs.

Implementation of a Behavioural Safety Program is currently under consideration to assist in achieving further improvement in ASC's safety performance.

University of Adelaide Review

As part of ASC's continued safety improvement program, The University of Adelaide's Occupational and Environmental Hygiene Consulting were engaged during 2005/06 to review aspects of ASC's current safety program, including:

- employee perceptions of safety management and ASC's safety culture;
- review of injury data for the last five years to recommend preventative measures; and
- review of key performance indicators and benchmarking.

These reports provided some excellent recommendations for improvement that ASC is now in the process of implementing.

Mike Hurd

Specialist Control Systems Engineer

Mike Hurd has travelled halfway around the world to apply his skills and knowledge at ASC.

The Specialist Control Systems Engineer previously worked for Rolls-Royce in Derby, England, where he helped provide solutions to design and in-service problems for the nuclear reactor control and protection systems in British submarines.

While there are some similarities between the two jobs, Mike enjoys working at ASC where he tackles problems with the Collins Class' hard-wired control systems and sensors.

While you would think that going from nuclear-powered submarines to diesel electric engines is a big enough change, Mike is now applying his skills across the whole submarine platform rather than just the engine.



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.



Our People - continued

Knowledge Development

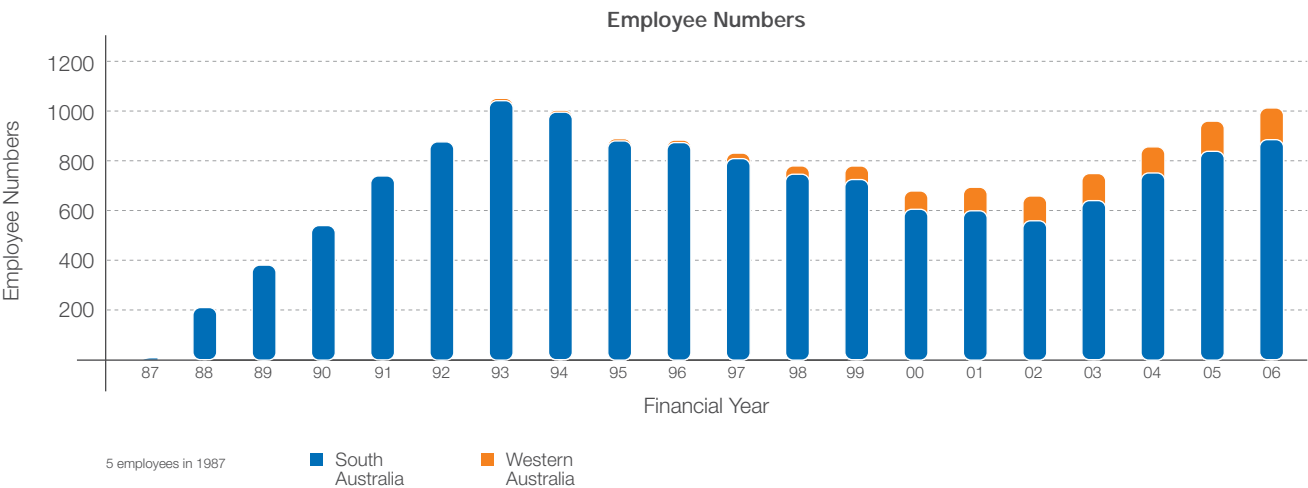
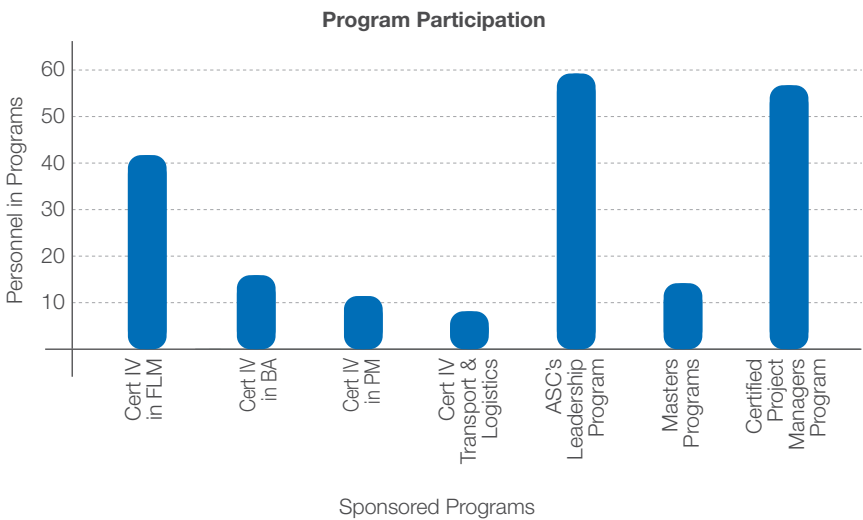
Over the past 21 years, ASC's people have developed and applied a set of skills and body of knowledge that is second to none in Australia's naval shipbuilding industry.

As a result of ASC's 2004/05 company-wide cultural survey 'ASC Aloud', ASC developed and introduced a number of programs to assist its people in developing their potential even further, including:

- Certificate IV in Front Line Management;
- Certificate IV in Business Administration;
- Certificate IV in Project Management;

- Certificate IV in Transport and Logistics;
- ASC's Leadership Development program;
- Masters in Military Systems Integration (in association with Defence Materiel Organisation's Skilling of Australia's Defence Industry (SADI) program, BAE Systems, Saab and the University of South Australia);
- Masters in Marine Engineering (in association with SADI and the University of Adelaide); and
- Certified Project Managers program.

These programs, together with a full range of professional development programs, provide employees with the opportunity to gain additional skills to maximise their potential while also providing a clear career path through management and technical pursuits.



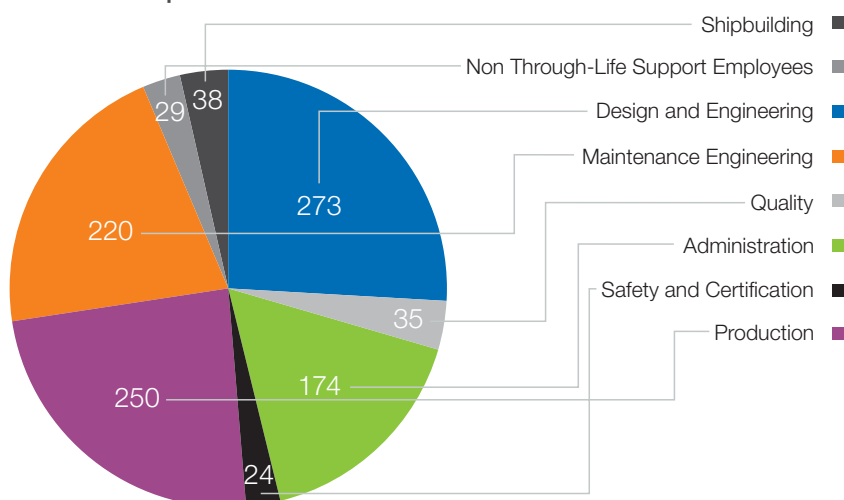
Personnel Development

The people aspects of ASC's operations relate to how the company manages its people and contribute to the economies within which ASC operates. To support employees, ASC has adopted a proactive approach to protect and enhance their value by:

- attracting and retaining high quality staff;
- providing training and development opportunities;
- setting out a framework for performance management, remuneration and incentives to encourage a high performing culture aligned with corporate objectives;
- ongoing career development and succession planning at all levels within the company; and
- recognising the importance of work/life balance.

ASC's most valuable asset is its people. Many companies make this claim but, in ASC's case, it accurately reflects the reality of its business.

Department Numbers



**not including contractors and apprentices*

Equal Opportunity

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

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

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

Employee Profile

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.

ASC commenced recruitment for the Air Warfare Destroyer (AWD) Program during 2005/06, with thirty qualified personnel in the areas of project management, planning, support and controls, technical engineering and design, estimating, quality, supply chain, scheduling, infrastructure (shipyard) development, administration, human resources and finance, all recruited to kick-start the program.

Recruitment will continue and heighten inline with the various stages and requirements of the AWD Program.



Our People - continued

Andrew Stevens

Combat System Integration Manager

Andrew Stevens freely admits he never planned to work at ASC for eight years, let alone eighteen!

He joined a fledgling ASC in 1988 as a guided weapons project engineer and thought his work with us would be done upon delivery of the first Collins Class submarine in 1996.

Instead, Andrew has held down a multitude of roles across many departments and most recently played a major part in our successful bid for the Air Warfare Destroyer (AWD) Program.

Now, as our very own, home-grown Combat System Integration Manager, Andrew can't wait to bring budding engineers and designers into the fold and offer them similar opportunities in the AWD Program not unlike those he was afforded as a young engineer in 1988.



Industrial Relations

ASC successfully completed the negotiations for a new Australian Workplace Agreement during 2005/06. The arrangement constitutes a three-year collective union agreement for all employees belonging to either the Australian Manufacturing Workers Union, the Communications, Electrical and Plumbing Union or the Australian Workers Union. This agreement was reached without any industrial action, signifying successful consultative processes between management, the unions and ASC's workforce.

The workplace agreement for employees associated with shipbuilding activities will remain in force until 2007.

Graduates and Undergraduates

ASC continues to develop engineering depth in the company through its commitment to the graduate, undergraduate and summer school programs.

During the year, 31 graduates participated in ASC's Graduate Program, which introduces graduates to several different disciplines within the business.

The two-year program aims to develop skills, knowledge and professional interests that will result in a rewarding and fulfilling career path.

19 students participated in ASC's undergraduate and summer school programs during the year. A placement in one of these programs while studying at

university fosters a smooth progression into ASC's Graduate Program.

Apprenticeships

There were 28 apprentices involved in ASC's 2005/06 Apprenticeship Program, specifically in the areas of fabrication, mechanical and electrical areas. Upon successful completion of the apprenticeship, tradespeople are encouraged to further their education towards diplomas and advanced diplomas.

The combination of training and development programs offered by ASC ensures that the company is organically growing its own skills to be available, as needed, and to ensure there will be no skills shortages in the future.

Employee Communication

ASC values its employees and as such adopts numerous initiatives designed to provide open communication opportunities at all levels within the company, including:

- regular Strategic Update briefings;
- periodic Business Plan Review sessions;
- publication of an employee newsletter, 'In Sight'; and
- frequent intranet and e-mail updates.

In addition, ASC launched a new intranet feedback mechanism during the year enabling our employees to communicate directly with the Managing Director. 'Ask Greg' has been warmly received with both management and staff noting benefits in its adoption.



Environment

ASC's objectives for environmental management are outlined in the company's Environmental Policy, which states that we will:

- promote environmental awareness amongst employees to demonstrate social responsibility;
- implement systems of work to reduce and prevent pollution;
- integrate environmental aspects into risk assessments within ASC;
- conserve national resources and promote energy conservation;
- establish protocols that incorporate environmental aspects into the acquisition of materials in the supply chain process;
- comply with legal requirements;
- implement and promote practical and effective waste management practices; and
- continually improve ASC's environmental performance.

Environmental Incidents

ASC actively recognises its obligation to comply with the relevant Environmental Protection and Conservation Acts (Acts).

The company actively records and reports any breaches of the Acts to the Environmental Protection Authority.

During the 2005/06 reporting period, there were no environmental incidents at any of ASC's facilities.

Environmental Management System

A preliminary analysis of ASC's processes and procedures in regard to environmental monitoring and management was undertaken during the year.

While the report identified a number of positive initiatives implemented by ASC, it also recommended an upgrade of systems to achieve full compliance at the ISO 14000 level.

ASC's aim then, in the 2006/07 period, is to achieve an ISO 14000 series compliant Environmental Management System.

Environmental Licence

ASC currently has a licence with the Environmental Protection Agency in South Australia for Abrasive Blasting and Maritime Construction; including the discharge of storm water, river-to-river cooling water and low level Total Petroleum Hydrocarbons contaminated water into the Port River.

Jennifer Benson

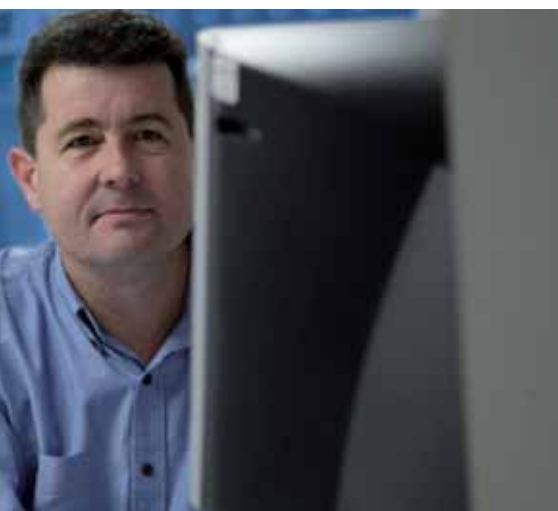
Project Manager

Jennifer Benson's career has gone from being high in the sky to deep under water – but she wouldn't have it any other way!

Trained as an aeronautical engineer, Jen worked with aircraft and ships at BAE and ADI respectively, but it was the Collins Class submarines that attracted Jen to the role of senior project manager at ASC.

Jen is based in Western Australia, where she has powered her way through HMAS *Sheean*'s intermediate docking and HMAS *Rankin*'s mid-cycle docking, before becoming a project manager for HMAS *Collins*.

With a Masters in Project Management also under her belt, we have no qualms about Jen applying her skills to manage all aspects of major maintenance projects.



Safety, Integrity for



and Empathy 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.



Financial Report

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Directors' Report

For the year ended 30 June 2006

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 2006 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
	Resigned 30/6/06		

Principal Activities

The principal activities of the consolidated entity during the course of the financial year ended 30 June 2006 included:

Submarine:

Maintenance, design development, engineering and upgrading of six submarines for the Royal Australian Navy (RAN). These activities were undertaken for the Collins Class submarines under the Through-Life Support Contract. This contract is of fifteen years duration with extension options for a further ten year period.

Air Warfare Destroyer (AWD):

On 31 May 2005, Senator Robert Hill, then Minister for Defence, announced ASC as the preferred shipbuilder for Australia's Air Warfare Destroyer (AWD) Program. The decision recognised ASC's expertise, highly-skilled personnel and proven track record in delivering highly complex naval platforms. ASC AWD Shipbuilder Pty Ltd entered into a contract with the Commonwealth of Australia represented by Defence Materiel Organisation for the provision of services in respect of this program.

Consolidated Result

The consolidated profit of the consolidated entity for the financial year attributable to the shareholders of ASC Pty Ltd was \$18,487,000 after provision for income tax expense of \$7,835,000.

Review of Operations

Submarine activities:

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

Air Warfare Destroyer (AWD) activities:

In the financial year ended 30 June 2006, ASC commenced implementation of the various shipbuilding strategic plans to support the program, thereby incurring significant non-reimbursable costs. These included supporting the AWD Alliance with initial ship design activities, planning for infrastructure development, and recruiting and training 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.

Dividends

The Directors have declared a fully franked final dividend of \$6,350,000, compared with \$7,200,000 for the 2004/05 financial year which was paid on 28 October 2005. 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 \$4,750,000 paid on 24 February 2006, compared with \$2,500,000 in the 2004/05 financial year.

The 2005/06 total dividend represents a distribution to the shareholder of \$11,100,000, compared with \$9,700,000 in the 2004/05 financial year.

Directors' Report - continued

For the year ended 30 June 2006

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.

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.

Likely Developments

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

ASC Pty Ltd is a Government Business Enterprise under the Commonwealth Authorities and the Companies Act, which require the Company to operate efficiently, earn 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

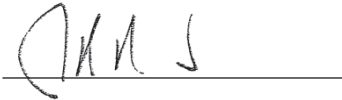
The Auditor's Independence Declaration is set out on page 31 and forms part of the Directors' Report for the year ended 30 June 2006.

Rounding Off

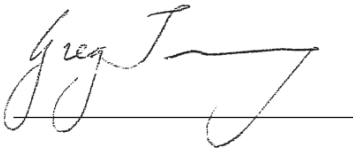
The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in this report and the accompanying financial statements have been rounded off to the nearest thousand dollars unless otherwise stated.

Dated at Adelaide this 8th day of August 2006.

Signed in accordance with a resolution of Directors:

A handwritten signature in dark ink, appearing to read 'John B Prescott', written over a horizontal line.

John B Prescott AC
Chairman

A handwritten signature in dark ink, appearing to read 'Greg Tunny', written over a horizontal line.

Gregory R Tunny
Director

Independent Audit Report



To the members of ASC Pty Ltd

Scope

The financial report and directors' responsibility

The financial report comprises:

- Directors' Declaration;
- Statements of Income, Recognised Income and Expense, Balance Sheet and Statements of 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 2006. 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 the *Corporations Act 2001* and Accounting Standards and other mandatory financial reporting requirements in Australia. The Directors of the company are also responsible 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* and 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 its financial performance 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

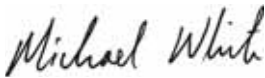
In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*.

Audit Opinion

In my opinion, the financial report of the ASC Pty Ltd and the consolidated entity is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the ASC Pty Ltd's and the consolidated entity's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
- (b) complying with Accounting Standards and other mandatory financial reporting requirements in Australia and the Corporations Regulations 2001.

Australian National Audit Office

A handwritten signature in black ink that reads "Michael White". The signature is written in a cursive, flowing style.

Michael White
Executive Director

Delegate of the Auditor-General

Canberra

10 August 2006

Directors' Declaration

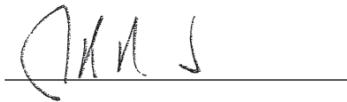
For the year ended 30 June 2006

In the opinion of the Directors of ASC Pty Ltd:

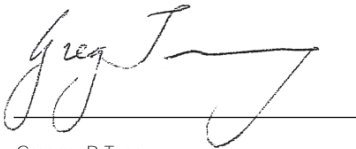
- (a) the financial statements and accompanying notes set out on pages 46 to 87 are in accordance with Note 1 of the financial statements (pages 50 to 58) (Accounts) and comply with accounting standards applicable under the Corporations Act 2001;
- (b) the Accounts give a true and fair view of the financial position and performance of the Company and its controlled entities for the financial period ending 30 June 2006;
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (d) the Accounts are in accordance with the Corporations Act 2001 including sections 296 and 297.

Dated at Adelaide this 8th day of August 2006.

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 consolidated entity



In relation to our audit of the financial report of the ASC Pty Ltd and consolidated entity for the year ended 30 June 2006, 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

A handwritten signature in black ink that reads 'Michael White'.

Michael White
Executive Director

Delegate of the Auditor-General

10 August 2006

Income Statements

For the year ended 30 June 2006

		CONSOLIDATED		THE COMPANY	
	Note	Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
Revenue from rendering of services	3	254,675	217,042	237,891	210,991
Financial Income	3	5,869	5,580	6,156	5,576
Other income	3	381	6,648	137	6,401
Total revenue		260,925	229,270	244,184	222,968
Expenses					
Materials and subcontractors		(101,061)	(75,330)	(85,891)	(64,278)
Labour		(101,937)	(92,644)	(99,289)	(89,980)
Labour recruitment and relocation		(1,810)	(1,437)	(1,649)	(1,349)
Depreciation and amortisation	4	(3,731)	(3,363)	(3,381)	(2,968)
Professional fees		(3,343)	(4,592)	(1,893)	(4,192)
Repairs and maintenance		(4,737)	(3,106)	(4,489)	(2,960)
Utilities expense		(2,236)	(2,273)	(2,005)	(2,013)
Finance costs	4	(70)	(36)	(29)	(30)
Insurance		(2,487)	(1,966)	(1,986)	(1,671)
Operating lease		(1,973)	(1,847)	(1,775)	(1,702)
Production consumables and supplies		(1,076)	(1,108)	(1,046)	(1,038)
Pension costs		739	(109)	739	(109)
Rental of office and buildings		(268)	(69)	(970)	(727)
Security expenses		(751)	(713)	(530)	(491)
Training expenses		(1,640)	(817)	(1,558)	(817)
Travelling expenses		(1,362)	(1,261)	(1,351)	(1,227)
Office expenses		(1,596)	(1,152)	(1,559)	(1,037)
Service agreement costs		-	(6,324)	-	(6,324)
Self Insured Workers Compensation		(2,013)	(3,023)	(2,013)	(3,023)
Warranty		(176)	(4,160)	(176)	(4,160)
Impairment on non current assets		-	(612)	(2,600)	-
Other expenses		(3,075)	(2,845)	(2,793)	(1,160)
Total expenses		(234,603)	(208,787)	(216,244)	(191,256)
Profit before tax		26,322	20,483	27,940	31,712
Income tax (expense)/benefit	6(a)	(7,835)	(4,406)	(8,283)	(8,696)
Profit after tax		18,487	16,077	19,657	23,016

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 50 to 87.

Statements of Recognised Income and Expense

For the year ended 30 June 2006

	Note	CONSOLIDATED		THE COMPANY	
		Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
Actuarial gains (losses) on defined benefit plans after tax		(923)	698	(923)	698
Net income recognised directly in equity		(923)	698	(923)	698
Profit for the year		18,487	16,077	19,657	23,016
Total recognised income and expense for the year		17,564	16,775	18,734	23,714
Effect of change in accounting policy - financial instruments	1(c)	(854)	-	(995)	-

This Statement of changes in equity is to be read in conjunction with the notes to the financial statements set out in pages 50 to 87.

Balance Sheets

As at 30 June 2006

		CONSOLIDATED		THE COMPANY	
	Note	Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
ASSETS					
CURRENT ASSETS					
Cash assets	8	6,455	3,366	6,454	3,337
Receivables	9	48,800	59,702	48,357	59,511
Other financial assets	11	33,373	48,430	33,373	48,430
Inventories	10	9,637	13,002	9,637	12,931
Other	13	483	715	417	565
TOTAL CURRENT ASSETS		98,748	125,215	98,238	124,774
NON CURRENT ASSETS					
Receivables	9	24,565	27,544	30,361	27,544
Investments accounted for using the equity method	12	5	5	5	5
Other financial assets	11	47,372	57,556	57,772	70,556
Property, plant and equipment	14	75,257	73,567	67,778	65,699
TOTAL NON CURRENT ASSETS		147,199	158,672	155,916	163,804
TOTAL ASSETS		245,947	283,887	254,154	288,578
LIABILITIES					
CURRENT LIABILITIES					
Bank overdraft	8	2,019	-	-	-
Payables	15	57,316	95,585	58,308	92,421
Non interest-bearing liabilities	16	5	360	2,806	1,931
Current income tax payable	6(b)	2,474	5,948	2,474	5,948
Provisions	17	30,599	36,396	25,731	31,719
TOTAL CURRENT LIABILITIES		92,413	138,289	89,319	132,019
NON CURRENT LIABILITIES					
Non interest-bearing liabilities	16	3	360	2	160
Deferred tax liabilities	6(d)	26,315	28,433	25,717	28,591
Provisions	17	13,022	9,473	12,915	9,444
TOTAL NON CURRENT LIABILITIES		39,340	38,266	38,634	38,195
TOTAL LIABILITIES		131,753	176,555	127,953	170,214
NET ASSETS		114,194	107,332	126,201	118,364
EQUITY					
Issued capital	18	10,000	10,000	10,000	10,000
Reserves	19	31,014	29,762	28,067	26,869
Retained earnings	20	73,180	67,570	88,134	81,495
TOTAL EQUITY		114,194	107,332	126,201	118,364

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 50 to 87.

Statements of Cash Flows

For the year ended 30 June 2006

		CONSOLIDATED		THE COMPANY	
		Jun-06	Jun-05	Jun-06	Jun-05
	Note	\$'000	\$'000	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts in the course of operations		287,257	230,414	270,910	227,277
Cash payments in the course of operations		(289,271)	(227,958)	(264,494)	(215,537)
Income taxes refunded/(paid)	6(b)	(13,452)	(6,546)	(13,452)	(6,546)
Net cash provided by/(used in) operating activities	33(b)	(15,466)	(4,090)	(7,036)	5,194
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		4,820	6,599	5,109	6,596
Leverage lease income		2,312	1,960	2,312	1,960
Proceeds from disposal of non current assets		119	300	1	31
(Increase)/decrease in invested funds	33(c)	24,637	2,538	24,637	2,538
Payments for property, plant and equipment		(3,378)	(3,641)	(3,497)	(3,610)
Loan (to)/from controlled entity		-	-	(6,458)	(9,074)
Loan (to)/from associates		-	404	-	406
Payments for other loans		-	(41)	-	-
Investment in associates		-	42	-	42
Net cash used in investing activities		28,510	8,161	22,104	(1,111)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		(11,950)	(7,500)	(11,950)	(7,500)
Interest paid		(24)	-	(1)	-
Net cash used in financing activities		(11,974)	(7,500)	(11,951)	(7,500)
Net increase/(decrease) in cash held		1,070	(3,429)	3,117	(3,417)
Cash at the beginning of the financial year		3,366	6,795	3,337	6,754
Cash at the end of the financial year	33(a)	4,436	3,366	6,454	3,337

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 50 to 87.

Notes To and Forming Part of the Financial Statements

For the year ended 30 June 2006

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

ASC Pty Ltd is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2006 comprises the Company and its subsidiaries (together referred to as the "consolidated entity") and the consolidated entities interest in associates.

The financial report was authorised for issue by the directors on 8 August 2006.

(a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP. The financial reports of the consolidated entity and the Company also comply with IFRSs and interpretations adopted by the International Accounting Standards Board.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and AASB 1 First Time Adoption of Australian equivalent to International Financial Reporting Standards has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided at Note 32.

(b) Basis of Preparation

The financial report is presented in Australian dollars. The entity has elected to adopt early the following accounting standards and amendments:

- AASB 119 Employee Benefits (December 2004)
- AASB 2004-3 Amendments to Australian Accounting Standards (December 2004) amending AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004), AASB 101 Presentation of Financial Statements and AASB 124 Related Party Disclosures
- UIG 4 Determining whether an Arrangement contains a Lease.

Issued standards not adopted early

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company to date.

The financial report is prepared on a historical costs basis except that the following assets and liabilities are stated at their fair value: land and buildings, pension assets and all financial instruments.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005 and CO 06/51 effective 31 January 2006) and in accordance with that Class Order, amounts in the financial report and Directors' report have been rounded to the nearest thousand dollars, unless otherwise stated.

The preparation of the financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities; income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current future periods.

Judgements made by management in the application of the Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk or material adjustment in the next year are discussed in Note 2.

The accounting policies set out below have been consistently applied to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of transition to Australian Accounting Standards - AIFRS.

The accounting policies have been applied consistently by all entities within the consolidated entity.

(c) Change in Accounting Policies

Adoption of AASB 132 and AASB 139 from 1 July 2005

In the current financial year the consolidated entity adopted AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. This change in accounting policy has been adopted in accordance with the transition date rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139. Any required adjustments to the carrying value of financial instruments at 1 July 2005 have been posted to retained earnings, as described below.

On adoption of AASB 132 and AASB 139 at 1 July 2005, the consolidated entity is required to carry long-term receivables and payables at amortised cost (previously carried at historical cost).

Leveraged Lease Receivable

With respect to the leveraged lease receivable, the amount of the receivable is calculated as the present value of estimated cash flows, discounted at the effective interest rate. The impacts of the change in measurement of the leveraged lease receivable on the consolidated entity and the Company are 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 is calculated as the present value of estimated cash flows, discounted at a market interest rate applicable to similar loans. The impacts of the change in measurement of the loans payable on the consolidated entity and the Company are a reduction in the loan payable of \$360,000 and \$160,000 respectively at 1 July 2005, with associated increases to retained earnings at that time.

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Principles of Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Associates

Associates are those entities in which the consolidated entity has significant influence, but not control, over the financial and operating policies. The consolidated financial statements includes the consolidated entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the consolidated entity's share of losses exceeds its interest in an associate, the consolidated entity's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the consolidated entity has incurred legal or constructive obligations or made payments on behalf of an associate.

In the Company's financial statements, investments in associates are carried at fair value, with resulting revaluation gains and losses recognised in equity.

Transactions eliminated on consolidation

Intra-group balances and unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(e) Revenue Recognition

Rendering of Services

Revenue from services rendered is recognised in the Income Statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is measured either by the cost of work completed and estimated total costs at the completion of the contract, or by surveys of work performed whichever one is more appropriate depending on the nature of the contract. Where the outcome of a contract cannot be reliably estimated, revenue is only recognised to the extent of the contract costs incurred that it is probable will be recoverable.

Revenue for incentives is recognised at the time of customer acceptance.

Interest Income

Interest income is recognised as it accrues, using the effective interest method.

Other Revenue

The revenue recognition policy for work in progress for revenue generating activities is described in Accounting Policy Note 1(f) below.

(f) Work in Progress for Revenue Generating Activities

Valuation

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. Estimated costs at completion include allowances which recognise the inherent risks associated with a long-term contract of this nature. 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.

Tendering costs on contracts are expensed as incurred.

Recognition of Revenue

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

Revenue arising from the performance of the contract is recognised in the Income Statement on the basis of the stage of completion of the contract. The stage of completion is measured either by the cost of work completed and estimated total costs at the completion of the contract, or by surveys of work performed, whichever one is more appropriate depending on the nature of the contract. Recognition of revenue arising from progress billings received in advance of the performance of contract activities has been deferred and included in the measurement of work in progress.

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

(g) Foreign Currency*Transactions*

Foreign currency transactions are translated to Australian currency at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated 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.

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

(h) Property, Plant and Equipment*Valuation of Land and Buildings*

Land and buildings are carried at fair value.

Valuation of Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment losses.

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

Depreciation is charged to the Income Statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

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.

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property, Plant and Equipment (continued)

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.

Minimum lease payments are apportioned between the finance charge and the reduction in the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. 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.

(i) Taxation

Tax Consolidation

The Company is the Head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 30. The implementation date for the tax-consolidated group is 1 July 2002.

The Head entity recognises all of the current tax assets and liabilities of the tax consolidated group (after elimination of intra-group transactions). Current tax liabilities and assets of wholly owned subsidiaries are recorded in "other trade payables/receivables" to reflect that the transactions that are giving rise to the tax are in the subsidiaries.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

The tax-consolidated group has entered into a tax sharing agreement that requires wholly-owned subsidiaries to make contributions to the Head entity for 100% of current tax assets and liabilities arising from external transactions. The contribution is recorded as an inter company receivable or payable.

Accounting for income tax

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on income tax for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment 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 amounts or assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at balance sheet date.

A deferred tax asset is 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 are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) 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, are 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.

Defined Contribution Plan

Obligations for contributions to the defined contribution plan are recognised as expenses in the Income Statement as incurred.

Defined Benefit Plans

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

The discount rate is the rate attached 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 is the rate attached to National Government Bonds at the 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 is 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 is recognised immediately in the Income Statement. Where the calculation results in a net benefit to the consolidated entity, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Past service cost is the increase in present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post employment benefits or other long-term employee benefits. Past service costs may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

All actuarial gains and losses as at 1 July 2004, the date of transition to AIFRSs, were recognised to retained earnings and the actuarial gains and losses that arise subsequent to the transition date are recognised directly to retained earnings.

(k) Receivables

Trade and other receivables are stated at cost, less impairment losses.

(l) 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 and other payables are stated at amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.

(m) Goods and Services Tax

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

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

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

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.

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) 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 cash flows 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 Income Statement, the expense recognised in respect of a provision is presented net of the recovery.

In the Balance Sheet, 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; and
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

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.

Warranty funds received from the Commonwealth of Australia for warranty are recognised directly to the warranty provision.

(o) Inventories

Inventories are measured at the lower of cost or net realisable value. 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.

The cost of inventories is based in the first in first out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(p) Impairment

The carrying amount of the consolidated entity's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an assets or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement, unless an asset has previously been re-valued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit and loss.

Calculation of Recoverable Amount

The recoverable amount of the consolidated entity's investments in held-to-maturity securities and receivables carried at amortised cost is calculated at the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate recognised at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their net present value using a pre tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Reversals of Impairment

An impairment loss in respect of a held to maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine recoverable amount.

An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

(r) Investments

Financial instruments held by the consolidated entity are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. The fair value is their quoted bid price at the balance sheet date. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the Income Statement.

Financial instruments classified as available-for-sale investments are recognised / derecognised by the consolidated entity on the date it commits to purchase / sell the investments. Securities held-to-maturity are recognised / derecognised on the day they are transferred to / by the consolidated entity.

(s) Segment Reporting

A segment is a distinguishable component of the consolidated entity that is engaged either in providing products or services (business segment) or providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2 ACCOUNTING ESTIMATES AND JUDGEMENTS

Management discussed with the Audit Committee the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these accounting policies and estimates.

Key sources of estimation uncertainty*Provision for Warranty*

The consolidated entity has a warranty provision for submarine related activities. This provision is calculated based on claims received and expected future claims based on past sales and historical claim rates. ASC has a Through-Life Support (TLS) contract with the Commonwealth of Australia represented by the

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

2 ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Defence Materiel Organisation for the maintenance of the Collins Class submarines. This contract began on 1 July 2004, and provides little historical evidence for the calculation of the warranty provision. The historical detail from the previous build contract has therefore been considered as a base for determining potential future warranty claims.

The historical data used in the estimation of the provision takes into consideration not only actual warranty claims made under the build contract, but also a percentage of the historical re-work costs incurred by ASC within 1 year of acceptance of each submarine. These re-work costs are included in the calculation because in prior periods potential warranty claims have been recorded and treated as re-work. The percentage used is based on management's best estimate at year end.

The consolidated entity has also estimated its exposure in relation to certain proceedings against it and based on an evaluation of the risk and overall exposure, has assessed that a provision should be maintained.

Provision for Self Insurance

The provision for self insurance is raised when an incident occurs that may give rise to a workers' compensation claim. This is measured by the estimated cost of that claim, discounted to its present value. The margin is inclusive of a contingency which is intended to increase the probability that the provision will remain adequate to meet the expected liabilities. The risk margin is required to allow for the inherent risks in the self insurance industry and for environmental uncertainty. Under the APRA prudential standards for private sector insurers a probability sufficiency of 75% is required as a minimum. ASC's provision level is in excess of the APRA minimum requirement, in line with the Company's assessment of the risks that it is exposed to.

3 REVENUE

Revenue from rendering of services

Note	CONSOLIDATED		THE COMPANY	
	Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
Related parties	254,329	215,226	237,556	210,173
Other parties	346	1,816	335	818
	254,675	217,042	237,891	210,991
Financial Income				
Interest				
Related parties	-	-	288	-
Other parties	4,954	5,494	4,953	5,490
Leveraged lease income	96	86	96	86
Fair value adjustment of leverage lease	819	-	819	-
	5,869	5,580	6,156	5,576
Other income				
From operating activities:				
Secondment income received from:				
Related parties	-	-	-	70
Rental income received from:				
Other parties	264	48	137	-
From outside operating activities:				
Service Agreement Income	-	6,324	-	6,324
Profit from sale of non-current assets	117	276	-	7
Total other income	381	6,648	137	6,401
Total income	260,925	229,270	244,184	222,968

Note	CONSOLIDATED		THE COMPANY	
	Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
4 PROFIT BEFORE TAX				
Items included in profit before tax				
Impairment of non current assets				
- Write down on land and buildings	-	611	-	-
- Impairment on investment in subsidiary	-	-	2,600	-
Depreciation of:				
Buildings	2,411	2,439	2,335	2,365
Plant and equipment	1,320	924	1,046	603
Total depreciation	3,731	3,363	3,381	2,968
Finance Costs:				
Fair value adjustments on term loans	2	-	2	-
Bank charges	44	36	26	30
Interest Expenses				
Other parties	24	-	1	-
	70	36	29	30
Inventory write down/ (reversal of write down)	2,447	-	2,447	-
Operating lease rental expense:				
Minimum lease payments	1,973	1,847	1,775	1,702
5 AUDITORS' REMUNERATION				
Audit services:				
Amount received or due and receivable by the Australian National Audit Office (ANAO) as auditors of ASC	236	232	236	209
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	31	32	31	31
- Taxation services	111	100	72	72
	142	132	103	103

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

Note	CONSOLIDATED		THE COMPANY	
	Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
6 TAXATION				
(a) Income tax expense				
Recognised in the income statement				
Current Tax Expense				
Current Year	10,835	10,984	11,958	15,024
Adjustments for prior years	50	(343)	50	(58)
	10,885	10,641	12,008	14,966
Deferred Tax Expense				
Origination and reversal of temporary differences	(3,050)	(6,235)	(3,725)	(6,270)
Total income tax expense in income statement	7,835	4,406	8,283	8,696
Attributable to:				
Continuing operations	7,835	4,406	8,283	8,696
Numerical reconciliation between tax expense and pre-tax net profit				
Profit before tax	26,322	20,483	27,940	31,712
Income tax using the domestic corporation tax rate of 30% (2005: 30%)	7,897	6,145	8,382	9,514
Increase in income tax expense due to:				
Non-deductible expenses	(112)	(1,396)	(149)	(759)
	7,785	4,749	8,233	8,755
Under / (Over) provided in prior years	50	(343)	50	(59)
Income tax expense on pre tax net profit	7,835	4,406	8,283	8,696
Attributable to:				
Continuing operations	7,835	4,406	8,283	8,696
(b) Current Income Tax Payable				
Movements during the year were as follows:				
Balance at the beginning of the year	5,948	2,508	5,948	2,508
Income tax paid	(13,452)	(6,546)	(13,452)	(6,546)
Current year's current income tax expense on operating profit	10,835	10,984	11,959	15,024
Controlled entity provision	-	-	(1,124)	(4,040)
Under/(over) provision in prior years	(857)	(998)	(857)	(998)
	2,474	5,948	2,474	5,948
(c) Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect of the following items:				
Capital gain tax losses	1,342	1,314	1,314	1,314
	1,342	1,314	1,314	1,314

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES		NET	
	Jun-06	Jun-05	Jun-06	Jun-05	Jun-06	Jun-05
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(d) Deferred Tax Assets and Liabilities						
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Consolidated						
Land, Building, Plant and equipment	2,774	2,050	(13,774)	(12,984)	(11,000)	(10,934)
Employee entitlements	5,501	6,306	-	-	5,501	6,306
Provisions for warranty	3,191	2,880	-	-	3,191	2,880
Project recognised profit	101	1	-	-	101	1
Leveraged lease	229	-	(23,699)	(25,979)	(23,470)	(25,979)
Interest accrual	-	-	(426)	(385)	(426)	(385)
Net pension assets	-	-	(221)	(395)	(221)	(395)
Impairment loss - Investment in subsidiary	-	-	-	-	-	-
Sundry Items	116	73	(107)	-	9	73
Net tax assets / (liabilities)	11,912	11,310	(38,227)	(39,743)	(26,315)	(28,433)
The Company						
Land, Building, Plant and equipment	2,764	2,064	(12,512)	(11,744)	(9,748)	(9,680)
Employee entitlements	5,095	6,167	-	-	5,095	6,167
Provisions for warranty	2,220	1,680	-	-	2,220	1,680
Project recognised profit	101	1	-	-	101	1
Leveraged lease	229	-	(23,699)	(25,979)	(23,470)	(25,979)
Interest Accrual	-	-	(426)	(385)	(426)	(385)
Net pension assets	-	-	(221)	(395)	(221)	(395)
Impairment loss - Investment in subsidiary	780	-	-	-	780	-
Sundry Items	-	-	(48)	-	(48)	-
Net tax assets / (liabilities)	11,189	9,912	(36,906)	(38,503)	(25,717)	(28,591)

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

7 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:

Submarine: Submarine design, engineering, upgrading and maintenance, also include training school, Sea Otter and other submarine related work.

Shipbuilding: Ship design activities, from project definition through to implementation and construction.

	SUBMARINE		SHIPBUILDING		ELIMINATIONS		CONSOLIDATED	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue								
External segment revenue	237,891	210,991	19,317	-	(2,533)	4,975	254,675	215,966
Inter-segment revenue								
Total segment revenue	237,891	210,991	19,317	-	(2,533)	4,975	254,675	215,966
Other unallocated revenue							6,250	13,304
Total revenue							260,925	229,270
Result								
Segment result	21,647	19,844	(5,527)	-	3,951	(416)	20,072	19,428
Share of net profit or loss of equity accounted investments							-	-
Unallocated corporate profit/ (expenses)							6,250	1,055
Profit from ordinary activities before income tax							26,322	20,483
Income tax expenses							(7,835)	(4,406)
Net profit							18,487	16,077
Assets								
Segment assets	125,420	138,706	10,533	-	-	-	135,953	138,706
Equity accounted investments								
Unallocated corporate assets							109,994	156,491
Consolidated total assets							245,947	295,197
Liabilities								
Segment liabilities	96,954	133,584	11,541	-	-	-	108,495	133,584
Unallocated corporate liabilities							23,258	54,281
Consolidated total liabilities							131,753	187,865
Acquisitions of non-current assets	3,497	3,612	-	-	-	-	3,497	3,641

Geographical segments

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

	Note	CONSOLIDATED		THE COMPANY	
		Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
8 CASH ASSETS AND BANK OVERDRAFT					
Cash		6,455	3,366	6,454	3,337
Bank Overdraft		(2,019)	-	-	-
		<u>4,436</u>	<u>3,366</u>	<u>6,454</u>	<u>3,337</u>
9 RECEIVABLES					
Current					
Trade debtors		44,215	49,342	43,037	49,190
Other debtors		4,585	4,340	4,551	4,340
Loans to controlled entities		-	-	769	-
Other loans		-	6,020	-	5,981
		<u>48,800</u>	<u>59,702</u>	<u>48,357</u>	<u>59,511</u>
Non current					
Loans to controlled entities		-	-	5,796	-
Leveraged lease receivable		27,238	30,313	27,238	30,313
Less - unearned income		(2,673)	(2,769)	(2,673)	(2,769)
		<u>24,565</u>	<u>27,544</u>	<u>30,361</u>	<u>27,544</u>

Other Debtors

Other debtors also includes interest receivable.

Interest may be charged on trade 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.

Loans to ASC Shipbuilding Pty Limited and ASC Modules Pty Ltd (wholly owned controlled entities) attract a commercial rate of interest on the average outstanding balance every six months. The commercial interest rate used is levied at a margin of 2% p.a. over Reserve Bank of Australia "Cash Rate". Refer to Note 3 for details of interest revenue in relation to these loans.

Other loans in prior year 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. This amount has been fully provided for.

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

	Note	CONSOLIDATED		THE COMPANY	
		Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
10 INVENTORIES					
Current					
Raw materials and stores (at lower of cost or net realisable value)		9,637	13,002	9,637	12,931
		9,637	13,002	9,637	12,931
11 OTHER FINANCIAL ASSETS					
Current					
Marketable interest securities (at fair value)		33,373	48,430	33,373	48,430
		33,373	48,430	33,373	48,430
Non Current					
Net Pension Assets		738	1,317	738	1,317
Marketable interest securities (at fair value)		46,634	56,239	46,634	56,239
Unlisted shares at cost		-	-	20,000	20,000
Less - Provision for Diminution		-	-	(9,600)	(7,000)
		47,372	57,556	57,772	70,556
<p>Unlisted shares at cost consists of investments in the Company's wholly owned subsidiaries. The Company funds the deficiency in net assets in its wholly owned subsidiary ASC Shipbuilding Pty Limited and ASC Modules Pty Limited.</p> <p>The deficiency is expected to be recovered from profits generated under the AWD contract. The Company has recognised an impairment of \$2,600,000 in the investment in ASC Engineering Pty. Limited in the 2005/06 financial year.</p>					
12 INVESTMENT ACCOUNTED FOR USING EQUITY METHOD					
Associates - ASCOV Pty Ltd (50% owned, dormant)		5	5	5	5
		5	5	5	5
13 OTHER CURRENT ASSETS					
Prepayments		483	715	417	565
		483	715	417	565

	CONSOLIDATED		THE COMPANY	
	Jun-06	Jun-05	Jun-06	Jun-05
Note	\$'000	\$'000	\$'000	\$'000
14 PROPERTY, PLANT AND EQUIPMENT				
Freehold land				
At independent valuation	14,349	14,349	9,200	9,200
Buildings				
At independent valuation	52,520	52,520	51,000	51,000
Plant & equipment				
At cost	46,842	43,123	34,422	30,578
Accumulated depreciation	(39,366)	(38,367)	(27,756)	(26,997)
	7,476	4,756	6,666	3,581
Capital works in progress	912	1,942	912	1,918
Total property, plant and equipment	75,257	73,567	67,778	65,699
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	14,349	2,638	9,200	1,200
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluation increments/(decrements)	-	14,861	-	8,000
Write down	-	(3,150)	-	-
Carrying amount at the end of year	14,349	14,349	9,200	9,200
Buildings				
Carrying amount at beginning of year	52,520	23,826	51,000	22,042
Additions	-	-	-	-
Transfers from capital works in progress	370	708	370	710
Disposals	-	-	-	-
Revaluation increments/(decrements)	2,041	30,425	1,965	30,613
Depreciation	(2,411)	(2,439)	(2,335)	(2,365)
Carrying amount at the end of year	52,520	52,520	51,000	51,000

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

		CONSOLIDATED		THE COMPANY	
		Jun-06	Jun-05	Jun-06	Jun-05
	Note	\$'000	\$'000	\$'000	\$'000
14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)					
Plant and equipment					
Carrying amount at beginning of year		4,756	3,254	3,581	1,764
Additions		-	6	-	-
Transfers from capital works in progress		4,134	2,445	4,132	2,445
Disposals		(94)	(25)	(1)	(25)
Depreciation		(1,320)	(924)	(1,046)	(603)
Carrying amount at the end of year		7,476	4,756	6,666	3,581
Capital works in progress					
Carrying amount at beginning of year		1,942	1,461	1,918	1,460
Additions/(write off)		3,476	3,635	3,497	3,612
Transfers to property, plant & equipment		(4,506)	(3,154)	(4,503)	(3,154)
Carrying amount at the end of year		912	1,942	912	1,918
Valuations					
An independent valuation of all land and buildings of the Company and its wholly owned subsidiary entities was carried out by Maloney Field Services Property Consultants & Valuers on the basis of open market values for existing use as at 30 June 2005 and a re-assessment of the valuation was carried out as at 30 June 2006.					
15 PAYABLES					
Trade creditors		18,821	31,568	18,350	27,985
Other creditors and accruals		12,183	48,705	11,872	48,606
		31,004	80,273	30,222	76,591
Advance income received:					
Contract billings due and receivable		263,263	5,185,111	250,701	5,097,134
Contract works in progress		(229,115)	(4,762,773)	(204,470)	(4,666,856)
Profit recognised to date		(7,836)	(407,026)	(18,145)	(414,448)
Net progress payments received and receivable		26,312	15,312	28,086	15,830
Total payables		57,316	95,585	58,308	92,421

		CONSOLIDATED		THE COMPANY	
		Jun-06	Jun-05	Jun-06	Jun-05
	Note	\$'000	\$'000	\$'000	\$'000
16 NON INTEREST BEARING LIABILITIES					
Current					
Loans from controlled entities		-	-	2,801	1,571
Loans from associate entities		5	360	5	360
		5	360	2,806	1,931
Non current					
Term loan		3	360	2	160
		3	360	2	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. Both of these two term loans have been discounted to their fair value of \$3,000 in total in the financial year ended 30 June 2006 under AASB139 (Financial Instruments: Recognition and Measurement)					
Financing arrangements					
Unsecured facilities					
Total facilities available					
Overdraft facilities		12,000	-	-	-
Bank guarantees and letters of credit		18,297	4,012	15,411	732
		30,297	4,012	15,411	732
Facilities utilised at balance date					
Overdraft facilities		2,019	-	-	-
Bank guarantees and letters of credit		13,297	4,012	10,411	732
		15,316	4,012	10,411	732
Facilities not utilised at balance date					
Overdraft facilities		9,981	-	-	-
Bank guarantees and letters of credit		5,000	-	5,000	-
		14,981	-	5,000	-

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

	CONSOLIDATED		THE COMPANY	
	Jun-06	Jun-05	Jun-06	Jun-05
Note	\$'000	\$'000	\$'000	\$'000
17 PROVISIONS				
Current				
Employee entitlements, including on costs	15,293	14,745	14,279	14,318
Warranty	6,218	6,256	2,981	2,256
Self Insured Workers Compensation	2,121	2,300	2,121	2,300
Dividends	6,350	7,200	6,350	7,200
Other	617	5,895	-	5,645
	30,599	36,396	25,731	31,719
Non current				
Employee entitlements, including on costs	2,813	2,451	2,706	2,422
Warranty	4,419	3,344	4,419	3,344
Self Insured Workers Compensation	5,790	3,678	5,790	3,678
	13,022	9,473	12,915	9,444
Provisions movements:				
Warranty				
Balance at 1 July 2005 (Current & Non Current)	9,600		5,600	
Provision made during the year	1,800		1,800	
Provision used during the year	(763)		-	
Balance at 30 June 2006 (Current & Non Current)	10,637		7,400	
Self Insured Workers Compensation				
Balance at 1 July 2005 (Current & Non Current)	5,978		5,978	
Provision made during the year	4,059		4,059	
Provision used during the year	(2,126)		(2,126)	
Balance at 30 June 2006 (Current & Non Current)	7,911		7,911	
Dividends				
Balance at 1 July 2005 (Current & Non Current)	7,200		7,200	
Provision made during the year	11,100		11,100	
Provision used during the year	(11,950)		(11,950)	
Balance at 30 June 2006 (Current & Non Current)	6,350		6,350	
Other				
Balance at 1 July 2005 (Current & Non Current)	5,895		5,645	
Provision made during the year	367		-	
Provision used during the year	(5,645)		(5,645)	
Balance at 30 June 2006 (Current & Non Current)	617		-	

	Note	CONSOLIDATED		THE COMPANY	
		Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
18 ISSUED CAPITAL					
Opening issued and paid-up share capital -					
10 million ordinary shares (1 July)		10,000	10,000	10,000	10,000
Movement during the reporting period		-	-	-	-
Closing issued and paid-up share capital		10,000	10,000	10,000	10,000
19 RESERVES					
Opening Asset Revaluation Reserve (1 July)		29,762	-	26,869	-
Revaluation Increment		1,252	29,762	1,198	26,869
Closing Assets Revaluation Reserve Balance		31,014	29,762	28,067	26,869
Total Reserves		31,014	29,762	28,067	26,869
Asset Revaluation Reserve					
Comprises of:					
- Land		8,493	8,493	5,600	5,600
- Building		22,521	21,269	22,467	21,269
Closing Balance		31,014	29,762	28,067	26,869
20 RETAINED EARNINGS					
Opening Retained earnings (1 July)		67,570	60,495	81,495	67,481
Effect of change in accounting policy:					
Net change in fair value of leverage lease receivable		(1,107)	-	(1,107)	-
Net change in fair value of non current interest free term loan		253	-	112	-
		66,716	60,495	80,500	67,481
Total recognised income and expense for the year		17,564	16,775	18,734	23,714
Dividends	21	(11,100)	(9,700)	(11,100)	(9,700)
Closing Retained earnings		73,180	67,570	88,134	81,495
Total Closing Equity Balance		114,194	107,332	126,201	118,364

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

	Note	CONSOLIDATED		THE COMPANY	
		Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
21 DIVIDENDS					
Interim fully franked dividend, declared and paid		4,750	2,500	4,750	2,500
Final fully franked dividend, declared and provided for		6,350	7,200	6,350	7,200
Total fully franked dividend, represents a distribution to the shareholder		11,100	9,700	11,100	9,700
All dividends declared during the year were paid out of AIFRS profits.					
Dividends franking account					
Class C (30%) franking credits		64,034	55,342	64,034	55,342
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.					
22 COMMITMENTS					
(a) Capital Expenditure Commitments					
Contracted but not provided for and payable:					
Not later than one year		611	806	611	806
(b) Operating Lease Commitments					
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:					
Not later than one year		2,180	1,795	2,008	1,795
Later than one year but not later than five years		2,051	2,043	1,811	2,043
Later than five years		1	430	1	430
		4,232	4,268	3,820	4,268

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 have 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 trustee of the fund is Trust Company Superannuation Services Limited and the administrator of the fund is KPMG Superannuation Services Pty Limited.

DEFINED BENEFITS PLAN**Defined Benefit Category**

The Company and its controlled entities make contributions to a defined benefit superannuation fund that provides defined benefits for employees on retirement. The fund provides defined benefits based on years of service and final average salary.

An actuarial assessment of the fund as at 30 June 2006 was carried out by Jules Gribble, Fellow of the Institute of Actuaries of Australia, a principal of ASKIT Consulting Pty Ltd on 30 June 2006. 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.

Note	CONSOLIDATED		THE COMPANY	
	Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
Movements in the net liability/(asset) for defined benefits obligations recognised in the balance sheet				
Net liability/(asset) for defined benefit obligations at 1 July	(1,317)	(429)	(1,317)	(429)
Contributions received	(68)	(60)	(68)	(60)
Expense/(income) recognised in the income statement	(671)	169	(671)	169
Actuarial (gains)/losses recognised directly in equity	1,318	(997)	1,318	(997)
Net liability/(asset) for defined benefit obligations at 30 June	(738)	(1,317)	(738)	(1,317)
Defined benefit superannuation fund				
Amounts in the balance sheet				
Liability	-	-	-	-
Asset	738	1,317	738	1,317
Net Asset	738	1,317	738	1,317
Amounts for the current and previous period are as follows:				
Defined benefit obligation	(13,874)	(12,277)	(13,874)	(12,277)
Fund assets	14,612	13,594	14,612	13,594
Surplus/(deficit)	738	1,317	738	1,317
Experience adjustments on fund assets	(310)	1,236	(310)	1,236

The Company and its controlled entities have used the AASB 1.20A exemption and disclosed amounts under AASB 1.20A(p) above for each annual reporting period prospectively from the transition date.

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

	CONSOLIDATED		THE COMPANY	
	Jun-06	Jun-05	Jun-06	Jun-05
Note	\$'000	\$'000	\$'000	\$'000
22 COMMITMENTS (CONTINUED)				
(d) Superannuation Commitments (continued)				
Changes in the present value of the defined benefit obligation are as follows:				
Opening defined benefit obligation	12,277	11,383	12,277	11,383
Service cost	87	86	87	86
Interest cost	587	569	587	569
Actuarial losses/(gains)	1,008	239	1,008	239
Benefits paid	(85)	-	(85)	-
Closing defined benefit obligation	13,874	12,277	13,874	12,277
Changes in the fair value of fund assets are as follows:				
Opening fair value of fund assets	13,594	11,812	13,594	11,812
Expected return	1,345	485	1,345	485
Actuarial gains/(losses)	(310)	1,236	(310)	1,236
Contributions by employer	68	60	68	60
Benefits paid	(85)	-	(85)	-
	14,612	13,594	14,612	13,594
The major categories of fund assets as a percentage of total fund assets are as follows:				
Australian Equities	38%	63%	38%	63%
International Equities	31%	20%	31%	20%
Australian Fixed Interest	14%	4%	14%	4%
International Fixed Interest	4%	1%	4%	1%
Property Trusts	4%	2%	4%	2%
Private Equity	1%	0%	1%	0%
Cash	8%	10%	8%	10%
	100%	100%	100%	100%

The investment policies and strategies of the Company and its controlled entities for the defined benefit superannuation fund do not use target allocations for the individual asset categories. The investment goals of the Company and its controlled entities are to maximise returns subject to specific risk management policies. The risk management policies permit investments in mutual funds, and prohibit direct investments in debt and equity securities and derivative financial instruments. The Company and its controlled entities address diversification by the use of mutual fund investments whose underlying investments are domestic and international fixed income securities and domestic and international equity securities. These mutual funds are readily marketable and can be sold to fund benefit payment obligations as they become payable.

Note	CONSOLIDATED		THE COMPANY	
	Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
(d) Superannuation Commitments (continued)				
Expense recognised in the income statement:				
Current service costs	87	86	87	86
Interest cost	587	569	587	569
Expected return on fund assets	(1,345)	(485)	(1,345)	(485)
	(671)	169	(671)	169
Actuarial gains/(losses) are recognised directly in equity.				
The expense is recognised in the following line items in the income statement:				
Pension Costs/(Revenues)	(739)	109	(739)	109
Contribution paid (in Labour Costs)	68	60	68	60
	(671)	169	(671)	169
Actual return on fund assets				
	1,035	1,722	1,035	1,722
	1,035	1,722	1,035	1,722
The Company and its controlled entities expect to contribute \$77,000 to the defined benefit superannuation fund in the 2007 financial year.				
Principal actuarial assumptions at the balance sheet date:				
Discount rate at 30 June	4.8%	4.4%	4.8%	4.4%
Expected return on fund assets at 30 June	9.9%	9.9%	9.9%	9.9%
Future salary increases	5.8%	5.9%	5.8%	5.9%

The overall expected long-term rate of return on assets is 7.5%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns, without adjustments.

(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.

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

23 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.

24 REGISTERED CHARGES

The Commonwealth Government of Australia holds 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.

25 ECONOMIC DEPENDENCY

The normal trading activities of ASC Pty Ltd and its subsidiaries depend on contracts the Company and its subsidiaries have with the Commonwealth Government of Australia for the maintenance of six submarines and the construction of three air warfare destroyers. That dependency existed during all of the financial year.

26 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 and the preparation for the construction of three air warfare destroyers.

27 KEY MANAGEMENT PERSONNEL DISCLOSURE

Key management personnel compensation

The key management personnel compensation included in personnel expenses are as follows:

Note	CONSOLIDATED		THE COMPANY	
	Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
Short-term employee benefits	805	724	805	724
Other long-term benefits	-	-	-	-
Post - employment benefits	67	70	67	70
Termination benefits	-	-	-	-
Equity compensation benefits	-	-	-	-
	872	794	872	794

Loans to key management personnel

No loan was outstanding at the reporting date to key management personnel.

Other key management personnel transactions with the Company and its controlled entities

From time to time there may be transactions between the key management personnel and the Company and its controlled entities. The terms and conditions of those transactions would be no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non key management personnel related entities on an arm's length basis. There have been no transaction with key management personnel during the financial year.

28 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.

29 RELATED PARTY DISCLOSURES

Directors

The names of each person holding the position of Director of ASC Pty Ltd during the financial year are Messrs JB Prescott AC, General (Rtd) JS Baker AC DSM, CNH Bagot, GR Bulmer, SE Young & GR Tunny. On 30 June 2006, Mr SE Young resigned as director of the Company.

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

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 its related entities.

The Commonwealth of Australia has provided auditing services to the Company through the Australian National Audit Office (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, Osborne SA 5017.

Transactions with Shareholders

During the year, the amounts received or receivable by the Company from the Commonwealth of Australia for various projects was \$224,921,000 (2005: \$214,630,000).

During the year, the amounts of audit fees paid to ANAO was \$236,000 (2005: \$232,000)

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:

2006	2005
\$'000	\$'000
-	-
44,120	45,739

Wholly-Owned Controlled Entities and Other Related Entities

Details of interests in wholly-owned controlled entities are set out at note 30. Details of dealings with these entities are set out below.

Loans

Amount receivable from ASC Shipbuilding Pty Limited and ASC Modules Pty Ltd (wholly owned controlled entities) attract a commercial rate of interest on the average outstanding balance every six months. The commercial interest rate used is levied at a margin of 2% p.a. over Reserve Bank of Australia "Cash Rate". Refer to Note 3 for details of interest revenue in relation to these loans.

No interest is charged on the current loans receivable from or payable to ASC Engineering Pty. Limited and ASC AWD Shipbuilder Pty Ltd (wholly owned controlled entities) and these loans are repayable at call.

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

29 RELATED PARTY DISCLOSURES (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:

2006	2005
\$'000	\$'000
2,801	1,571
6,564	-

30 PARTICULARS IN RELATION TO CONTROLLED ENTITIES

	COUNTRY OF INCORPORATION	ENTITY INTEREST	
		2006	2005
Parent entity		%	%
ASC Pty Ltd	Australia		
Controlled entities			
ASC Engineering Pty Limited	Australia	100	100
ASC Shipbuilding Pty Limited	Australia	100	100
ASC Modules Pty Ltd	Australia	100	100
ASC AWD Shipbuilder Pty Ltd	Australia	100	100

ASC Modules Pty Ltd is a non trading company.

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

31 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES

(a) Interest rate risk

At balance date the consolidated entity and the Company have an unrealised gain of \$59,841 (2005: gain of \$0) in the market value of money market securities held (bank accepted bills and negotiable certificates of deposit).

The exposures of the consolidated entity and the Company to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

30th June 2006

Fixed interest maturing in:

	Note	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Non interest bearing \$'000	Total \$'000	Effective interest rate
Consolidated								
Financial assets								
Cash	8	6,455	-	-	-	-	6,455	5.68%
Term Deposits	8	-	-	-	-	-	-	0.00%
Brokers Deposits	8	-	-	-	-	-	-	0.00%
Bonds	8	-	-	-	-	-	-	0.00%
Marketable interest securities (at fair value)	11	-	33,373	46,634	-	-	80,007	6.09%
		6,455	33,373	46,634	-	-	86,462	
Financial liabilities								
Bank overdrafts	8	2,019	-	-	-	-	2,019	5.89%
Loans	16	-	-	-	-	-	-	0.00%
Term Loan	16	-	-	-	-	3	3	0.00%
		2,019	-	-	-	3	2,022	
Company								
Financial assets								
Cash	8	6,454	-	-	-	-	6,454	5.68%
Term Deposits	8	-	-	-	-	-	-	0.00%
Brokers Deposits	8	-	-	-	-	-	-	0.00%
Bonds	8	-	-	-	-	-	-	0.00%
Loans to controlled entities	9	5,796	-	-	-	769	6,565	6.66%
Marketable interest securities (at fair value)	11	-	33,373	46,634	-	-	80,007	6.09%
		12,250	33,373	46,634	-	769	93,026	
Financial liabilities								
Bank overdrafts	8	-	-	-	-	-	-	0.00%
Loans	16	-	-	-	-	-	-	0.00%
Term Loan	16	-	-	-	-	2	2	0.00%
		-	-	-	-	2	2	

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

31 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES (CONTINUED)

(a) Interest rate risk (continued)

The exposures of the consolidated entity and the Company to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities for the previous financial year are set out below:

30th June 2005		Fixed interest maturing in:						
	Note	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Non interest bearing \$'000	Total \$'000	Effective interest rate
Consolidated								
Financial assets								
Cash	8	3,366	-	-	-	-	3,366	5.50%
Term Deposits	8	-	-	-	-	-	-	0.00%
Brokers Deposits	8	-	-	-	-	-	-	0.00%
Bonds	8	-	-	-	-	-	-	0.00%
Marketable interest securities (at cost)	11	-	48,430	56,239	-	-	104,669	5.74%
		3,366	48,430	56,239	-	-	108,035	
Financial liabilities								
Bank overdrafts	8	-	-	-	-	-	-	0.00%
Loans	16	-	-	-	-	-	-	0.00%
Term Loan	16	-	-	-	-	360	360	0.00%
		-	-	-	-	360	360	
Company								
Financial assets								
Cash	8	3,337	-	-	-	-	3,337	5.50%
Term Deposits	8	-	-	-	-	-	-	0.00%
Brokers Deposits	8	-	-	-	-	-	-	0.00%
Bonds	8	-	-	-	-	-	-	0.00%
Loans to controlled entities	9	-	-	-	-	-	-	0.00%
Marketable interest securities (at cost)	11	-	48,430	56,239	-	-	104,669	5.74%
		3,337	48,430	56,239	-	-	108,006	
Financial liabilities								
Bank overdrafts	8	-	-	-	-	-	-	0.00%
Loans	16	-	-	-	-	-	-	0.00%
Term Loan	16	-	-	-	-	160	160	0.00%
		-	-	-	-	160	160	

(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 Balance Sheet, is the carrying amount, net of any provision for doubtful debts.

A substantial proportion of the consolidated entity's operations are in relation to the 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 basis:

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.

32 EXPLANATION OF TRANSITION TO AIFRSs**(a) Notes to reconciliation to equity**

In preparing its opening AIFRS Balance Sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRSs has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(i) Taxation

Under AASB 112 Income Taxes, the balance sheet method of tax effect accounting is adopted, rather than the liability method applied previously under Australian GAAP.

Under the balance sheet approach, income tax on the Balance Sheet for the year comprises current and deferred taxes. Income tax is recognised in the Balance Sheet except to the extent that it relates to items recognised directly in equity, in which case it is 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 is 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.

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

32 EXPLANATION OF TRANSITION TO AIFRSs (CONTINUED)

(a) Notes to reconciliation to equity (continued)

(i) Taxation (continued)

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

The tax effect accounting impact on the consolidated entity at 1 July 2004 and at 30 June 2005 in relation to recognition of defined benefit plan surplus assets.

(1a) 1 July 2004	CONSOLIDATED ENTITY		THE COMPANY	
Opening Retained Earnings	128,000	decrease	128,000	decrease
Deferred Tax Liabilities	128,000	increase	128,000	increase

(1b) 30 June 2005	CONSOLIDATED ENTITY		THE COMPANY	
Retained Earnings	299,000	decrease	299,000	decrease
Deferred Tax Expenses	33,000	decrease	33,000	decrease
Deferred Tax Liabilities	266,000	increase	266,000	increase

The 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.

(2) 30 June 2005	CONSOLIDATED ENTITY		THE COMPANY	
Deferred Tax Liabilities	12,984,000	increase	11,744,000	increase
Assets Revaluation Reserve	12,984,000	decrease	11,744,000	decrease

Under AASB 112 Income Taxes, deferred tax assets and liabilities must be offset if, and only, if:

- the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and liabilities relate to income taxes levied by the same tax authority on either:
 - the same taxable entity; or
 - different taxable entities that intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

The impact on the consolidated entity at 1 July 2004 in relation to this tax offset.

(3a) 1 July 2004	CONSOLIDATED ENTITY		THE COMPANY	
Deferred Tax Assets	7,966,000	decrease	7,966,000	decrease
Deferred Tax Liabilities	7,966,000	decrease	7,966,000	decrease

The impact on the consolidated entity at 30 June 2005 in relation to this tax offset.

(3b) 30 June 2005	CONSOLIDATED ENTITY		THE COMPANY	
Deferred Tax Assets	3,344,000	decrease	1,946,000	decrease
Deferred Tax Liabilities	3,344,000	decrease	1,946,000	decrease

Tax consolidation

The UIG 1052 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.

There is no impact on the consolidated entity but the impact on the Company at 30 June 2005 in relation to recognition of tax balances directly by all wholly owned subsidiaries

	CONSOLIDATED ENTITY	THE COMPANY	
(4) 30 June 2005			
Deferred Tax Assets	0	1,398,000	decrease
Non interest bearing liabilities – intercompany loans	0	1,398,000	decrease

(ii) Employee benefits*Defined benefit plans*

The consolidated entity has early adopted AASB 119 Employee Benefits (December 2004). Under AASB 119, the consolidated entity's net obligation in respect of defined benefit superannuation plans is 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 is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate is 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 is 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 is 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 is recognised immediately in the Income Statement.

Where the calculation results in a net benefit to the consolidated entity, the recognised asset is 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.

Actuarial gains and losses that arise subsequent to the transition date are recognised directly to retained earnings.

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⁽⁵⁾ has been recorded as an asset of both the consolidated entity and the Company with a consequential increase in retained earnings. For the financial year ended 30 June 2005 the consolidated entity and the Company have recorded an increase to the net pension asset of \$888,000⁽⁶⁾, an increase to retained earnings of \$997,000⁽⁷⁾ and a \$109,000⁽⁸⁾ charge to the Income Statement.

(iii) Explanation of material adjustment to the Statements of Cash Flows for 2005

There is no material adjustment between the Statements of Cash Flows presented under AIFRSs and the Statements of Cash Flows presented under previous GAAP.

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

32 EXPLANATION OF TRANSITION TO AIFRSs (CONTINUED)

(b) Reconciliation of Profit for 2005

	CONSOLIDATED			
	Previous GAAP	Ref No.	Effect of transition to AIFRSs 30-Jun-05	AIFRSs
	\$'000		\$'000	\$'000
Revenue from rendering of services	217,042			217,042
Other income	12,228			12,228
Expenses from ordinary activities				
Materials and subcontractors	(75,330)			(75,330)
Labour	(93,461)			(93,461)
Depreciation and amortisation	(3,363)			(3,363)
Professional fees	(4,592)			(4,592)
Repairs and maintenance	(3,106)			(3,106)
Utilities expense	(2,273)			(2,273)
Finance costs	-			-
Insurance	(1,966)			(1,966)
Motor vehicle expenses	(1,010)			(1,010)
Operating lease	(1,847)			(1,847)
Production consumables and supplies	(1,108)			(1,108)
Security expenses	(713)			(713)
Travelling expenses	(1,261)			(1,261)
Service agreement costs	(6,324)			(6,324)
Self Insured Warranty	(4,160)			(4,160)
Self Insured Worker's Compensation	(3,023)			(3,023)
Write Down of Land and Buildings	(612)			(612)
Other expenses from ordinary activities	(4,529)	(8)	(109)	(4,638)
Share of net profits of associates and joint ventures accounted for using the equity method	-			-
Profit from ordinary activities before related income tax expense	20,592			20,483
Income tax (expense)/benefit relating to ordinary activities	(4,439)	(1b)	33	(4,406)
Profit from ordinary activities after related income tax expense	16,153			16,077

THE COMPANY

Previous GAAP	Ref No.	Effect of transition to AIFRSs 30-Jun-05	AIFRSs
\$'000		\$'000	\$'000
210,991			210,991
11,977			11,977
(64,278)			(64,278)
(89,980)			(89,980)
(2,968)			(2,968)
(4,192)			(4,192)
(2,960)			(2,960)
(2,013)			(2,013)
-			-
(1,671)			(1,671)
(941)			(941)
(1,702)			(1,702)
(1,038)			(1,038)
(491)			(491)
(1,227)			(1,227)
(6,324)			(6,324)
(4,160)			(4,160)
(3,023)			(3,023)
-			-
(4,179)	(8)	(109)	(4,288)
-			-
31,821			31,712
(8,729)	(1b)	33	(8,696)
23,092			23,016

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

32 EXPLANATION OF TRANSITION TO AIFRSs (CONTINUED)

(c) Reconciliation of equity

CONSOLIDATED			
Previous GAAP	Ref No.	Effect of transition to AIFRSs	AIFRSs
1-JUL-04			
CURRENT ASSETS			
Cash assets			7,683
Receivables			50,577
Other financial assets			46,680
Inventories			9,691
Other			585
TOTAL CURRENT ASSETS			115,216
NON CURRENT ASSETS			
Receivables			29,419
Investments accounted for using the equity method			55
Other financial assets	(5)	429	60,081
Property, plant and equipment			31,179
Deferred tax assets	(3a)	(7,966)	-
TOTAL NON CURRENT ASSETS			120,734
TOTAL ASSETS			235,950
CURRENT LIABILITIES			
Payables			111,988
Non interest-bearing liabilities			-
Provision for Current Income Tax			2,508
Provisions			27,979
TOTAL CURRENT LIABILITIES			142,475
NON CURRENT LIABILITIES			
Non interest-bearing liabilities			360
Deferred tax liabilities	(1a),(3a)	(7,838)	20,729
Provisions			1,891
TOTAL NON CURRENT LIABILITIES			22,980
TOTAL LIABILITIES			165,455
NET ASSETS			70,495
EQUITY			
Contributed equity			10,000
Reserves			-
Retained profits	(1a),(5)	301	60,495
TOTAL EQUITY			70,495

CONSOLIDATED

	Previous GAAP	Ref No.	Effect of transition to AIFRSs	AIFRSs
	30-JUN-05			
	3,366			3,366
	59,702			59,702
	48,430			48,430
	13,002			13,002
	715			715
	125,215			125,215
	27,544			27,544
	5			5
	56,239	(5),(6)	1,317	57,556
	73,567			73,567
	11,310	(3a),(3b)	(11,310)	-
	168,665			158,672
	293,880			283,887
	95,585			95,585
	360			360
	5,948			5,948
	36,396			36,396
	138,289			138,289
	360			360
	26,365	(1a),(1b),(2),(3a),(3b)	2,068	28,433
	9,473			9,473
	36,198			38,266
	174,487			176,555
	119,393			107,332
	10,000			10,000
	42,746	(2)	(12,984)	29,762
	66,647	(1a),(1b),(5),(7),(8)	923	67,570
	119,393			107,332

THE COMPANY

	Previous GAAP	Ref No.	Effect of transition to AIFRSs	AIFRSs		Previous GAAP	Ref No.	Effect of transition to AIFRSs	AIFRSs
	1-JUL-04					30-JUN-05			
	7,642			7,642		3,337			3,337
	49,602			49,602		59,511			59,511
	46,680			46,680		48,430			48,430
	9,574			9,574		12,931			12,931
	409			409		565			565
	113,907			113,907		124,774			124,774
	29,419			29,419		27,544			27,544
	47			47		5			5
	72,652	(5)	429	73,081		69,239	(5),(6)	1,317	70,556
	26,466			26,466		65,699			65,699
	7,966	(3a)	(7,966)	-		11,310	(3a),(3b),(4)	(11,310)	-
	136,550			129,013		173,797			163,804
	250,457			242,920		298,571			288,578
	109,087			109,087		92,421			92,421
	7,753			7,753		3,329	(4)	(1,398)	1,931
	2,508			2,508		5,948			5,948
	23,319			23,319		31,719			31,719
	142,667			142,667		133,417			132,019
	160			160		160			160
	28,567	(1a),(3a)	(7,838)	20,729		26,365	(1a),(1b),(2),(3a),(3b)	2,226	28,591
	1,883			1,883		9,444			9,444
	30,610			22,772		35,969			38,195
	173,277			165,439		169,386			170,214
	77,180			77,481		129,185			118,364
	10,000			10,000		10,000			10,000
	-			-		38,613	(2)	(11,744)	26,869
	67,180	(1a),(5)	301	67,481		80,572	(1a),(1b),(5),(7),(8)	923	81,495
	77,180			77,481		129,185			118,364

Notes To and Forming Part of the Financial Statements - continued

For the year ended 30 June 2006

33 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:

		CONSOLIDATED		THE COMPANY	
	Note	Jun-06 \$'000	Jun-05 \$'000	Jun-06 \$'000	Jun-05 \$'000
Cash	8	6,455	3,366	6,454	3,337
Bank overdraft / loans	16	(2,019)	-	-	-
		4,436	3,366	6,454	3,337
(b) Reconciliation of operating					
Profit after income tax to net cash					
Provided by operating activities					
Operating profit after income tax		18,487	16,044	19,657	22,983
Add/(less) items classified as investing/financing activities:					
Interest received		(4,954)	(5,495)	(5,241)	(5,491)
Leverage lease income		(96)	(86)	(96)	(86)
Interest expense		24	-	1	-
(Profit)/loss on sale of non current assets		(93)	(260)	24	8
Consideration paid for tax losses		-	-	-	4,289
Add/(less) non-cash items:					
Doubtful debts		-	(40)	-	-
Depreciation		3,731	3,363	3,381	2,968
Fair value adjustment on all financial instruments		(817)	-	(817)	-
Pension costs		(739)	109	(739)	109
Revaluation decrements		-	612	-	-
Investments amortisation		-	6	-	-
Self insured warranty		176	4,160	176	4,159
Self insured worker's compensation		2,013	3,024	2,013	3,023
Income tax expense		7,835	4,439	8,283	8,728
Income tax paid		(13,452)	(6,546)	(13,452)	(10,836)
Impairment of investment in subsidiary		-	-	2,600	-
Net cash provided by operating activities before change in assets and liabilities		12,115	19,330	15,790	29,854
Change in assets and liabilities					
(Increase)/decrease in receivables (1)		5,091	(11,651)	6,077	(12,554)
(Increase)/decrease in inventories	10	3,364	(3,310)	3,294	(3,357)
(Increase)/decrease in prepayments	13	211	(168)	127	(156)
(Increase)/decrease in net progress payments received (2)		10,999	(54,287)	12,256	(51,652)
Increase/(decrease) in trade creditors (3)		(49,363)	39,379	(46,427)	36,480
(Increase)/decrease in provisions (4)		2,117	6,617	1,847	6,579
Net cash provided by operating activities		(15,466)	(4,090)	(7,036)	5,194

		CONSOLIDATED		THE COMPANY	
		Jun-06	Jun-05	Jun-06	Jun-05
	Note	\$'000	\$'000	\$'000	\$'000
33 NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)					
(b) Reconciliation of operating Profit after income tax to net cash Provided by operating activities (continued)					
(1) (Increase)/decrease in receivables is comprised of:					
Prima-facie movement in trade debtors	9	5,168	(8,744)	6,154	(9,582)
Prima-facie movement in sundry debtors and other loans	9	(77)	(2,907)	(77)	(2,972)
		5,091	(11,651)	6,077	(12,554)
(2) (Increase)/decrease in progress payments is comprised of:					
Prima-facie movement in net progress payments	15	10,976	(55,813)	12,256	(51,652)
Adjustment for unrealised intercompany profit		23	1,526	-	-
		10,999	(54,287)	12,256	(51,652)
(3) Increase/(decrease) in trade creditors and accruals is comprised of:					
Prima-facie movement in trade creditors & accruals	15	(49,363)	39,379	(46,427)	36,480
		(49,363)	39,379	(46,427)	36,480
(4) Increase/(decrease) in provisions is comprised of:					
Prima-facie movement in provisions for employee entitlements	17	1,072	2,626	408	2,626
Movement in provisions for warranty	17	1,624	1,440	1,624	1,440
Movement in provisions for self insured worker's compensation	17	(80)	2,955	(80)	2,955
Prima-facie movement in provisions for redundancy and termination	17	(164)	163	(164)	163
Prima-facie movement in other provisions	17	(335)	(567)	59	(605)
		2,117	6,617	1,847	6,579
(c) Reconciliation of net (increase)/decrease in Invested funds					
(Increase)/decrease in term deposits	8	-	888	-	888
(Increase)/decrease in marketable interest securities	11	24,661	1,665	24,661	1,665
Profit/ (loss) on sale of securities		(24)	(15)	(24)	(15)
		24,637	2,538	24,637	2,538

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 (Retd) John Baker AC DSM

Company Secretary

Tony Kuhlmann

Auditors

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

Solicitors

Mallesons Stephen Jaques

Bankers

Westpac Banking Corporation

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