

ASC PTY LTD ANNUAL REPORT 2010



Inside Front Cover

CONTENTS

ACRONYMNS

3

THE COMPANY

4

Company Profile	4
Financial Highlights	5
Chairman's Report	6
Managing Director and Chief Executive Officer's Report	8

REVIEW OF OPERATIONS

10

Collins Class Submarine Project	10
Hobart Class Destroyer Project	11
Engineering	12
Deep Blue Tech	13
Business Improvement and Transformation	14
Infrastructure Development	15
Safety Performance	16
Environmental Performance	18
Workforce and Training	19

CORPORATE GOVERNANCE

20

FINANCIAL REPORT

24

CORPORATE DIRECTORY

74

TRANSMITTAL LETTER



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15 September 2010

Senator the Hon Penny Wong
Minister for Finance and Deregulation
Parliament House
Canberra ACT 2600

Dear Minister,

ASC Pty Ltd 2010 Annual Report

I am pleased to submit the 2010 Annual Report of ASC Pty Ltd in accordance with the *Commonwealth Authorities and Companies (CAC) Act 1997*.

It has been prepared in accordance with the requirements referred to in section 9 of the *CAC Act* and has been approved by the Board of ASC Pty Ltd.

The Annual Report includes the financial statement for the Company for the year ended 30 June 2010 as well as descriptive reports on ASC's performance and progress.

I am pleased to report that ASC Pty Ltd recorded a satisfactory financial result which reflects the significant restructuring costs and ASC's self-funding of Deep Blue Tech.

I would be grateful if you could endorse this document for tabling in Parliament.

Yours sincerely,

A handwritten signature in black ink, reading 'Chris Ritchie'.

Chris Ritchie AO
Vice Admiral RANR
Chairman

ACRONYMNS

ABTIA	Alliance Based Target Incentive Agreement
ASPO	Australian Submarine Program Office
AMC	Australian Marine Complex
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
AWD	Air Warfare Destroyer
BI&T	Business Improvement and Transformation
CAC Act	Commonwealth Authorities and Companies Act 1997
CoA	Commonwealth of Australia
CUF	Common User Facility
DBT	Deep Blue Tech
DMO	Defence Materiel Organisation
EMS	Environmental Management Systems
FCD	Full cycle docking
GST	Goods and services tax
HSMA	Health and Safety Management Arrangements
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IMS	Integrated Master Schedule
IPT	Integrated Project Team
LTJ	Lost Time Injury
LTIFR	Lost Time Injury Frequency Rate
MTI	Medically Treated Injury
MTIFR	Medically Treated Injury Frequency Rate
OHS	Occupational Health and Safety
OHS&E	Occupational Health, Safety and Environment
OHSW&IM	Occupational Health, Safety, Welfare and Injury Management
PLM	Product Lifecycle Management
PwC	PricewaterhouseCoopers
RAN	Royal Australian Navy
SADI	Skilling Australia's Defence Industry
SPMT	Self propelled modular transporter
TLS	Through Life Support

COMPANY PROFILE

ASC exists to serve the frontline of Australia's naval defence capabilities.

Initially established in 1985 as Australian Submarine Corporation, ASC was subsequently 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.

At the conclusion of the Collins Class submarine build program in 2003, ASC commenced a 25-year contract with Defence Materiel Organisation (DMO) for the ongoing repair, maintenance and design upgrades of the submarines through-life.

In 2005, ASC was awarded the role of Shipbuilder for the Hobart Class Air Warfare Destroyer (AWD) project. This project will see the most advanced and complex warships ever built in Australia being constructed at ASC's state-of-the-art shipbuilding facility - ASC South - located at Osborne, South Australia.

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

We employ over 1,500 personnel across our three facilities in South Australia and Western Australia, including more than 300 engineering and technical specialists.

As ASC enters its 25th year of service, we have renewed our commitment to supporting the Australian Defence Force by maintaining open lines of communication with our customer, understanding our customer's expectations and priorities, implementing productivity and efficiency improvements, and striving to deliver the best results for defence.

Vision

ASC's vision is to be the pre-eminent designer, builder and maintainer of naval ships and submarines in Australia.

Mission

Our vision will be achieved by:

- Exemplary performance in our core business;
- Focusing on our customer's requirements and providing value for money;
- Being accountable for our performance;
- Employing experienced and capable people, and creating a supportive work environment; and
- Earning a sustainable commercial return on our shareholder's investment.

Values and Behaviours

Strongly held corporate values are an important element of the strategic framework that underpins successful companies. ASC staff aspire to a set of values and exhibit corresponding behaviours which are the guiding principles that define how we conduct our business and what we stand for as a company.

Service

- We take time to understand our customer's business and needs.
- We ensure that all interactions add value to our customer relationships.
- We are customer service-oriented.

Safety

- We ensure our own safety and the safety of others.
- We are committed to the safe operability of the vessels we support.

Leadership

- We champion high performance, potential and talent.
- We look for opportunities to assist each other.

- We empower our people.
- We are visible in our management.
- We celebrate our successes.

Integrity

- We honour our commitments.
- We are open, honest and trustworthy.
- We share unity and abide by team decisions.

Results

- We are relentless in our pursuit of excellence.
- We are exemplary in all we do.
- We do not accept complacency.
- We take responsibility for our own performance.
- We act with urgency and pace.

Innovation

- We sponsor ideas for improvement.
- We constructively challenge for a better way.
- We embrace and lead change.
- We seek feedback.

FINANCIAL HIGHLIGHTS

Two Year Performance at a Glance

	2009/10 \$m	2008/09 \$m
Revenue from rendering of services	513.5	346.1
Financial income	1.6	5.1
Other income	0.6	0.8
Total revenue	515.7	352.0
EBITDA	14.1	27.3
Depreciation and amortisation	(10.8)	(6.9)
EBIT	3.3	20.4
Interest expense	0.0	0.0
Tax expense	(0.6)	(7.1)
Operating profit before tax	4.9	25.5
Operating profit after tax	4.3	18.4
EBIT/Revenue (%)	0.6%	5.8%
Shareholder's equity	208.4	183.6
Return on equity (%)	2.1%	10.0%
Dividend	5.0	11.1
Total assets	523.4	446.4

CHAIRMAN'S REPORT



Overview

ASC recognises that it operates in an environment that demands constant attention to performance, and customer focussed delivery of our core services. 2009/10 therefore represented a period of significant internal change as the company settled itself on the new course that was plotted at the end of last year.

The business was further restructured and the Board and management refreshed in order to put the company on a better footing to meet existing and future challenges. Submarine availability was improved through a determined effort in concert with the DMO and Navy, and AWD construction commenced at ASC's new shipyard and in the yards of BAE Systems and FORGACS.

The Company achieved annual revenue of \$516 million (2009: \$352 million) and profit after tax of \$4.3 million (2009: \$18.4 million); the financial performance reflecting significant restructuring costs and ASC's self-funding of Deep Blue Tech (DBT).

Managing Director

We were indeed fortunate to secure the services of Steve Ludlam who commenced with the company in January 2010 after over 30 years experience in submarines and surface ships in the United Kingdom, most recently as President – Submarines at Rolls Royce (UK). In his first six months with the company, Steve has worked hard to improve ASC's relationship with DMO and the RAN, and his focus on exemplary performance and improving efficiency has been welcomed by the Board and the customer. That said, management and the Board recognise that we have only just started on the improvement and learning process that is necessary for ASC to become the pre-eminent designer, builder and maintainer of naval ships and submarines in Australia.

One Company Transformation

The 'One Company' transformation project in May 2010 was a key initiative to eliminate duplication across ASC's two main projects with savings achieved by 'One Company' accruing directly to the DMO. Regrettably, the transformation resulted in job losses where duplication existed, although this has not affected the short term need to increase ASC's production workforce for the AWD project. By combining the talents of our people across the company, ASC is now in a stronger position to deliver on Collins Class submarine maintenance and the AWD projects.

Collins Class Submarines

By working closely with DMO, improvements in submarine availability have been achieved with three submarines operational by the end of the year. This is a significant achievement that was only possible through the hard work and close cooperation between ASC, DMO and the RAN. The establishment of the Australian Submarine Project Office (ASPO) and the relocation of the Director General Submarines to Osborne heralded a new era of cooperation.

The first use of the Australian Marine Complex (AMC) common user facility at Henderson, Western Australia was a turning point for ASC's operations there. After months in the planning, the AMC's floating dock and self propelled modular transporter (SPMT) transported HMAS *Farncomb* from the water to ASC's purpose-built facility where maintenance can be undertaken in a controlled environment.

ASC is grateful for the generous support from the governments of Western Australia and South Australia.

AWD Project

2009/10 saw the completion of the new shipyard at Osborne and its official opening in January 2010. This signalled the commencement of the construction phase of the AWD project. Working closely with our alliance partners, DMO and Raytheon Australia, and industry partners, BAE Systems and FORGACS, construction of AWD blocks commenced at Osborne, Williamstown and Newcastle.

The efforts of John Gallacher (CEO, ASC Shipbuilding) and Robert Lemonius (General Manager, ASC Shipbuilding) – both of whom retired this year – to position ASC for AWD construction are acknowledged with appreciation.

Board

The retirement of Graeme Bulmer (who also served as Acting Managing Director), Mike Terlet and Bill Schofield heralded significant change on the Board and a loss of corporate knowledge. I am deeply grateful to each of them for their contributions over many years as directors and members of Board committees.

In January, we welcomed Bruce Carter, David Miles, Jack O'Connell and Sally Pitkin to the Board, while in June Rear Admiral USN (Rtd) Dugan Shipway was appointed as a director. The new Board now has significant engineering, naval and commercial experience and is well-suited to the demands and challenges that face ASC.

Conclusion

Embracing change in order to seek improvement is fundamental to ASC's vision to be the pre-eminent designer, builder and maintainer of naval ships and submarines in Australia. As a company, we need to guard against complacency and constantly look for ways to improve our service to the DMO and the RAN.

Ultimately, however, ASC is dependent on the loyalty, hard work and commitment of our staff and contractors. I particularly thank our employees – both past and present – for their efforts as we look forward as a team to a positive and productive future.

Vice Admiral Chris Ritchie AO RANR
CHAIRMAN

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT



Overview

I am honoured and privileged to have been appointed Managing Director and Chief Executive Officer (CEO) in January 2010. The first six months with the company have been both challenging and rewarding, and I look forward to leading the company in delivering a more effective and efficient service to our customer, DMO, and ultimately, the RAN.

The year saw significant changes in the leadership and structure of the business with a sharper focus on customer relations and overall efficiency.

Leadership

The Board underwent significant changes with three members retiring and four new appointees. In particular, I would like to thank Graeme Bulmer, a member of the board for nine years, who also served as Acting Managing Director for part of 2009/10. The new members bring vast knowledge in engineering, naval and commercial expertise.

After the retirement of the CEO and the General Manager of ASC Shipbuilding – John Gallacher and Robert Lemonius respectively – Doug Callow briefly took on the role and we thank him for his efforts in progressing the project. At the end of July, ASC welcomed Paul Gay who has taken on the role of General Manager – AWD Project.

We are truly encouraged about the appointment of Mr Gay and look forward to his leadership in the demanding years ahead for the AWD project.

One Customer, Two Projects, One Company

In order to become more customer focussed and efficient across the business, we had a major restructure towards the end of the financial year, which saw the amalgamation of the Submarine and Shipbuilding sides of the business.

This new One Customer, Two Projects, One Company approach has laid the foundation for a consolidated and streamlined business, and we will continue to seek opportunities to drive this approach as ASC sets off onto a new course in 2010 and beyond.

Our Business

2009/10 marked a significant milestone for ASC. In early June we docked our first submarine, HMAS *Farncomb*, at our state-of-the-art facility in Henderson, Western Australia. This would not have been possible without the AMC's floating dock and SPMT, which was funded by the Western Australian Government.

I would like to thank the Western Australian Government for their continued support and commitment to infrastructure upgrades at the AMC.

The year also saw the establishment of the ASPO, which will have significant impact on our ability to deliver excellent maintenance performance, increase submarine availability and maintain close cooperation between ASC, DMO and the RAN.

Within the ASPO, an Integrated Project Team (IPT) was established to manage the Collins Class maintenance project. Our combined objective for 2010 to 2014 is to ensure three submarines are operationally available at all times.

With the opening of ASC's shipyard in January 2010, and the commencement of construction of the AWD blocks across Australia (at ASC, BAE Systems and FORGACS), the first ship is set to be delivered on time towards the end of 2014.

The year also saw the opening of Techport Australia's Common User Facility (CUF), which will be vital in the consolidation and transportation of the AWDs. I wish to thank the South Australian Government for their support in the AWD project and investing in the state-owned infrastructure at Techport Australia.

The AWD Alliance has also grown from strength to strength and I wish to congratulate and thank our Alliance partners, DMO and Raytheon Australia for another successful year.

Conclusion

While a challenging year for ASC, 2009/10 also marked a new beginning into an era where greater responsibility and accountability to our customer is paramount.

Although there is a lot of work still to be done, the medium and longer term outlook for ASC is positive.

The success of the transformation and achievements in the Collins Class submarine project and AWD project must be credited to the dedication and hard work of more than 1,500 staff, who continue to work endlessly to achieve our goals.

The ASC team across all our three sites is a world-class team, and I wish to thank everyone for embracing the new ASC and continuing to build on what the company has achieved over the last 25 years.

I look forward to working with everyone towards exemplary performance at all levels to ensure that we reach our goal of becoming the pre-eminent designer, builder and maintainer of naval ships and submarines in Australia.



Steve Ludlam
MANAGING DIRECTOR
AND CHIEF EXECUTIVE OFFICER

COLLINS CLASS SUBMARINE PROJECT

ASC carries out maintenance, upgrades and engineering activities for the Collins Class submarines under a multi-billion dollar Through Life Support (TLS) agreement with DMO.

Under the TLS ASC has a number of obligations, including striving to deliver value-for-money and continuous quality and efficiency improvements.

Australian Submarine Program Office – Integrated Project Team

During 2009/10 an IPT comprising of the RAN, DMO and ASC personnel was established as part of the ASPO to jointly manage the Collins Class maintenance and upgrade project to meet required submarine availability and capability objectives.

The IPT established an Integrated Master Schedule (IMS) as the basis of the submarine maintenance project from 2010 to 2014. The objective of this schedule is to ensure three submarines are operationally available at all times.

In order to manage the Collins Class project, the IPT will ensure that:

- The IMS is underpinned by robust activity schedules;
- Project risks and issues are jointly managed;
- Work scope is managed; and
- There is common reporting of key performance indicators across the RAN, DMO and ASC.

Maintenance Activities

Maintenance of the Collins Class submarines is undertaken at ASC's submarine facilities in South Australia (ASC North) and in Western Australia (ASC West).

2009/10 ended with three submarines operating from Fleet Base West.

Other maintenance work at ASC North included:

- One full cycle docking (FCD);
- One intermediate maintenance availability;
- A main motor refurbishment;
- A pre-FCD lay up; and
- Crew training on operational deployment.

In addition, further activities already started will be completed during the 2010/11 financial year, including:

- One intermediate maintenance availability;
- A main motor refurbishment with an in country contractor;
- Metal loss repairs of bilges and surrounding tanks; and
- Preparations for a FCD due to commence in January 2011.

At ASC West, the 2009/10 year ended on a high with the first submarine docking using the AMC's new floating dock and transfer system in mid June. The use of the system is expected to improve efficiency and quality outcomes for submarine maintenance in Western Australia as well as provide a strategic capability for servicing the RAN fleet.

Other maintenance activities at ASC West included:

- Technically challenging generator repairs;
- One intermediate docking; and
- One certification docking.

Submarine Training School

An extension to the Submarine Training School Contract for an additional term of three years was successfully negotiated during 2009/10. This continues an 18-year association between ASC and the Submarine Training School, and serves as recognition for a dedicated team of instructors and support staff.

HOBART CLASS DESTROYER PROJECT

As the Shipbuilder for the \$8 billion Hobart Class AWD project, ASC is committed to the provision of timely and efficient delivery of an affordable, effective, flexible and sustainable AWD capability for the security of Australia.

The three AWDs will be built at the company's Osborne shipyard in South Australia (ASC South), and their construction will be one of the most significant shipbuilding projects ever undertaken in Australia.

As Shipbuilder, ASC is an integral part of the AWD project and operates within the AWD Alliance along with DMO and Raytheon Australia (combat system systems engineer).

In 2009/10, together with the Alliance partners, ASC managed key aspects of the AWD project, including:

- Development of the Alliance team;
- Alliance schedule and budget;
- Alliance program review milestones;
- The review of combat system, ship design and shipbuilding progress;
- Procurement of equipment and materials; and
- Commencement of Ship 1 construction at three Australian sites.

Construction Activities

The 2009/10 period saw a major shipbuilding milestone reached with the commencement of construction of Ship 1 at the three shipyards across Australia. New South Wales-based FORGACS and Victorian-based BAE Systems are in the early stages of building the 65 blocks (or 70 percent) that will make up the three AWDs.

ASC has started building the remaining 28 blocks (or 30 percent) at ASC South. Upon completion, the sub-contracted blocks will be transported by barge to ASC's shipyard for consolidation and integration.

Procurement Activities

During 2009/10 all but a handful of major equipment for the AWDs (165 in total) were contracted. In addition a significant amount of commodity procurement of Ship 1 is in hand.

AWD Alliance

The AWD Alliance contract model is founded on collaboration between the participants and a shared risk and reward structure, which ensures all parties are aligned in the common objective of delivering the three AWDs to our customer's requirements, within schedule and on budget.

ASC's relationship with its Alliance partners is strong, with all parties working as an integrated team to deliver the RAN's next generation warships.

During 2009/10, the new AWD Systems Centre adjacent to ASC's shipyard was completed.

Three hundred staff from ASC, the Commonwealth, Raytheon Australia, Navantia, Bath Iron Works, Lockheed Martin and the United States Navy moved to the new Systems Centre in August 2010.

ASC, in the support and ongoing upgrade of the Collins Class submarines and in its role as Shipbuilder in the AWD Alliance, utilises a range of specialist engineering fields in providing design support, systems integration, maintenance engineering and repair, and integrated lifecycle support to complex maritime platforms.

The engineering team is closely aligned in its submarine and shipbuilding projects, and shares its skills across the company. The team was reshaped during the year with a greater focus on lean work practices and addressing customer needs.

Collins Class Submarine Project

During 2009/10 the submarine project developed a closer collaboration with DMO and the RAN, with a strong endeavour to improve efficiency across ASC.

The year saw major achievements including:

- Exploration of efficiencies in the Collins Class maintenance project;
- Obsolescence management;
- Development of design improvements to platform systems and equipment, including:
 - o Submerged signal ejectors;
 - o Integrated Ship Control Management and Monitoring System;
 - o Trelleborg hoses;
 - o Lighting; and
- On schedule and successful completion of a Critical Design Review of the AWD project.

In another step forward to enhance efficiency and effectiveness, the MatrixOne Product Lifecycle Management (PLM) Systems and Aveva Marine 3-D CAD were successfully introduced and allow increased electronic workflow and improved data management.

The year also saw the Engineering team overcome many challenges, including:

- Development of a difficult in situ repair to rectify banding problems with the 5.4 MW Jeumont DC propulsion motors;
- A complex in situ repair and rewinding after a main generator failure; and
- Increased focus on on going reliability problems with the Hedemora diesel engines.

Hobart Class Destroyer Project

ASC continues to receive and process design information from the Platform Systems Designer, Navantia, in support of AWD module and hull construction now underway at ASC, BAE Systems and FORGACS.

During 2009/10 the Integrated Logistics Support and Test and Activation teams commenced the development of the maintenance and test documentation, as the AWD project accelerates towards HMAS *Hobart*'s delivery in 2014.

DBT – a wholly owned subsidiary of ASC – was established in 2007 to conduct research and develop concepts for Australia's SEA 1000 Future Submarine project.

DBT's mission is to be the designer for the entire lifecycle of Australia's future submarines. During 2009/10 the goal was to create, evolve and compare a range of submarine concepts for the RAN of the future.

To achieve this goal, DBT is comprised of four teams:

- Integration;
- Combat and Modelling and Simulation;
- Concept Formulation; and
- Ship Systems.

During 2009/10, DBT's highly skilled and experienced team tackled several projects that led to the development of complete submarine concept design solutions. These projects included:

- Defining the processes necessary for early concept design and developing the requirements for the project;
- Identifying key activities and resources for the lifecycle of the project;
- Developing models capturing the sources of propagation paths for critical signatures for the future submarines;
- Developing a whole-of-submarine model called Subsim;
- Evolving a model for developing a system architecture, based on best practice systems engineering and open architecture principles;
- Developing solutions to increase habitability; and
- Studying combat systems, auxiliary systems, and energy and propulsion solutions for various submarine concept designs.

BUSINESS IMPROVEMENT AND TRANSFORMATION

The WorkSmart program initiated in early 2009 continued to improve efficiency across ASC and, during 2009/10, the program was incorporated into the newly formed Business Improvement and Transformation (BI&T) team.

The team is responsible for ASC's WorkSmart program as well as the Process Excellence program across the organisation.

The WorkSmart program is based on Lean principles, which aim to identify sources of waste and eliminate them in order to improve processes, performance, and customer and staff satisfaction.

The Process Excellence program aims to provide a stable and consistent foundation of processes that will enable ASC to function consistently and efficiently, providing best practice for all areas. It will ensure the end-to-end processes define responsibility, accountability and alignment with the corporate strategy and values.

During 2009/10 the team implemented several projects, including:

- The 'Pipe Shop 5S' project, which reviewed and improved the handling of piping material during the refurbishment process with over \$140,000 of material returned to the stores system;
- A joint ASC-DMO program called Management of Work, which delivered improvement in the efficiency and effectiveness of submarine maintenance;
- Six rapid improvement events, which involved training lasting two to three days, designed to focus employees and key suppliers on issues with our current business practises before developing and implementing a series of initiatives to improve; and
- Two workshops for task groups set up to improve the processes and performance in the delivery of engineering, materials, workpacks and scheduling.

The WorkSmart initiatives implemented by ASC employees together with the BI&T team has achieved a one-off saving of \$250,000 in the 'Pipe Shop 5S' project, a \$25,000 saving for every full cycle docking and a total annual cost reduction of \$2.58 million.

During 2009/10 the team commenced several projects that are expected to be completed during the 2010/11 period, including:

- A project entitled 'Material Flow Process – Production 5S' that will extend the work of the 'Pipe Shop 5S' project across the entire submarine production area at ASC North and ASC West, and the shipbuilding production area at ASC South in early 2011; and
- A 12-month supply chain initiative that will improve the ordering and supply of materials for the construction of the AWDs.

INFRASTRUCTURE DEVELOPMENT

2009/10 was a ground breaking year for ASC with the finalisation of major infrastructure developments at ASC South and ASC West.

ASC North

2009/10 saw the completion of various maintenance and upgrade activities that ASC has invested in, including:

- Completion of the Mechanical Workshop;
- Completion of upgrades to the Heavy Fabrication Shop, ensuring a safer work environment;
- Completion of three yearly high voltage maintenance;
- Installation of a new Ship's Information Management System room in the outfitting offices;
- Installation of new faster acting roller doors in the Pipe Shop and maintenance buildings; and
- Upgrades to the fire indication panel and air conditioning systems in several buildings.

In addition, the construction of a new Emergency Response building commenced during 2009/10. The building is expected to be completed early in the new financial year.

ASC South

In January 2010 ASC's state-of-the-art shipyard was opened by the then Prime Minister Kevin Rudd. The \$120 million shipyard is the largest infrastructure development ASC has undertaken in 20 years.

The shipyard includes production facilities, warehousing facilities, an administration building and a wharf support building. The expansion into the infrastructure also meant a refurbishment of the existing structural workshop.

With this new infrastructure in place ASC South will:

- Fabricate steel parts of the ships' steel structure;
- Construct and assemble ship blocks;
- Conduct outfitting work;
- Assemble the three AWDs at the CUF;
- Set-to-work the destroyers' equipment (pre and post launch); and
- Undertake trial activities associated with the commissioning and delivery of the ships to the RAN.

Furthermore, the year saw ASC take ownership of the SPMT – a major piece of equipment that facilitates the movement of large ship blocks around the shipyard.

During 2009/10, factory tests on a nine hundred tonne capacity heavy lift crane that will consolidate the ship blocks on the CUF were concluded. ASC is expected to take ownership of the crane in September 2010.

Design work commenced on the outfit support towers to be located on the CUF and construction is expected to start in the fourth quarter of 2010.

Techport Australia

The CUF at Techport Australia was officially opened in February 2010 by South Australian Premier Mike Rann. The CUF opening marked a significant milestone for ASC in the construction of the three AWDs. The CUF will be a vital site for the consolidation and transportation of the three ships.

The CUF forms part of the Techport Australia precinct in which the South Australian Government has invested \$300 million.

In another milestone for the AWD project, 2009/10 saw the completion of the new AWD Systems Centre, adjacent to ASC's shipyard.

Three hundred staff from ASC, the Commonwealth, Raytheon Australia, Navantia, Bath Iron Works, Lockheed Martin and the United States Navy moved into the new Systems Centre in August 2010.

Australian Marine Complex

During 2009/10 the Western Australian Government's \$60 million floating dock was opened at the AMC in Henderson, Western Australia.

Together with the floating dock, ASC uses the SPMT to transfer submarines from the floating dock to the maintenance facility.

With the new floating dock and SPMT operational, ASC was able to dock its first submarine at ASC West for major maintenance in June 2010.

ASC thanks the South Australian and Western Australian Governments for their invaluable and continuous support to our infrastructure development.

SAFETY PERFORMANCE

Commitment Statement

ASC is committed to communicating and promoting Occupational Health, Safety, Welfare and Injury Management (OHSW&IM) awareness among its employees, contractors, work experience personnel and visitors, and providing a safe and healthy working environment. ASC seeks to continually improve performance of the OHSW&IM system and to use appropriate internal and/or external expertise where required.

Health and Safety Management Arrangements (HSMAs)

ASC has developed, through consultation with its workforce, a suite of documents that describe the processes for the management of safety.

Topics covered in the HSMAs include:

- ASC's commitment to safety;
- Hazard management;
- Incident investigation;
- Emergency management;
- Resolution of Occupational Health and Safety (OHS) issues;
- Operation of the OHS Committee;
- The rehabilitation of injured workers;
- Responsibility for implementation of the safety program; and
- The management of contractors working on site.

These documents are accessible to staff through the company intranet.

Health and Safety Initiatives

The health and safety of our employees are central to the success of the business and in 2009/10 ASC continued to provide safety training, including;

- Safety induction of new employees;
- Training to perform high risk work such as confined space entry and work at heights; and
- Use of fire extinguisher, fire wardens, chemical spills and first aid.

To further promote employee health, ASC:

- Assisted 38 employees in weight loss;
- Assisted 19 employees to quit smoking;
- Raised awareness about nutrition and a healthy heart;
- Made flu vaccinations available to all staff with 481 employees opting to receive a vaccination; and
- Facilitated 433 blood donations.

Statistics

Notifiable Incidents

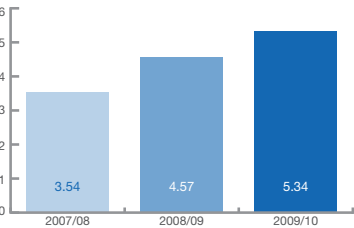
Notifiable incidents indicate the number of incidents that were of a serious nature and had to be reported to Comcare.

Notifiable incidents	2009/10
Deaths	0
Dangerous occurrences	1
Serious personal injury	3
Incapacity	0
Total	4

Lost Time Injuries

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

At all three ASC facilities the company achieved a total Lost Time Injury Frequency Rate (LTIFR) of 5.34 for 2009/10 (including contractors).



LTIFR =number of LTIs X 1,000,000 divided by hours worked per month.

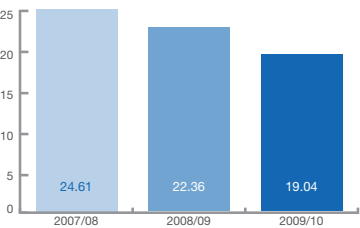
ASC is committed to keeping LTIs low and have implemented the following strategies to reduce LTIs in the next financial year:

- Reinvigorate the Take 5 program:
 1. Stop, step back, observe.
 2. Walk through task.
 3. Indentify hazards.
 4. Control and communicate.
 5. Safely complete task.
- Emphasise the need for early reporting of incidents;
- Train the workforce in safe work methods; and
- Continue the development of job safety and environmental analysis.

Medically Treated Injuries

A Medically Treated Injury (MTI) is recorded when an employee needs medical attention from a health professional above the expertise of a nurse.

At all three ASC facilities a Medically Treated Injury Frequency Rate (MTIFR) of 19.04 was recorded for 2009/10 (including contractors).



MTIFR =number of MTIs X 1,000,000 divided by hours worked per month.

Investigations

During 2009/10, Comcare conducted one investigation into an incident involving the fall of a contractor from a machine. The contractor suffered multiple breaks to his right leg. It was found that ASC breached its duty under section 16 of the Occupational Health and Safety Act 1991 (the Act). No action was enforced under Schedule 2 of the Act.

It was recommended that ASC investigate the possibility of installing fall protection controls on the work platform and to complete the actions identified in the risk assessment conducted on the machine.

ASC developed and erected a barrier to provide edge protection on the working platform and completed all remaining risk assessment actions.

Notices

Comcare issued a stop work notice on the machine involved in the incident described above on 15 December 2009. The notice was lifted on 18 December 2009 after ASC completed the actions required under the notice.

ENVIRONMENTAL PERFORMANCE

ASC's Environmental Policy and associated processes and procedures demonstrate that the company is committed to the protection and improvement of the environment in which we operate.

Our objective is to ensure that we have adequate systems in place to:

- Promote environmental awareness among employees and contractors;
- Apply a systematic approach to hazard management with the aim of preventing pollution;
- Comply with legislative requirements;
- Conserve natural resources; and
- Continually improve our environmental performance.

Environmental Management System

ASC is committed to achieving a high standard of environmental performance consistent with the requirements of AS/NZS 14001: Environmental Management Systems (EMS) which forms part of ASC's Corporate Management System.

The company will continue to review the environmental performance of our activities and operations in order to identify opportunities for improvement.

Environmental Incidents

ASC operations are subject to environmental regulation under both Commonwealth and State legislation, and we recognise our obligation to comply with the relevant Environmental Protection and Conservation Acts (the Acts). Accordingly ASC actively records, investigates and reports any breaches of the Acts to the respective regulatory bodies.

During 2009/10 there were no environmental incidents that required official regulatory notification.

Environmental Licences

ASC North and ASC South facilities are licensed under the Environment Protection Authority for the related activities at each. ASC West is registered with the Department of Environment and Conservation.

WORKFORCE AND TRAINING

ASC remains committed to employing and retaining high quality employees to take the business to the next level of quality and efficiency.

2009/10 was a trying but exciting year for ASC with a change of direction and the transformation to one company. Regrettably this resulted in some job losses where duplication existed but it did not affect the need for growth in employees for the AWD project.

Personnel Development

ASC's most valuable asset is our people and we support them through:

- Providing training and career development opportunities;
- Encouraging a high-performance culture aligned with the corporate values and behaviours; and
- Recognising the importance of work/life balance and offering flexibility.

Recruitment and Training

ASC is committed to attracting high quality staff but also strives to develop and retain employees to ensure the success of the business.

Although, regrettably, some positions were lost during 2009/10, ASC still employed over 300 new people across the company. Momentum for the AWD project increased significantly during the year with 243 positions filled. These numbers are expected to grow in the 2010/11 financial year with ASC looking for an additional 216 staff in the following fields:

- Engineering – design, liaison, test and activation;
- Planning;
- Project management;
- Supply chain;

- Production management;
- Outfitting trades such as electrical, piping and sheet metal; and
- Welders.

ASC offers training to all employees. The training ranges from general induction and safety training to offering staff the opportunity to take part in programs that will increase their skills and knowledge.

Productivity Places Program

During 2009/10 ASC secured 47 training places through Federal and State Government funded productivity places programs.

Twenty five employees have commenced training in Certificate IV and Diploma qualifications in several areas, including Project Management, Engineering, Training and Assessment, Human Resources, and Occupational Health, Safety and Environment (OHS&E).

Specialist Training

To assure the quality of work in the AWD project, ASC sent employees to Spain to receive specialist training from Navantia (the Platform Systems Designer for the AWDs).

During 2009/10, ASC was successful in gaining Skilling Australia's Defence Industry (SADI) funding to run a naval vessel construction training program while SADI also continued its support in the AWD developed University of South Australia test and evaluation program.

The first five employees were enrolled in the Australian Maritime College's Diploma for Marine Industry Surveying. This is the only qualification for marine surveyors available in Australia and ASC is proud to support our employees in completing this diploma.

Apprentices

ASC is a firm believer in supporting young up and coming workers and this is evident through the support we give to apprentices not only in offering them apprenticeships but also offering additional training.

During the 2009/10 period, 22 apprentices joined ASC to work on the maintenance of the Collins Class submarines and the Hobart Class destroyers. A further five were hosted by interim companies.

Furthermore, ASC also took on two apprentices from Bridgestone thanks to the support of the Beyond Bridgestone team after the company closed its Adelaide tyre-making plant, resulting in significant job losses. We now have a total of 56 apprentices.

School Engagement

ASC believes that engaging with the future workforce is paramount in building a sustainable business.

The Defence Industry Pathway Program is a school engagement program sponsored by ASC and, during 2009/10, two programs were offered to Year 11 students and one program to Year 12 students.

The Year 11 students attended a 17 week program at the Port Adelaide TAFE and constructed an optimist sailing dinghy. The Year 12 students built a registrable trailer to transport the dinghy.

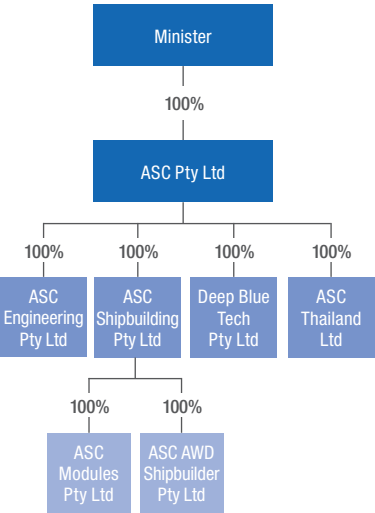
This program has proven to be highly successful with five of the Year 12 students taking part in the program securing apprenticeships with ASC during the 2009/10 period.

During 2009/10, ASC's production supervisors spent time at two technical colleges, working with young school based apprentices to showcase shipbuilding skills.

CORPORATE GOVERNANCE

Status

ASC is a proprietary company limited by shares registered under the *Corporations Act 2001* and is subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act). All the shares issued in the capital of ASC are owned by the Minister for Finance and Deregulation (Minister).



The ASC Group is comprised as follows: On 11 June 2004, ASC was proclaimed as a Government Business Enterprise under the CAC Act.

Ministerial Directions

In accordance with its Constitution, ASC is subject to direction by the Minister. No directions were given to ASC by the Minister during the 2009/10 year.

Directors

The directors of ASC (other than the Managing Director) are appointed by the Minister for a term. As at 30 June 2010, the Board was comprised as follows:

Name	Appointed	Expires
VADM Chris Ritchie AO RANR	28 Aug 2007	30 Jun 2012
Steve Ludlam	18 Jan 2010	17 Jan 2015
Geoff Phillips	16 Oct 2006	31 Dec 2011
Bruce Carter	1 Jan 2010	31 Dec 2011
David Miles AM	1 Jan 2010	31 Dec 2011
Jack O'Connell AO	1 Jan 2010	31 Dec 2012
Sally Pitkin	1 Jan 2010	31 Dec 2012
Rear Admiral USN (retired) Dugan Shipway	18 Jun 2010	17 Jun 2013

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, Nomination and Remuneration Committee and Business Assurance and Security 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, and review the Group's performance against them, and to ensure 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.

Audit Committee

The objectives of the Audit Committee are to:

- Help the Board achieve its objectives in relation to:
 - o Financial reporting;
 - o The application of accounting policies; and
 - o 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 financial compliance strategies and financial compliance functions are effective; and
- Maintain an effective external and internal audit function, in compliance with all applicable laws.

As at 30 June 2010, the committee comprised Geoff Phillips (Chairman), Bruce Carter and Jack O'Connell AO.

Nomination and Remuneration Committee

The objectives of the Nomination and Remuneration Committee Charter are to:

- Make recommendations to the Board on the following matters:
 - o Suggested appointments to the Board for consideration by the Minister;
 - o Remuneration of the Managing Director (after considering the performance of the Managing Director against agreed goals and the requirements of the Remuneration Tribunal);
 - o Remuneration of the Managing Director's direct reports (after considering the performance of those direct reports against their agreed goals); and
 - o 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 2010, the committee comprised VADM Chris Ritchie AO RANR, Geoff Phillips and Sally Pitkin.

Business Assurance and Security Committee

The objectives of the Business Assurance and Security Committee charter are to:

- Ensure as far as possible that the Group's material risks other than those arising from financial reporting and accountability (being risks considered by the Audit Committee) are identified, monitored and appropriately managed or controlled;
- Promote a culture of compliance;
- Ensure compliance strategies and functions are effective; and
- Ensuring compliance with the Group's obligations in respect of the International Traffic in Arms Regulations (US).

As at 30 June 2010, the committee comprised David Miles AM (Chairman), VADM Chris Ritchie AO RANR, Sally Pitkin and Dugan Shipway.

CORPORATE GOVERNANCE CONTINUED

Attendance

Attendance at Board and committee meetings during 2009/10 was as follows:

Director	Board		Audit Committee		Nomination and Remuneration Committee		Business Assurance and Security Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Vice Admiral Chris Ritchie AO RANR	9	9	-	-	1	1	2	2
Steve Ludlam	4	4	-	-	-	-	-	-
Geoff Phillips	9	8	4	4	-	-	-	-
Bruce Carter	4	4	2	2	-	-	-	-
David Miles AM	4	4	-	-	-	-	1	1
Jack O'Connell AO	4	3	2	2	-	-	-	-
Sally Pitkin	4	4	-	-	-	-	1	1
Graeme Bulmer	5	5	-	-	-	-	-	-
Mike Terlet AO	5	5	2	2	-	-	-	-
Dr Bill Schofield AM	5	5	-	-	-	-	1	1
Rear Admiral USN (retired) Dugan Shipway	-	-	-	-	-	-	-	-

During the year:

- Vice Admiral Chris Ritchie AO RANR was appointed Chairman;
- Graeme Bulmer resigned as Acting Managing Director and Chief Executive Officer;
- Graeme Bulmer, Mike Terlet AO and Dr Bill Schofield AM retired as directors of ASC and from the committees on which they served;
- Steve Ludlam was appointed Managing Director and Chief Executive Officer;
- Bruce Carter, David Miles AM, Jack O'Connell AO and Sally Pitkin were appointed non-executive directors;
- Bruce Carter and Jack O'Connell AO were appointed members of the Audit Committee;
- David Miles AM was appointed chairman and Sally Pitkin was appointed member of the Business Assurance and Security Committee;
- Geoff Phillips and Sally Pitkin were appointed members of the Nomination and Remuneration Committee; and
- Rear Admiral USN (retired) Dugan Shipway was appointed as a Director on 18 June.

Code of Conduct

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

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

Audit

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

The Audit Committee is charged with responsibility for internal financial audit. The Group Financial Internal Auditor is responsible to the Audit Committee for contributing to the achievement of ASC's goals and objectives by:

- Assisting management in evaluating its processes for identifying, assessing and managing the key operational, financial and compliance risks of ASC;
- Assisting management in evaluating the effectiveness of internal control systems, including compliance with internal policies;
- Recommending improvements in efficiency to the internal control systems established by management;
- Keeping abreast of new developments affecting ASC's activities and in matters affecting internal audit work; and
- Being responsive to ASC's changing needs, striving for continuous improvement and monitoring integrity in the performance of its activities.

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 their occurrence;
- Estimating the likely consequence of risks should they occur; and
- Implementing strategies to avoid, mitigate or minimize the consequence of risk.

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

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

The Business Assurance and Security 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. In 2009/10, the program covered:

- Defence Exports;
- Employment;
- Intellectual Property; and
- OHS.

The Business Assurance and Security Committee is responsible for approving the program and monitoring compliance.

FINANCIAL REPORT
30 June 2010

CONTENTS

Directors' Report	25-27
Auditor's Independence Declaration	28
Statement of Comprehensive Income	29
Statement of Financial Position	30
Statement of Changes in Equity	31
Statements of Cash Flows	32
Notes To and Forming Part of the Financial Statements	33-70
Directors' Declaration	71
Independent Auditor's Report	72

This financial report covers ASC Pty Ltd and its controlled entities.
The financial report is presented in Australian currency.
ASC Pty Ltd is a company limited by shares, incorporated and domiciled in Australia.
Its registered office is 694 Mersey Road, Osborne SA 5017.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

For the year ended 30 June 2010

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 2010.

Directors

The directors of the Company at the date of this report are:

Vice Admiral Christopher Ritchie AO RANR

Bruce James Carter (appointed on 1 January 2010)

Stephen Ludlam (appointed on 18 January 2010)

David Arthur Miles AM (appointed on 1 January 2010)

John Joseph O'Connell AO (appointed on 1 January 2010)

Geoffrey Raymond Phillips

Sally Anne Majella Pitkin (appointed on 1 January 2010)

Rear Admiral USN (retired) John Francis "Dugan" Shipway (appointed on 18 June 2010)

Five new non-executive directors have been appointed during financial year ended 30 June 2010. Ms Sally Pitkin, Mr John O'Connell AO and Rear Admiral USN (retired) Dugan Shipway have been appointed as directors for three-year terms. Mr Bruce Carter and Mr David Miles AM have been appointed as directors for two-year terms.

The new directors bring extensive experience to the Board which will be invaluable in leading ASC into the next phase of its development, involving the construction of the Hobart Class AWDs, a renewed focus on the Collins Class submarine maintenance program and the potential for involvement in the development of a new submarine for the RAN.

Dr William Schofield and Mr Michael Terlet retired as directors on 31 December 2009, and Mr Graeme Bulmer retired as Acting Chief Executive Officer and Managing Director on 15 January 2010. The board acknowledged their contribution and thanked them for their services to ASC.

The new Chief Executive Officer and Managing Director, Mr Stephen Ludlam, joined ASC on 18 January 2010. Mr Ludlam comes to ASC with extensive experience working with both submarine and shipbuilding construction and maintenance programmes over his 34-year career.

Principal Activities

The principal activities of the Group during the course of the financial year ended 30 June 2010 included:

Collins Class submarine related activities:

The major submarine related activities included maintenance, design development, engineering and upgrading of six submarines for the RAN. These activities were undertaken for the Collins Class submarines under the TLS Contract. The contract is due to expire in 2018, subject to exercise of options for two further five-year periods – consistent with the expected life of the Collins Class submarines.

Hobart Class AWD related activities:

Activities continued under the Alliance Based Target Incentive Agreement (ABTIA) with other members of the AWD Alliance, the Commonwealth of Australia (CoA) represented by the DMO, and Raytheon Australia. The ABTIA commits the Alliance members to work as an integrated team to deliver the RAN's next generation warships.

Several significant milestones have been achieved during the reporting period, mainly the opening of the ASC's AWD shipyard, on budget and on time, and the commencement of production by ASC and its block subcontractors.

Consolidated Result

The consolidated profit of the Group for the financial year attributable to the shareholders of ASC Pty Ltd was \$4,269,000 after provision for income tax expense of \$623,000.

Review of Operations

During the year, a new 'One Company' matrix organisation was created through restructure of the Group and centralisation of the support and corporate functions to improve operating efficiency.

As the result of the restructure, 41 personnel were made redundant and 34 unfilled positions were abolished across the Group.

The new structure is now in place and the Group's efforts are directed to the delivery of value for money to the customer.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT (CONT.)

For the year ended 30 June 2010

Collins Class submarine related activities:

The Company is currently operating in the seventh year of the Collins Class submarine TLS Contract.

Hobart Class AWD related activities:

Since entering into the alliance based contract for the design and construction of three Hobart Class AWDs in October 2007, key milestones have been completed according to plan, most notably the Integrated Baseline Review in July 2008, the Preliminary Design Review in December 2008 and the Critical Design Review in December 2009. Contracts have been placed with BAE Systems Australia Defence Pty Ltd (BAE) and FORGACS Engineering Pty Ltd (FORGACS) for the construction of ship blocks, and production activities have commenced on both sites. Production activities have also commenced in ASC's shipyard. Across the three sites construction of eleven blocks has commenced for Ship 1, in addition to two pilot blocks at ASC and FORGACS. Procurement of major combat system and platform equipment continues in accordance with program requirements. Development activities on ASC's shipyard completed during the period, with all buildings now operational and the workforce in residence.

Dividends

The directors declared and paid the special dividend of \$5,000,000 on 18 September 2009. No final dividend has been declared or paid for the 2009/10 financial year. The total dividend of \$11,100,000 was paid for the 2008/09 financial year, being \$6,000,000 as interim dividend paid on 19 March 2009 and \$5,100,000 as final dividend paid on 18 September 2009.

State of Affairs

Notwithstanding the negative working capital of \$48,668,000 for the Group, the financial statements are prepared on a going concern basis as all major contracts of the Group are based on a cash flow neutral regime which ensures that the timing of the receipts of the billings meets the timing of the payments for the operating expenditure of the relevant contracts and the Group has adequate standby finance facilities.

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.

Environmental Regulation

The operations of the Group and the Company are subject to environmental regulation under both Commonwealth and State legislation in relation to activities undertaken on our sites in South Australia and Western Australia.

The Group is committed to achieving a high standard of environmental performance consistent with the requirements of AS/NZ ISO 14001: EMS, which forms part of ASC's Corporate Management System. The Company's South Australian and Western Australian submarine facilities have accreditation for AS/NZ ISO 14001: Environmental Management Systems, whilst the Group's South Australian shipbuilding facility is implementing the EMS requirements for certification in the near future.

The Group complied with all applicable environmental regulations and site specific environmental licence requirements.

Events Subsequent to Balance Date

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

Likely Developments

The Company is a Government Business Enterprise under the CAC Act, which requires the Company to operate efficiently, earn a commercial rate of return and observe a standardised and transparent reporting framework. Strict procedures governing the relationship between the Company, the Department of Defence and the Department of Finance and Deregulation have been put in place.

The DMO has indicated its intention to replace the TLS Contract with a new agreement. It is anticipated that the new agreement will incorporate significantly different commercial terms to the current TLS Agreement. The Company is currently engaged in negotiating the new agreement.

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.

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

The Auditor's Independence Declaration is set out on page 28 and forms part of the Directors' Report for the year ended 30 June 2010.

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 19th day of August 2010.

Signed in accordance with a resolution of the directors:



Vice Admiral Christopher A Ritchie AO RANR
CHAIRMAN



Stephen Ludlam
DIRECTOR

AUDITOR'S INDEPENDENCE DECLARATION

To the directors of ASC Pty Ltd and its controlled entities



ASC PTY LTD FINANCIAL REPORT 2009/10

AUDITOR'S INDEPENDENCE DECLARATION UNDER 307C OF THE *CORPORATIONS ACT 2001*

In relation to my audit of the financial report of ASC Pty Ltd and consolidated entity for the year ended 30 June 2010, to the best of my knowledge and belief, there have been:

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

Australian National Audit Office

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

Jocelyn Ashford
EXECUTIVE DIRECTOR

Delegate of the Auditor-General
Canberra

12 August 2010

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2010

	Note	Consolidated Entity	
		Jun-10 \$'000	Jun-09 \$'000
Revenue from continuing operations			
Other income	4(a)	515,699	351,997
Materials and subcontractors	4(b)	484	38
Labour		(250,231)	(101,575)
Depreciation and amortisation		(178,535)	(170,321)
Finance costs	5	(10,815)	(6,900)
Insurance	5	(971)	(540)
Operating lease		(5,161)	(2,307)
Security expenses	5	(10,511)	(7,811)
Professional fees		(2,463)	(1,656)
Repairs and maintenance		(7,059)	(6,077)
Travelling expenses		(5,559)	(4,372)
Office expenses		(4,824)	(4,498)
Utilities expense		(6,930)	(1,670)
Other expenses		(6,044)	(4,468)
		(22,188)	(14,321)
Profit before income tax		4,892	25,519
Income tax (expense)/revenue	7(a)	(623)	(7,079)
Profit for the year		4,269	18,440
Other comprehensive income			
Net gain/(losses) on revaluation of land and buildings	21	35,794	4,509
Net actuarial gains (losses) on defined benefit plans	24	671	(2,520)
Income tax relating to components of other comprehensive income		(10,939)	(597)
Other comprehensive income, net of tax		25,526	1,392
Total comprehensive income for the year, net of tax		29,795	19,832
Profit attributable to:			
member of the parent entity		4,269	18,440
Total comprehensive income attributable to:			
member of the parent entity		29,795	19,832

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2010

		Consolidated Entity	
	Note	Jun-10 \$'000	Jun-09 \$'000
ASSETS			
Current assets			
Cash at bank and in hand	8	24,980	28,439
Advance funding cash at bank	9	81,119	57,569
Trade and other receivables	10	107,165	77,649
Other financial assets	12	-	33,756
Prepaid income tax	7(b)	-	1,224
Inventories	11	4,931	6,211
Other assets	13	4,284	2,249
Total current assets		222,479	207,097
Non current assets			
Property, plant and equipment	14	300,888	239,310
Total non current assets		300,888	239,310
TOTAL ASSETS		523,367	446,407
LIABILITIES			
Current liabilities			
Trade and other payables	15	66,365	54,994
Net unearned contract billing	16	87,440	31,357
Interest-bearing liabilities	18	89,665	114,970
Current tax liabilities	7(b)	1,765	-
Provisions	19	25,912	29,345
Total current liabilities		271,147	230,666
Non current liabilities			
Non interest-bearing liabilities	17	15,174	12,097
Retirement benefit obligation	24(d)	175	778
Deferred tax liabilities	7(d)	14,585	6,507
Provisions	19	13,882	12,750
Total non current liabilities		43,816	32,132
TOTAL LIABILITIES		314,963	262,798
NET ASSETS		208,404	183,609
EQUITY			
Contributed equity	20	10,000	10,000
Reserves	21	89,627	64,571
Retained earnings	22	108,777	109,038
TOTAL EQUITY		208,404	183,609

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2010

	Consolidated Entity		
	Issued Capital	Reserves	Retained Earnings
	\$'000	\$'000	\$'000
Balance at 1 July 2008	10,000	61,415	103,462
Profit after tax for the year			18,440
Revaluation increment		4,509	
Actuarial gains (losses) on defined benefit plans			(2,520)
Income tax relating to components of other comprehensive income		(1,353)	756
Total other comprehensive income	-	3,156	(1,764)
Total comprehensive income for the year	-	3,156	16,676
Transactions with owners in their capacity as owners:			
Dividends provided for or paid			(11,100)
Balance at 30 June 2009	10,000	64,571	109,038
Balance at 1 July 2009	10,000	64,571	109,038
Profit after tax for the year			4,269
Revaluation increment		35,794	
Actuarial gains (losses) on defined benefit plans			671
Income tax relating to components of other comprehensive income		(10,738)	(201)
Total other comprehensive income	-	25,056	470
Total comprehensive income for the year	-	25,056	4,739
Transactions with owners in their capacity as owners:			
Dividends provided for or paid			(5,000)
Balance at 30 June 2010	10,000	89,627	108,777

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 2010

		Consolidated Entity	
	Note	Jun-10 \$'000	Jun-09 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts in the course of operations (inclusive of goods and services tax)		536,032	419,895
Payments to suppliers and employees in the course of operations (inclusive of goods and services tax)		(522,013)	(354,435)
Income taxes refunded/(paid)	7(b)	(495)	(13,714)
Net cash provided by/(used in) operating activities	33(b)	13,524	51,746
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,602	5,068
Proceeds from disposal of non current assets		19	33
Proceeds from invested funds		33,756	88,443
Payments for invested funds		-	(33,756)
Purchase of property, plant and equipment		(36,631)	(97,115)
Net cash provided by/(used in) investing activities		(1,254)	(37,327)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(10,100)	(15,250)
Proceeds from interest-bearing liabilities		40,950	60,253
Repayment of interest-bearing liabilities		(18,554)	(2,011)
Proceeds from non interest-bearing liabilities		3,077	5,017
Interest paid		(6)	(5)
Net cash provided by/(used in) financing activities		15,367	48,004
Net increase/(decrease) in cash and cash equivalents		27,637	62,423
Effects of exchange rate changes on cash and cash equivalents		(7,546)	(316)
Cash and cash equivalents at the beginning of the financial year		86,008	23,901
Cash and cash equivalents at the end of the financial period	33(a)	106,099	86,008

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial report for the year ended 30 June 2010 comprises of ASC Pty Ltd (the Company) and its subsidiaries (together referred to as the "Group" or the "consolidated entity"). The financial report is presented in Australian dollars.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(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 International Financial Reporting Standards (IFRS)

The consolidated financial statements of the Group comply with IFRS as issued by the International Accounting Standards Board (IASB).

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 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.

Changes in accounting policies

The Group has changed its accounting policies in the following areas from 1 July 2009:

- accounting for borrowing costs (notes 1(t))
- financial statements presentation

Financial statement presentation

The Group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Basis of preparation

Notwithstanding the negative working capital of \$48,668,000 for the Group, the financial statements are prepared on a going concern basis due to the following reasons:

- All major contracts of the Group are based on a cash flow neutral regime which ensures that the timing of the receipts of the billings meets the timing of the payments for the operating expenditure of the relevant contracts;
- \$12.0 million overdraft facility not utilised at balance date; and
- \$30.0 million multi option bank facility, \$23.4 million not utilised at balance date.

Further details are disclosed in note 3(b).

Rounding of amounts

The consolidated entity is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(b) New accounting standards and interpretations not adopted early

Certain new accounting standards and interpretations have been published but their applications are not mandatory for 30 June 2010 reporting periods. The Group has not adopted the following standards early. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 financial statements or earlier. The Group has not yet determined the potential effect of the standards.

Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued AASB 124 *Related Party Disclosures*. The standard simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any material impact on the financial statements.

Revised AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process (effective from 1 January 2010)

This standard affects various accounting standards resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

(c) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2010 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those 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 acquisition method of accounting is used to account for business combinations by the Group and is disclosed in accordance with AASB 3.

Transactions eliminated on consolidation

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Revenue recognition

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

Rendering of services

Revenue from services rendered is recognised in proportion to the stage of completion of the transaction. 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 method 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 and where it is probable that the contract costs will be recoverable.

Revenue for incentives is recognised when all criteria relating to the earning of the incentives have been met.

Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Contract work in progress

Contract work in progress is carried at cost, plus profit accrued 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 a loss is identified.

Contract costs include all costs directly related to specific contracts and those which can be attributed to contract activity. Such costs include administration overhead costs which are directly related to the contract.

Tendering costs on contracts are expensed as incurred.

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

Progress billings received in advance of the performance of contract activities is deferred and included in the measurement of work in progress.

Where the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred and where it is probable that the contract costs 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 into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Foreign exchange differences arising in respect of contract work in progress, to the extent they are recoverable, are included in the measurement of the contract billings and work in progress costs.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(g) Property, plant and equipment

Land and buildings are shown 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. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in 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 recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Buildings 8 – 60 years
- Plant and Equipment 3 – 20 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is the Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(h) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(i) Taxation

Tax consolidation

The Company and its wholly-owned Australian subsidiaries have formed an income tax consolidation group under the tax consolidation legislation since 1 July 2002.

The head entity, ASC Pty Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, ASC Pty Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Accounting for income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

(j) Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits. Amounts are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period, using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(j) Employee benefits (cont.)

Retirement benefit obligations

All employees of the Group are entitled to benefits from the Group's superannuation plan on retirement, disability or death. The Group has a defined benefit section and a defined contribution section within its plan. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from entities within the Group and the Group's legal or constructive obligation is limited to these contributions. The employees of the parent entity are all members of the defined contribution section of the Group's plan.

A liability or asset in respect of defined benefit superannuation plans is recognised in the statement of financial position, and is measured as the present value of the defined benefit obligation at the end of the reporting period less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the end of the reporting period, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income.

Past service costs are recognised immediately in profit or loss, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(k) 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.

(l) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(n) Provisions

A provision is recognised in the statement of financial position when the consolidated entity has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Self insurance

The Group 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 benefits 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 statement of comprehensive income, the expense recognised in respect of a provision is presented net of the recovery.

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

- has a legally recognised right to offset 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 the probable repair or restoration costs of the products arising from warranty claims. Significant uncertainty relates to estimates for contracting activities as the estimates depend on circumstances particular to each contract.

(o) Inventories

Inventories are measured at the lower of cost or net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(p) Impairment

Financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value), less any impairment loss on that financial asset previously recognised in profit or loss, is reclassified from equity and recognised in profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

Non financial assets

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(p) Impairment (cont.)

Non financial assets (cont.)

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(q) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes:

- Cash on hand;
- Deposits held at call with financial institutions;
- Other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and
- Bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Change in classification

During the year ended 30 June 2010, the Group changed the disclosure of advance funding for the Hobart Class AWD project. Advances received by the CoA for the purposes of funding the working capital requirement of the AWD project have been appropriately named as advance funding cash at bank.

Included in the advance funding cash at bank are amounts that have certain contractual restrictions placed on its use. The funds maintained in the advance funding cash at bank may only be applied to direct project expenditure incurred and claims for reimbursement from the CoA. This amount has been disclosed at note 9 Advance Funding Cash at Bank.

The advance funding cash at bank has been included as cash and cash equivalent in the statement of cash flows. Comparative disclosures have been amended to reflect the change.

(r) Investments and other financial assets

Held-to-maturity investment

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

(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 profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position 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 profit or loss as other income or finance costs.

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 reporting period.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for the intended use or sale. Other borrowing costs 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(v) Financial guarantee contracts (cont.)

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 consolidated entity in relation to these guarantees, as the fair values of the guarantees as at 30 June 2010 and 30 June 2009 are immaterial.

(w) Parent entity financial information

The financial information for the parent entity, ASC Pty Ltd, disclosed in note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of ASC Pty Ltd.

Tax consolidation legislation

Refer to note 1(i).

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

Revenue recognition and work in progress

The consolidated entity undertakes a number of long term construction and service contracts. Accounting for these contracts requires a number of assumptions and estimates to be made in relation to the stage of completion and expected outcome of the contract.

Where the outcome of these contracts cannot be reliably measured, revenue is only recognised to the extent of contract costs incurred and recoverable.

If the outcome of these contracts differ from the estimates and assumptions made at balance date, such differences will impact the financial result of these contracts in future periods.

Provision for warranty

The consolidated entity has a warranty provision for submarine related activities. This provision is calculated based on the six Collins Class submarines schedule and their relevant exposure index. ASC Pty Ltd has a TLS Contract with the CoA represented by the DMO 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 details from the obsolescence, urgent defects and a few specific incidents have therefore been considered as a base for determining potential future warranty claims.

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 Australian Prudential Regulation Authority (APRA) prudential standards for private sector insurers a probability sufficiency of 75% is required as a minimum. The Group's provision level is in excess of the APRA minimum requirement, in line with the Group's assessment of the risks that it is exposed to.

3 FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial risk management

The Group's activities expose it to a variety of financial risks. This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has charged the Group Audit Committee with the responsibility for the oversight of how management monitors compliance with the Group's financial risk management policies and procedures. It also reviews the adequacy of the financial risk management framework of the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes regular reviews of financial risk management controls and procedures, the results of which are reported to the Group Audit Committee.

The Board has also established the Business Assurance and Security Committee, which is responsible for the oversight of non financial risks.

Both committees report regularly to the Board on their activities.

The consolidated entity holds the following financial instruments:

	Jun-10 \$'000	Jun-09 \$'000
Financial assets		
Cash at bank and in hand	24,980	28,439
Advance funding cash at bank	81,119	57,569
Trade and other receivables	107,165	77,649
Marketable interest securities	-	33,756
	213,264	197,413
Financial liabilities		
Trade and other payables	66,365	54,994
Non interest-bearing liabilities	15,174	12,097
Interest-bearing liabilities	89,665	114,970
	171,204	182,061

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables

The Group's credit exposures to customers, including outstanding receivables and committed transactions, are minimal, as the one substantial customer of the Group is the CoA with a "AAA" credit rating from Standard & Poor's.

Investments

The Group limits its exposure to credit risk by only investing in liquid securities with counterparties that have a credit rating of at least BBB from Standard & Poor's. The Group also has policies that limit the amount of credit exposure to any one financial institution based on their credit rating. The lower the independent credit rating, the lower the limit of credit exposure is allowed. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Guarantees

Credit risk also arises in relation to financial guarantees given to certain parties (see note 25 for details). Such guarantees are issued in accordance with the ASC Corporate Management Policies and only provided to support a financial/commercial arrangement.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

(a) Credit risk (cont.)

Guarantees (cont.)

Recognised Financial Instruments

Trade and other receivables

Counterparties with external credit rating (Standard & Poor's)

AAA - [Australia (Commonwealth of)]

A+

Credit rating not determined

Cash, cash equivalents and restricted cash

AA

Held-to-maturity investments

AA

A+

A

	Jun-10 \$'000	Jun-09 \$'000
	106,723	77,485
	365	-
	77	164
	107,165	77,649
	106,099	86,008
	106,099	86,008
	-	18,905
	-	4,955
	-	9,896
	-	33,756

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

A substantial proportion of the consolidated entity's operations are in relation to the TLS Contract for six Collins Class submarines and the Hobart Class AWD project for the construction of the Navantia-designed AWDs.

Both projects receive their entire funding from an individual customer, being the Commonwealth Government of Australia, who has a Standard and Poor's credit rating of AAA. Therefore the consolidated entity has no material exposure to credit risk in its operations.

Off statement of financial position financial instruments

The Group has not entered into any off statement of financial position financial instruments during the reporting period.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

All major contracts of the Group are based on a cash flow neutral billing regime which enables the timing of the receipts of the billings to meet the timing of the payments for the operating expenditure of the relevant contracts. Due to the nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

The Group maintains the following lines of credit:

- \$12.0 million overdraft facility not utilised at balance date. Interest would be payable at the rate of Bank Bill Official Rate plus 100 basis points;
- \$30.0 million multi option bank facility, \$23.4 million not utilised at balance date; and
- Advance funding for the AWD project by the CoA under the ABTIA. The ABTIA requires regular review of the advance amount which may be increased or decreased after consideration by the CoA as to the working capital requirements for the AWD project.

Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

Maturities of financial liabilities

The tables below analyse the consolidated entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 12 months	Over 5 years	Total contractual cash flows	Carrying amount (assets)/liabilities
	\$'000	\$'000	\$'000	\$'000
Consolidated entity - at 30 June 2010				
Non-derivatives				
Non-interest bearing	66,365	38,360	104,725	81,539
Variable rate (including bank overdraft)	89,665	-	89,665	89,665
Total non-derivatives	156,030	38,360	194,390	171,204
Consolidated Entity - at 30 June 2009				
Non-derivatives				
Non-interest bearing	54,994	38,260	93,254	67,091
Variable rate (including bank overdraft)	114,970	-	114,970	114,970
Total non-derivatives	169,964	38,260	208,224	182,061

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign exchange risk

Fluctuations on foreign exchange rates for the Group are fully recoverable from their commercial and contractual arrangements. The consolidated entity did not have any outstanding foreign exchange contracts as at reporting date.

The carrying amounts of the financial assets and the liabilities of the consolidated entity are denominated in Australian dollars except as set out below.

		Consolidated Entity	
		Jun-10	Jun-09
		AUD \$'000	AUD \$'000
Financial assets			
Cash at bank and in hand	Currency		
	USD	-	1,163
	EUR	-	7,672
	CAD	-	1,025
	Total	-	9,860
Advance funding cash at bank	USD	5,684	8,754
	EUR	28,370	32,648
	GBP	267	308
	CAD	1,763	670
	NOK	254	-
	JPY	160	-
	Total	36,498	42,380
Trade and other receivables	USD	11,879	
	EUR	11,162	
	GBP	218	3
	CAD	482	
	NOK	47	-
	JPY	-	913
	Total	23,788	916
Financial liabilities			
Trade and other payables	USD	9522	1157
	EUR	7,013	7,407
	GBP	302	-
	CAD	-	1,025
	SEK	-	-
	NOK	301	-
	Total	17,138	9,589
Net unearned contract billing	USD	(1,010)	(743)
	EUR	(822)	(7,535)
	GBP	(84)	(1,489)
	Total	(1,916)	(9,767)
Interest-bearing liabilities	USD	9,042	9,497
	EUR	33,330	40,446
	GBP	267	311
	CAD	2,245	2,159
	JPY	160	913
	Total	45,044	53,326

Interest rate risk

As the Group holds long term interest bearing assets, the Group's income and operating cash flows are exposed to changes in market interest rates. The Group's investment policy permits investment in deposits with banks and securities issued by the State and/or Commonwealth Government.

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.

The Group does not have any interest bearing long-term borrowings.

At balance date the consolidated entity has an unrealised gain of \$5,081 (2009: unrealised gain of \$142,972). In the market value of money market securities held (bank accepted bills and negotiable certificate of deposit).

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

	Consolidated Entity	
	Total	Effective interest rate
	\$000	%
30 June 2010		
Financial assets		
Cash at bank and in hand	24,980	3.28%
Advance funding cash at bank	81,119	1.56%
Trade and other receivables	107,165	0.00%
	213,264	
Financial liabilities		
Trade and other payables	66,365	0.00%
Non interest-bearing liabilities	15,174	0.00%
Interest-bearing liabilities	89,665	1.23%
	171,204	
30 June 2009		
Financial assets		
Cash at bank and in hand	28,439	6.62%
Advance funding cash at bank	57,569	1.23%
Trade and other receivables	77,649	0.00%
Marketable interest securities (at fair value)	33,756	7.22%
	197,413	
Financial liabilities		
Trade and other payables	54,994	0.00%
Non interest-bearing liabilities	12,097	0.00%
Interest-bearing liabilities	114,970	0.60%
	182,061	

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

(c) Market Risk (cont.)

Interest rate risk (cont.)

Sensitivity analysis

At 30 June 2010, if market interest rates had a parallel shift of +75 basis points/- 75 basis points from year-end rates with all other variables held constant, equity and profit or loss would have increased (decreased) by the amounts shown below. The analysis is performed on the same basis for 2009. The main interest rate risk arises from cash receivables and loans and other receivables with variable interest rates.

Movements in interest rates result in higher/lower interest income from cash and cash equivalents.

	Carrying Amount	Interest Rate Risk			
		-0.75%		+0.75%	
		Profit	Other Equity	Profit	Other Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2010					
Financial assets					
Cash at bank and in hand	24,980	(187)	-	187	-
Advance funding cash at bank	81,119	(608)	-	608	-
Trade and other receivables	107,165	-	-	-	-
Financial liabilities					
Trade and other payables	(66,365)	-	-	-	-
Non interest-bearing liabilities	(15,174)	-	-	-	-
Interest-bearing liabilities	(89,665)	-	-	-	-
Total increase/(decrease)		(795)		795	

At 30 June 2009, if market interest rates had a parallel shift of +75 basis points/- 75 basis points from year-end rates with all other variables held constant, equity and profit or loss would have increased (decreased) by the amounts shown below. The main interest rate risk arises from cash receivables and loans and other receivables with variable interest rates.

Movements in interest rates result in higher/lower interest income from cash and cash equivalents.

	Carrying Amount	Interest Rate Risk			
		-0.75%		+0.75%	
		Profit	Other Equity	Profit	Other Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2009					
Financial assets					
Cash at bank and in hand	28,439	(213)	-	213	-
Advance funding cash at bank	57,569	(432)	-	432	-
Trade and other receivables	77,649	-	-	-	-
Marketable interest securities (at fair value)	33,756	(253)	-	253	-
Financial liabilities					
Trade and other payables	(54,994)	-	-	-	-
Non interest-bearing liabilities	(12,097)	-	-	-	-
Interest-bearing liabilities	(114,970)	-	-	-	-
Total increase/(decrease)		(898)		898	

Capital risk management

The objectives of the Group in managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for the shareholder and benefits for other stakeholders and to sustain future development of the business. The Group monitors the return on capital.

There were no changes in the approach adopted by the Group in capital management during the year.

4 REVENUE

(a) Revenue

Revenue from continuing operations

Revenue from rendering of services

Related parties (i)

Other parties

(i) During the year \$5.9 million of revenue was not charged in respect of disputed costs from the current and prior years.

Other revenue

Secondment income received from:

Other parties

Interest

Related parties

Other parties

Total revenue from continuing operations

(b) Other income

Other income

Total other income

Consolidated Entity	
Jun-10	Jun-09
\$'000	\$'000
512,660	344,877
883	1,267
513,543	346,144
554	783
-	-
1,602	5,070
2,156	5,853
515,699	351,997
484	38
484	38

5 EXPENSES

Items included in profit before tax

Net loss from disposal of fixed assets

Depreciation of:

Buildings

Plant and equipment

Total depreciation

Finance costs:

Bank charges

Interest expenses

Other parties

Operating lease rental expense:

Minimum lease payments

Employee related expenses:

Long service leave expense

Redundancy expenses

Defined benefit superannuation expense

Consolidated Entity	
Jun-10	Jun-09
\$'000	\$'000
13	4
6,792	4,470
4,023	2,430
10,815	6,900
965	535
6	5
971	540
10,511	7,811
1,371	3,042
3,251	4,992
26	26

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

6 AUDITORS' REMUNERATION

Consolidated Entity	
Jun-10	Jun-09
\$	\$
Audit services:	
Amount received or due and receivable by the ANAO as auditors of the consolidated entity.	304,000
Other services:	
During 2009/10, PricewaterhouseCoopers (PwC) were contracted by ANAO to provide audit services on the ANAO's behalf.	
In addition to fees earned from the subcontracted audit, PwC earned the following fees for engagements where they were separately contracted by the consolidated entity during 2009/10:	
- Other assurance services	2,100

7 TAXATION

		Consolidated Entity	
		Jun-10	Jun-09
		\$'000	\$'000
(a) Income tax expense			
Recognised in the income statement			
Current tax expense			
Current year		3,581	7,729
Adjustments for prior years		(97)	-
		3,484	7,729
Deferred tax expense			
Temporary differences arising during the year, net of reversal		(2,948)	(650)
Adjustment for prior years deferred tax		87	-
		(2,861)	(650)
Total income tax expense in income statement		623	7,079
Attributable to:			
Continuing operations		623	7,079
Numerical reconciliation between tax expense and pre-tax net profit			
Profit before tax		4,892	25,519
Income tax using the domestic corporation tax rate of 30% (2009: 30%)		1,467	7,656
Increase in income tax expense due to:			
Non-deductible expenses		89	26
Decrease in income tax expense due to:			
Tax exempt revenues		(65)	-
Tax incentives not recognised in income statement		(858)	(636)
		633	7,046
Under/(over) provided in prior years		(10)	33
Income tax expense on profit before tax		623	7,079
Attributable to:			
Continuing operations		623	7,079
(b) Current tax liabilities/(prepaid income tax)			
Movements during the year were as follows:			
Balance at the beginning of the year		(1,224)	4,552
Income tax paid		(495)	(13,714)
Current year's current income tax expense on operating profit		3,581	7,729
Controlled entity provision		-	-
Under/(over) provision in prior years		(97)	209
		1,765	(1,224)
(c) Unrecognised deferred tax assets			
Deferred tax assets have not been recognised in respect of the following item:			
Capital gain tax losses		11,445	11,461
		11,445	11,461

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

7 TAXATION (CONT.)

	Deferred Tax Assets		Deferred Tax Liabilities		Net	
	Jun-10 \$'000	Jun-09 \$'000	Jun-10 \$'000	Jun-09 \$'000	Jun-10 \$'000	Jun-09 \$'000
(d) Deferred tax assets and liabilities						
Recognised deferred tax assets and liabilities						
Deferred tax assets and liabilities are attributable to the following:						
Consolidated Entity						
Property, plant and equipment	9,502	9,516	(37,247)	(26,969)	(27,745)	(17,453)
Employee entitlements	7,597	7,815	-	-	7,597	7,815
Provisions for warranty	2,614	1,877	-	-	2,614	1,877
Project recognised profit	2,112	492	-	-	2,112	492
Interest accrual	-	-	(33)	(647)	(33)	(647)
Net pension assets	53	234	-	-	53	234
Sundry items	933	1,282	(116)	(107)	817	1,175
Net tax assets/(liabilities)	22,811	21,216	(37,396)	(27,723)	(14,585)	(6,507)
Deferred tax assets have been offset against deferred tax liabilities pursuant to set-off provisions.						
Movements						
Consolidated Entity						
Movement to income tax revenue/(expense)						
Property, plant and equipment	(14)	146	460	315	446	461
Employee entitlements	(218)	921	-	-	(218)	921
Provisions for warranty	737	(784)	-	-	737	(784)
Project recognised profit	1,620	372	-	-	1,620	372
Interest accrual	-	-	614	183	614	183
Net pension assets	20	234	-	(307)	20	(73)
Sundry items	(349)	(365)	(9)	(65)	(358)	(430)
	1,796	524	1,065	126	2,861	650
Movement credited/(debited) directly to equity						
Property, plant and equipment			(10,738)	(966)	(10,738)	(966)
Net pension assets (refer note below)	(201)	-	-	756	(201)	756
	(201)	-	(10,738)	(210)	(10,939)	(210)
Net tax assets/(liabilities)	1,595	524	(9,673)	(84)	(8,078)	440

(e) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity.

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Current tax - credited directly to equity	-	-
Net deferred tax - debited (credited) directly to equity (note 7(d))	10,939	210

8 CASH AT BANK AND IN HAND AND BANK OVERDRAFT

Cash at bank and in hand
Bank overdraft

The consolidated entity's exposure to interest rate risk is discussed in note 3.

Consolidated Entity	
Jun-10	Jun-09
\$'000	\$'000
24,980	28,439
-	-
24,980	28,439

9 ADVANCE FUNDING CASH AT BANK

Included in the advance funding cash at bank are amounts advanced to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the consolidated entity, by the CoA for the purposes of funding the working capital requirement of the Hobart Class AWD project. The amounts advanced have certain contractual restrictions placed on its use. The funds maintained may only be applied to direct project expenditure incurred and claims for reimbursement from the CoA. The amount that exceeds the value of direct project expenditure incurred and unbilled as at balance date is defined as restricted cash. At 30 June 2010, the balance of restricted cash was \$31.2m (2009: \$52.3m).

Consolidated Entity	
Jun-10	Jun-09
\$'000	\$'000
81,119	57,569

10 TRADE AND OTHER RECEIVABLES

Current

Trade receivables
Less: provision for impairment

Other receivables

Accounts receivable ageing profile

Receivables

Not past due
Past due 1-30 days
Past due 31-60 days
Past due 61-90 days
Past due 90+ days
Total receivables

Consolidated Entity	
Jun-10	Jun-09
\$'000	\$'000
106,953	36,149
-	-
106,953	36,149
212	41,500
107,165	77,649
98,074	77,283
9,072	-
11	360
8	6
-	-
107,165	77,649

11 INVENTORIES

Current

Raw materials and stores (at lower of cost or net realisable value)

Consolidated Entity	
Jun-10	Jun-09
\$'000	\$'000
4,931	6,211
4,931	6,211

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

12 OTHER FINANCIAL ASSETS

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Current		
Marketable interest securities (at fair value)	-	33,756
	-	33,756

13 OTHER ASSETS

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Prepayments	4,284	2,249
	4,284	2,249

14 PROPERTY, PLANT AND EQUIPMENT

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Freehold land		
At fair value	29,335	27,769
Buildings		
At fair value	222,821	109,770
Plant and equipment		
At cost	77,913	52,488
Accumulated depreciation	(37,507)	(33,730)
	40,406	18,758
Capital works in progress at cost	8,326	83,013
Total property, plant and equipment	300,888	239,310
Reconciliations		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
Freehold land		
Carrying amount at beginning of year	27,769	27,769
Transfers from capital works in progress	83	-
Revaluation increments/(decrements)	1,483	-
Carrying amount at the end of year	29,335	27,769
Buildings		
Carrying amount at beginning of year	109,770	76,900
Additions	519	-
Transfers from capital works in progress	85,013	33,013
Disposals	-	(4)
Revaluation increments/(decrements)	34,311	4,331
Depreciation	(6,792)	(4,470)
Carrying amount at the end of year	222,821	109,770

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Plant and equipment		
Carrying amount at beginning of year	18,758	9,720
Additions	6,794	3,376
Transfers from capital works in progress	18,908	8,125
Disposals	(31)	(33)
Depreciation	(4,023)	(2,430)
Carrying amount at the end of year	40,406	18,758
Capital works in progress		
Carrying amount at beginning of year	83,013	30,411
Additions/(write off)	29,317	93,739
Transfers to property, plant and equipment	(104,004)	(41,137)
Carrying amount at the end of year	8,326	83,013

Valuations

An independent valuation of all land and buildings of the consolidated entity was carried out by Maloney Field Services Property Consultants and Valuers as at 30 June 2010. 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 cost approach.

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Carrying amounts that would have been recognised if land and buildings were stated at cost.		
Freehold land		
Cost	2,299	2,216
Buildings		
Cost	241,640	156,583
Accumulated depreciation	(114,936)	(111,154)
Net book amount	126,704	45,429

Non current assets pledged as security

Refer to note 26 for information on non-current assets pledged as security by the consolidated entity.

15 TRADE AND OTHER PAYABLES

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Trade payables	23,739	27,538
Other payables and accruals	42,626	27,456
Total payables	66,365	54,994

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

16 NET UNEARNED CONTRACT BILLING / (CONSTRUCTION WORK IN PROGRESS)

	Consolidated Entity	
	Jun-10	Jun-09
	\$'000	\$'000
Contract billings due and receivable	1,171,072	720,943
Contract works in progress	(897,771)	(576,759)
Profit recognised to date	(185,861)	(112,827)
Net unearned contract billing/(contract work in progress)	87,440	31,357

17 NON INTEREST-BEARING LIABILITIES

	Consolidated Entity	
	Jun-10	Jun-09
	\$'000	\$'000
Unsecured		
Non current		
Term loan	4	4
Deferred purchase obligation	15,170	12,093
	15,174	12,097

Term Loan

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 2010 (2009: \$4,000) under AASB139 (Financial Instruments: Recognition and Measurement)

Deferred purchase obligation

As part of the AWD project, subsidiaries of the Company entered into an agreement with the CoA where the CoA makes a contribution to build a production facility required for the construction of the AWDs.

Under this arrangement, a subsidiary of the Company has an obligation to purchase the facility within three months of the completion of the last AWD at an amount equal to the lesser of the written down value of the facility at an agreed depreciation rate, and the fair market value determined by a licensed valuer.

18 INTEREST-BEARING LIABILITIES

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Current		
Unsecured		
Government advance	89,665	114,970
	89,665	114,970

Government advance

Government advance represents the working capital advance provided by the CoA under the ABTIA.

Advances paid by the Commonwealth are in both Australian and foreign currencies and are required to be separately maintained in a CoA interest bearing account.

Funds advances can only be used for the reimbursement of payment to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the consolidated entity, for direct project costs incurred for the AWD project. All interest and expenses that accumulate in the separate bank accounts, in relation to funds advanced, accrues to the benefit of the CoA.

This advance is repayable on demand when certain criteria have been met or if the ABTIA is terminated. ABTIA requires regular review of the advance amount which may be increased or decreased after consideration by the CoA as to the working capital requirements for the AWD project.

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Financing arrangements		
Unsecured facilities		
Total facilities available		
Loan facilities	30,000	25,000
Overdraft facilities	12,000	12,000
Bank guarantees and letters of credit	3,134	7,033
	45,134	44,033
Facilities utilised at balance date		
Loan facilities	6,606	-
Overdraft facilities	-	-
Bank guarantees and letters of credit	3,134	7,033
	9,740	7,033
Facilities not utilised at balance date		
Loan facilities	23,394	25,000
Overdraft facilities	12,000	12,000
Bank guarantees and letters of credit	-	-
	35,394	37,000

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

19 PROVISIONS

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Current		
Employee entitlements, including on costs (a)	19,600	19,275
Redundancy and termination (b)	459	916
Warranty (c)	3,686	2,646
Self insured workers compensation (d)	1,832	1,408
Dividends (e)	-	5,100
Other	335	-
	25,912	29,345
Non current		
Employee entitlements, including on costs (a)	5,692	5,578
Warranty (c)	5,027	3,610
Self insured workers compensation (d)	3,163	3,562
	13,882	12,750

(a) Employee entitlements, including on costs

The current portion includes all unconditional annual leave and long service leave entitlements including on costs where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

The current portion includes the entire amount that the Group does not have an unconditional right to defer settlement.

The non current portion represents the present value of the estimated future cash outflows of long service leave where there is no possibility that the Group could have to pay out the provision within the next 12 months.

(b) Redundancy and termination

The redundancy provision is calculated based on the identified positions which would be redundant at the result of the new organisation structure for the new financial year 2010/11. This redundancy and termination provision is expected to be paid in the early part of the 2010/11 financial year.

(c) Warranty

The Company has a warranty provision for the submarine related activities under the TLS Contract with the CoA represented by the DMO.

The current portion of the provision is expected to be settled in the next financial year. This estimate is based on historical obsolescence and urgent defects costs and takes into account the timing of boat activities on the six boats schedule.

(d) Self insured workers compensation

The consolidated entity is self insured for risks associated with workers' compensation for all staff in South Australia. A provision is raised when an incident occurs that may give rise to a workers' compensation claim. The current portion of the provision is expected to be settled in the next financial year. This estimate is based on historical claim information and any recent trends that may suggest future claims could differ from historical amounts.

(e) Dividends

No provision is made on or before the end of the financial year.

(f) **Other**

The Company is required to maintain the leased properties in a good working condition. A provision has been recognised for the present value of the estimated expenditure required for this purpose.

	Consolidated Entity	
	Jun-10	Jun-09
	\$'000	\$'000
Provisions movements:		
Redundancy and termination		
Balance at 1 July (current and non current)	916	-
Provision made during the year	459	5,888
Provision used during the year	(916)	(4,972)
Balance at 30 June (current and non current)	459	916
Warranty		
Balance at 1 July (current and non current)	6,256	8,871
Provision made/(reversed) during the year	2,457	(2,615)
Balance at 30 June (current and non current)	8,713	6,256
Self insured workers compensation		
Balance at 1 July (current and non current)	4,970	4,230
Provision made/(reversed) during the year	890	2,107
Provision used during the year	(865)	(1,367)
Balance at 30 June (current and non current)	4,995	4,970
Dividends		
Balance at 1 July (current and non current)	5,100	9,250
Provision made during the year	5,000	11,100
Provision used during the year	(10,100)	(15,250)
Balance at 30 June (current and non current)	-	5,100
Other		
Balance at 1 July (current and non current)	-	-
Provision made during the year	335	-
Balance at 30 June (current and non current)	335	-

20 ISSUED CAPITAL

	Consolidated Entity	
	Jun-10	Jun-09
	\$'000	\$'000
Opening issued and paid-up share capital - 10 million ordinary shares (1 July 2009)	10,000	10,000
Movement during the reporting period	-	-
Closing issued and paid-up share capital	10,000	10,000

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

21 RESERVES

	Consolidated Entity	
	Jun-10	Jun-09
	\$'000	\$'000
Opening asset revaluation reserve (1 July)	64,571	61,415
Revaluation increment, gross	35,794	4,509
Deferred tax	(10,738)	(1,353)
Closing asset revaluation reserve	89,627	64,571
Total reserves	89,627	64,571
Asset revaluation reserve		
Comprises of :		
- Land	18,925	17,887
- Buildings	70,702	46,684
Closing balance	89,627	64,571

Nature and purpose of reserves

The land and buildings revaluation reserve is used to record increments and decrements on the revaluation of land and buildings.

22 RETAINED EARNINGS

	Consolidated Entity	
	Jun-10	Jun-09
	\$'000	\$'000
Opening retained earnings (1 July)	109,038	103,462
Actuarial gains (losses) on defined benefit plans after tax	470	(1,764)
Net profit for the year	4,269	18,440
Dividends	(5,000)	(11,100)
Closing retained earnings	108,777	109,038

23 DIVIDENDS

	Consolidated Entity	
	Jun-10	Jun-09
	\$'000	\$'000
Interim fully franked dividend 50 cents per share, declared and paid (2009: 60 cents/share)	5,000	6,000
No final dividend declared and provided for (2009: 51 cents/share fully franked)	-	5,100
Total fully franked dividend, represents a distribution to the shareholder	5,000	11,100
All dividends declared during the year were paid out of profits.		
Dividends franking account		
Class C (30%) franking credits	101,113	99,622

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; and
- (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.

24 COMMITMENTS

(a) Capital expenditure commitments

Contracted but not provided for and payable:

Not later than one year

Later than one year but not later than five years

Later than five years

(b) Operating lease commitments

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

Not later than one year

Later than one year but not later than five years

Later than five years

Consolidated Entity	
Jun-10	Jun-09
\$'000	\$'000
1,003	15,904
-	-
-	-
1,003	15,904
13,498	10,104
41,440	37,399
101,014	89,799
155,952	137,302

The consolidated entity leases land, buildings, computer and other equipment under operating leases.

(c) Hire purchase commitments

The consolidated entity has no hire purchase commitments as at the reporting date.

(d) Superannuation commitments

The consolidated entity contributes to the ASC 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 consolidated entity also contributes to the fund at varying contribution rates depending on the category of fund membership of each member. Members of the ASC Superannuation Fund are entitled to benefits on retirement, disability or death. The trustee of the fund is Trust Company Superannuation Services Limited and the administrator of the fund is KPMG Superannuation Services Pty Limited.

Defined benefits plan

Defined benefit category

The consolidated entity makes 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 2010 was carried out by David O'Keefe, Fellow of the Institute of Actuaries of Australia, of ALEA Actuarial Consulting Pty Limited on 2 July 2010. The actuary concluded that the assets of the defined benefit category of the fund are not 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 consolidated entity.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

24 COMMITMENTS (CONT.)

(d) Superannuation commitments (cont.)

Defined benefits plan (cont.)

Defined benefit category (cont.)

Consolidated Entity	
Jun-10	Jun-09
\$'000	\$'000
Movements in the net asset/(liability) for defined benefits obligations recognised in the statement of financial position	
Net asset/(liability) for defined benefit obligations at 1 July	(778) 1,496
Contributions received	30 26
Income/(expense) recognised in the income statement	(98) 220
Actuarial gains/(losses) recognised directly in equity	671 (2,520)
Net asset/(liability) for defined benefit obligations at 30 June	(175) (778)
Defined benefit superannuation fund	
Amounts in the statement of financial position	
Asset	- -
Liability	(175) (778)
Net pension assets/(retirement benefit obligation)	(175) (778)
Changes in the present value of the defined benefit obligation are as follows:	
Opening defined benefit obligation	9,844 11,105
Service cost	187 258
Interest cost	514 647
Actuarial losses/(gains)	(633) 327
Benefits paid	(1,862) (2,493)
Closing defined benefit obligation	8,050 9,844
Changes in the fair value of fund assets are as follows:	
Opening fair value of fund assets	9,066 12,601
Expected return	603 1,125
Actuarial gains/(losses)	38 (2,193)
Contributions by employer	30 26
Benefits paid	(1,862) (2,493)
	7,875 9,066
Consolidated Entity	
Jun-10	Jun-09
The major categories of fund assets as a percentage of total fund assets are as follows:	
Australian equities	41% 37%
International equities	29% 34%
Australian fixed interest	16% 13%
International fixed interest	4% 8%
Property trusts	6% 5%
Cash	4% 3%
	100% 100%

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.

	Consolidated Entity	
	Jun-10	Jun-09
	\$'000	\$'000
Expense recognised in the income statement:		
Current service costs	187	258
Interest cost	514	647
Expected return on fund assets	(603)	(1,125)
	98	(220)
Actuarial gains/(losses) are recognised directly in equity.		
The expense is recognised in the following line items in the income statement:		
Pension costs/(revenues)	68	(246)
Contribution paid (in labour costs)	30	26
	98	(220)
Actual return on fund assets	641	(1,068)
	641	(1,068)
Expense recognised in statements of comprehensive income		
Actuarial gains/(losses) recognised in the year (net of tax)	470	(1,764)
Cumulative actuarial gains/(losses) recognised in the statement of comprehensive income	(2,795)	(3,265)

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 full assessment was made as at 30 June 2008.

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 30 June 2008, 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 the next full review of the actuarial recommendation to take place as at 30 June 2011. The contribution holiday was recommended by the actuary due to the fund surplus as at 31 December 2006 and as at 30 June 2008.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

24 COMMITMENTS (CONT.)

(d) Superannuation commitments (cont.)

The overall expected long-term rate of return on assets is 7.6%. 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.

	Consolidated Entity	
	Jun-10	Jun-09
Principal actuarial assumptions at the balance date:		
Discount rate at 30 June	5.3%	5.7%
Expected return on fund assets at 30 June	7.6%	7.8%
Future salary increases	4.0%	5.5%

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 (30 April 2010), and a deficit of \$175,000 was reported.

Any deficit under AAS 25 may differ from the net liability of \$175,000 recognised in the balance sheet as at 30 June 2010 due to different measurement rules in the relevant accounting standards AAS25 and AASB 119 Employee Benefits.

	Jun-10 \$'000	Jun-09 \$'000	Jun-08 \$'000	Jun-07 \$'000	Jun-06 \$'000	Jun-05 \$'000
Historic summary						
Defined benefit obligation	(8,050)	(9,844)	(11,105)	(14,005)	(13,874)	(12,277)
Fund assets	7,875	9,066	12,601	18,409	14,612	13,594
Surplus/(deficit)	(175)	(778)	1,496	4,404	738	1,317
Experience adjustments arising on fund assets	38	(2,193)	(5,194)	2,272	(310)	549

(e) Other commitments

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

25 CONTINGENT LIABILITIES

The consolidated entity 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 entities within the consolidated entity 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 consolidated entity is \$9.7 million (2009: \$7.0 million).

In addition to the above, the consolidated entity has provided guarantees and indemnities for the following:

- a) to the State Government of South Australia in relation to ASC AWD Shipbuilder Pty Ltd's obligations to the State Government of South Australia in connection with the Common User Facility and the Maritime Skills Centre, Osborne;
- b) to Bath Iron Works Australia Corporation in relation to ASC AWD Shipbuilder Pty Ltd's obligations to Bath Iron Works Australia Corporation in connection with the strategic capability service agreement; and
- c) to the CoA in relation to ASC AWD Shipbuilder Pty Ltd's obligations to the CoA in connection with the Hobart Class AWD project.

No losses are expected in relation to these guarantee arrangements.

26 REGISTERED CHARGES

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

The CoA also holds the fixed and floating charge over all assets owned by ASC AWD Shipbuilder Pty Ltd in connection with the AWD construction contract.

The above charges are held against default of the contracts.

	Consolidated Entity	
	Jun-10 \$'000	Jun-09 \$'000
Total current assets pledged as security		
Trade receivables	55,790	46,435
Other receivables	96	327
Contract work in progress	(70,718)	(33,042)
	(14,832)	13,720
Total non current assets pledged as security		
Land	17,420	17,420
Building	119,456	88,735
Plant and Equipment	15,036	10,244
	151,912	116,399

27 ECONOMIC DEPENDENCY

The normal trading activities of the consolidated entity depends on contracts with the Commonwealth Government of Australia for the maintenance of six submarines and the construction of three AWDs. That dependency existed during all of the financial year.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

28 KEY MANAGEMENT PERSONNEL DISCLOSURE

Key management personnel compensation

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

	Consolidated Entity	
	2010	2009
	\$	\$
Short - term employment benefits	1,030,966	1,144,963
Post - employment benefits	168,669	96,295
Termination benefits	404,082	238,500
	1,603,717	1,479,758

Key management personnel consists of executive and non executive directors.

Loans to key management personnel

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

Other key management personnel transactions with the consolidated entity

From time to time there may be transactions between the key management personnel and the consolidated entity. 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 DATE

There are no other matters that have arisen between the end of the financial year and the date of this report including any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the consolidated entity, to affect significantly its operations, 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:

VADM CA Ritchie AO RANR;
BJ Carter;
S Ludlam;
DA Miles AM;
JJ O'Connell AO;
GR Phillips;
SAM Pitkin;
RADM USN (ret.) JF Shipway;
G Bulmer (retired 15 January 2010);
W Schofield AM (retired 31 December 2009); and
M Terlet AO (retired 31 December 2009).

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

Other related parties

Shareholders

In performing its contracts, the consolidated entity has transacted on normal commercial terms and conditions with its shareholder, the CoA and its related entities. The CoA is the ultimate parent entity.

	Consolidated Entity	
	2010 \$	2009 \$
Loans to/(from) the CoA and its related entities		
Deferred purchase obligation		
Beginning of the year	12,092,724	6,900,000
Present value of loan advanced	3,077,139	5,192,724
End of year	15,169,863	12,092,724

June 2010

Government advance	Total	AUD	USD	GBP	CAD	EUR	JPY
Beginning of the year		61,643,825	7,706,103	151,286	2,015,090	23,260,666	71,000,000
Advanced received		-	-	-	-	-	-
Advanced repaid		(17,772,722)	-	-	-	-	(58,912,809)
Interest charged		(716)	(9)	-	-	(6)	(8,230)
Interest received		751,367	-	-	-	-	-
End of year (source currency)		44,621,754	7,706,094	151,286	2,015,090	23,260,660	12,078,961
End of year (AUD equivalent)	89,664,838	44,621,754	9,041,528	267,007	2,244,975	33,329,503	160,071

June 2009

Consolidated Entity							
Government advance	Total	AUD	USD	GBP	CAD	EUR	JPY
Beginning of the year		10,437,630	5,585,586	-	-	-	-
Advanced received		50,460,615	4,000,000	150,000	2,015,000	23,200,000	71,000,000
Advanced repaid		333,608	(1,901,949)	-	-	-	-
Interest charged		(661)	-	(36)	(23)	-	-
Interest received		412,633	22,466	1,322	113	60,666	-
End of year (source currency)		61,643,825	7,706,103	151,286	2,015,090	23,260,666	71,000,000
End of year (AUD equivalent)	114,969,972	61,643,825	9,497,292	310,521	2,158,970	40,446,298	913,066

Transactions with Shareholders

During the year, the amounts received or receivable by the consolidated entity from the CoA for various projects was \$512,647,000 (2009: \$344,877,000).

Certain expenditure incurred by the consolidated entity 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:

2010 \$
-
106,511,124

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

31 PARTICULARS IN RELATION TO CONTROLLED ENTITIES AND ASSOCIATE

	Country of Incorporation	Class of Shares	Entity Interest	
			2010 %	2009 %
Parent entity				
ASC Pty Ltd				
Controlled entities				
ASC Engineering Pty Ltd	Australia	Ordinary	100	100
ASC Shipbuilding Pty Ltd	Australia	Ordinary	100	100
ASC Modules Pty Ltd	Australia	Ordinary	100	100
ASC AWD Shipbuilder Pty Ltd	Australia	Ordinary	100	100
Deep Blue Tech Pty Ltd	Australia	Ordinary	100	100
Australian Submarine Corporation Thailand Limited	Thailand	Ordinary	49	49

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 project.

Australian Submarine Corporation (Thailand) Limited is a non trading company and the process for winding up of this entity has commenced. Based on materiality, this entity has not been consolidated in this financial statements.

All subsidiaries have reporting dates of 30 June.

32 PARENT FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for ASC Pty Ltd (**the parent entity**) show the following aggregate amounts:

	Jun-10 \$'000	Jun-09 \$'000
Balance sheet		
Current assets	81,242	89,127
Total assets	375,512	332,739
Current liabilities	138,230	128,509
Total liabilities	163,570	145,156
Net assets	211,942	187,583
Shareholders' equity		
Issued capital	10,000	10,000
Reserves		
Revaluation surplus - land and building	76,583	54,324
Retained earnings	125,359	123,259
	211,942	187,583
Profit or loss for the year	6,630	21,526
Total comprehensive income	22,728	1,813

(b) Guarantees entered into by the parent entity

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. The total value of the bank guarantees arranged by the parent company is \$6.6 million (2009: \$3.9 million).

In addition to the above, the parent entity has provided guarantees and indemnities to Westpac Banking Corporation in support of the \$12.0 million overdraft facility and \$3.1 million bank guarantees assumed by its subsidiary.

No liability has been recognised in relation to these financial guarantees in accordance with the policy set in notes 1(v) as the fair values of these guarantees as at 30 June 2010 and 30 June 2009 are immaterial.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2010, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$1,003,000 (30 June 2009: \$3,242,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2010

33 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

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

		Consolidated Entity	
		Jun-10	Jun-09
	Note	\$'000	\$'000
Cash	8	24,980	28,439
Advance funding cash at bank	9	81,119	57,569
		106,099	86,008

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

Operating profit after income tax		4,269	18,440
Add/(less) items classified as investing/financing activities:			
Interest received		(1,602)	(5,068)
Interest expense		6	5
(Profit)/loss on sale of fixed assets		13	-
(Profit)/loss on sale of other non current assets		-	4
Add/(less) non-cash items:			
Depreciation		10,815	6,900
Pension costs		68	(246)
Income tax expense		623	7,079
Income tax paid		(495)	(13,715)
Net cash provided by operating activities before change in assets and liabilities		13,697	13,399
Change in assets and liabilities			
(Increase)/decrease in receivables		(69,919)	(3,343)
(Increase)/decrease in inventories		1,280	829
(Increase)/decrease in prepayments		(1,804)	(1,236)
(Increase)/decrease in net progress payments received		54,786	39,510
Increase/(decrease) in trade creditors		12,686	1,661
(Increase)/decrease in provisions		2,798	926
Net cash provided by operating activities		13,524	51,746

DIRECTORS' DECLARATION

For the year ended 30 June 2010

The directors declare that, in the directors' opinion:


- a) the financial statements and notes set out on pages 24 to 70 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 consolidated entity's financial position as at 30 June 2010 and of its 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.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Dated at Adelaide this 19th day of August 2010.

Signed in accordance with a resolution of the directors:



Vice Admiral Christopher A Ritchie AO RANR
CHAIRMAN



Stephen Ludlam
DIRECTOR



I have audited the accompanying financial report of ASC Pty Ltd and its controlled entities, which comprises the Consolidated Statement of Financial Position as at 30 June 2010, and the Consolidated Comprehensive Income, Consolidated Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, Notes to and forming part of the Financial Statements including a summary of significant accounting policies, and the directors' declaration. The controlled entities of ASC Pty Ltd comprise the entities it controlled at the year's end or from time to time during the financial year.

The Directors' Responsibility for the Financial Report

The directors of ASC Pty Ltd and its controlled entities 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

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 Audit 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*. I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of ASC Pty Ltd and its controlled entities on 12 August 2010, would be in the same terms if provided to the directors as at the date of this auditor's report.

AUDITOR'S OPINION

In my opinion:

- (a) the financial report of ASC Pty Ltd and its controlled entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of ASC Pty Ltd and its controlled entities financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Australian National Audit Office

A handwritten signature in black ink, appearing to read 'JAH', with a long horizontal stroke extending to the left.

Jocelyn Ashford
EXECUTIVE DIRECTOR

Delegate of the Auditor-General

Canberra
19 August 2010

CORPORATE DIRECTORY

Directors

Vice Admiral Chris Ritchie AO RANR
Chairman

Steve Ludlam
Managing Director and
Chief Executive Officer

Geoffrey Phillips

Bruce Carter

David Miles AM

Jack O'Connell AO

Sally Pitkin

Rear Admiral USN (retired) Dugan Shipway

Company Secretary

Tony Kuhlmann

Auditors

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

Solicitors

Mallesons Stephen Jacques

Bankers

Westpac Banking Corporation

ASC North

(registered and head office)
694 Mersey Road
Osborne SA 5017

GPO Box 2472
Adelaide SA 5001

Telephone: +61 8 8348 7000

Facsimile: +61 8 8348 7001

ASC South

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Osborne SA 5017

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Adelaide SA 5001

Telephone: +61 8 7423 4000

Facsimile: +61 8 7423 4090

ASC West

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Henderson WA 6166

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Useful Email Contacts

Employment enquiries

careers@asc.com.au

Media enquiries

communications@asc.com.au

Other enquiries

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ABN: 64 008 605 034

Copies of ASC's annual reports
can be found at www.asc.com.au

Copies can also be requested
by telephoning +61 8 8348 7000
or by emailing
communications@asc.com.au

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Inside Back Cover

