

# ANNUAL REPORT

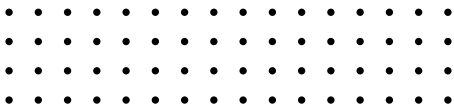
ASC Pty Ltd **ANNUAL REPORT** 07

# 07



**ASC**

[www.asc.com.au](http://www.asc.com.au)



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## 2007 HIGHLIGHTS

**Continued achievement of a best practice occupational health and safety record.**

Completion of HMAS *Waller's* full-cycle docking, including first-time implementation of the replacement combat system and heavyweight torpedo capability upgrades.

**ASC concludes Phase 2 of the Hobart Class Air Warfare Destroyer Program, following Second Pass Approval in June 2007.**

Commencement of construction of our \$35-million submarine maintenance and upgrade facility in Western Australia.

**Achievement of our highest ever submarine 'continuous improvement to designer' rating.**

Mr Geoffrey Phillips, Mr Michael Terlet AO and Dr Bill Schofield AM appointed directors.

**Selection of construction contractor Hansen Yuncken to develop our \$100-million shipyard infrastructure at Osborne, South Australia.**

Australian Government's selection of Navantia's F100 'Existing Design' for the Hobart Class Air Warfare Destroyer Program.

**ASC records \$29.6 million profit after tax.**

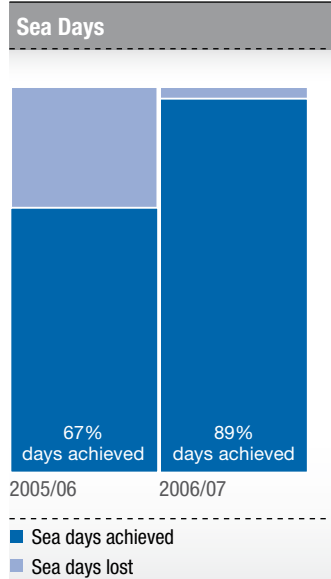
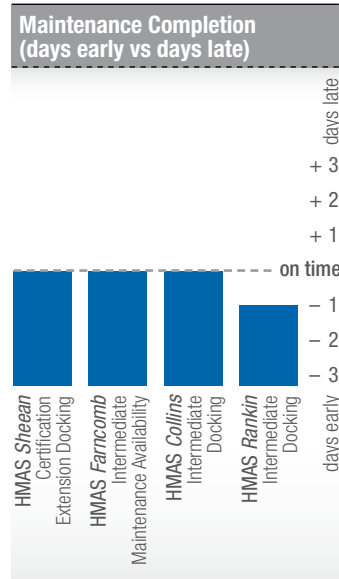




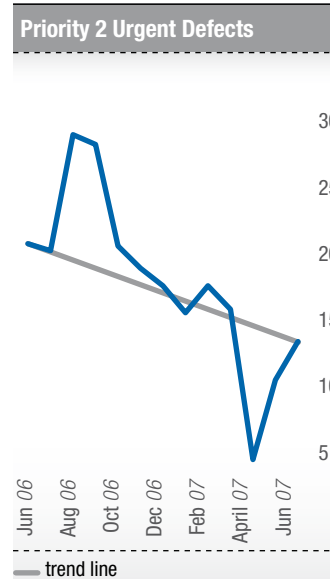
# PERFORMANCE SUMMARY

## Customer Outcomes

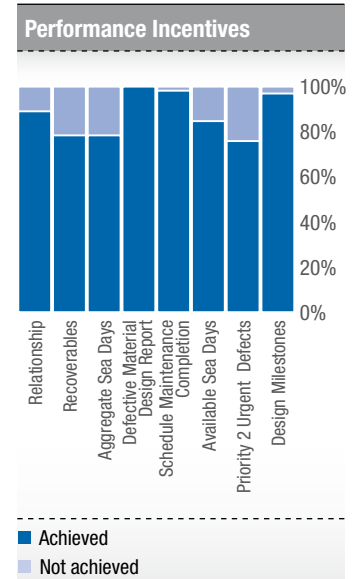
22% improvement

Improvement on 2005/06  
- all activities delivered on schedule

34% improvement

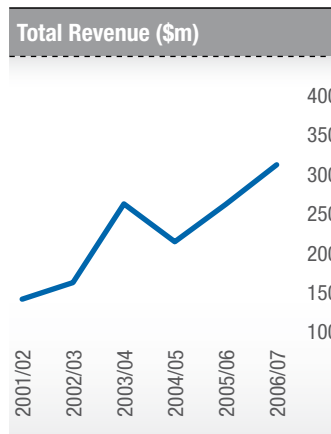


89% of performance incentives achieved – an improvement on 86.3% achieved in 2005/06

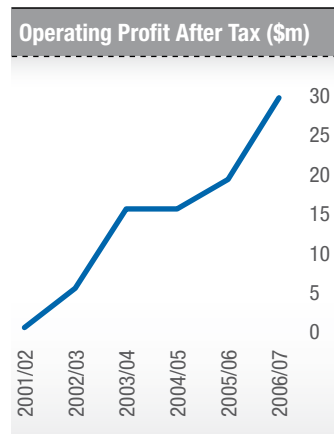


## Shareholder Outcomes

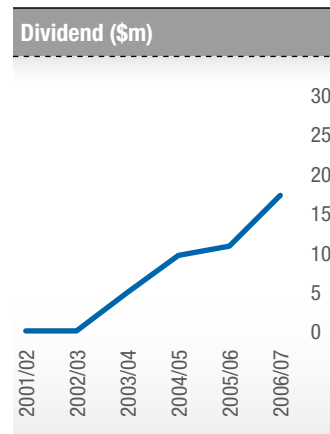
20% increase



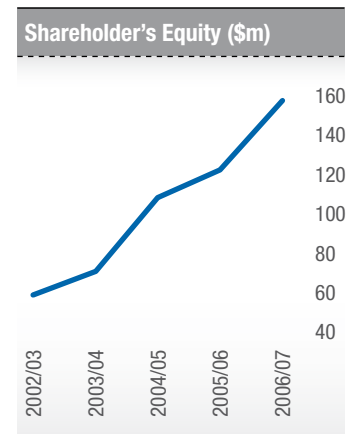
60% increase



60% increase

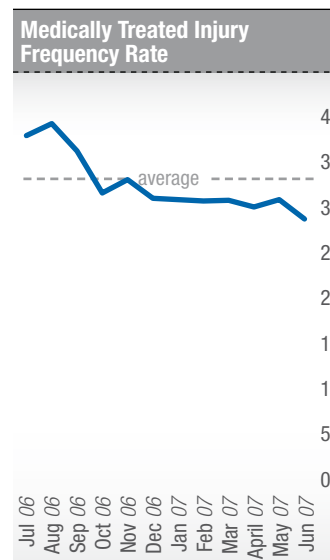
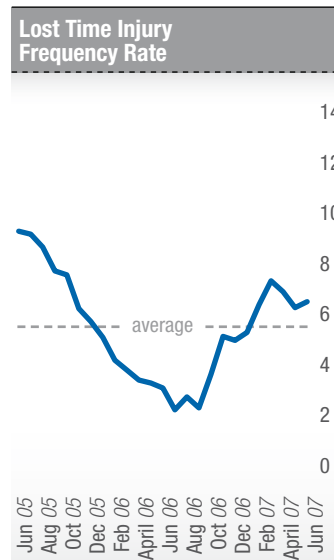
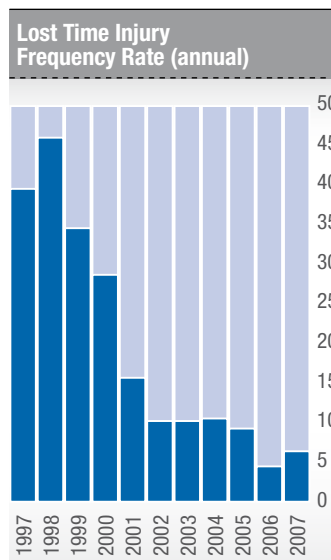


31% increase

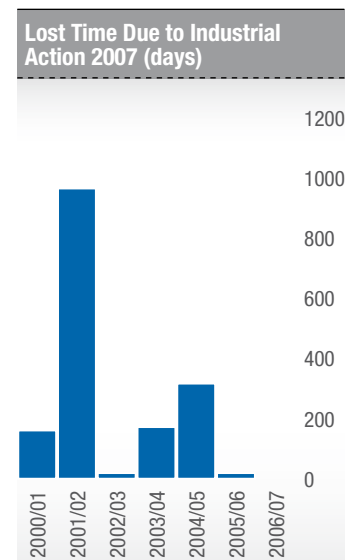


## Safety and Industrial Relations Outcomes

Continued best practice occupational health and safety achievement



Improvement on 2005/06 - 0 days lost due to industrial action



# COMPANY VALUES

ASC aspires to a set of values which are the guiding principles that define how we conduct our business and what we stand for as a company.

## **Performing Through Teaming and Pragmatic Excellence**

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

## **Commitment to Customer Outcomes**

We are an output-centric team, focused on the delivery of all of our commitments – cost, schedule, technical performance and quality – to our customer. Successful teamwork and outstanding customer, supplier and internal relationships all require integrity and a willingness to consider the other party's perspective. We are also committed to maintaining outstanding working relationships with our customers.

## **Relentless Improvement and Learning**

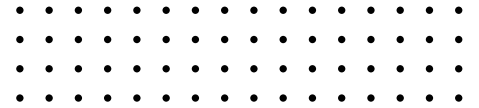
To remain competitive we continually improve all aspects of the business, even those that are already achieving world's best practice. Our commitment to improve our processes, skills and knowledge is relentless. We are never too old or too good to learn and try new ideas. Innovation is prized.

## **Safety, Integrity and Empathy for Others in All Endeavours**

Our actions can critically impact the safety of our customer, colleagues and ourselves. We take this responsibility seriously at all times and never compromise safety. We are committed to developing new programs in an effort to eliminate all accidents.







## The Best Conventional Submarines in the World

ASC was chosen in 1987 as the prime contractor for the design, manufacture and delivery of the Royal Australian Navy's (RAN) fleet of six Collins Class submarines.

Our submarine build program is still considered the most challenging engineering naval construction activity ever undertaken in Australia.

Now, Australia's Collins Class submarines are internationally recognised as the best conventional (non-nuclear) submarines operating anywhere in the world.

## Maintaining Collins Class Submarines

Today, ASC is responsible for the continuous design enhancements, maintenance and support of the Collins Class submarines, under a 25-year, multi-billion dollar Through-Life Support (TLS) contract signed in 2003.

Our world-class team of designers and engineers is constantly developing and implementing upgrades which will ensure the submarines remain at the cutting edge of submarine technology.

Some of our design enhancements include a replacement combat system, incorporation of heavyweight torpedoes, special forces modifications and enhanced communications capabilities.

This work, which is carried out at ASC's South Australian and Western Australian facilities, will keep the submarines at the forefront of Australia's naval design capabilities throughout their operational lives.

## Air Warfare Destroyer Program

In May 2005, the Australian Government selected ASC as the shipbuilder for the Hobart Class Air Warfare Destroyer (AWD) Program.

The build program will see three of the most advanced and complex warships ever built in Australia constructed at ASC's South Australian facility.

AWDs are highly technical, complex and formidable warships. They will provide air defence for accompanying ships, in addition to land forces and infrastructure in coastal areas, and for self-protection against attacking missiles and aircraft.

In short, ASC will deliver to the RAN Australia's most capable naval vessels.

## Australia's Largest High-End Skills Base

ASC has evolved into Australia's largest specialised defence shipbuilding organisation, with naval design and engineering resources unparalleled in Australia's defence industry.

We employ more than 1,000 of the very best people in the business, including over 250 engineering and technical specialists in varying disciplines such as combat systems, communication, weapons, materials, logistics, software, acoustics, electronics and naval architecture.

In addition, we partner with 1,400 of the world's most experienced and respected submarine, shipbuilding and technology companies, suppliers, university and capability partners, such as General Dynamics Electric Boat and General Dynamics Bath Iron Works.





# CHAIRMAN'S REPORT

## Overview

Financial Year 2006/07 marks ASC's 'coming of age' as Australia's leading naval defence contractor for both submarines and ships.

The company is achieving unprecedented levels of efficiency and effectiveness in the maintenance of the Collins Class submarines, while our contribution to the Air Warfare Destroyer (AWD) Alliance placed the program in a strong position heading to Phase Three.

These operational achievements have resulted in a strong financial performance with annual revenue of \$312.4m (2006: \$260.9m), profit after tax of \$29.6m (2006: \$18.5m) and a fully franked dividend of \$17.8m (2006: \$11.1m).

## Collins Class Submarines

The third full year under the submarine Through-Life Support (TLS) contract has seen ASC complete the transition from the submarine builder to the Commonwealth's trusted provider of TLS for the Collins Class. ASC sees its open, alliance-style relationship with the Commonwealth as providing a platform for delivering better than 'business as usual' performance.

During the year, ASC completed 11 maintenance availabilities, with all delivered on time and on budget. The sea-days performance of the submarines reached an all-time high of 695 days (89%). This represents a significant improvement and underscores ASC's effectiveness in delivering operational outputs for the Royal Australian Navy (RAN).

## Western Australian Facility

During the year, ASC finalised arrangements with the Western Australian Government for the construction of a new submarine maintenance facility at the Australian Maritime Complex, Henderson (AMC).

When completed, this new facility will give ASC a permanent home in Western Australia and enable the company to undertake a range of dockings, including capability enhancements. This development is long

overdue and would not have been possible without the generous financial contribution from the Western Australian Government to upgrade the AMC.

ASC is indeed fortunate to enjoy the support of both the Western Australian and South Australian State Governments.

## Air Warfare Destroyer Program

The AWD Program entered its final, pre-construction phase with the completion of business cases for Gibbs & Cox's 'Evolved Design' and Navantia's F100 'Existing Design'. This led to the Commonwealth considering each ship option and selecting the 'Existing Design' at Second Pass on 27 June 2007.

The challenge of contributing to the consideration of two competing designs while maintaining high standards of probity should not be underestimated. ASC supported both designs and welcomes the Commonwealth's selection of the 'Existing Design'. We now look forward to the task of building Australia's air warfare capability.

## Privatisation

The 2006/07 Financial Year saw ASC move a step closer to sale with the completion of the Commonwealth's Scoping Study and commencement of pre-sale preparations.

The Commonwealth's current intention is that ASC will be sold by way of competitive tender trade sale. The new owner will need to demonstrate an ability to maintain ASC's access to technology from around the world. The Commonwealth will assess the financial strength and industrial experience that potential buyers would bring and plans to impose a 49% foreign ownership limitation.

The Board and management of ASC fully support the company's return to private ownership and will work closely with the Commonwealth to achieve its sale objectives, namely:

1. Preserve and enhance the long-term viability of ASC, both financially and operationally;
2. Enable ASC to contribute to an efficient and competitive Naval Shipbuilding and Repair sector;
3. Fair and equitable treatment of ASC's employees;
4. Minimise ongoing risk and liabilities to the Commonwealth; and
5. 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

Sadly, General (Rtd) John Baker, a valued member of ASC's Board and Audit Committee, passed away during the year. The company was most fortunate to have benefited from General Baker's distinguished career in the Australian Defence Force, as well as his broader leadership qualities. His loss is felt by all.

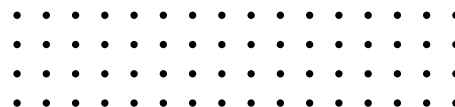
The Board welcomed three new directors in 2006/07 in Geoff Phillips, Mike Terlet AO and Dr Bill Schofield AM. The new directors have already made valuable contributions to the Board's deliberations and markedly strengthen the Board's capacity to meet the challenges ahead.

## Conclusion

ASC's successful 2006/07 year would not have been possible without the ongoing loyalty of the company's 1,000+ staff. Their commitment to continuous improvement and the achievement of customer outcomes bodes well for ASC's future.

**John Prescott AC**  
CHAIRMAN

# BOARD OF DIRECTORS



**John Prescott AC**



## CHAIRMAN

BCom (Industrial Relations)

Chairman since November 2000 and member of the Nomination and Remuneration Committee.

Mr Prescott is also Chairman of Queensland Rail, a director of Newmont Mining Corporation and Patron of the Sunshine Coast Business Council. He is the former Managing Director and Chief Executive Officer of BHP.

Mr Prescott first became involved with ASC in 1999 when he, and the late Dr Malcolm McIntosh, co-wrote the McIntosh Prescott Report addressing various aspects of the Collins Class submarines. Mr Prescott brings a wide range of skills and significant experience within engineering and defence industries to his role as Chairman of the Board.

**Age 66.** Residence Melbourne.

**Greg Tunny**



## MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

MBA, BSc (Physics), ComplEAust

Managing Director since October 2004.

Mr Tunny is the former Managing Director of Thales Air Traffic Management (Australia) and Regional Director Asia, as well as former Director of Business Development for ADI Limited (now Thales), and former General Manager of ADI's software and systems business.

Mr Tunny brings to the Board international business experience and a distinguished career in defence and systems integration and development.

**Age 46.** Residence Adelaide.

**Charles Bagot**



## NON-EXECUTIVE DIRECTOR

LLB (Hons)

Non-executive director since November 2000 and member of the Nomination and Remuneration Committee.

Mr Bagot is the national head of law firm Piper Alderman's Corporate Division, as well as a council member of the University of Adelaide. In addition to his role with ASC, Mr Bagot serves on the boards of a number of companies.

A lawyer, Mr Bagot has broad experience across corporations law, privatisation, resources law, intellectual property and trade practices. He also brings to his role on the Board significant experience in corporate and commercial disputes and enquiries.

**Age 59.** Residence Adelaide.

**Graeme Bulmer**



## NON-EXECUTIVE DIRECTOR

DipChem, DipChemEng

Non-executive director since November 2000 and Chairman of the Audit Committee.

Mr Bulmer is the former Acting Chief Executive Officer of ASC Pty Ltd and former Chief Executive Officer of BTR Automotive Asia Pacific. In addition, Mr Bulmer has served as Chairman on many boards, including Eurovox, Unidrive, China General Plastics Corporation (Taiwan), Taita Chemical Company (Taiwan), Asia Polymer Corporation (Taiwan) and BTR Motherson Automotive (India), as well as holding various directorships for boards.

Mr Bulmer has a strong background in international manufacturing. He also brings to the Board his experience across a number of directorships of major international companies.

**Age 67.** Residence Melbourne.

**General (Rtd)  
John Baker AC DSM**



**NON-EXECUTIVE DIRECTOR**  
BEng

A non-executive director from July 2002 and member of the Audit Committee.

General (Rtd) Baker was the former Chief of the Australian Defence Force, as well as the former Director of Joint Service Policy, Commander Second Military District, Chief of Logistics (Army), Head of the Defence Intelligence Organisation and former Vice Chief of the Australian Defence Force.

General (Rtd) Baker was credited with a long and distinguished career in the Australian Defence Force, bringing invaluable policy, acquisition and defence service experience to his role on the Board.

General (Rtd) Baker passed away on 9 July 2007.

**Geoffrey Phillips**



**NON-EXECUTIVE DIRECTOR**  
MBA, BEng (Chemical) (Hons)

Non-executive director since October 2006 and member of the Audit Committee.

Mr Phillips is also Chairman of Airport Link Group and a director of Capital Partners Pty Ltd. Until August 2005, he was employed by the Transurban Group, initially as Finance Director and Company Secretary and subsequently as Deputy Managing Director. Mr Phillips is also the former Commercial Manager – South Australian Business Unit for Santos and former Chief Operating Officer of Potter Warburg Limited's (now UBS Australia Ltd) Corporate Finance and Fixed Interest Divisions.

Mr Phillips has a strong background in financial services, business and management, and brings experience across a range of industries to his role on the Board.

**Age 63.** Residence Melbourne.

**Michael Terlet AO**



**NON-EXECUTIVE DIRECTOR**  
MBA, FAIM, FAICD, JP

Non-executive director since October 2006.

Mr Terlet is also Chairman of the International Wine Investment Fund, United Water International Pty Ltd and Tidswell Financial Services Ltd. He is also a director of Louminco Pty Ltd and Chairman of the Land Management Corporation, ACHA Health Group, Water Industry Alliance, National Institute of Labour Studies, The Leaders Institute of South Australian Inc and Co-Chairman of the SA Business and Parliamentary Trust.

Mr Terlet has a strong background in international trading and investment, as well as significant experience in the formation of one of Australia's largest defence and aerospace companies. He also brings to the Board his experience across a number of directorships of major Australian companies spanning a range of industries.

**Age 64.** Residence Adelaide.

**Dr Bill Schofield AM**



**NON-EXECUTIVE DIRECTOR**  
PhD (Engineering), MEngSci,  
BMechEng (Hons)

Non-executive director since November 2006.

Dr Schofield is the former Deputy Chief Defence Scientist of the Defence Science and Technology Organisation (DSTO), Director of Aeronautical and Maritime Research Laboratory, First Assistant Secretary Science Policy, Chief Airframes and Engines Division and the former Chief Flight Mechanics and Propulsion.

An engineer, Dr Schofield brings to the Board his analytical and scientific skills together with his practical understanding of engineering disciplines and defence technology.

**Age 66.** Residence Melbourne.





# MANAGING DIRECTOR'S REPORT

## Overview

Financial Year 2006/07 saw ASC deliver outstanding operational outcomes for Defence, which led to strong results in all areas of business. We achieved our best operating financial result in 14 years, delivering a profit before tax of \$42.1 million. We have now put in place a robust foundation for the company's future and re-privatisation.

Our performance, both in terms of efficiency and effectiveness in the delivery of customer outcomes, improved significantly during the year, achieving new benchmarks. This resulted in record incentive payments under the submarine Through-Life Support (TLS) contract. ASC has achieved several milestones across its submarine and shipbuilding programs, including the first implementation of the Replacement Combat System and Heavy Weight Torpedo on HMAS *Waller*, and the important Second Pass Approval for the Hobart Class Air Warfare Destroyer (AWD) Program.

## Safety

We concluded the 2006/07 year with the continuation of our very good occupational health and safety record. Our company-wide Lost Time Injury Frequency Rate of 5.9 (including contract labour) positions ASC within best practice range for our industry, and is demonstrative of our commitment towards safe work practices and a safety conscious ethos.

## Operational Performance

Across our primary performance measures for Collins Class submarine maintenance, we have reached unprecedented levels of effectiveness. The improved efficiency is evidenced by our achieving a 26% increase in submarine support days, for only a 13% price increase (including CPI).

No doubt, our growing experience as a submarine designer and maintainer has contributed to our improved performance. We will continue to deliver savings as we heighten efficiency gains across the company in future years.

Our performance is best measured against the delivery of our customer's key target deliverables, namely performance against the maintenance activity schedule, clearance of submarine urgent defects and the availability of submarines for operational sea days.

During the year, we performed 13 maintenance activities, 11 of which were completed on time. The two outstanding activities represent full-cycle dockings (major refits) which, in accordance with the agreed plan, will span into the next financial period.

During 2006/07, we have worked relentlessly to reduce Priority 2 Urgent Defects from 30 per submarine to 14 per submarine. This is a massive improvement on last year's results.

Finally, we have improved the availability of submarines for operational sea days from 67% last year to 89% during 2006/07. This result is not only very pleasing for our customer, but is also a clear indication that our change and improvement initiatives are delivering results.

## Air Warfare Destroyer Program

Financial Year 2006/07 marks a pivotal step in the AWD Program, as we reached the critical Second Pass Approval milestone.

Now we, in conjunction with the other AWD Alliance participants, can complete detailed design, engineering and planning in preparation for the construction of Australia's new air warfare destroyer capability. We are ready for our next challenge.

The establishment of the AWD Alliance Management Team for Phase Three, following Second Pass Approval and the conclusion of Phase Two, saw some of ASC's experienced and highly dedicated personnel appointed to key roles. Most notably, John Gallacher, the Chief Executive Officer of ASC Shipbuilding, will perform a dual role as he also undertakes the demanding task of delivering the AWD Program as Chief Executive Officer of the AWD Alliance.

## Knowledge Development

'Relentless improvement and learning' is a corporate value we actively espouse across all aspects of our business. To that end, we encourage and support our employees to grow their potential by undertaking relevant higher education and training programs.

During the year, more employees than ever commenced some form of training program.

## Executive Group

The growth of ASC's role in the AWD Program has led to opportunities for employee succession within our workforce. As a result, we have welcomed new members to ASC's Executive Group, including Mike Poynter as General Manager - Western Australia operations and Rolf Polak as the Executive Manager - Change and Improvement. As well, Robert Lemonius has moved into the role of General Manager - ASC Shipbuilding.

I am delighted that these organisational changes have resulted in the cascading of opportunities for employees to succeed to higher positions with greater responsibilities within ASC. Importantly, the company's succession plans are working well.

## Conclusion

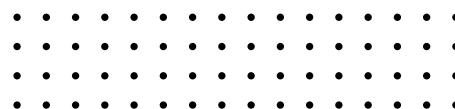
While much of ASC's success this year can be attributed to our dedication towards greater efficiency and improved outcomes for our customer, it would be remiss not to acknowledge our partnership with our customer.

ASC is indeed fortunate to benefit from an open and transparent relationship with Defence Materiel Organisation and the Royal Australian Navy; a relationship that demonstrably serves both customer and contractor well.

I thank our customer for their support and renew ASC's commitment toward the achievement of outstanding operational outcomes.



**Greg Tunny**  
MANAGING DIRECTOR



## Ross Milton



**DEPUTY CHIEF EXECUTIVE OFFICER**  
BE, FIEAust, CPEng

Mr Milton is responsible for ASC's Corporate Business Unit, which negotiates and oversees the annual submarine Through-Life Support funding arrangements and includes the quality, facility, security, product safety and certification, and internal audit functions. The Deputy Chief Executive Officer is also responsible for corporate planning and overseeing development of new facilities in Western Australia.

Previously, Mr Milton was employed for 16 years with Chicago Bridge & Iron Company. He also participated in the negotiation of the shareholder arrangements leading to the establishment of ASC in 1985.

**Age 60.** Birthplace Sydney, Australia.

## John Gallacher



**CHIEF EXECUTIVE OFFICER, ASC SHIPBUILDING**  
**CHIEF EXECUTIVE OFFICER, AWD ALLIANCE**

Mr Gallacher has responsibility for ASC's shipbuilding subsidiary and the company's involvement in the Hobart Class Air Warfare Destroyer (AWD) Program. The Chief Executive Officer of ASC Shipbuilding manages shipbuilding resources and oversees the activities of managers involved in shipbuilding programs.

In addition, Mr Gallacher has been appointed to the role of Chief Executive Officer of the AWD Alliance with overall responsibility for delivering the AWD Program.

Previously, Mr Gallacher was the Managing Director of the Australian businesses of the Stork Group, a Netherlands-based technology company.

**Age 56.** Birthplace Alloa, Scotland.

## Tony Kuhlmann



**GENERAL COUNSEL**  
**COMPANY SECRETARY**  
BA, LLB, GDLP

Mr Kuhlmann is the head of ASC's Commercial and Legal group. The group is responsible for communications, contracts, corporate governance, insurance, ITAR compliance, legal and risk management. The General Counsel is also involved in negotiating ASC's major contracts, including the submarine Through-Life Support contract and the Air Warfare Destroyer program agreements.

Previously, Mr Kuhlmann was a partner at Finlaysons, where he practised as a commercial lawyer for 12 years. While at Finlaysons he was involved in a number of major commercial transactions, including the privatisations of ETSA Utilities, Flinders Power, Adelaide Casino, SA TAB and Forwood Products.

**Age 41.** Birthplace Adelaide, Australia.

## Vladimir Malcik



**CHIEF FINANCIAL OFFICER**  
MBA, Grad.Dip (Finance), B.Bus, FCPA

Mr Malcik is responsible for the Finance and Business and Information Systems functions. The Chief Financial Officer has oversight of finance, treasury and business and information systems, as well as coordination responsibility for the preparation of group budgets and financial plans for the company.

Previously, Mr Malcik held financial management roles within a number of high profile companies, including LendLease/Retirement by Design, Hilton Hotels Corporation and Suncorp.

**Age 51.** Birthplace Prague, Czech Republic.

## Stuart Whiley



**GENERAL MANAGER - SUBMARINES**  
BSc, FIEAust, CPEng, MAIPM, MPD

Mr Whiley is the head of the Submarines group with responsibility for overseeing all submarine maintenance activities, including implementation of capability enhancements in Osborne and Western Australia. The General Manager - Submarines is also responsible for projects, planning, production, scheduling, the warehouse, estimating, cost control, procurement, subcontracts, maintenance and project support.

Previously, Mr Whiley spent 19 years in various submarine programs, projects, scheduling and systems engineering roles within ASC. He has over 25 years of engineering experience in the Australian and United Kingdom naval defence industries.

**Age 48.** Birthplace Shropshire, England.

## Jack Atkinson



**GENERAL MANAGER - DESIGN AND ENGINEERING**  
BE, MEngSci, FIEAust, CPEng

Mr Atkinson is responsible for ASC's Design and Engineering group, which is comprised of specialist skills in submarine engineering, combat systems, communications and control systems, configuration management, safety engineering, integrated lifecycle support, engineering support and program engineering. The General Manager - Design and Engineering oversees the development of design enhancements, new operational capabilities, reliability improvements and through-life support for the Collins Class submarines.

Previously, Mr Atkinson worked for the Department of Defence and has over 33 years of engineering experience within the defence industry.

**Age 57.** Birthplace Paignton, England.



### Brian Archer



**GENERAL MANAGER - HUMAN RESOURCES**  
Dip (Education)

Mr Archer is the head of ASC's Human Resources department and is responsible for payroll, graduate coordination, training, workplace planning, recruitment, and employee and industrial relations functions. The General Manager - Human Resources also has oversight of all human resources projects and issues.

Previously, Mr Archer worked in senior human resources and industrial relations roles for a number of high-profile companies, including Pratt Industries (United States), Visy Paper and Tenix.

**Age 56.** Birthplace Melbourne, Australia.

### Mike Poynter



**GENERAL MANAGER - WESTERN AUSTRALIA OPERATIONS**  
BEng, FIEAust, CPEng

Mr Poynter is responsible for the Submarines group's engineering, human resources, quality assurance, and finance and administration functions within ASC's Western Australian operations. The General Manager - Western Australia Operations also oversees defect investigation, maintenance and repair on submarine systems, and the Submarine Training School.

Previously, Mr Poynter spent 19 years with ASC in various roles within ASC's Design and Engineering group, including Submarine Engineering Manager.

**Age 48.** Birthplace Adelaide, Australia.

### Mark Gobell



**GENERAL MANAGER - SOUTH AUSTRALIA OPERATIONS**  
BTechMechEng, GradIEAust

Mr Gobell is the head of ASC's Production group, with responsibility for the coordination and oversight of all production, electrical, mechanical piping, fabrication, welding and operator labour resources in South Australia. The General Manager - South Australia Operations also manages facilities' maintenance and capital developments, as well as ASC's occupational health and safety system

Previously, Mr Gobell worked for ASC Engineering and T. O'Connor and Sons Pty Ltd in a component manufacturing, heavy engineering and mechanical services capacity.

**Age 54.** Birthplace Adelaide, Australia.

### Robert Lemonius



**GENERAL MANAGER - ASC SHIPBUILDING**  
Commonwealth Centenary Medal

Mr Lemonius is responsible for ongoing operational activities within ASC Shipbuilding, as well as overseeing the development of ASC's \$100 million air warfare destroyer shipyard.

Previously, Mr Lemonius was the head of ASC's Western Australia submarine operations. He has over 40 years of experience in the submarine and shipbuilding industry, including management positions with Cockatoo Dockyard.

**Age 57.** Birthplace Melbourne, Australia.

### Alf Aschenbrucker



**QUALITY MANAGER**  
BAppSc, GradDipBusAdmin

Mr Aschenbrucker has responsibility for ASC's Quality group, which consists of the quality assurance, quality engineering, production quality control and Western Australia quality functions. The Quality Manager also oversees ASC's corporate management system, as well as quality, safety and software assurance audits.

Previously, Mr Aschenbrucker worked for the Defence Science and Technology Organisation and Perry Engineering on various defence projects.

**Age 58.** Birthplace Fulda, Germany.

### Rolf Polak

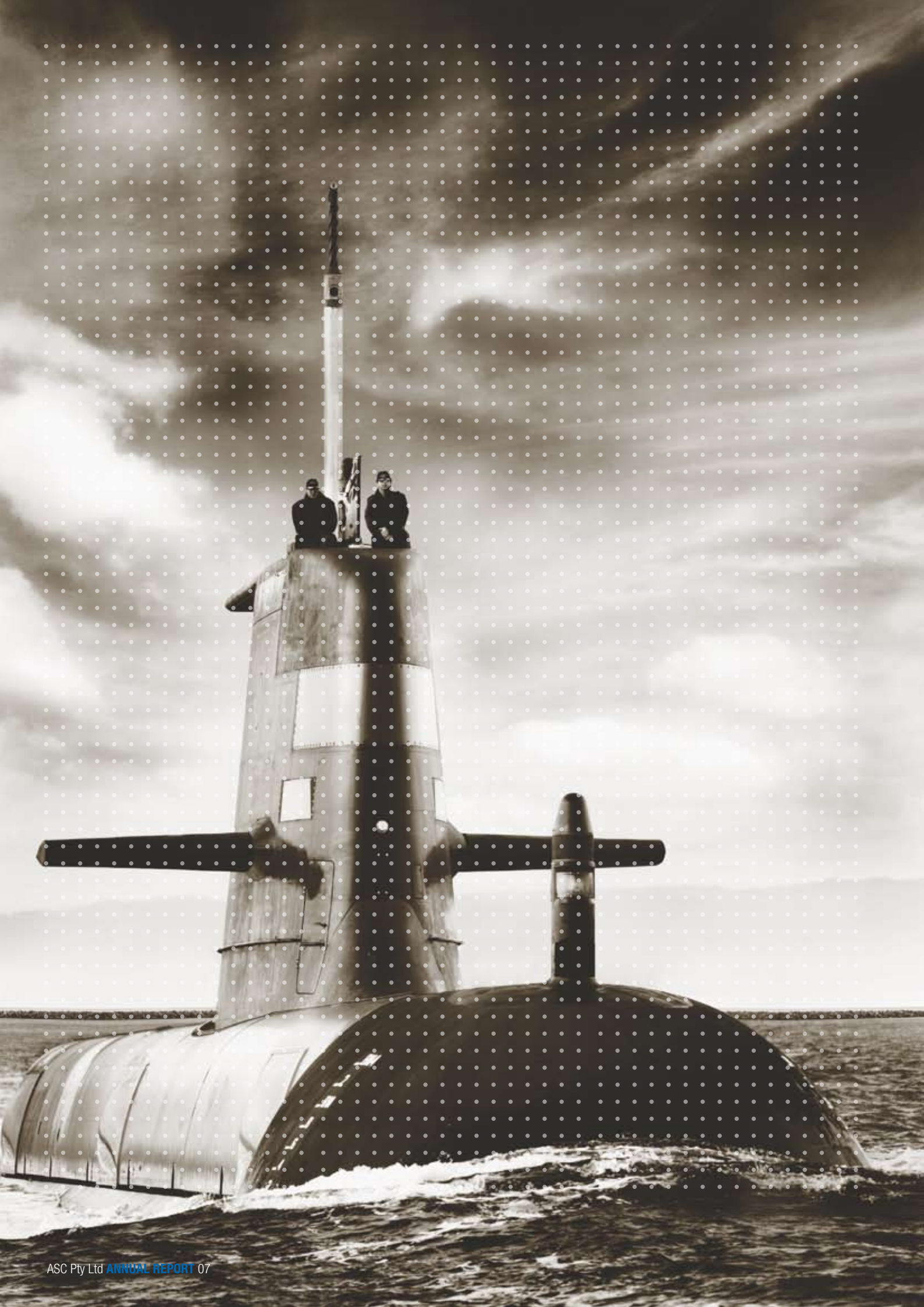


**EXECUTIVE MANAGER - CHANGE AND IMPROVEMENT**  
BE (Hons), BSc, FIEAust, CPEng, MAIPM, MPD

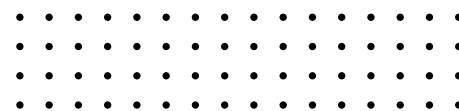
Mr Polak is responsible for the alignment of business improvement activities within ASC, as well as overseeing cultural change and company-wide business change. The Executive Manager - Change and Improvement also oversees adoption of the Capability Model Maturity Integrated (CMMI) and acts as an advisor for the Replacement Combat System and Sonar System projects.

Previously, Mr Polak was ASC's Engineering Manager. Prior to that, he spent 11 years developing projects for naval and aerospace clients in ADI's IS3 Business Unit, as well as 16 years with CSC Australia.

**Age 52.** Birthplace Munich, Germany.



# SUBMARINES



ASC's performance in delivering submarine sustainment activities has been exceptional during 2006/07. We have continued to support our customer's objectives by completing maintenance and upgrade work as scheduled.

ASC's performance can be best measured against delivery of our customer's key target deliverables for the 2006/07 Through-Life Support (TLS) year, including performance against the maintenance activity schedule, the timely clearance of submarine urgent defects and the availability of submarines for operational sea days.

We have ensured that each of these performance criteria have significantly improved during 2006/07.

## Scheduled Performance

During 2006/07, ASC performed 13 scheduled maintenance activities, 11 of which were required to be completed during the year. All maintenance activities were completed on time and on budget. The two outstanding activities represent full-cycle dockings (major refits) which will span into the next financial period and are progressing well in accordance with the agreed plan.

HMAS *Waller* was delivered to the Royal Australian Navy (RAN) during the period, following an intensive three-year, full-cycle docking in South Australia, which included Replacement Combat System and Heavyweight Torpedo capability upgrades.

HMAS *Dechaineux* has also been docked at our South Australian facility as she undergoes her full-cycle docking which commenced in April 2006.

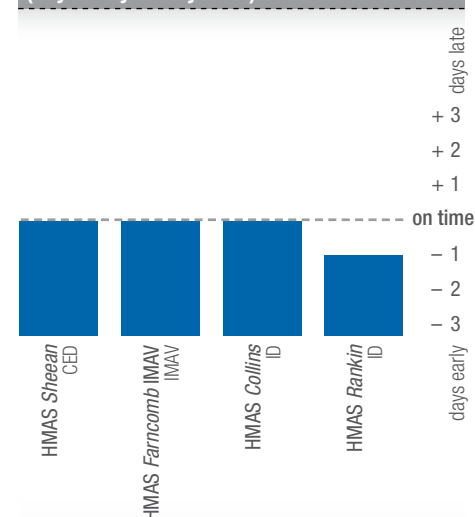
HMAS *Sheean* arrived at our facility in February 2007 to undertake a pre full-cycle docking preparation period prior to her scheduled major refit commencement date.

Our other 10 maintenance activities were conducted on in-service submarines and managed from ASC's Western Australian facility, located at the RAN's naval base at HMAS *Stirling*.

These activities consisted of:

- Two intermediate dockings;
- One certification extension docking;
- One intermediate maintenance availability;
- One propeller change; and
- Personnel support for five self-maintenance periods, two of which were conducted during overseas submarine deployments.

**Maintenance Completion  
(days early vs days late)**



**CED** - Certified Extension Docking

**IMAV** - Intermediate Maintenance Availability

**ID** - Intermediate Docking



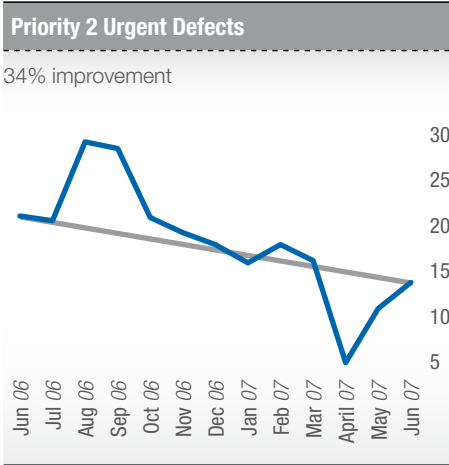
Submarine Urgent Defects

An urgent defect is a defect or condition that limits submarine seaworthiness, personnel safety or operational capability. A classification system exists for urgent defects, which includes:

- Priority 1 urgent defects, which require a submarine to be immediately docked for repair; and
- Priority 2 urgent defects, which require rectification at the next suitable opportunity in the existing program.

ASC rectified 560 Collins Class submarine urgent defects during 2006/07.

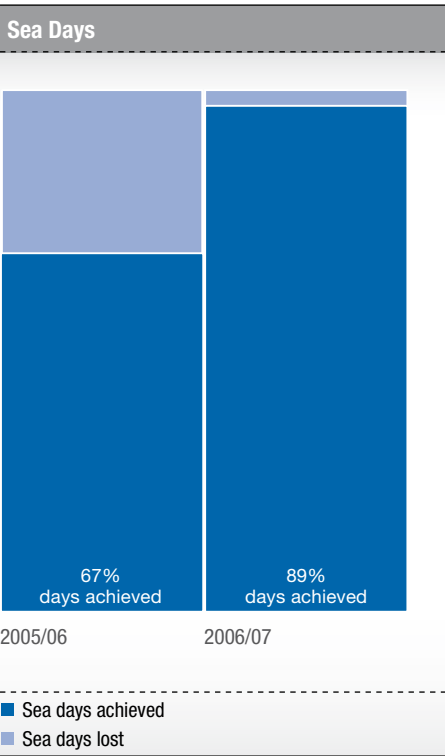
One of our objectives under the Collins Class submarine TLS contract is to reduce the overall number of Priority 2 urgent defects. Since reaching a peak of 30 Priority 2 urgent defects per submarine in July 2006, we have actively sought to reduce them to their current level of 14 per operational submarine. This is a significant improvement on last year's performance.

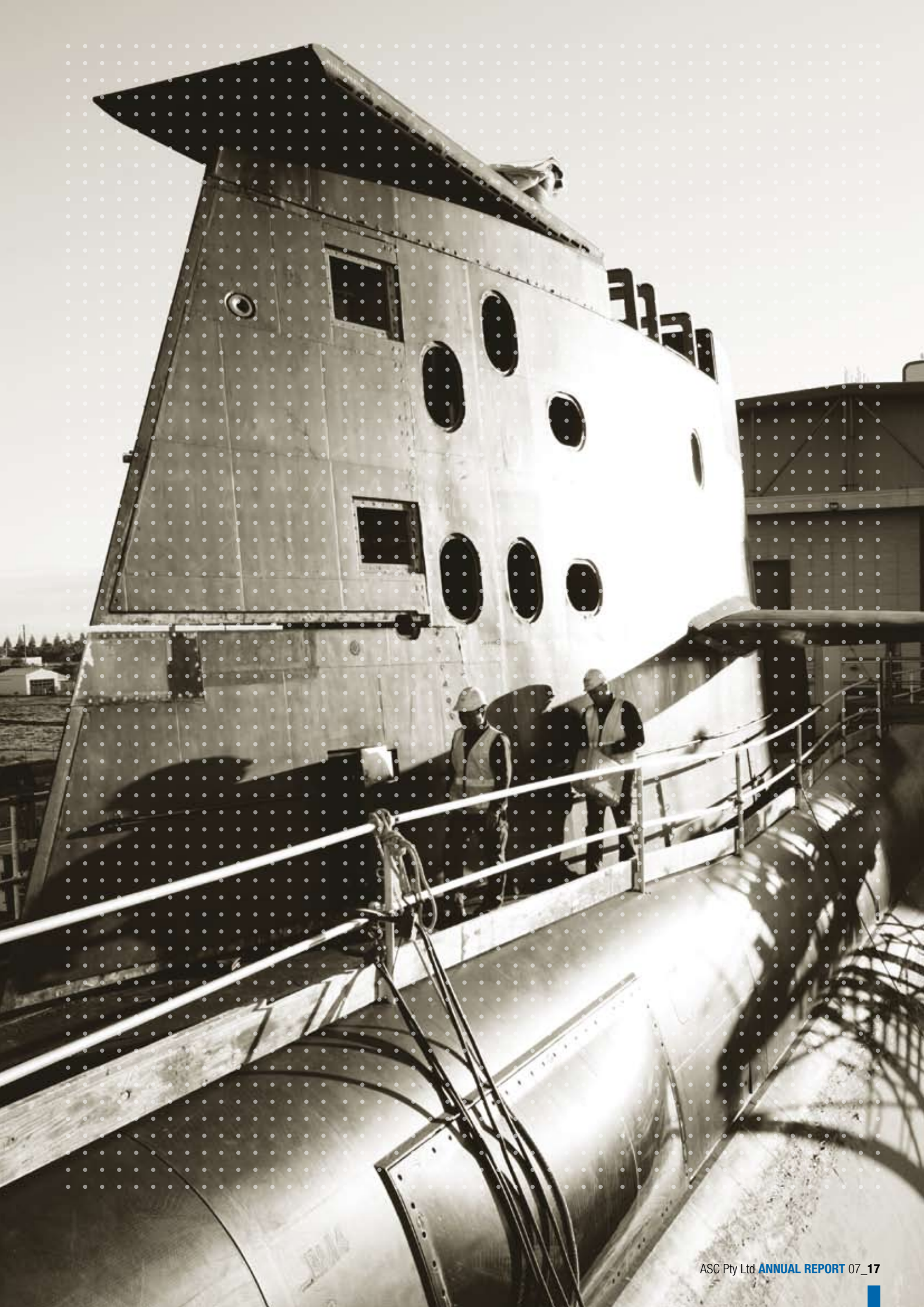


Sea Days

Due to an extremely busy year of maintenance for the submarines, there have been fewer overall submarine sea days during 2006/07. However, available sea days did increase significantly to 89% for those submarines in operation.

This is a substantial increase on last year's 67% of available sea days, and is a reflection of the variety of initiatives we have implemented to improve system and platform reliability. As well, these results are a clear indication of our effectiveness in driving down the overall number of urgent defects.







# COLLINS CLASS SUBMARINES

Widely regarded as the best conventional submarines in the world, the Collins Class bristles with technological and performance capability.

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

Built by ASC, the construction of the Collins Class submarines was an unprecedented Australian feat of engineering, design and logistics. Today, the submarines are still considered the most complex military vessels built in the country.

ASC has a multi-billion Through-Life Support contract to maintain the submarines until the end of their operational lives.

Specifications	
Length	78 metres
Draft	8 metres
Displacement	3,000 tonnes
Propulsion	Diesel-electric
Crew	42, comprising 6 officers and 36 submariners
Weapons	Mk48 heavyweight torpedoes and sub-harpoon missiles











## SHIPS

Our shipbuilding subsidiary is committed to the Hobart Class Air Warfare Destroyer (AWD) Program in the provision of a timely and efficient delivery of an affordable, effective, flexible and sustainable air warfare destroyer capability for the security of Australia.

The 2006/07 year saw ASC complete Phase Two of the AWD Program. This important phase involved ongoing parallel design activities of Gibbs & Cox's 'Evolved' AWD design and Navantia's 'Existing' AWD design, along with the submission of total cost estimates for both platform system designs.

During Phase Two, the integration of Defence and industry participants, including members of the Royal Australian Navy, at the AWD Systems Centre enabled effective and efficient decision making with a focus on providing production-driven solutions to deliver cost and time efficiencies to the shipbuilding process.

Following the all-important Second Pass Approval milestone in June 2007, and the Australian Government's selection of Navantia's F100 'Existing Design' for Australia's Hobart Class AWD fleet, ASC now moves into Phase Three of the Program.

This stage involves further integration of Navantia into the design team, as well as the commencement of detailed design, engineering and planning in preparation for our destroyer construction activities.

The AWD Systems Centre in Adelaide is the base for all AWD activities and is home to the AWD Alliance, including ASC (the shipbuilder), Defence Materiel Organisation, the ship designer and the combat system systems engineer.

The consolidation of the AWD Alliance Management Team has seen some of our experienced and dedicated personnel appointed to key roles, including:

- John Gallacher, Chief Executive Officer of the AWD Alliance, who will also remain the head of our shipbuilding subsidiary;
- Doug Callow, General Manager - Operations;
- Scott Blackburn, Shipbuilding Director;

- Jim Carr, Technical Director; and
- Jon Moore, Services Director.

### Air Warfare Destroyer Infrastructure

Considerable planning and design activities for AWD support infrastructure was undertaken during 2006/07.

Port Adelaide Maritime Corporation, the South Australian Government entity responsible for delivering AWD Program infrastructure, has continued to make much headway in the delivery of the Common User Facility, incorporating a new wharf, dry berth, transfer system and ship lift, Maritime Skills Centre, AWD Systems Centre and a blast and paint facility.

As a key stakeholder in the Common User Facility project, we have played an integral role in the development of its design in order to ensure full integration with our own shipyard.

Construction activities for South Australian Government-funded AWD support infrastructure will commence towards the end of 2007, with the Common User Facility wharf scheduled to be completed by February 2009, followed by the completion of the ship lift in January 2010.

### Doug Callow



**AWD ALLIANCE GENERAL MANAGER OPERATIONS**  
BSc (MechEng), MSc (NuclSciTech),  
FIEAust, CPEng

Mr Callow is the head of the AWD Alliance Operations division with overall responsibility for the shipbuilding integrated product team (IPT), combat system IPT and platform system design IPT.

Working with the Alliance participants, Mr Callow has oversight of the integration of the IPTs and the subsequent shipbuilding by ASC, systems engineering by the combat system systems engineer, design by the platform system designer, as well as the procurement of all platform and combat system equipment and material.

Previously, Mr Callow held a series of senior roles within ASC's Submarines business, culminating in the last three years as Chief Operating Officer - Submarines and had, prior to this, worked for 26 years for Vickers Shipbuilding and Engineering (UK).

With a highly respected lifetime career in submarine and ship construction and maintenance, Mr Callow brings practical understanding and experience to his role within the AWD Program.

**Age 58.** Birthplace Barrow-in-Furness, England.

### Scott Blackburn



**AWD ALLIANCE SHIPBUILDING DIRECTOR**  
BMath (USA), MBA (USA)

Mr Blackburn has overall responsibility for the start-up of ASC's core shipbuilding activities including planning, production design, procurement and ship construction required for Australia's air warfare destroyers.

Seconded from Bath Iron Works in Maine, USA, to direct AWD Alliance shipbuilding, Mr Blackburn brings valuable experience from his previously held director-level positions in supply chain management, business management, business development and program management.

Mr Blackburn's extensive shipbuilding career spans over 31 years, including work on three surface combatant lead ship programs in the United States.

**Age 53.** Birthplace Salem (Massachusetts), USA.



# HOBERT CLASS

## AIR WARFARE

## DESTROYERS

The construction of Australia’s air warfare destroyers (AWDs) will be one of the most significant shipbuilding projects undertaken in Australia.

AWDs are highly technical, complex and formidable naval ships. Their role is one of control: controlling environments above, around and below them with the latest weapons, communications and systems technology.

As the shipbuilder for the Hobart Class AWD Program, we will construct HMAS *Hobart*, HMAS *Brisbane* and HMAS *Sydney* based on Spanish firm Navantia’s F100 AWD design.

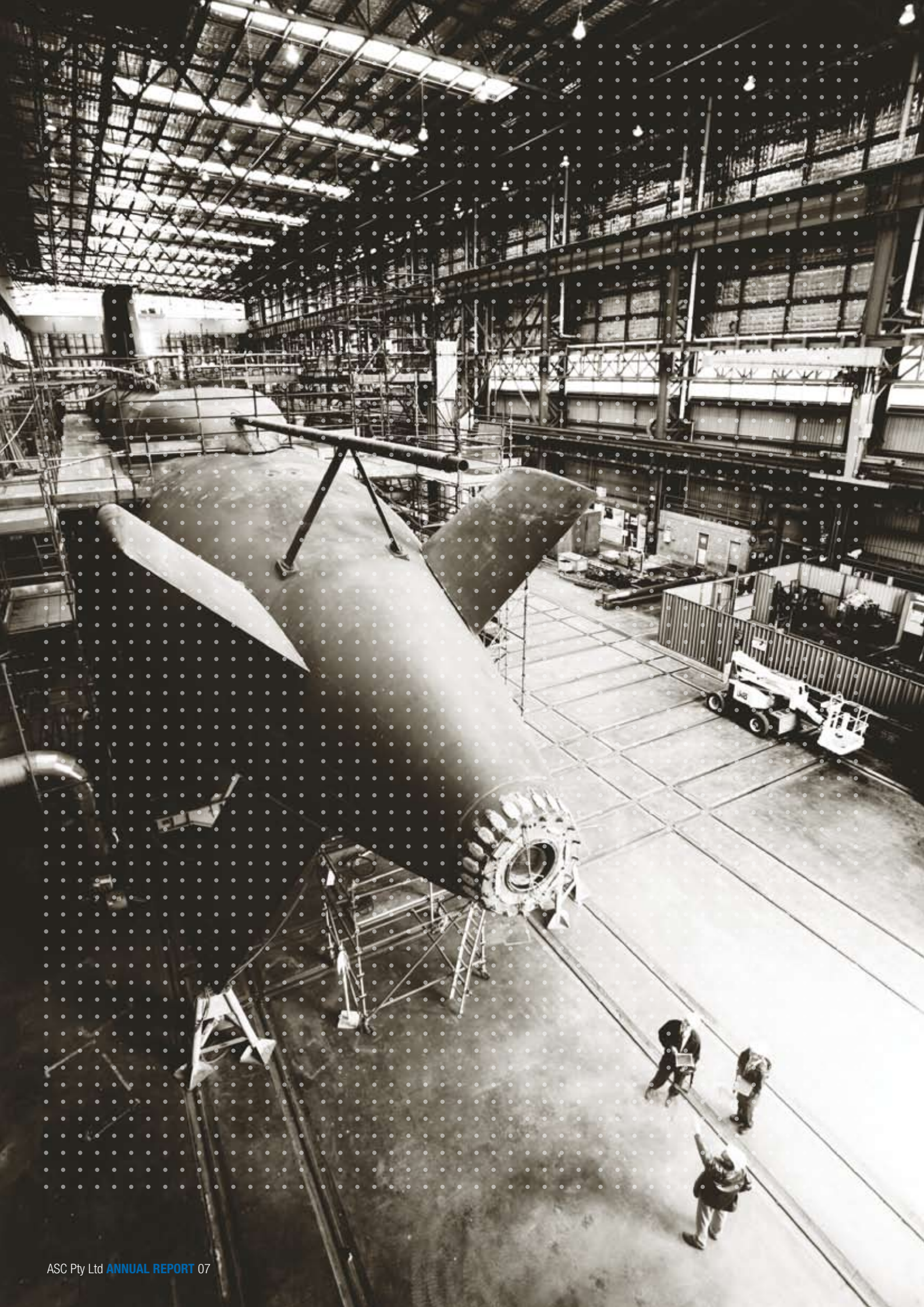
The F100 is already in service with the Spanish Armada.

Specifications	
Length	146.7 metres
Beam	18.6 metres
Draft	7.2 metres
Displacement (full load)	6,250 tonnes
Top speed	28+ knots
Range	5,000+ nautical miles at 18+ knots
Crew	180 (approximately)











## DESIGN AND ENGINEERING

ASC's Design and Engineering team supports the various maintenance activities for the Collins Class submarines by implementing new technology and new capability designs.

The continued development of reliable and innovative solutions to challenging engineering problems, as well as the successful implementation of enhanced capabilities onboard the submarines, has significantly increased our reputation as an emerging global submarine engineering force.

The 2006/07 year has been notable for the successful completion of HMAS *Waller's* full-cycle docking and the installation and integration of new advanced tactical capabilities. Amongst the major Collins Class submarine enhancements, we have installed a replacement combat system, based on the United States Navy's submarine tactical and sonar capability AN/BYG-1, and a replacement MK48 Mod-7 Torpedo anti-surface warfare and anti-submarine warfare heavyweight torpedo.

Other technological advances on HMAS *Waller*, and across the Collins Class fleet, include improved fire-fighting systems, diesel modifications, fuel system safety improvements, sewerage automation and the implementation of special forces operational capability.

ASC's close working relationship with our customer ensures that we can be responsive to changes in operational requirements and work collaboratively with Commonwealth engineers in meeting Naval Technical Regulations, while achieving the required levels of design certification and safety standards.

The management of safety and risk factors is fundamental to our business and permeates our work practices in every way, guaranteeing safe and reliable solutions to withstand the hostile and demanding naval environment.

Training and competency measures continue to underpin our achievements. Also, we encourage our engineering specialists to participate in post-graduate masters courses, with in-house tailoring, to ensure that the training is both specific and relevant to ASC's maritime and military systems integration needs.

Through organic growth and the recruitment of overseas specialist engineers, our Design and Engineering group has matured and diversified to an extent that it can now take on the most complex engineering tasks with confidence and expediency.

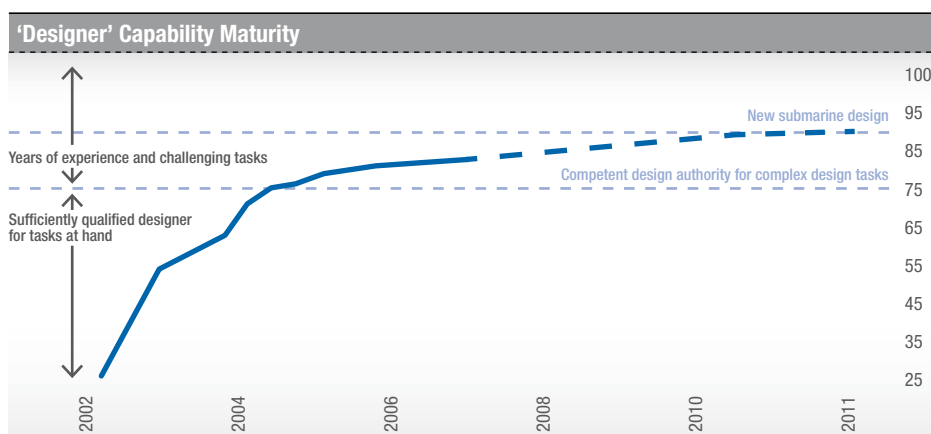
With 280 engineers, naval architects, designers, technical specialists, software engineers and logisticians, Design and Engineering has grown 12% during 2006/07. From benchmarking against similar organisations globally, we know that we now have the minimum-required balance, depth and mix of specialist skills required to be a sustainable submarine design workforce.

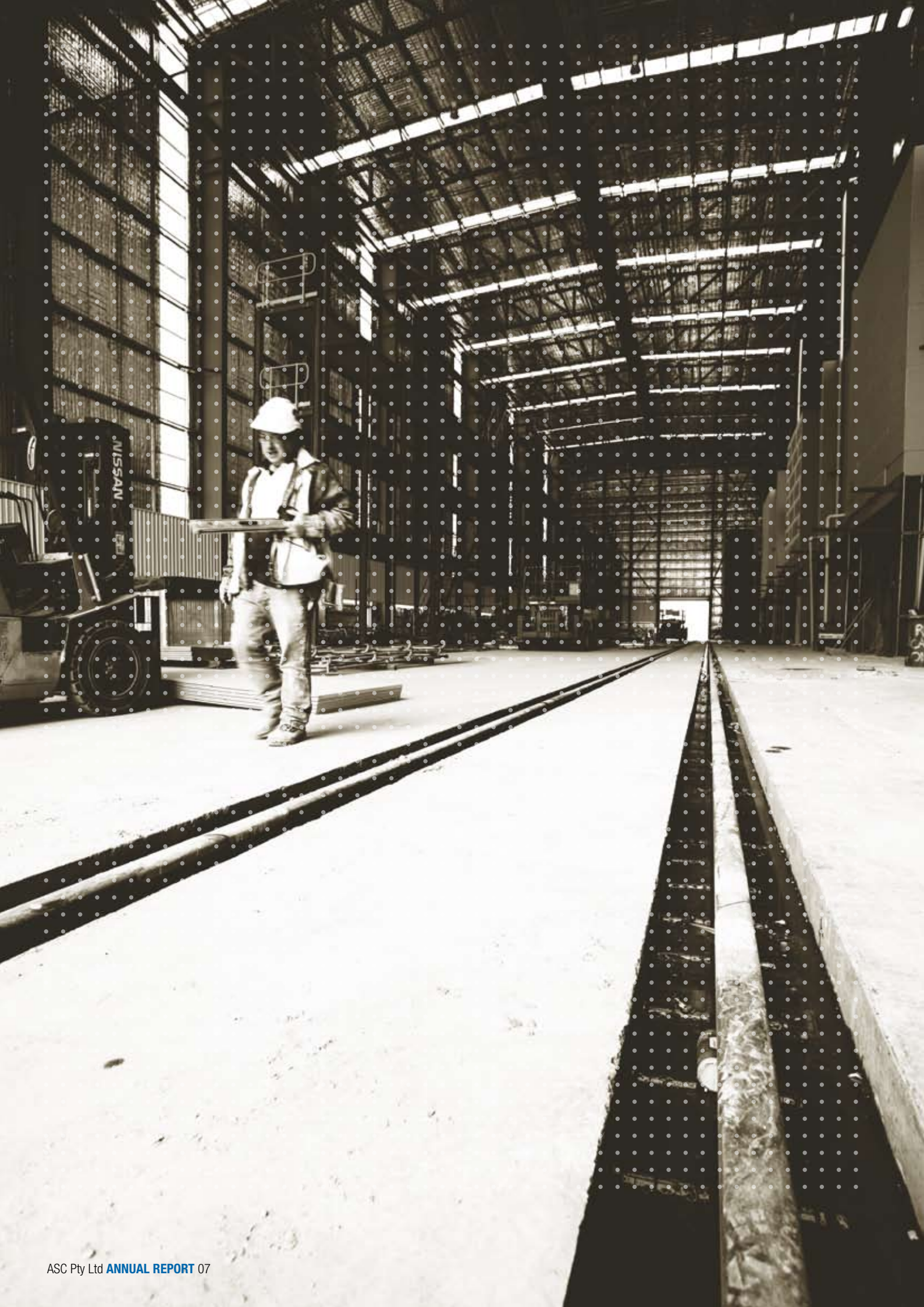
Electric Boat, our long-term submarine capability partner, has assisted ASC to shape our future as a leading designer and builder of diesel electric submarines. In addition, Electric Boat has helped us to identify our strengths, weaknesses and skills gaps, which has been an all-important backdrop for our recruitment of graduates and experienced personnel.

During 2006/07, ASC continued to invest in upgrading our engineering simulation and modeling toolsets, as well as implementing an enhanced product lifecycle management system. An upgraded CAD environment is also underway, which will ultimately put ASC at the leading edge of design and engineering. These improvements represent a quantum leap in our continuous improvement of quality, efficiency and effectiveness, supported with other initiatives such as the Capability Maturity Model Integration (CMMI) program already under way.

In conjunction with the Defence Science and Technology Organisation, we intend to further invest and expand in research and development activities designed to explore new ideas and build on the experience gained through our 20-year involvement in the Collins Class submarine program.

The Collins Class submarines remain the most advanced conventional submarines in blue water operations worldwide. Our experience, coupled with our commitment to continuous improvement and operational reliability, will continue to see improvements in submarine performance, as well as cost and schedule efficiency across the class.





# INFRASTRUCTURE DEVELOPMENT

The 2006/07 year saw considerable progress in the development of our major infrastructure development programs in Western Australia and South Australia.

ASC is fortunate to receive considerable support from both the South Australian Government and the Western Australian Government.

## Submarine Repair and Maintenance Facility (Western Australia)

ASC's new \$35-million submarine repair and maintenance facility is being built, as part of the redevelopment of the Australian Marine Complex, in Henderson, Western Australia.

The facility will consolidate our current three operational work sites in Western Australia, and provide a dedicated environment for submarine maintenance and repair activities. For the first time, ASC will have a permanent home in Western Australia.

Four compliant tenders were received for this project in September 2006, with the successful contractor – Broad Construction – selected after an extensive tender evaluation program.

The project is being managed for ASC by Worley Parsons.

Since then, work on site has progressed at a solid rate, with construction scheduled to be completed in early 2008. Our personnel will move into the facility shortly thereafter.

In conjunction with our facility investment, the Western Australian Government is in the process of acquiring a floating dock and transfer system, which will allow ASC to remove submarines from the water and transport them to our facility for maintenance activities.

## Shipyard Development (South Australia)

Our \$100-million shipyard, which represents vital infrastructure for Australia's Hobart Class Air Warfare Destroyer Program is located adjacent to ASC's submarine facility in Osborne, South Australia.

A functional design brief and a master plan was prepared late 2006 and, subsequently, we went out to tender for a managing contractor.

Our new shipyard will include wharf support and administration buildings, a refurbishment of existing buildings and services, site pavements and landscaping, and associated new infrastructure in order to create a work environment conducive to the engagement of personnel and subsequent productivity.

Following an intensive evaluation and workshop process, involving our shipbuilding capability partners – Bath Iron Works and Sinclair Knight Merz – Hansen Yuncken was selected to design and construct our shipyard.

Hansen Yuncken has initially been engaged for the design phase of the shipyard and, if the company meets our budget criteria upon completion of the design phase, will also be engaged for the construction phase of the project.

A team of consultants, including Hassell, Bestec, KBR, ACOR and Currie & Brown, have also been engaged to manage due diligence studies and the design process.

In our commitment to add value, ASC will consider whole-of-life and sustainability benefits within the shipyard, in order to provide a functional facility that will deliver efficiencies to our shipbuilding process.





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 (LTI) target is zero.

We are committed to maintaining a culture and a mind-set that reinforces an environment where our employees believe it is possible to work injury free – regardless of what role they undertake or in which program they work.

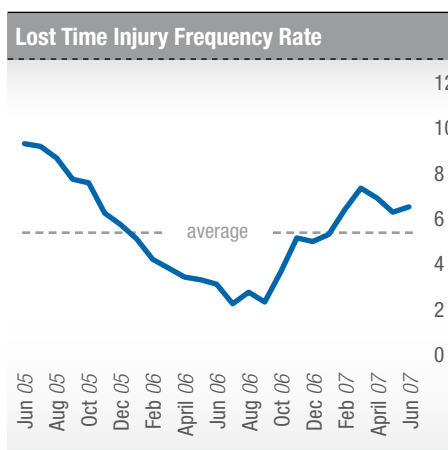
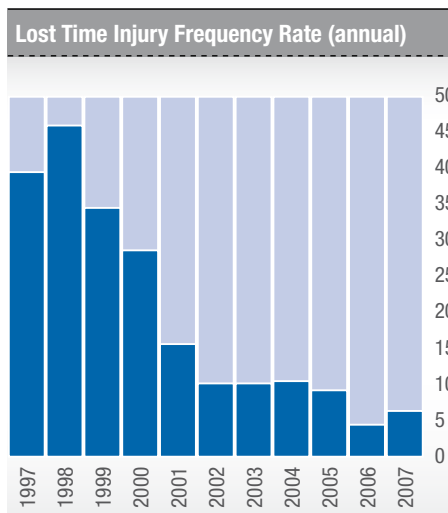
The 2006/07 year saw a continuation of our exceptional occupational health and safety record, demonstrative of our commitment towards safe work practices and a safety conscious ethos.

## Lost Time Injuries

A Lost Time Injury (LTI) is when an employee is absent from work for a full shift as a result of a work-related injury.

Across our facilities in South Australia and Western Australia, including contract labour, we achieved a consolidated Lost Time Injury Frequency Rate (LTIFR) of 5.9 for 2006/07; this result firmly positions ASC within best practice range for our industry.

On a site-by-site basis, ASC's Osborne facility achieved 80 days free of LTIs, while our Western Australian facility achieved 103 days without an LTI. Our Osborne shipbuilding facility recorded no LTIs during 2006/07.



LTIFR = number of LTIS x 1,000,000 divided by hours worked per month.

## Medically Treated Injuries

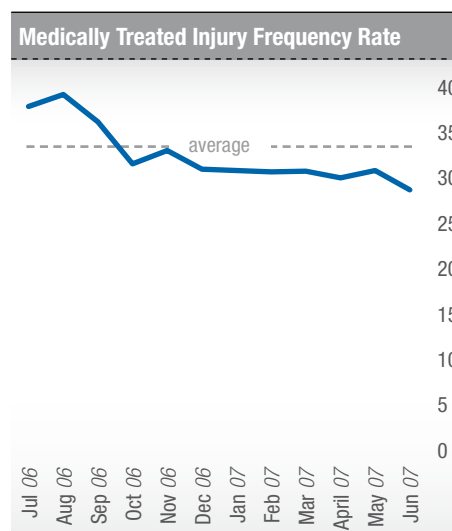
A Medically Treated Injury is when an employee requires medical treatment above the expertise of a nurse.

An average Medically Treated Injury Frequency Rate (MTIFR) of 18.7 was recorded for 2006/07 across our three sites. Independently, a result of 37 was achieved for our Osborne submarine facility, 19 in Western Australia and 0 at our Osborne shipbuilding facility.

ASC continues to maintain our hierarchy of control measures used to identify hazards and manage risk exposure.

These include 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.



### Certification of AS 4801

Our Safety Management System was audited by Det Norske Veritas (DNV) in October 2006, and certified as compliant to AS/NZS-4801 2001 and OHSAS18001 1999 for ASC's Osborne (South Australia), HMAS *Stirling* (Western Australia) and Henderson (Western Australia) sites.

In addition, DNV conducted its half-yearly audit of the system in Osborne and Western Australia with no non-conformances identified.

### Self-Insurance

ASC is self-insured in South Australia for workers' compensation claims resulting from workplace injury or illness. Since commencing self-insurance, the annual number of claims has been reduced by 45%.

We have implemented intensive training programs designed to inform and educate our supervisors and managers about their responsibilities with relation to workers' compensation. Over 200 employees have participated in this training in South Australia and Western Australia.

It is pleasing to report that lost-time and return-to-work outcomes have improved during 2006/07, due to the involvement of line managers in workers' rehabilitation processes.

### Employee Health

The health and wellbeing of our people is central to the success of our business and, accordingly, understanding the potential for health risks and establishing suitable mitigation measures is also integral to our company.

### Healthy Plus Program

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

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

During 2006/07, our employees sought benefits from the various health promotions available, including:

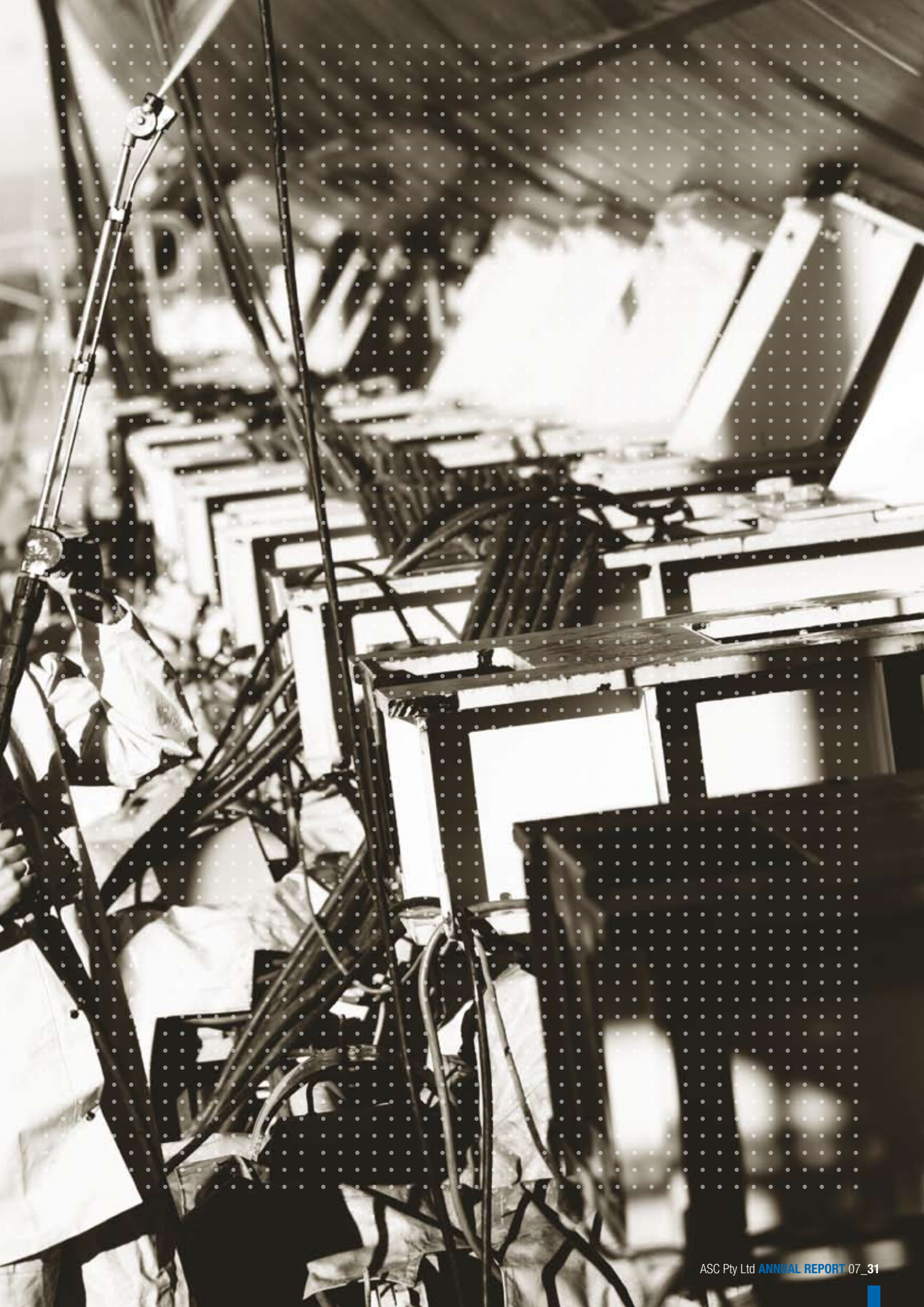
- 148 employees attended a skin cancer awareness information session;
- 166 personnel had a skin check;
- 318 staff had their blood pressure and cholesterol reviewed;
- 45 employees commenced a quit smoking program;
- 109 personnel donated blood; and
- 370 employees were vaccinated against the flu.

We realise that many health issues not only have the potential to impact on ASC's safety performance, but can also contribute to many community problems.

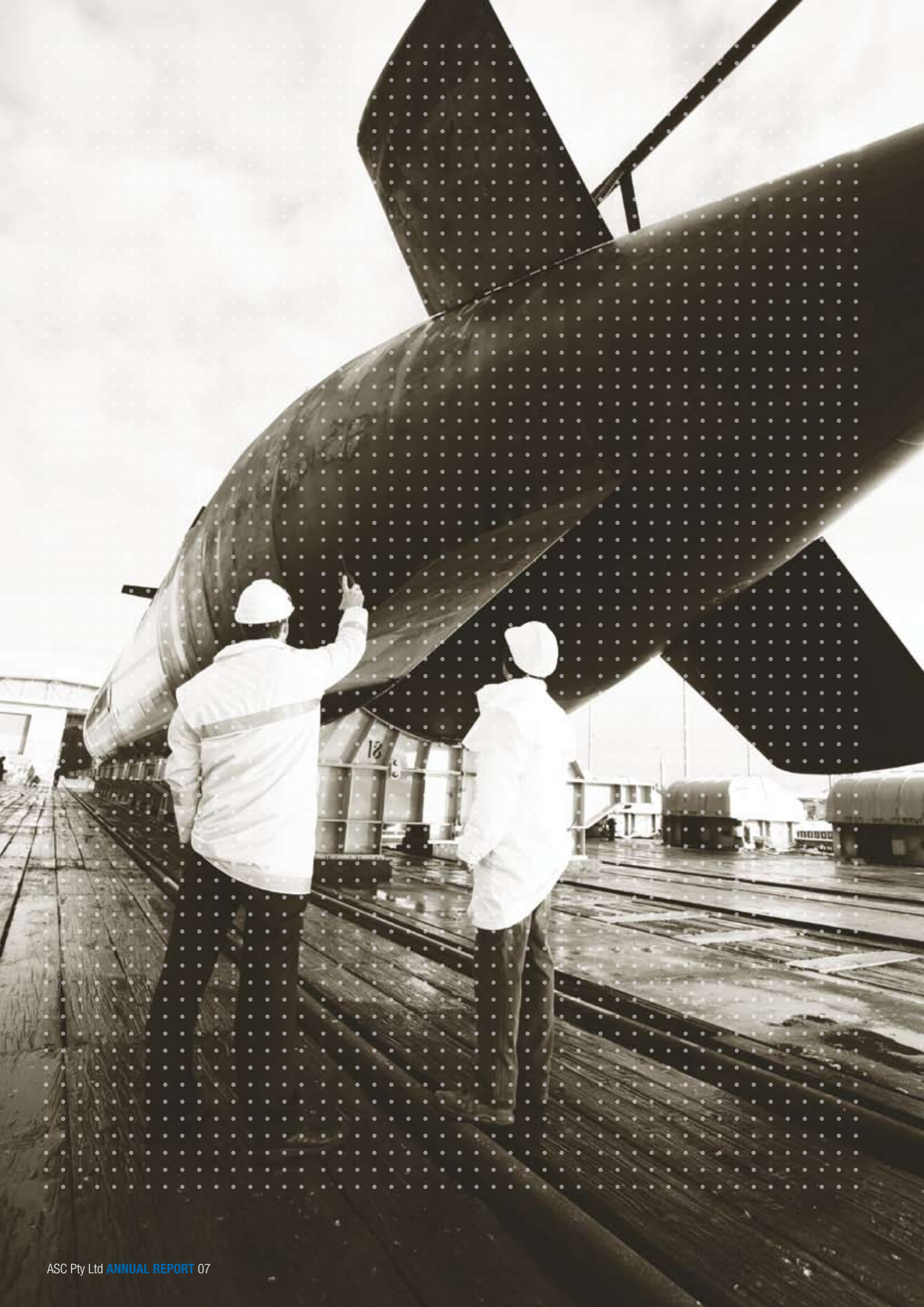
The success of our Healthy Plus Program demonstrates our commitment to the health and wellbeing of our personnel, as well as signifying the importance that our employees place on the health issues being addressed.











# EMPLOYER PERFORMANCE

## Knowledge Development

ASC is committed to relentless improvement and learning; a corporate value we actively espouse across all aspects of our business.

During 2006/07, we saw the fruition of our commitment toward developing and introducing programs designed to assist our people in growing their potential even further, as well as an increase of staff numbers in training programs.

## Leadership Development Program

The first course of our Leadership Development Program concluded during the year, with over 55 of our leaders participating. Designed to assist our employees to champion ASC's corporate values and lead by example, the program consists of a series of workshops covering a range of key leadership principles and behaviours, including emotional intelligence, influence and impact, leaders as coaches and change leadership.

## TAFE Partnership Programs

During 2005/06, ASC launched in-house Certificate IV programs, delivered by Torrens Valley TAFE, in Frontline Management, Business Administration and Project Management.

Since offering these courses last year, 38 employees have completed a TAFE program, with 41 employees studying one. The programs have proven extremely successful and have offered great convenience and flexibility for our people to study on a 50/50 basis (half their study in company time and the other half in their own time).

## Certified Project Managers Program

We have continued to support our personnel involved in project management to gain certification with the Australian Institute of Project Management's Registered Project Manager Program.

The course involves individually-designed, competency-based workplace assessments, where candidates are required to compile evidence that displays their competence towards project management. The subsequent competency standards, of which students are assessed against, are based on national and international research into best practice in project management across private and public sector workplaces.

During 2006/07, seven personnel achieved Project Team Member/Project Specialist status, 26 achieved Project Manager status and 9 obtained Project Director/Program Manager status.

## Skilling Australia's Defence Industry Programs

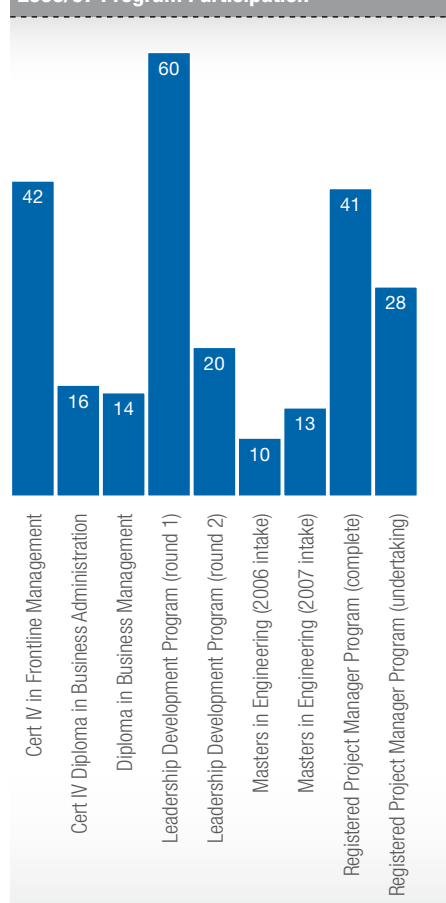
Last year ASC introduced two masters programs in association with Defence Materiel Organisation's Skilling of Australia's Defence Industry (SADI) package.

The Masters in Military Systems Integration, in association with BAE Systems, Saab and the University of South Australia, saw two ASC personnel enrolled in the first intake. The Masters in Marine Engineering, in association with the University of Adelaide, included 12 of our employees in its first intake.

Now generating considerable interest from other personnel within Australia's defence industry, the masters programs are expected to maintain capacity enrolments for many years to come.

These programs, with a full-range of professional development programs, provide our employees with the opportunity to gain additional skills to maximise their potential as well as an established, clear career path through management and technical pursuits.

2006/07 Program Participation







## Personnel Development

The employee-driven aspects of our business relate to how we manage our people and contribute to the economies within which ASC operates. To support our employees, we have adopted a proactive approach to protect and enhance their value by:

- Attracting and retraining high-quality staff;
- Providing training and development opportunities;
- Reinforcing a set of corporate values and assessing our people against them;
- Setting out a clear framework for performance management, remuneration and incentives to encourage a high-performing culture aligned with our corporate objectives;
- Ongoing career development and succession planning at all levels within the company; and
- Recognising the importance of work/life balance and implementing a company-wide strategy to support flexibility and equilibrium.

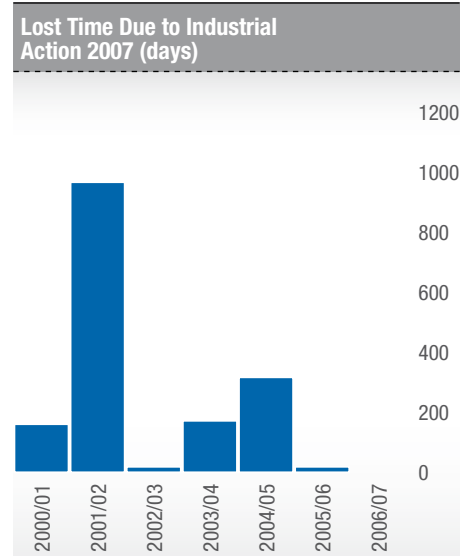
## Industrial Relations

ASC submarine production employees work under a three-year Australian Workplace Agreement.

Negotiated during 2005/06, the collective union agreement is for all employees belonging to either the Australian Manufacturing Workers Union, the Communications, Electrical and Plumbing Union or the Australian Workers Union.

The workforce agreement for our employees associated with shipbuilding activities will remain in force until the end of 2007.

ASC has had no industrial disputes or lost time as a result of industrial action since the establishment of our new Australian Workplace Agreement.



## Recruitment

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

Across our submarine business, we have maintained consistent numbers of personnel.

Within our shipbuilding business, in support of the growing requirement to deliver in the Hobart Class Air Warfare Destroyer (AWD) Program, ASC grew its personnel from 30 in 2005/06, to 98 dedicated project personnel in 2006/07.

Our efforts recruited talented personnel in the areas of project management, planning, support and control, technical engineering and design, estimating, quality, supply chain, scheduling, infrastructure development, administration, human resources and finance.

Following the Australian Government's selection of Navantia's F100 'Existing Design' for the AWD Program, ASC will now increase its recruitment activities during 2007/08 to resource Phase Three of the AWD Program.

## Equal Opportunity

Our 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 our 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.

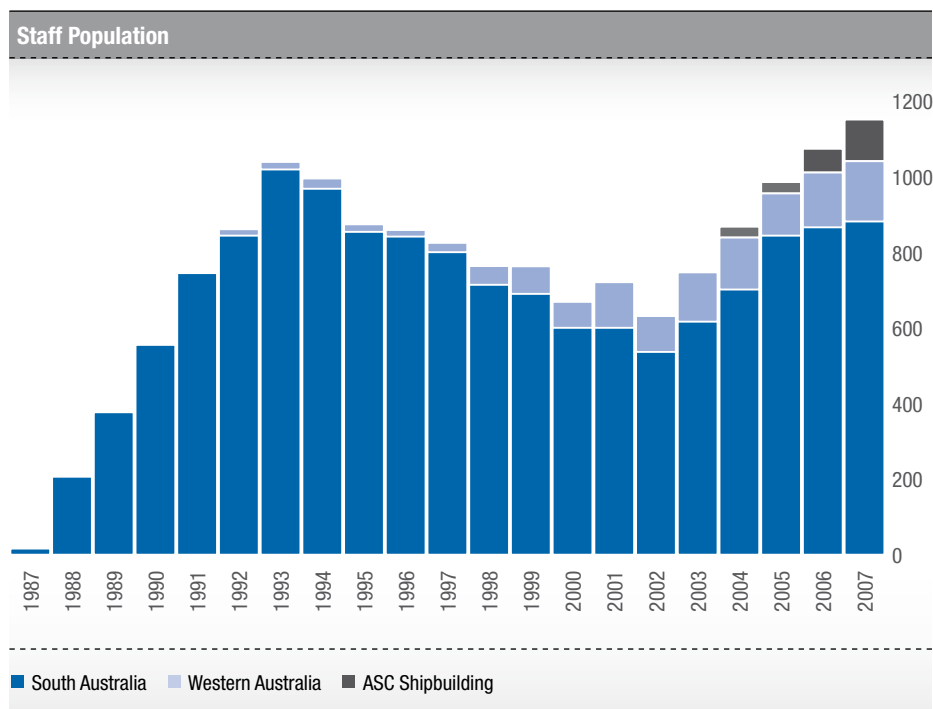
ASC prohibits all kinds of discrimination based on gender, sexuality, marital status, pregnancy, race, age or physical or intellectual impairment.

## Apprenticeships

ASC has significantly increased our number of apprentices, from 28 last year to 36 in the 2006/07 year. The overall increase in our Apprenticeship Program will assist our varying production needs, particularly in the electrical, mechanical, fabrication and piping areas.

We continue to support and encourage our tradespersons to further their education through diplomas and advanced diplomas, as well as support their skills and knowledge development through various in-house training initiatives.

The combination of training and development programs we offer our apprentices ensures we continue to organically grow our own skills to be available for our future submarine maintenance and shipbuilding needs



Excluding contractors, casual staff and undergraduates.

## Graduates and Undergraduates

We recognise the value that our young graduates bring to ASC and, given this, we continue to develop engineering depth within the company through our commitment to our graduate and undergraduate programs.

During 2006/07, 22 graduates participated in our Graduate Program, including mechanical, electrical, mechatronic and computer systems engineers.

Our two-year program, which introduces graduates to several different disciplines within our business, provides interesting and challenging work, as well as an environment that aims to develop graduates' skills, knowledge and professional interests that result in rewarding and fulfilling career paths.

Twenty students participated in our Undergraduate Program over the 2006/07 summer vacation period, with many students being offered ongoing employment while they complete their final year of study.

A placement in our Undergraduate Program continues to foster a smooth transition into our Graduate Program.

## Defence Industries Pathways Program

Our Defence Industries Pathways Program is for Year 11 students, and is designed to expand and leverage our existing programs with schools located along the LeFevre Peninsula in South Australia.

Financial Year 2006/07 saw 12 students participate in the 20-week program, which includes the completion of a Certificate 1 in Manufacturing, as well as the finalisation of a project that incorporates fabrication and mechanical processes. In addition, each student under-took eight days of industry work experience with ASC.

The Program supports the development of a defence industry-focused trade workforce, through secondary school engagement via:

- Sponsored work placements;
- Provision of training and development pathways that lead to a variety of vocations required by the Hobart Class Air Warfare Destroyer (AWD) Program, including metal fabrication, design technology and core workplace competencies;
- Integration of vocation, education and training (VET) and school requirements, to assist students to obtain their Year 12 certificates, VET qualifications, school-based apprenticeships, or credit towards apprenticeships and/or further study; and
- SACE recognition.

## Employee Communication

ASC believes that an informed workforce contributes to higher levels of staff morale and job satisfaction. We value our employees and as such look to improve our activities designed to communicate with them.

During 2006/07, we communicated with our personnel through:

- Regular Strategic Update briefings;
- Publication of our *In Sight* employee newsletter;
- Monthly Business Plan Review forums;
- Frequent electronic and notice board updates; and
- Periodic news bulletins.

In addition, ASC facilitates opportunities for personnel to communicate with management through our annual ASC Aloud cultural survey and the 'Ask Greg' intranet feedback mechanism, which encourages employees to interact directly with the Managing Director.

## Environmental Performance

ASC is committed to the overall protection and improvement of the environment.

Our objectives for environmental management, outlined in ASC's Environmental Policy, support this vision and state that we will:

- Integrate environmental requirements into our Corporate Management System;
- Promote environmental awareness amongst employees and contractors;
- Implement systems of work to reduce and prevent pollution;
- Apply a systematic approach to hazard management;
- Integrate environmental aspects into risk assessments within ASC;
- Conserve natural resources and promote energy conservation;
- Establish protocols that incorporate environmental aspects into the acquisition of materials in the supply chain process;
- Comply with State and Commonwealth statutory and legal requirements;
- Implement and promote practical and effective waste management practices; and
- Continually improve ASC's environmental performance.

In addition, we conduct audits to ensure that ASC is meeting its environmental performance across its operations.



### Environmental Incidents

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

We actively record and report any breaches of the Acts to the Environmental Protection Authority.

During 2006/07, there were no environmental incidents at any of our facilities.

### Environmental Management System

Following last year's preliminary analysis of ASC's processes regarding environmental monitoring, a recommendation was made to upgrade our systems to achieve full compliance of AS/NZS ISO 14000.

During 2006/07, ASC made substantial headway in extending our environmental documentation within our Environmental Management System, in an effort to secure certification to the all-important ISO 14000 level by the end of 2007.

### Environmental Licence

ASC 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.





# 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).

## 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 2006/07 year.

The directors of ASC (other than the Managing Director) are appointed by the Minister for a term.

### Directors

As at 30 June 2007, the Board was comprised as follows:

Name	Appointed	Expires
John Prescott AC (Chairman)	3 Nov 2000	30 Jun 2009
Greg Tunny (Managing Director)	11 Oct 2004	–
Charles Bagot	3 Nov 2000	30 Dec 2007
Graeme Bulmer	10 Nov 2000	30 Dec 2007
General (Rtd) John Baker AC DSM (deceased July 2007)	1 Jul 2002	31 Dec 2007
Geoffrey Phillips	16 Oct 2006	31 Dec 2009
Mike Terlet AO	16 Oct 2006	31 Dec 2009
Dr Bill Schofield AM	1 Nov 2006	31 Dec 2009

The remuneration of the directors is determined by the Remuneration Tribunal under the Remuneration Tribunal Act 1973 (Cth).

## Corporate Governance

ASC has adopted a corporate governance protocol which establishes:

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

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

## Board

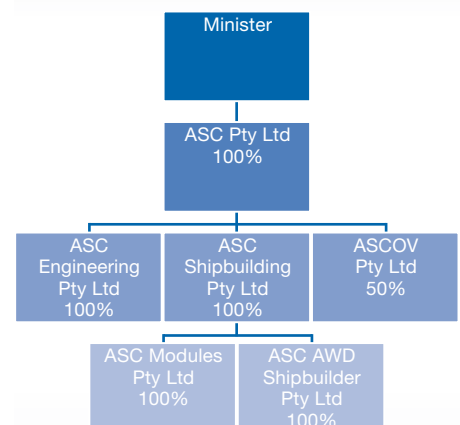
Under the Board Charter, the Board is responsible for:

- Overseeing the ASC Group, including control and accountability systems;
- Appointing and monitoring the performance of the Managing Director and the Company Secretary and, where appropriate, the removal of the Managing Director and 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;
- Providing strategic advice to management;
- Determining the strategy of the ASC Group 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 the Group's performance against them and ensuring that corrective action is devised and implemented as necessary;
- Reviewing and ratifying systems of risk management, 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;
- Appointing Board committees and approving the composition, and any charters, of Board committees; and
- Monitoring and ensuring compliance with legal and regulatory requirements, ethical standards and policies.

## 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.



## Attendance

Attendance at Board and committee meetings during 2006/07 was as follows:

Director	Board		Audit Committee		Nomination and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
John Prescott AC (Chairman)	17	17	–	–	3	3
Greg Tunny (Managing Director) (appointed 11 October 2004)	17	17	–	–	–	–
Charles Bagot	17	17	5	5	3	3
Graeme Bulmer	17	17	5	5	–	–
General (Rtd) John Baker AC DSM (deceased July 2007)	14	13	3	3	–	–
Geoffrey Phillips	12	11	2	2	–	–
Mike Terlet AO	12	12	–	–	–	–
Dr Bill Schofield AM	11	11	–	–	–	–

### During the year:

- Geoffrey Phillips, Mike Terlet AO and Dr Bill Schofield AM were appointed directors; and
- General (Rtd) John Baker AC DSM was granted leave of absence from April to June 2007.

## 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;
- Ensure compliance strategies and compliance function are effective; and
- Maintain an effective external and internal audit function, in compliance with all applicable laws.

As at 30 June 2007, the committee comprised Graeme Bulmer (Chairman), General (Rtd) John Baker AC DSM, Charles Bagot and Geoffrey Phillips.

## Nomination and Remuneration Committee

Under the Nomination and Remuneration Committee 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);
  - 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 2007, the committee comprised John Prescott AC (Chairman) and Charles Bagot.

## Code of Conduct

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

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

## Audit

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

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

## Risk Management

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

- Identifying corporate risk;
- Assessing the likelihood of risk occurrence;
- Estimating the likely consequence of risks should they occur; and
- Implementing strategies to avoid, mitigate or minimise the consequence of risk.

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

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

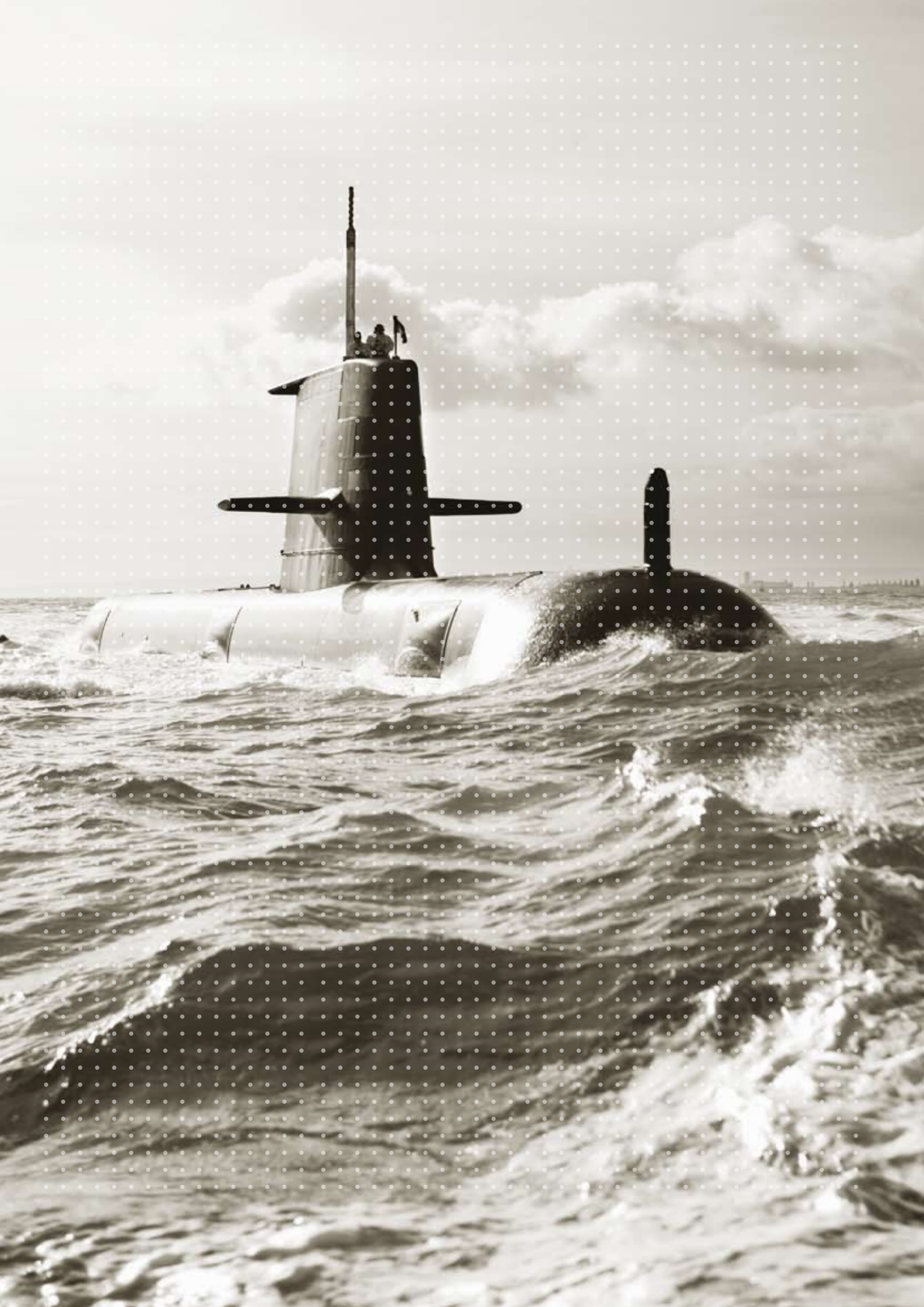
The Audit Committee is responsible for approving the program and monitoring compliance.

## Legal Compliance

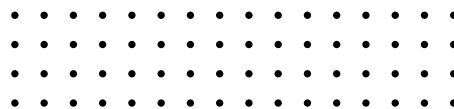
ASC has established a legal compliance program which complies with Australian Standard 8306. The program is managed by ASC's Legal Department and during 2007 covered:

- Criminal code;
- Defence exports;
- Employment;
- Environment;
- Occupational health and safety;
- Privacy;
- Risk management; and
- Trade practices.

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





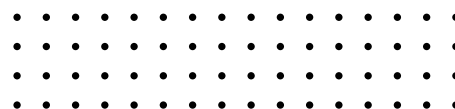


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## DIRECTORS' REPORT

For the year ended 30 June 2007



Your directors present their report on the consolidated entity (referred to hereafter as the Group or the consolidated entity) consisting of ASC Pty Ltd (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2007.

### Directors

The directors of the Company at any time during or since the beginning of the 2006/07 financial year are:

John Barry Prescott AC  
Charles Neville Hervey Bagot  
Graeme Richard Bulmer  
General (Rtd) John Stuart Baker AC DSM  
Gregory Roy Tunny  
Geoffrey Raymond Phillips  
Michael John Terlet AO  
William Hunter Schofield AM

Mr Geoffrey Raymond Phillips and Mr Michael John Terlet AO were appointed directors on 16 October 2006, while Dr William Hunter Schofield AM was appointed a director on 1 November 2006.

General (Rtd) John Stuart Baker AC DSM was a director of the Company until he passed away on 9 July 2007. General Baker was a valued member of the Company's Board and Audit Committee, since his appointment as a Director of the Company on 1 July 2002. He played an important role on the Board that oversaw the Group's transition from submarine construction to maintenance, and expansion into naval shipbuilding. The Company was most fortunate to have benefited from General Baker's distinguished career in the Australian Defence Force and his broader leadership qualities.

### Principal Activities

The principal activities of the Group during the course of the financial year ended 30 June 2007 included:

#### *Submarines – Collins Class Submarines:*

The major submarine-related activities included 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 (TLS) Contract. This contract is of fifteen years duration with extension options for a further two five-year periods.

#### *Shipbuilding – Hobart Class Air Warfare Destroyer (AWD) Program:*

On 31 May 2005, Senator Robert Hill, then Minister for Defence, announced ASC as the preferred shipbuilder for Australia's Hobart Class 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 the Defence Materiel Organisation for the provision of services in respect of this program.

### Consolidated Result

The consolidated profit of the Group for the financial year attributable to the shareholders of ASC Pty Ltd was \$29,583,000 after provision for income tax expense of \$12,560,000.

### Review of Operations

#### *Submarine activities:*

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

#### *Shipbuilding activities:*

In the financial year ended 30 June 2007, ASC implemented and progressed various shipbuilding strategic plans to support the program. These included supporting the AWD Alliance with initial ship design activities, planning for infrastructure development, 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 the financial year 2007/08.

## Dividends

The Directors have declared a fully franked final dividend of \$9,825,000, compared with \$6,350,000 for the 2005/06 financial year which was paid on 5 September 2006. 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 \$7,975,000 paid on 28 February 2007, compared with \$4,750,000 in the 2005/06 financial year.

The 2006/07 total dividend represents a distribution to the shareholder of \$17,800,000, compared with \$11,100,000 in the 2005/06 financial year.

## State of Affairs

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

## Events Subsequent to Balance Date

Subsequent to the reporting date of 30 June 2007, bank guarantees in respect of court proceedings were withdrawn due to settlement of the matter. Bank guarantees to the total value of \$2.4 million were cancelled on or about 3 August 2007.

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 Group, 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.

The Company is a Government Business Enterprise under the Commonwealth Authorities and Companies Act 1997, which requires 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 the Company, 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 agreed to indemnify the current and previous Directors and Officers of the Company for 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.

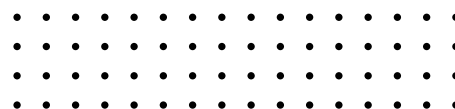
### Insurance Premiums

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.



## DIRECTORS' REPORT - continued

For the year ended 30 June 2007



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

The Auditor's Independence Declaration is set out on page 47 and forms part of the Directors' Report for the year ended 30 June 2007.

### 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 13th day of August 2007.

Signed in accordance with a resolution of Directors:

A handwritten signature in black ink, appearing to read 'John B Prescott'.

John B Prescott AC  
CHAIRMAN

A handwritten signature in black ink, appearing to read 'Greg Tunny'.

Greg R Tunny  
MANAGING 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 ASC Pty Ltd and consolidated entity for the year ended 30 June 2007, 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

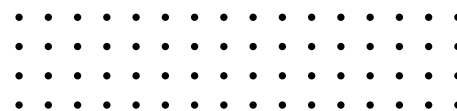
Delegate of the Auditor-General

13 August 2007

GPO Box 707 CANBERRA ACT 2601  
19 National Circuit  
BARTON ACT  
Phone (02) 6203 7300 Fax (02) 6203 7777

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**INCOME STATEMENTS**

For the year ended 30 June 2007



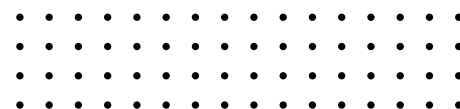
	Note	Consolidated		The Company	
		Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
Revenue from continuing operations	4(a)	305,801	254,939	262,761	238,028
Other income	4(b)	6,602	5,986	6,297	6,156
Expenses					
Materials and subcontractors		(112,872)	(101,061)	(90,253)	(85,891)
Labour		(126,210)	(101,937)	(111,294)	(99,289)
Depreciation and amortisation	5	(3,938)	(3,731)	(3,710)	(3,381)
Finance costs	5	(506)	(70)	(25)	(29)
Repairs and maintenance		(5,603)	(4,737)	(4,701)	(4,489)
Other expenses		(21,131)	(23,067)	(19,847)	(23,165)
Profit before tax		42,143	26,322	39,228	27,940
Income tax (expense)/benefit	7(a)	(12,560)	(7,835)	(11,685)	(8,283)
Profit after tax		29,583	18,487	27,543	19,657

The above income statements should be read in conjunction with the accompanying notes.



**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**BALANCE SHEETS**

As at 30 June 2007



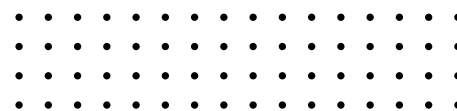
		Consolidated		The Company	
		30-Jun-07	30-Jun-06	30-Jun-07	30-Jun-06
	Note	\$'000	\$'000	\$'000	\$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	9,030	6,455	8,287	6,454
Trade and other receivables	9	45,865	48,800	47,909	48,357
Contract work in progress	16	6,573	-	4,020	
Other financial assets	11	38,214	33,373	38,214	33,373
Inventories	10	8,559	9,637	8,559	9,637
Other	13	983	483	932	417
TOTAL CURRENT ASSETS		109,224	98,748	107,921	98,238
NON CURRENT ASSETS					
Receivables	9	-	24,565	2,408	30,361
Investments accounted for using the equity method	12	5	5	5	5
Other financial assets	11	46,172	47,372	59,172	57,772
Property, plant and equipment	14	121,240	75,257	101,603	67,778
TOTAL NON CURRENT ASSETS		167,417	147,199	163,188	155,916
TOTAL ASSETS		276,641	245,947	271,109	254,154
LIABILITIES					
CURRENT LIABILITIES					
Bank overdraft	8	109	2,019	-	-
Trade and other payables	15	39,979	31,004	37,302	30,222
Contract work in progress	16	-	26,312	-	28,086
Non interest-bearing liabilities	17	5	5	1,196	2,806
Current tax liabilities	7(b)	5,081	2,474	5,081	2,474
Provisions	18	33,537	30,599	31,405	25,731
TOTAL CURRENT LIABILITIES		78,711	92,413	74,984	89,319
NON CURRENT LIABILITIES					
Non interest-bearing liabilities	17	4	3	2	2
Deferred tax liabilities (1)	7(d)	26,914	19,007	23,087	18,409
Provisions	18	12,143	13,022	11,835	12,915
TOTAL NON CURRENT LIABILITIES		39,061	32,032	34,924	31,326
TOTAL LIABILITIES		117,772	124,445	109,908	120,645
NET ASSETS		158,869	121,502	161,201	133,509
EQUITY					
Contributed equity	19	10,000	10,000	10,000	10,000
Reserves	20	54,484	31,014	43,902	28,067
Retained earnings (1)	21	94,385	80,488	107,299	95,442
TOTAL EQUITY		158,869	121,502	161,201	133,509

(1) Adjustments made to 30 June 2006 comparatives, details refer to Note 7(d) and Note 21 in the accompanying notes.

The above balance sheets should be read in conjunction with the accompanying notes.

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**STATEMENTS OF RECOGNISED INCOME AND EXPENSE**

For the year ended 30 June 2007

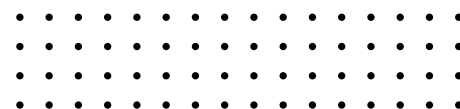


	Consolidated		The Company	
	Jun-07	Jun-06	Jun-07	Jun-06
Note	\$'000	\$'000	\$'000	\$'000
Actuarial gains (losses) on defined benefit plans after tax	2,114	(923)	2,114	(923)
Net income recognised directly in equity	2,114	(923)	2,114	(923)
Profit for the year	29,583	18,487	27,543	19,657
Total recognised income and expense for the year	31,697	17,564	29,657	18,734
Effect of change in accounting policy - financial instruments:	-	(854)	-	(995)

The above statements of recognised income and expense should be read in conjunction with the accompanying notes.

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**STATEMENTS OF CASH FLOWS**

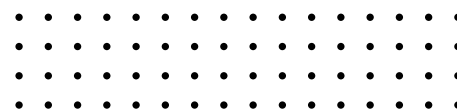
For the year ended 30 June 2007



		Consolidated		The Company	
	Note	Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts in the course of operations		325,408	287,257	279,560	270,910
Cash payments in the course of operations		(285,810)	(289,271)	(244,649)	(264,494)
Income taxes refunded / (paid)	7(b)	(13,005)	(13,452)	(13,005)	(13,452)
Net cash provided by / (used in) operating activities	33(b)	26,593	(15,466)	21,906	(7,036)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest received		4,979	4,820	5,280	5,109
Leverage lease income		2,642	2,312	2,642	2,312
Proceeds from disposal of non current assets		775	119	5	1
(Increase)/decrease in invested funds	33(c)	(21)	24,637	(21)	24,637
Payments for property, plant and equipment		(15,804)	(3,378)	(14,918)	(3,497)
Loan (to)/from controlled entity		-	-	1,265	(6,458)
Net cash used in investing activities		(7,429)	28,510	(5,747)	22,104
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividends paid		(14,325)	(11,950)	(14,325)	(11,950)
Interest paid		(354)	(24)	(1)	(1)
Net cash used in financing activities		(14,679)	(11,974)	(14,326)	(11,951)
<b>Net increase/(decrease) in cash and cash equivalents</b>		4,485	1,070	1,833	3,117
<b>Cash and cash equivalents at the beginning of the financial year</b>		4,436	3,366	6,454	3,337
<b>Cash and cash equivalents at the end of the financial period</b>	33(a)	8,921	4,436	8,287	6,454

The above statements of cash flows should be read in conjunction with the accompanying notes.





## 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 2007 comprises the Company and its subsidiaries (together referred to as the "Group" or the "consolidated entity") and the consolidated entity's interest in associates. The financial report is presented in Australian dollars.

The financial report was authorised for issue by the directors on 13 August 2007.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

#### *Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of ASC Pty Ltd comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 Financial Instruments: Disclosure and Presentation.

#### *Early adoption of standards*

The Group has elected to apply the following accounting standard and pronouncement to the annual reporting period beginning 1 July 2006:

- AASB 8 Operating Segments (issued February 2007)

Application of AASB 8 resulted in segment disclosures no longer being required. The segment reporting note has therefore been omitted from the financial statements.

#### *Change in accounting policy*

The policy of recognising financial guarantee contracts as financial liabilities was adopted for the first time in the current financial year. In previous reporting periods, a liability for financial guarantee contracts was only recognised if it was probable that the debtor would default and a payment would be required under the contract. The change in policy was necessary following the change to AASB 139 Financial Instruments: Recognition and Measurement made by AASB 2005 9 Amendments to Australian Accounting Standards in September 2005. No liability has been recognised by the Company or the Group in relation to these guarantees, as the fair values of the guarantees as at 30 June 2007 and 30 June 2006 are immaterial.

#### *Correction of error*

The income tax effect of the accelerated accounting depreciation in the Company during the construction phase of the Submarine Build Project had not been taken into account in the tax effect calculation of prior years. The impact of the adjustment of this understatement has resulted in a reduction in net deferred tax liabilities and an increase in opening retained earnings by \$7,308,000 in both the Company and the consolidated entity's Balance Sheets for years ended 30 June 2007 and 30 June 2006. This adjustment has no impact on both the Income Statements and the Statements of Cash Flow.

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

#### *Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

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 accounting policies have been applied consistently by all entities within the Group.

(b) New accounting standards and interpretations not adopted early

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group has not adopted the following standards early. The Company and the Group's assessment of the impact of these new standards and interpretations are set out below.

*AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company and the Group's financial instruments.

## AASB-I 10 Interim Financial Reporting and Impairment

AASB-I 10 applies to annual reporting periods beginning on or after 1 November 2006. It prohibits impairment losses recognised in an interim period on investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply AASB-I 10 from 1 July 2007, but it is not expected to have any impact on the Group's financial statements.

## Revised AASB 101 Presentation of Financial Statements

A revised AASB 101 was issued in October 2006 and is applicable to annual reporting periods beginning on or after 1 January 2007. Application of the revised standard will not affect any of the amounts recognised in the financial statements, but will remove some of the disclosures currently required, including the disclosure about economic dependency.

*Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]*

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. This will be a change to the Group's current accounting policy which is to expense all borrowing costs as incurred. The Group will apply the revised AASB 123 from 1 July 2009 and capitalise its borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after this date. The impact on the financial statements will depend on the amount of qualifying assets and related borrowing costs in the first year of application. Had the revised standard been applied in the current financial year, no amount would have been capitalised in property, plant and equipment rather than being expensed. Reported profit would have been the same this year and in the following years.

**(c) Principles of consolidation**

## Subsidiaries

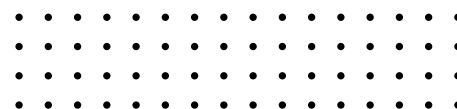
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ASC Pty Ltd ("the company") as at 30 June 2007 and the results of all subsidiaries for the year then ended.

ASC Pty Ltd and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.



## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (c) Principles of consolidation (cont.)

#### *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 cost less any associated impairment.

#### *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.

### (d) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised when it can be reliably measured, it is probable economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities described below.

#### *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 can not 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 when all criteria relating to earning of the incentives have been met.

#### *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(e) below.

### (e) 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.

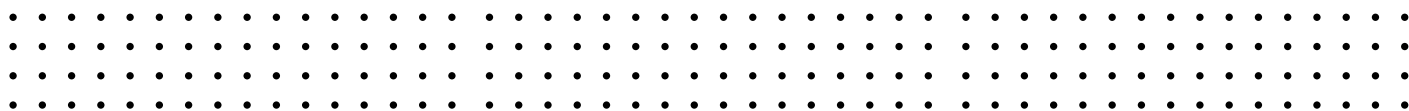
Cost includes all costs directly related to specific contracts and those which can be attributed to contract activity in general and which can be allocated to specific contracts on a reasonable basis. Such costs include administration overhead costs which are directly related to the Company's contract 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 can not be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

**(f) Foreign currency**

***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is ASC Pty Ltd's functional and presentation currency.

***Transactions and balances***

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.

**(g) Property, plant and equipment**

***Valuation of land and building***

Land and buildings are carried at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, to the asset revaluation reserve in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement.

***Valuation of plant and equipment***

Plant and equipment is stated at historical 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.

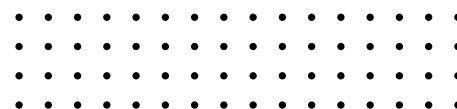
***Depreciation***

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 useful lives used for each class of asset are as follows:

- |                       |              |
|-----------------------|--------------|
| • Buildings           | 8 – 40 years |
| • Plant and Equipment | 3 – 11 years |

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. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.



## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (g) Property, plant and equipment (cont.)

#### *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.

### (h) 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 31. 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 the total of current tax assets and liabilities arising from all 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.

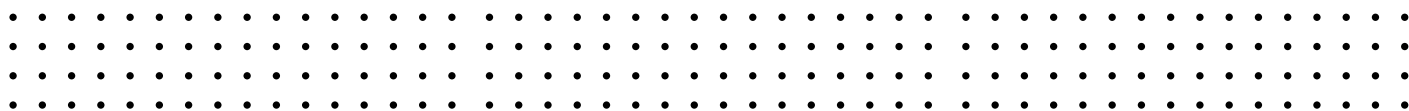
Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts or assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation 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.

### (i) Employee benefits

#### *Wages, salaries and annual leave*

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, 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 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 Commonwealth 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 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.

#### **(j) Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

#### **(k) 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, unsecured and are normally settled on 30-day terms.

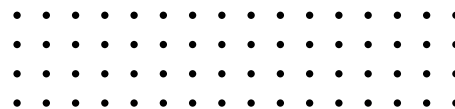
#### **(l) Goods and services tax**

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.



## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (m) 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.

### (n) 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.

### (o) 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 assessed.

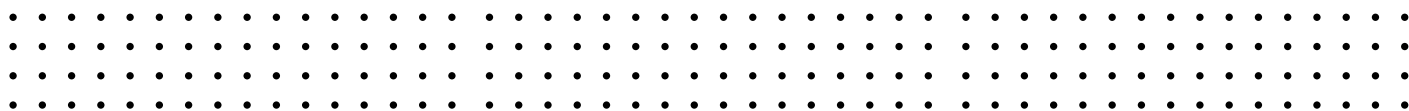
Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Receivables are individually assessed for impairment.

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.

#### **(p) 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.

#### **(q) Investments**

Investments 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.

Investments 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.

#### **(r) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current mid price.

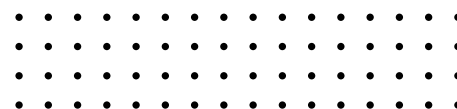
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long term debt instruments held. Other techniques, such as estimated discounted cash flows are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

#### **(s) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.



## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (s) Borrowings (cont.)

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (t) Borrowing costs

Borrowing costs incurred during the financial year are expensed.

### (u) Dividends

Provision is made on or before the end of the financial year in accordance with the Dividend Policy adopted by the Board of the Company.

### (v) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

No liability has been recognised by the Company or the consolidated entity in relation to these guarantees, as the fair values of the guarantees as at 30 June 2007 and 30 June 2006 are immaterial.

## 2 ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

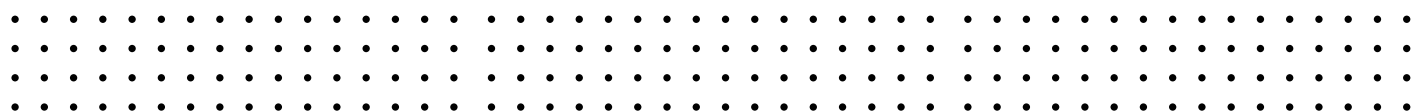
### Key sources of estimation uncertainty

#### *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 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 FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating interest rate, credit risks and investing excess liquidity.

#### **a) Credit risk**

Investment and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

#### **b) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and investments, the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

#### **c) Cash flow and fair value interest rate risk**

As the Group holds interest bearing-assets, the Group's income and operating cash flows are exposed to changes in market interest rates.

The Group investment policy permits the holding of deposits and interest bearing assets issued by banks and State and/or Commonwealth Government securities.

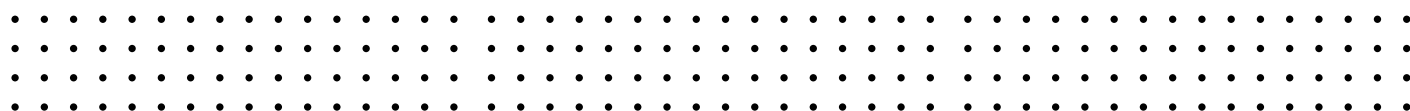
These financial instruments are liquid as they are tradeable in a secondary market.

As a general rule, the Group holds these investments to maturity thereby reducing exposure to changes in market value.

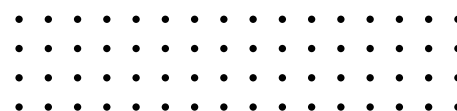
	Note	Consolidated		The Company	
		Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
<b>4</b>					
<b>(a) REVENUE</b>					
<b>Revenue from continuing operations</b>					
Revenue from rendering of services					
Related parties		305,524	254,329	262,639	237,556
Other parties		77	346	78	335
		305,601	254,675	262,717	237,891
Other revenue					
Rental income received from:					
Other parties		200	264	44	137
		200	264	44	137
Total revenue from continuing operations		305,801	254,939	262,761	238,028

		Consolidated		The Company	
	Note	Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
<b>4 (CONT.)</b>					
<b>(b) OTHER INCOME</b>					
Interest					
Related parties		-	-	303	288
Other parties		5,126	4,954	5,123	4,953
Leveraged lease income		104	96	104	96
Fair value adjustment of leverage lease		762	819	762	819
Profit from sale of non-current assets		610	117	5	-
Total other income		6,602	5,986	6,297	6,156
<b>5 PROFIT BEFORE TAX</b>					
<b>Items included in profit before tax</b>					
Impairment of non current assets					
- Impairment on investment in subsidiary (reversal of impairment)		-	-	(2,600)	2,600
Depreciation of:					
Buildings		2,404	2,411	2,328	2,335
Plant and equipment		1,534	1,320	1,382	1,046
Total depreciation		3,938	3,731	3,710	3,381
Finance costs:					
Fair value adjustments on term loans		-	2	-	2
Bank charges		152	44	24	26
Interest expenses					
Other parties		354	24	1	1
		506	70	25	29
Inventory write down/ (reversal of write down)		(1,654)	2,447	(1,654)	2,447
Operating lease rental expense:					
Minimum lease payments		2,443	1,973	2,241	1,775
			<b>Consolidated</b>		<b>The Company</b>
		Jun-07	Jun-06	Jun-07	Jun-06
		\$	\$	\$	\$
<b>6 AUDITORS' REMUNERATION</b>					
Audit services:					
Amount received or due and receivable by the Australian National Audit Office (ANAO) as auditors of ASC		233,000	236,000	233,000	236,000
Other services:					
PricewaterhouseCoopers have been contracted by ANAO to provide audit related services on the ANAO's behalf. Besides that, PricewaterhouseCoopers has not earned other fees from ASC.					





		Consolidated		The Company	
	Note	Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
During 2005/06 KPMG were contracted by ANAO to provide audit services on the ANAO's behalf.					
In addition to fees earned from the subcontracted audit, KPMG earned the following fees for engagements where they were separately contracted by ASC, during 2005/06.					
- Other assurance services		-	31	-	31
- Taxation services		-	111	-	72
		-	142	-	103
<b>7 TAXATION</b>					
<b>(a) Income tax expense</b>					
<b>Recognised in the income statement</b>					
<b>Current tax expense</b>					
Current year		15,663	10,835	14,746	11,958
Adjustments for prior years		(51)	50	(51)	50
		15,612	10,885	14,695	12,008
<b>Deferred tax expense</b>					
Origination and reversal of temporary differences		(3,052)	(3,050)	(3,010)	(3,725)
Total income tax expense in income statement		12,560	7,835	11,685	8,283
Attributable to:					
Continuing operations		12,560	7,835	11,685	8,283
<b>Numerical reconciliation between tax expense and pre-tax net profit</b>					
Profit before tax		42,143	26,322	39,228	27,940
Income tax using the domestic corporation tax rate of 30% (2006: 30%)		12,643	7,897	11,768	8,382
Increase in income tax expense due to:					
Non-deductible expenses		94	(112)	94	(149)
		12,737	7,785	11,862	8,233
Under / (over) provided in prior years		(177)	50	(177)	50
Income tax expense on pre tax net profit		12,560	7,835	11,685	8,283
Attributable to:					
Continuing operations		12,560	7,835	11,685	8,283
<b>(b) Current tax liabilities</b>					
Movements during the year were as follows:					
Balance at the beginning of the year		2,474	5,948	2,474	5,948
Income tax paid		(13,005)	(13,452)	(13,005)	(13,452)
Current year's current income tax expense on operating profit		15,663	10,835	14,746	11,959
Controlled entity provision		-	-	917	(1,124)
Under/(over) provision in prior years		(51)	(857)	(51)	(857)
		5,081	2,474	5,081	2,474



	Consolidated		The Company	
	Jun-07	Jun-06	Jun-07	Jun-06
	\$'000	\$'000	\$'000	\$'000
<b>7 TAXATION (CONT.)</b>				
<b>(c) Unrecognised deferred tax assets</b>				
Deferred tax assets have not been recognised in respect of the following items:				
Capital gain tax losses	530	1,342	530	1,314
	530	1,342	530	1,314

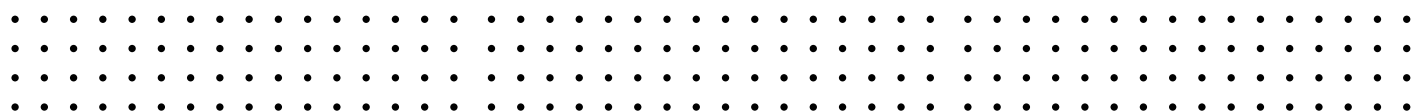
	Deferred Tax assets		Deferred Tax Liabilities		Net	
	Jun-07	Jun-06	Jun-07	Jun-06	Jun-07	Jun-06
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>(d) Deferred tax assets and liabilities</b>						
<b>Recognised deferred tax assets and liabilities</b>						
Deferred tax assets and liabilities are attributable to the following:						
<b>Consolidated</b>						
Land, building, plant and equipment (1)	10,412	10,082	(23,836)	(13,774)	(13,424)	(3,692)
Employee entitlements	6,269	5,501	-	-	6,269	5,501
Provisions for warranty	2,639	3,191	-	-	2,639	3,191
Project recognised profit	130	101	-	-	130	101
Leveraged lease	-	229	(21,083)	(23,699)	(21,083)	(23,470)
Interest accrual	-	-	(470)	(426)	(470)	(426)
Net pension assets	-	-	(1,321)	(221)	(1,321)	(221)
Impairment loss - investment in subsidiary	(780)	-	-	-	(780)	-
Sundry items	1,203	116	(77)	(107)	1,126	9
<b>Net tax assets / (liabilities)</b>	<b>19,873</b>	<b>19,220</b>	<b>(46,787)</b>	<b>(38,227)</b>	<b>(26,914)</b>	<b>(19,007)</b>
<b>The Company</b>						
Land, building, plant and equipment (1)	10,401	10,072	(19,293)	(12,512)	(8,892)	(2,440)
Employee entitlements	5,634	5,095	-	-	5,634	5,095
Provisions for warranty	2,558	2,220	-	-	2,558	2,220
Project recognised profit	130	101	-	-	130	101
Leveraged lease	-	229	(21,083)	(23,699)	(21,083)	(23,470)
Interest Accrual	-	-	(470)	(426)	(470)	(426)
Net pension assets	-	-	(1,321)	(221)	(1,321)	(221)
Impairment loss - investment in subsidiary	-	780	-	-	-	780
Sundry items	405	-	(48)	(48)	357	(48)
<b>Net tax assets / (liabilities)</b>	<b>19,128</b>	<b>18,497</b>	<b>(42,215)</b>	<b>(36,906)</b>	<b>(23,087)</b>	<b>(18,409)</b>

**Tax consolidation legislation**

ASC Pty Ltd and its wholly owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(h).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, ASC Pty Ltd.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate ASC Pty Ltd for any current tax payable assumed and are compensated by ASC Pty Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to ASC Pty Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.



The amounts receivable/payable under the tax funding agreement are due within 7 days of receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are included in the balance of the current loan to controlled entities in Note 9 or the balance of the current loan from controlled entities in Note 17.

- (1) The income tax effect of the accelerated accounting depreciation in the Company during the construction phase of the Submarine Build Project had not been taken into account in the tax effect calculation of prior years. The impact of the adjustment of this understatement has resulted in an increase in deferred tax assets (a reduction in net deferred tax liabilities) and an increase in opening retained earnings by \$7,308,000 in both the Company and the consolidated entity's Balance Sheets for years ended 30 June 2007 and 30 June 2006. This adjustment has no impact on both the Income Statements and the Statements of Cash Flow.

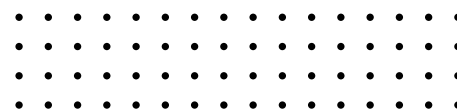
	Note	Consolidated		The Company	
		Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
<b>8 CASH AND CASH EQUIVALENT AND BANK OVERDRAFT</b>					
Cash at bank and in hand		9,030	6,455	8,287	6,454
Bank overdraft		(109)	(2,019)	-	-
		8,921	4,436	8,287	6,454
Cash is bearing floating interest rates between 4.80% and 6.25% (2006: 4.50% and 5.75%).					
The bank overdraft is bearing floating interest rates between 6.91% and 7.50% (2006: 6.63% and 6.91%).					
<b>9 TRADE AND OTHER RECEIVABLES</b>					
<b>Current</b>					
Trade receivables		20,794	44,215	20,655	43,037
Less: provision for doubtful trade receivables		(8)	-	-	-
		20,786	44,215	20,655	43,037
Other receivables		2,289	4,585	2,267	4,551
Loans to controlled entities		-	-	2,197	769
Leveraged lease receivable		25,359	-	25,359	-
Less - unearned income		(2,569)	-	(2,569)	-
		45,865	48,800	47,909	48,357
<b>Non current</b>					
Loans to controlled entities		-	-	2,408	5,796
Leveraged lease receivable		-	27,238	-	27,238
Less - unearned income		-	(2,673)	-	(2,673)
		-	24,565	2,408	30,361

#### *Other receivables*

Other debtors also includes interest receivable.

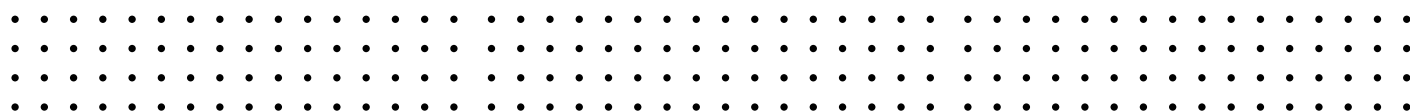
Interest may be charged on trade receivables balances that are not repaid by the due date. Further, interest may be charged, at agreed upon rates normally reflecting market rates, where contract terms of repayment fall outside of the consolidated entity's normal terms. Collateral may or may not be obtained.

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 4 for details of interest revenue in relation to these loans.

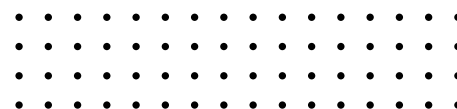


	Note	Consolidated		The Company	
		Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
<b>10 INVENTORIES</b>					
<b>Current</b>					
Raw materials and stores (at lower of cost or net realisable value)		8,559	9,637	8,559	9,637
		8,559	9,637	8,559	9,637
<b>11 OTHER FINANCIAL ASSETS</b>					
<b>Current</b>					
Marketable interest securities (at fair value)		38,214	33,373	38,214	33,373
		38,214	33,373	38,214	33,373
<b>Non Current</b>					
Net pension assets		4,404	738	4,404	738
Marketable interest securities (at fair value)		41,768	46,634	41,768	46,634
Unlisted shares at cost		-	-	20,000	20,000
Less - provision for diminution		-	-	(7,000)	(9,600)
		46,172	47,372	59,172	57,772
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. The deficiency is expected to be recovered from profits generated under the AWD contract.					
The Company has reversed an impairment of \$2,600,000 in the investment in ASC Engineering Pty. Limited in the 2006/07 financial year.					
<b>12 INVESTMENT ACCOUNTED FOR USING EQUITY METHOD</b>					
Associates - ASCOV Pty Ltd (50% owned, dormant)		5	5	5	5
		5	5	5	5
ASCOV Pty Ltd has been dormant since incorporated.					
<b>13 OTHER CURRENT ASSETS</b>					
Prepayments		983	483	932	417
		983	483	932	417
<b>14 PROPERTY, PLANT AND EQUIPMENT</b>					
<b>Freehold land</b>					
At independent valuation		25,049	14,349	15,550	9,200
<b>Buildings</b>					
At independent valuation		73,150	52,520	65,150	51,000
<b>Plant and equipment</b>					
At cost		38,923	46,842	36,570	34,422
Accumulated depreciation		(30,929)	(39,366)	(29,088)	(27,756)
		7,994	7,476	7,482	6,666
Capital works in progress		15,047	912	13,421	912
Total property, plant and equipment		121,240	75,257	101,603	67,778

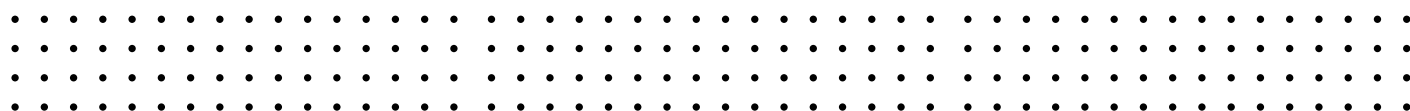




	Consolidated		The Company	
Note	Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
<b>Reconciliations</b>				
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:				
<b>Freehold land</b>				
Carrying amount at beginning of year	14,349	14,349	9,200	9,200
Revaluation increments/(decrements)	10,700	-	6,350	-
Carrying amount at the end of year	25,049	14,349	15,550	9,200
<b>Buildings</b>				
Carrying amount at beginning of year	52,520	52,520	51,000	51,000
Transfers from capital works in progress	212	370	212	370
Revaluation increments/(decrements)	22,822	2,041	16,266	1,965
Depreciation	(2,404)	(2,411)	(2,328)	(2,335)
Carrying amount at the end of year	73,150	52,520	65,150	51,000
<b>Plant and equipment</b>				
Carrying amount at beginning of year	7,476	4,756	6,666	3,581
Additions	17	-	-	-
Transfers from capital works in progress	2,200	4,134	2,198	4,132
Disposals	(165)	(94)	-	(1)
Depreciation	(1,534)	(1,320)	(1,382)	(1,046)
Carrying amount at the end of year	7,994	7,476	7,482	6,666
<b>Capital works in progress</b>				
Carrying amount at beginning of year	912	1,942	912	1,918
Additions/(write off)	16,545	3,476	14,919	3,497
Transfers to property, plant & equipment	(2,410)	(4,506)	(2,410)	(4,503)
Carrying amount at the end of year	15,047	912	13,421	912
<b>Valuations</b>				
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 as at 30 June 2007.				
The valuation basis of land and building is fair value.				
The fair value of land is based on recent market transactions on arm's length terms and the fair value of buildings is based on the depreciated replacement approach.				
<b>Non current assets pledged as security</b>				
Refer to Note 25 for information on non-current assets pledged as security by the Company and its controlled entities.				
<b>15 TRADE AND OTHER PAYABLES</b>				
Trade payables	17,884	18,821	16,112	18,350
Other payables and accruals	22,095	12,183	21,190	11,872
Total payables	39,979	31,004	37,302	30,222



	Note	Consolidated		The Company	
		Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
<b>16 CONTRACT WORK IN PROGRESS</b>					
Advance income received:					
Contract billings due and receivable		(399,432)	(263,263)	(363,864)	(250,701)
Contract works in progress		355,305	229,115	338,020	204,470
Profit recognised to date		50,700	7,836	29,864	18,145
Contract work in progress/(net progress payments received and receivable)		6,573	(26,312)	4,020	(28,086)
<b>17 NON INTEREST BEARING LIABILITIES</b>					
<b>Current</b>					
Loans from controlled entities		-	-	1,191	2,801
Loans from associate entities		5	5	5	5
		5	5	1,196	2,806
<b>Non current</b>					
Term loan		4	3	2	2
		4	3	2	2
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 \$4,000 in total in the financial year ended 30 June 2007 under AASB139 (Financial Instruments: Recognition and Measurement).					
<b>Financing arrangements</b>					
<b>Unsecured facilities</b>					
Total facilities available					
Overdraft facilities		12,000	12,000	-	-
Bank guarantees and letters of credit		33,851	18,297	10,975	15,411
		45,851	30,297	10,975	15,411
Facilities utilised at balance date					
Overdraft facilities		109	2,019	-	-
Bank guarantees and letters of credit		28,851	13,297	5,975	10,411
		28,960	15,316	5,975	10,411
Facilities not utilised at balance date					
Overdraft facilities		11,891	9,981	-	-
Bank guarantees and letters of credit		5,000	5,000	5,000	5,000
		16,891	14,981	5,000	5,000



	Note	Consolidated		The Company	
		Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
<b>18 PROVISIONS</b>					
<b>Current</b>					
Employee entitlements, including on costs		17,155	15,293	15,509	14,279
Warranty		3,706	6,218	3,434	2,981
Self insured workers compensation		2,637	2,121	2,637	2,121
Dividends		9,825	6,350	9,825	6,350
Other		214	617	-	-
		33,537	30,599	31,405	25,731
<b>Non current</b>					
Employee entitlements, including on costs		3,579	2,813	3,271	2,706
Warranty		5,091	4,419	5,091	4,419
Self insured workers compensation		3,473	5,790	3,473	5,790
		12,143	13,022	11,835	12,915
<b>Provisions movements:</b>					
<b>Warranty</b>					
Balance at 1 July 2006 (current & non current)		10,637	9,600	7,400	5,600
Provision made during the year		1,125	1,800	1,125	1,800
Provision used during the year		(443)	(763)	-	-
Provision reversed during the year		(2,522)	-	-	-
Balance at 30 June 2007 (current & non current)		8,797	10,637	8,525	7,400
<b>Self insured workers compensation</b>					
Balance at 1 July 2006 (current & non current)		7,911	5,978	7,911	5,978
Provision made during the year		759	4,059	759	4,059
Provision used during the year		(2,560)	(2,126)	(2,560)	(2,126)
Balance at 30 June 2007 (current & non current)		6,110	7,911	6,110	7,911
<b>Dividends</b>					
Balance at 1 July 2006 (current & non current)		6,350	7,200	6,350	7,200
Provision made during the year		17,800	11,100	17,800	11,100
Provision used during the year		(14,325)	(11,950)	(14,325)	(11,950)
Balance at 30 June 2007 (current & non current)		9,825	6,350	9,825	6,350
<b>Other</b>					
Balance at 1 July 2006 (current & non current)		617	5,895	-	5,645
Provision made during the year		46	367	-	-
Provision used during the year		(449)	(5,645)	-	(5,645)
Provision reversed during the year		-	-	-	-
Balance at 30 June 2007 (current & non current)		214	617	-	-
<b>19 ISSUED CAPITAL</b>					
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

There has been no movement in issued capital for any of the periods presented.

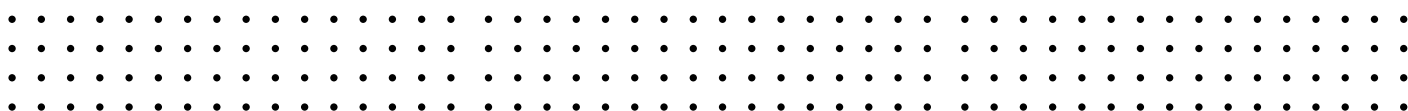
**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - cont.**

For the year ended 30 June 2007

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	Note	Consolidated		The Company	
		Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
<b>20 RESERVES</b>					
Opening asset revaluation reserve (1 July)		31,014	29,762	28,067	26,869
Revaluation increment		23,470	1,252	15,835	1,198
Closing asset revaluation reserve		54,484	31,014	43,902	28,067
 Total Reserves		 54,484	 31,014	 43,902	 28,067
 Asset revaluation reserve					
Comprises of :					
- Land		15,983	8,493	10,045	5,600
- Building		38,501	22,521	33,857	22,467
Closing balance		54,484	31,014	43,902	28,067
<b>21 RETAINED EARNINGS</b>					
Opening retained earnings (1 July 2005)			67,570		81,495
Past periods adjustment (1)			7,308		7,308
Adjusted opening retained earnings (1 July)		80,488	74,878	95,442	88,803
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
		80,488	74,024	95,442	87,808
Total recognised income and expense for the year		31,697	17,564	29,657	18,734
Dividends	22	(17,800)	(11,100)	(17,800)	(11,100)
Closing retained earnings		94,385	80,488	107,299	95,442
 (1) The income tax effect of the accelerated accounting depreciation in the Company during the construction phase of the Submarine Build Project had not been taken into account in the tax effect calculation of prior years. The impact of the adjustment of this understatement has resulted in an increase in deferred tax assets (a reduction in net deferred tax liabilities) and an increase in opening retained earnings by \$7,308,000 in both the Company and the consolidated entity's Balance Sheets for years ended 30 June 2007 and 30 June 2006. This adjustment has no impact on both the Income Statements and the Statements of Cash Flow.					
<b>22 DIVIDENDS</b>					
Interim fully franked dividend, declared and paid		7,975	4,750	7,975	4,750
Final fully franked dividend, declared and provided for		9,825	6,350	9,825	6,350
Total fully franked dividend, represents a distribution to the shareholder		17,800	11,100	17,800	11,100





		Consolidated		The Company	
	Note	Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
All dividends declared during the year were paid out of profits.					
<b>Dividends franking account</b>					
Class C (30%) franking credits		68,168	64,034	68,168	64,034
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.					
<b>23 COMMITMENTS</b>					
<b>(a) Capital expenditure commitments</b>					
Contracted but not provided for and payable:					
Not later than one year		29,858	611	29,858	611
<b>(b) Operating lease commitments</b>					
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:					
Not later than one year		4,357	2,180	2,712	2,008
Later than one year but not later than five years		11,271	2,051	10,137	1,811
Later than five years		52,077	1	52,077	1
		67,705	4,232	64,926	3,820

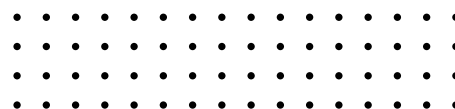
The consolidated entity leases computer and other equipment under operating leases expiring from one to three years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated.

**(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.



## 23 COMMITMENTS (CONT')

### (d) Superannuation commitments (cont.)

#### DEFINED BENEFITS PLAN

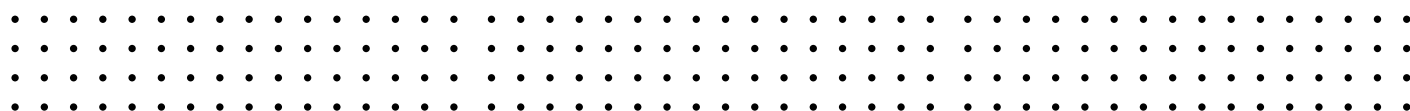
##### Defined benefit category

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.

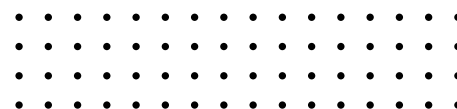
An actuarial assessment of the fund as at 30 June 2007 was carried out by Dimitrios Repanis, Fellow of the Institute of Actuaries of Australia, of ASKIT Consulting Pty Ltd on 27 June 2007. The actuary concluded that the assets of the defined benefit category of the fund are sufficient to meet all benefits 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.

#### Movements in the net liability/(asset) for defined benefits obligations recognised in the balance sheet

	Note	Consolidated		The Company	
		Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
Net liability/(asset) for defined benefit obligations at 1 July		(738)	(1,317)	(738)	(1,317)
Contributions received		(74)	(68)	(74)	(68)
Expense/(income) recognised in the income statement		(572)	(671)	(572)	(671)
Actuarial (gains)/losses recognised directly in equity		(3,020)	1,318	(3,020)	1,318
Net liability/(asset) for defined benefit obligations at 30 June		(4,404)	(738)	(4,404)	(738)
<b>Defined benefit superannuation fund</b>					
Amounts in the balance sheet					
Liability		-	-	-	-
Asset		4,404	738	4,404	738
Net Asset		4,404	738	4,404	738
<b>Changes in the present value of the defined benefit obligation are as follows:</b>					
Opening defined benefit obligation		13,874	12,277	13,874	12,277
Service cost		88	87	88	87
Interest cost		791	587	791	587
Actuarial losses/(gains)		(748)	1,008	(748)	1,008
Benefits paid		-	(85)	-	(85)
Closing defined benefit obligation		14,005	13,874	14,005	13,874
<b>Changes in the fair value of fund assets are as follows:</b>					
Opening fair value of fund assets		14,612	13,594	14,612	13,594
Expected return		1,450	1,345	1,450	1,345
Actuarial gains/(losses)		2,272	(310)	2,272	(310)
Contributions by employer		74	68	74	68
Benefits paid		-	(85)	-	(85)
		18,409	14,612	18,409	14,612



		Consolidated		The Company	
	Note	Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
The major categories of fund assets as a percentage of total fund assets are as follows:					
Australian equities		36%	38%	36%	38%
International equities		32%	31%	32%	31%
Australian fixed interest		14%	14%	14%	14%
International fixed interest		4%	4%	4%	4%
Property trusts		3%	4%	3%	4%
Private equity		1%	1%	1%	1%
Cash		10%	8%	10%	8%
		100%	100%	100%	100%
<p>The investment policies and strategies of the Trustee of the ASC Superannuation Fund are to invest the assets of the Fund in a manner to ensure compliance with the Superannuation Industry (Supervision) Act and any other legislation. The Trustee has formulated and given effect to an investment strategy that recognises the whole of the Fund's circumstances, including the risk and potential return of investments in relation to the Fund's investment objectives. The investment strategy has regard to the diversification of the Fund's investments, the liquidity of its investments, its expected cash flow requirements and the ability of the Fund to discharge its existing and prospective liabilities. The risk management policies of the Fund permits the investment in externally managed Investment Funds and prohibits direct investment in debt and equity securities and derivative financial instruments. For the defined benefit category of membership, members are provided with a benefit based upon their salary, years of service and accrual rate.</p>					
<b>Expense recognised in the income statement:</b>					
Current service costs		88	87	88	87
Interest cost		791	587	791	587
Expected return on fund assets		(1,450)	(1,345)	(1,450)	(1,345)
		(572)	(671)	(572)	(671)
Actuarial gains/(losses) are recognised directly in equity.					
The expense is recognised in the following line items in the income statement:					
Pension costs/(revenues)		(646)	(739)	(646)	(739)
Contribution paid ( in labour costs)		74	68	74	68
		(572)	(671)	(572)	(671)
Actual return on fund assets					
		3,722	1,035	3,722	1,035
		3,722	1,035	3,722	1,035
<b>Expense recognised in statements of recognised income and expense</b>					
Actuarial gains/(losses) recognised in the year (net of tax)		2,114	(923)	2,114	(923)
Cumulative actuarial gains/(losses) recognised in the statement of recognised income and expense		1,191	(923)	1,191	(923)



## 23 COMMITMENTS (CONT.)

### (d) Superannuation commitments (cont.)

#### Employer contributions

Contributions by the Company and its controlled entities to the defined benefits plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals, and the last such assessment was made as at 31 December 2006.

The objective of the funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution which is expected to be a constant percentage of members' salaries over their working lifetimes.

Using the funding method described above and particular actuarial assumptions as to the plan's future experience (as detailed below), the actuary recommended in the actuarial review as at 31 December 2006, that a contribution holiday be taken by the Company and its controlled entities for contributions to the fund for employees who are members of the defined benefit plan. This contribution holiday has been adopted by the Company and its controlled entities as at 1 January 2007 with a review of the actuarial recommendation to take place no later than 1 July 2008. The contribution holiday was recommended by the actuary due to the fund surplus as at 31 December 2006.

The Company and its controlled entities expect to contribute \$Nil to the defined benefit superannuation fund in the 2008 financial year.

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.

#### Principal actuarial assumptions at the balance sheet date:

Discount rate at 30 June	5.7%	4.8%	5.7%	4.8%
Expected return on fund assets at 30 June	9.9%	9.9%	9.9%	9.9%
Future salary increases	5.8%	5.8%	5.8%	5.8%

#### Net financial position of plan

In accordance with AAS 25 Financial Reporting by Superannuation Plans the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (31 December 2006), and a surplus of \$2,283,635 was reported.

The surplus, as at 31 December 2006, under AAS 25 differs from the net asset of \$4,404,000 recognised in the balance sheet as at 30 June 2007 due to different measurement rules in the relevant accounting standards AAS25 and AASB 119 Employee Benefits and the different measurement dates.

#### Amounts for the current and previous period are as follows:

	Jun-07 \$'000	Jun-06 \$'000
Defined benefit obligation	(14,005)	(13,874)
Fund assets	18,409	14,612
Surplus/(deficit)	4,404	738
Experience adjustments on fund assets	2,272	(310)



(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.

## 24 CONTINGENT LIABILITIES

The Company has arranged the issuance of a bank guarantee in favour of Workcover Corporation of SA for the purpose of self insurance under the Workers Rehabilitation and Compensation Act. Certain of the Company's subsidiaries have arranged the issuance of bank guarantees in favour of various beneficiaries in support of their performance obligations. The total value of the bank guarantees arranged by the ASC Group is \$28.9 million (2006: \$13.3 million).

In addition to the above, the Company and/or its subsidiaries has provided guarantees and indemnities for the following:

- to the State Government of South Australia in relation to the common user facility at Osborne;
- to the Commonwealth of Australia in relation to ASC AWD Shipbuilder Pty Ltd's obligations to the Commonwealth of Australia in connection with the Air Warfare Destroyer program; and
- to various banks in support of the \$12 million in finance facilities and the \$28.9 million bank guarantees mentioned above.

No losses are expected in relation to these guarantee arrangements.

## 25 REGISTERED CHARGES

The Commonwealth of Australia holds first mortgage over the freehold land and building owned by the Company and a fixed charge over the moveable manufacturing plant & equipment owned by the Company in connection with the Submarine Build contract.

The Commonwealth of Australia also holds the fixed and floating charge over all assets owned by ASC AWD Shipbuilder Pty Ltd in connection with the Air Warfare Destroyer construction contract.

The above charges are held against default of the contract.

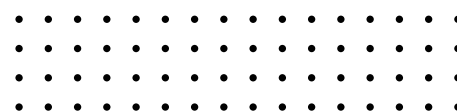
	Consolidated		The Company	
	Jun-07	Jun-06	Jun-07	Jun-06
	\$'000	\$'000	\$'000	\$'000
<b>Total current assets pledged as security</b>				
Trade receivables	107	1,124	-	-
Other receivables	22	34	-	-
Contract work in progress	2,554	1,774	-	-
	2,683	2,932	-	-
<b>Total non current assets pledged as security</b>				
Land	15,550	9,200	15,550	9,200
Building	65,150	51,000	65,150	51,000
Plant & Equipment	5,101	3,944	5,101	3,944
	85,801	64,144	85,801	64,144

## 26 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.

## 27 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.



## 28 KEY MANAGEMENT PERSONNEL DISCLOSURE

### *Key management personnel compensation*

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

Short-term employee benefits

Other long term benefits

Post-employment benefits

Termination benefits

Equity compensation benefits

Consolidated		The Company	
2007	2006	2007	2006
\$	\$	\$	\$
840,996	805,192	840,996	805,192
-	-	-	-
76,509	67,428	76,509	67,428
-	-	-	-
-	-	-	-
917,505	872,620	917,505	872,620

### *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 transactions with key management personnel during the financial year.

## 29 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Subsequent to the reporting date of 30 June 2007, bank guarantees in respect of court proceedings were withdrawn due to settlement of the matter. Bank guarantees to the total value of \$2.4 million were cancelled on or about 3 August 2007. (Refer to Note 17 and Note 24).

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.

## 30 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, CNH Bagot, GR Bulmer, General (Rtd) JS Baker AC DSM (Deceased 9 July 2007), GR Tunny, GR Phillips, MJ Terlet AO and WH Schofield AM.

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

### **Other related parties**

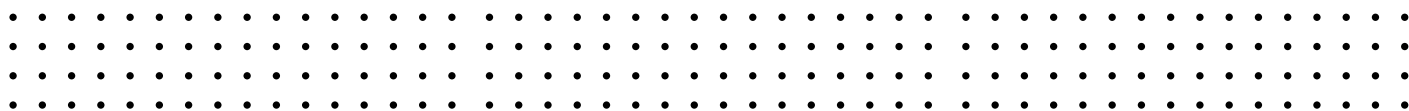
#### *Shareholders*

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 \$261,758,000 (2006: \$224,921,000).

During the year, the amounts of audit fees paid to ANAO was \$233,000 (2006: \$236,000).

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:

Note	2007 \$	2006 \$
	-	-
	20,619,724	44,120,313

#### Wholly-owned controlled entities & other related entities

Details of interests in wholly-owned controlled entities are set out at note 31. Details of dealings with these entities are set out below.

#### Loans

Amount receivable from ASC Shipbuilding Pty Limited & 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 4 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.

#### 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:

1,190,598	2,800,915
4,605,321	6,564,364

### 31 PARTICULARS IN RELATION TO CONTROLLED ENTITIES AND ASSOCIATE

	Country of Incorporation	Entity Interest	
		2007 %	2006 %
<b>Parent entity</b>			
ASC Pty Ltd	Australia		
<b>Controlled entities</b>			
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 subsidiary incorporated for the purpose of executing the AWD Build Program

Subsidiaries all have reporting dates of 30 June.

#### Associate

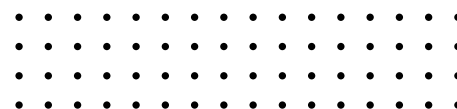
ASCOV Pty Ltd

Australia

50

ASCOV Pty Ltd has been dormant since incorporated.

Associate has reporting dates of 30 June.



## 32 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES

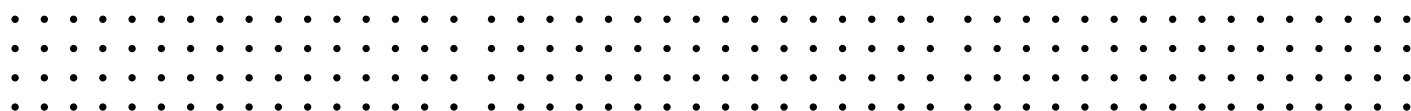
### (a) Interest rate risk

At balance date the consolidated entity and the Company have an unrealised loss of \$8,319 (2006: gain of \$59,841) 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 2007		Fixed interest maturing in:					Total \$000	Effective interest rate
	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		
<b>Consolidated</b>								
<b>Financial assets</b>								
Cash	8	9,030	-	-	-	-	9,030	6.25%
Marketable interest securities (at fair value)	11	-	38,214	41,768	-	-	79,982	6.67%
		9,030	38,214	41,768	-	-	89,012	
<b>Financial liabilities</b>								
Bank overdrafts	8	109	-	-	-	-	109	7.38%
Term loan	17	-	-	-	-	4	4	0.00%
		109	-	-	-	4	113	
<b>Company</b>								
<b>Financial assets</b>								
Cash	8	8,287	-	-	-	-	8,287	6.25%
Loans to controlled entities	9	2,408	-	-	-	2,197	4,605	4.31%
Marketable interest securities (at fair value)	11	-	38,214	41,768	-	-	79,982	6.67%
		10,695	38,214	41,768	-	2,197	92,874	
<b>Financial liabilities</b>								
Bank overdrafts	8	-	-	-	-	-	-	0.00%
Term loan	17	-	-	-	-	2	2	0.00%
		-	-	-	-	2	2	





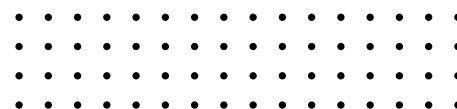
The exposures of the consolidated entity and the Company to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities for the previous financial year are set out below:

30th June 2006		Fixed interest maturing in:					Total \$000	Effective interest rate
	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		
<b>Consolidated</b>								
<b>Financial assets</b>								
Cash	8	6,455	-	-	-	-	6,455	5.68%
Marketable interest securities (at cost)	11	-	33,373	46,634	-	-	80,007	6.09%
		6,455	33,373	46,634	-	-	86,462	
<b>Financial liabilities</b>								
Bank overdrafts	8	2,019	-	-	-	-	2,019	5.89%
Term loan	17	-	-	-	-	3	3	0.00%
		2,019	-	-	-	3	2,022	
<b>Company</b>								
<b>Financial assets</b>								
Cash	8	6,454	-	-	-	-	6,454	5.68%
Loans to controlled entities	9	5,796	-	-	-	769	6,565	6.66%
Marketable interest securities (at cost)	11	-	33,373	46,634	-	-	80,007	6.09%
		12,250	33,373	46,634	-	769	93,026	
<b>Financial liabilities</b>								
Bank overdrafts	8	-	-	-	-	-	-	0.00%
Term loan	17	-	-	-	-	2	2	0.00%
		-	-	-	-	2	2	

**(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.



## 32 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES (CONT.)

### (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 (TLS) 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:

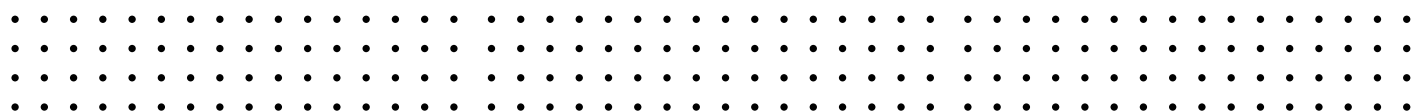
#### *Recognised financial instruments*

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.

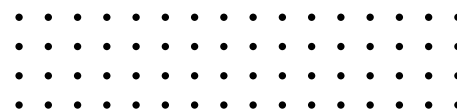
The net fair value of other monetary financial assets and financial liabilities is based upon market prices.

#### *Unrecognised financial instruments*

No unrecognised financial instruments were held as at reporting date.



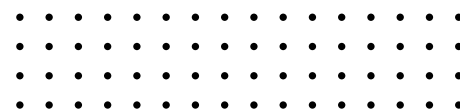
		Consolidated		The Company	
	Note	Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
33 NOTES TO THE STATEMENT OF CASH FLOWS					
(a) RECONCILIATION OF CASH					
For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding 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:					
Cash	8	9,030	6,455	8,287	6,454
Bank overdraft / loans	8	(109)	(2,019)	-	-
		8,921	4,436	8,287	6,454
(b) RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating profit after income tax		29,583	18,487	27,543	19,657
Add/(less) items classified as investing/financing activities:					
Interest received		(5,126)	(4,954)	(5,427)	(5,241)
Leverage lease income		(104)	(96)	(104)	(96)
Interest expense		354	24	1	1
(Profit)/loss on sale of non current assets		(564)	(93)	41	24
Add/(less) non-cash items:					
Depreciation		3,938	3,731	3,710	3,381
Fair value adjustment on all financial instruments		(762)	(817)	(762)	(817)
Pension costs		(646)	(739)	(646)	(739)
Income tax expense		12,560	7,835	11,685	8,283
Income tax paid		(13,005)	(13,452)	(13,005)	(13,452)
Impairment of investment in subsidiary		-	-	(2,600)	2,600
Net cash provided by operating activities before change in assets and liabilities		26,228	9,926	20,436	13,601
Change in assets and liabilities					
(Increase)/decrease in receivables (1)		26,153	5,091	24,813	6,077
(Increase)/decrease in inventories	10	1,078	3,364	1,078	3,294
(Increase)/decrease in prepayments	13	(502)	211	(515)	127
(Increase)/decrease in net progress payments received (2)		(32,885)	10,999	(32,106)	12,256
Increase/(decrease) in trade creditors (3)		7,936	(49,363)	7,082	(46,427)
(Increase)/decrease in provisions (4)		(1,415)	4,306	1,118	4,036
Net cash provided by operating activities		26,593	(15,466)	21,906	(7,036)



		Consolidated		The Company	
	Note	Jun-07 \$'000	Jun-06 \$'000	Jun-07 \$'000	Jun-06 \$'000
33 NOTES TO THE STATEMENT OF CASH FLOWS (CONT.)					
(b) RECONCILIATION OF OPERATING					
PROFIT AFTER INCOME TAX TO NET CASH					
PROVIDED BY OPERATING ACTIVITIES (CONT.)					
(1) (Increase)/decrease in receivables is comprised of:					
Prima-facie movement in trade debtors	9	23,744	5,168	22,382	6,154
Prima-facie movement in sundry debtors and other loans	9	2,409	(77)	2,431	(77)
		26,153	5,091	24,813	6,077
(2) (Increase)/decrease in progress payments is comprised of:					
Prima-facie movement in net progress payments	15	(32,885)	10,976	(32,106)	12,256
Adjustment for unrealised intercompany profit		-	23	-	-
		(32,885)	10,999	(32,106)	12,256
(3) Increase/(decrease) in trade creditors & accruals is comprised of:					
Prima-facie movement in trade creditors & accruals	15	8,695	(49,363)	7,082	(46,427)
Accrual for purchase of fixed assets		(759)	-	-	-
		7,936	(49,363)	7,082	(46,427)
(4) Increase/(decrease) in provisions is comprised of:					
Prima-facie movement in provisions for employee entitlements	18	2,628	1,072	1,794	408
Cash movement in provisions for warranty	18	(1,840)	1,800	1,125	1,800
Movement in provisions for self insured workers compensation	18	(1,801)	1,933	(1,801)	1,933
Prima-facie movement in provisions for redundancy & termination	18	-	(164)	-	(164)
Prima-facie movement in other provisions	18	(402)	(335)	-	59
		(1,415)	4,306	1,118	4,036
(c) RECONCILIATION OF NET (INCREASE)/DECREASE					
IN INVESTED FUNDS					
(Increase)/decrease in marketable interest securities	11	25	24,661	25	24,661
Profit/ (loss) on sale of securities		(46)	(24)	(46)	(24)
		(21)	24,637	(21)	24,637



**DIRECTORS' DECLARATION**  
For the year ended 30 June 2007



In the directors' opinion:

- a) the financial statements and notes set out on pages 48 to 82 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporation Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Dated at Adelaide this 13th day of August 2007.

Signed in accordance with a resolution of Directors:

A handwritten signature in black ink, appearing to read 'John B Prescott'.

**John B Prescott AC**  
CHAIRMAN

A handwritten signature in black ink, appearing to read 'Greg Tunny'.

**Greg R Tunny**  
MANAGING DIRECTOR



To the members of ASC Pty Ltd

### Scope

I have audited the accompanying financial report of ASC Pty Ltd and the consolidated entity, which comprises the balance sheets as at 30 June 2007, income statements, statements of recognised income and expense and statements of cash flows for the year ended on that date, a statement of significant accounting policies and other explanatory notes and the Directors' declaration of the consolidated entity comprising ASC Pty Ltd and the entities it controlled at the year's end.

### ***The Directors' Responsibility for the Financial Report***

The Directors of ASC Pty Ltd and the consolidated entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### ***Auditor's Responsibility***

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with the Australian National Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### ***Independence***

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

### ***Auditor's Opinion***

In my opinion, the financial statements of 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 and the consolidated entity's financial position as at 30 June 2007 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Australian National Audit Office

Michael White  
EXECUTIVE DIRECTOR

Delegate of the Auditor-General

Canberra  
13 August 2007

GPO Box 707 CANBERRA ACT 2601  
19 National Circuit  
BARTON ACT  
Phone (02) 6203 7300 Fax (02) 6203 7777

# CORPORATE DIRECTORY

## Directors

John Prescott AC  
Chairman

Greg Tunny  
Managing Director and  
Chief Executive Officer

Charles Bagot

Graeme Bulmer

General (Rtd) John Baker AC DSM

Geoffrey Phillips

Mike Terlet AO

Dr Bill Schofield AM

## Company Secretary

Tony Kuhlmann

## Auditors

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

## Solicitors

Mallesons Stephen Jaques

## Bankers

Westpac Banking Corporation

## Registered and Head Office

Mersey Road, Osborne  
South Australia 5017

GPO Box 2472, Adelaide  
South Australia 5001

Telephone: +61 8 8348 7000  
Facsimile: +61 8 8348 7001

## Office of the Chairman

28/140 William Street, Melbourne  
Victoria 3000

Telephone: +61 3 9642 2518  
Facsimile: +61 3 9642 2517

## Offices

### ASC Shipbuilding

Mersey Road, Osborne  
South Australia 5017

PO Box 474, Port Adelaide  
South Australia 5015

Telephone: +61 8 8248 8400  
Facsimile: +61 8 8341 8073

### Western Australia

PO Box 599, Rockingham  
Western Australia 6168

Telephone: +61 8 9553 5566  
Facsimile: +61 8 9553 5560

## Useful Email Contacts

### Employment enquiries

[careers@asc.com.au](mailto:careers@asc.com.au)

### Media enquiries

[communications@asc.com.au](mailto:communications@asc.com.au)

### Other enquiries

[info@asc.com.au](mailto:info@asc.com.au)

### Website

[www.asc.com.au](http://www.asc.com.au)

Copies of annual reports for ASC  
Pty Ltd can be found on [www.asc.com.au](http://www.asc.com.au)

Copies can also be requested by  
telephoning +61 8 8348 7000 or by emailing  
[communications@asc.com.au](mailto:communications@asc.com.au)

