

# ASC PTY LTD ANNUAL REPORT 2011



# 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	16
Safety Performance	17
Environmental Performance	19
Workforce and Training	20

## CORPORATE GOVERNANCE

22

## FINANCIAL REPORT

25

## CORPORATE DIRECTORY

76

# TRANSMITTAL LETTER

30 September 2011

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



**ASC Pty Ltd**  
ACN 008 605 034  
ABN 64 008 605 034

Mersey Road, Osborne  
South Australia 5017

GPO Box 2472, Adelaide  
South Australia 5001

T + 61 8 8348 7000

F + 61 8 8348 7001

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

Dear Minister,

## **ASC Pty Ltd 2011 Annual Report**

I am pleased to submit the 2011 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 2011 as well as descriptive reports on ASC's performance and progress.

I am pleased to report that ASC Pty Ltd recorded a good financial result that reflects 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, appearing to read 'Chris Ritchie'.

CHRIS RITCHIE AO  
Vice Admiral RANR  
Chairman

# ACRONYMNS

<b>ABTIA</b>	Alliance Based Target Incentive Agreement
<b>ANAO</b>	Australian National Audit Office
<b>AMC</b>	Australian Marine Complex
<b>ASPO</b>	Australian Submarine Program Office
<b>AWD</b>	Air Warfare Destroyer
<b>BI&amp;T</b>	Business Improvement and Transformation
<b>CCSM</b>	Collins Class Submarines
<b>CAC Act</b>	Commonwealth Authorities and Companies Act 1997
<b>CED</b>	Certification Extension Docking
<b>CUF</b>	Common User Facility
<b>CoA</b>	Commonwealth of Australia
<b>DBT</b>	Deep Blue Tech
<b>DFEEST</b>	Department of Further Education, Employment, Science and Technology
<b>DMO</b>	Defence Materiel Organisation
<b>DMO</b>	Defence Materiel Organisation
<b>EEO</b>	Equal Employment Opportunity
<b>EPA</b>	Environmental Protection Authority
<b>ERG</b>	Emergency Response Group
<b>FCD</b>	Full cycle docking
<b>HSMA's</b>	Health and Safety Management Arrangements
<b>IASB</b>	International Accounting Standards Board
<b>IFRS</b>	International Financial Reporting Standards
<b>IMAV</b>	Intermediate Maintenance Availability
<b>IMS</b>	Integrated Master Schedule
<b>IPT</b>	Integrated Project Team
<b>ISSC</b>	In Service Support Contract
<b>LTI</b>	Lost Time Injury
<b>LSS</b>	Lean Six Sigma
<b>LTIFR</b>	Lost Time Injury Frequency Rate
<b>MTI</b>	Medically Treated Injury
<b>MTIFR</b>	Medically Treated Injury Frequency Rate
<b>OHS</b>	Occupational Health and Safety
<b>OSTs</b>	Outfit Support Towers
<b>OHSW&amp;IM</b>	Occupational Health, Safety, Welfare and Injury Management
<b>PLM</b>	Product Lifecycle Management
<b>PPE</b>	Personal protective equipment
<b>PWMS</b>	Production Work Management System
<b>RAN</b>	Royal Australian Navy
<b>SPMT</b>	Self propelled modular transporter
<b>TLSA</b>	Through Life Support Agreement

# COMPANY PROFILE

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

Initially established in 1985, 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 1,700 personnel across our three facilities in South Australia and Western Australia, including over 300 engineering and technical specialists.

ASC is committed 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

Our vision is to be Australia's leading designer, builder and maintainer of naval ships and submarines.

## Mission

Our mission is to safely build and maintain Australia's frontline naval ships and submarines to world class performance and quality standards.

## 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

	2010/11 \$m	2009/10 \$m
Revenue from rendering of services	695.8	513.5
Financial income	4.0	2.4
Other income	0.3	1.0
<b>Total Revenue</b>	<b>700.1</b>	<b>516.9</b>
<b>EBITDA</b>	<b>27.0</b>	<b>14.1</b>
Depreciation and amortisation	(15.7)	(10.8)
<b>EBIT</b>	<b>11.3</b>	<b>3.3</b>
Interest expense	1.1	0.8
Tax expense	(3.6)	(0.6)
Operating profit before tax	14.2	4.9
<b>Operating profit after tax</b>	<b>10.6</b>	<b>4.3</b>
EBIT/Revenue (%)	1.6%	0.6%
Shareholder's equity	217.1	208.4
Return on equity (%)	4.9%	2.1%
Dividend	2.6	5.0
<b>Total assets</b>	<b>577.2</b>	<b>523.4</b>

# CHAIRMAN'S REPORT



## Overview

After the significant changes made to the business, board and management in the 2009/10 period, 2010/11 started with a fresh outlook on the challenges and tasks that lay ahead.

Close collaboration with DMO and the Royal Australian Navy (RAN) was strengthened as we worked towards sustaining increased submarine availability to meet the RAN's requirements. In our shipyard we continued to improve the efficiency of the air warfare destroyer (AWD) block construction and in conjunction with the AWD Alliance we sought resolution of issues arising in other parts of the AWD program.

The Company achieved annual revenue of \$700 million (2010: \$516 million) and profit after tax of \$10.6 million (2010: \$4.3 million). The company's financial performance was affected by ASC's continued self-funding of Deep Blue Tech (DBT) in preparation for participation in the Future Submarine project.

## Continuous Improvement

The Worksmart Program, one company transformation and strengthening of the makeup and skills of the executive management team all continue with a goal of continuous improvement of ASC's efficiency and effectiveness. Results are positive and the company is moving towards best practice in all that it does.

## Collins Class Submarines

I am pleased to report that the establishment of the Australian Submarine Project Office (ASPO) and the relocation of the Director General Submarines to Osborne during the 2009/10 period have borne fruit, resulting in several positive outcomes.

Most notably, the close collaboration and hard work between ASC, DMO and RAN has enabled a significant improvement in meeting Navy's demand for submarines.

Our challenge is to maintain that improvement and ensure availability as demand grows. Close cooperation was also to the fore in the successful undertaking of an emergency docking at our Western Australian facility, completed within one week with minimal disruption to the remainder of the submarine program.

Significant progress was also made on the implementation of a new In-Service-Support-Contract (ISSC) with DMO that will replace the current Through Life Support Agreement (TLSA).

Again, cooperation at the highest levels of Defence, Finance and ASC has greatly facilitated this major breakthrough.

When implemented as expected in the latter part of 2011 this new contract will strengthen our focus and improve our ability to generate better results for our customer.

The submarine support facility in Western Australia, first put into use in the last financial year, has grown from strength to strength and proven to be invaluable in the service we supply to the RAN. The Australian Marine Complex's (AMC) common user facility at Henderson, Western Australia plays an integral part in our operations there and we remain grateful for the ongoing support of the government of Western Australia.

### AWD Project

During 2010/11 significant progress was made in the construction phase of the AWD project at ASC in Adelaide, Forgacs in Newcastle and BAE Systems in Williamstown but the project has not been without its difficulties.

Project management, through the AWD Alliance comprising ASC, Raytheon Australia and the DMO was tested during the period as progress slowed in Williamstown.

As a result, ASC and Forgacs took on more block work late in the financial year after the Federal Government, on recommendation from the alliance, announced a reallocation of work to relieve the pressure on BAE Systems. Some blocks will also be built under a subcontract to ASC in Spain by the AWD design partner Navantia and then shipped to Adelaide.

In short, costs on the project have been contained and the schedule impact minimised.

Resolution of contractual issues between ASC and BAE remains to be completed.

2010/11 also saw the completion of the Blast and Paint facility at ASC shipyard and commencement of construction of the Outfit Support Towers (OSTs) on our shipyard boundary to the Government of South Australia's Common User Facility (CUF). These towers will be integral in the consolidation phase of the construction of the AWDs.

ASC is grateful for the continuous support from the Government of South Australia.

Overall, the AWD project is demonstrating Australian industry's capacity to do the job and its ability to adapt to accommodate disruption and change.

### Future Projects

In 2007 ASC established DBT, a wholly owned subsidiary, as part of its preparation for possible involvement in Australia's SEA 1000 Future Submarine project. DBT is the pre-eminent repository of submarine design expertise in Australia.

In the last year DBT have continued their research and development into concepts for the project. ASC will increase the staff capability of DBT during 2011/12 to ensure that we can build on our capacity and capability to assist the Government in any way we can when a decision is made on the acquisition of the next generation of submarines for Australia.

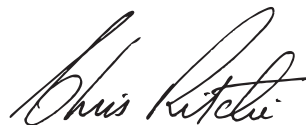
### Board and Management

After significant changes to the Board during the 2009/10 period, it remained stable during 2010/11 and remains well-suited to address the demands and challenges that face ASC. The Managing Director continues to lead by example and the Board recognises the significant and positive impact he has made on the company and the manner in which it is regarded by the customer.

### Conclusion

In the last year, ASC has embraced change, increased efficiency and worked hard towards meeting the customer's demands in a spirit of close collaboration. This could not have been achieved without the commitment of all our staff and contractors who I thank for their continuing dedication and commitment.

As ASC embarks on the new financial year I look forward to more positive outcomes and delivering on all of our obligations to our customer.



**Vice Admiral Chris Ritchie AO RANR**  
CHAIRMAN



# MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT



The end of the 2010/11 financial year marked 18 months since I joined the company. Overall my time with ASC has been both challenging and rewarding and I have enjoyed being part of the transformation towards being more effective and efficient for our customer.

Although we have seen significant change in the last year we will continue on this course well beyond 2011/12.

## Transformation

In 2009/10 we established the Business Improvement and Transformation (BI&T) group, which incorporates the WorkSmart and Process Excellence programs. Overall the programs aim at improving efficiency and instilling strategic cultural change across the business.

The 2010/11 period saw significant progress and major achievements through the programs. Most notably a jointly funded ASC-DMO Production Work Management System, now fully operational at ASC North, has seen measured labour increase to a world's best practice level of utilisation.

## Management Team

After a refreshment of the Board in 2009/10, it remained stable in the 2010/11 period but the executive team underwent some changes.

Simon Tildesley was appointed General Manager – Quality in August 2010 and is in charge of quality related issues across the company. General Manager – Human Resources Brian Archer's planned retirement at the end of June this year allowed Mat Hunter to be promoted and take over the reigns as General Manager – Human Resources. AWD Alliance General Manager Doug Callow also retired during the period. Stuart Palmer was appointed in the newly created position of General Manager – Occupational Health, Safety and Environment.

The appointment of the new and additional General Managers to our Executive team will ensure that we deliver on our goal of efficiency and effectiveness in the coming year.

### Our business

2010/11 saw significant milestones achieved across the business. Construction of the AWD blocks reached new heights at three shipyards across Australia with all the blocks for Ship 1 well underway by the end of the financial year. ASC also started work on its allocated blocks for Ship 2 in early June.

The end of the 2010/11 period saw ASC and Newcastle based Forgacs take on additional block work on the project after the Williamstown shipyard reported potential schedule delays with the construction of blocks for the first of the three AWDs.

The AWD Alliance reassigned blocks to ensure minimal disruption to the project schedule.

Currently, the program continues at pace.

The alliance remains strong and I wish to congratulate and thank our partners, DMO and Raytheon Australia for another successful year.

At ASC North – our submarine maintenance facility in South Australia – two submarines are undergoing full cycle dockings (FCDs) and significant progress was made through the year, with the first at 69 percent complete at the end of the period. Both FCDs are on schedule.

Our support from the South Australian Government remains strong and we thank them for it.

Our ASC West facility also saw many challenges this year but consistently exceeded expectations. During the period we had two unscheduled emergency dockings, in the first instance the team at ASC West, with support from ASC North, managed to turn the boat around in record time ensuring she was available for the Navy's annual anti-submarine warfare exercises (ASWEX).

None of the work we do in the West would, however, be possible without the AMC's floating dock and self propelled modular transporter (SPMT), which was funded by the Western Australian Government.

I would like to thank the Western Australian Government for their ongoing support and commitment to the work we do there.

### Conclusion

With another challenging year behind us, we now look forward to building on our commitment of responsibility and accountability to our customer.

I remain positive about the medium and long term outlook for ASC and reiterate our commitment to effectively and efficiently deliver to our customer.

I have to acknowledge the hard work of the now more than 1,700 staff, who continue to work endlessly to achieve the goals set to them. I wish to thank everyone for stepping up in the last year and putting exemplary performance in the forefront.

I look forward to another year with ASC, working towards being the leading 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. To date this has been under a multi-billion dollar TLSA with DMO.

In the third quarter of 2010 DMO, initiated negotiation of the TLSA replacement contract – the ISSC. In June this year an initial Heads of Agreement was signed by ASC Managing Director and Chief Executive Officer Steve Ludlam and Collins Class Program Manager Air Vice-Marshal Chris Deeble.

The full contract is expected to enter into effect in the last quarter of 2011. The ISSC is a performance based contract.

## Australian Submarine Program Office – Integrated Project Team

During 2009/10 an Integrated Project Team (IPT) comprising of the RAN, DMO and ASC personnel was established as part of the Australian Submarine Program Office (ASPO) to jointly manage the Collins Class maintenance and upgrade project to meet required submarine availability and capability objectives.

The establishment of the IPT played a significant role in the successful delivery of ASC's Sustainment and Generation services to DMO in support of the Collins Class submarines (CCSM) during 2010/11.

The benefits of close engagement and tripartite cooperation between the RAN, DMO and ASC in managing the CCSM Integrated Master Schedule (IMS) resulted in a number of positive highlights during 2010/11 including:

- On-time completion of Intermediate Maintenance Availabilities (IMAV);
- Progressing FCDs in accordance with IMS requirements; and
- Undertaking an emergency docking with minimal disruption to the remainder of the submarine program.

Significant achievements have been made in the following areas:

- The joint management of program risks and issues;
- Reporting of performance using a common dashboard of key performance indicators; and
- The introduction of improved program controls.

The ASPO IPT will build upon these efforts over 2011/12 as part of the transition from TLSA to the ISSC.

## 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).

2010/11 ended with two FCDs taking place at ASC North. The first of the FCDs has progressed from 38 percent complete in the 2009/10 period to 69 percent complete during the 2010/11 period. The planning for an additional FCD, due to start in the third quarter of 2012 at ASC North, has also commenced.

At ASC West, ASC's purpose built submarine support facility, the year ended with the significant achievement of turning around an emergency docking, to replace a damaged propeller, in one week. Also significant was the docking of two submarines simultaneously at ASC West, proving the capability of the facility.

The implementation of a Contingency Store also greatly improved the availability of spares for maintenance activities.

Other maintenance activities at ASC West included:

- The completion of two IMAVs including the first IMAV to be completed in eight weeks, two weeks ahead of schedule;
- An unscheduled docking to rectify damage to an Emergency Propulsion Unit;
- One certification extension docking (CED), including a battery change; and
- One intermediate docking.

In addition, further activities already started will be completed during the 2011/12 financial year, including one mid cycle docking and one CED.

## Submarine Training School

2010/11 was a rewarding year for ASC as it saw a total of 71 submariners qualified compared with 64 in 2009/10.

# HOBERT CLASS DESTROYER PROJECT

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

The three AWDs will be consolidated 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 2010/11, 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 construction of Ship 1 and Ship 2.

## Construction activities

The 2010/2011 period saw the pace of construction rapidly increase at the three shipyards across Australia including New South Wales-based Forgacs, Victorian-based BAE Systems and ASC.

Construction of all blocks for Ship 1 under ASC's responsibility, commenced in the 2010/11 financial year and April 2011 saw a major milestone reached with the commencement of construction of Ship 2.

Other major milestones for the year included:

- Structural completion of the first sub blocks for Ship 1;
- Completion of the first block rotation event; and
- Completion of the first full 'pre-fit out' activity including pipe, heating, ventilation and air conditioning, and cable tray installation.

Another significant milestone for the 2010/11 period was the completion of our Blast and Paint Facility.

In Addition, ASC continued to prepare the shipyard for the consolidation phase expected to start early in 2012 with the commencement of construction of the two OSTs on the boundary with the CUF.

The OSTs are expected to be completed in July and August 2011. The towers will support the consolidation phase of the project.

ASC is also actively preparing to receive blocks from BAE and Forgacs in the first half of 2011/12.

## Procurement

During 2010/11 additional warehousing capacity was built to store the equipment and material for the project.

Over 95 of the 165 major equipment components for Ship 1 were delivered and over 25,800 items were procured to support the construction of the ships.

## Alliance

The AWD Alliance contract model is founded on collaboration between the participants and a shared risk and reward structure.

During 2010/11 the alliance evolved into a working team focused on successfully delivering the most complex surface combat systems ever built in Australia.

In the last quarter of the 2010/11 period the federal government, on recommendation from the alliance, announced the reallocation of construction work which will relieve the pressure on the BAE shipyard. As a result ASC and Forgacs will share the construction and completion of additional blocks for the first of the three AWDs. A small number of blocks will also be reallocated to Spain to be built under subcontract by AWD design partner Navantia.

There will be disruption to the project schedule which is being managed to reduce its impact.

ASC Engineering Group has a broad range of specialist engineering skills and expertise in production engineering, design support, systems test and integration, maintenance engineering, and logistics management in support of the ongoing maintenance and upgrade of the Collins Class submarines, and in ASC's role as Shipbuilder in the AWD Alliance.

The engineering team is closely aligned in its submarine and shipbuilding projects and successfully shares its skills and experience across all areas of the organisation.

## Collins Class Submarines

During 2010/11 the submarine project maintained close collaboration with DMO and the RAN.

Due to this close collaboration, the year saw major achievements, including:

- An improved level of fleet availability through the success of initiatives to increase efficiency and effectiveness;
- Reassessment of the Collins Class maintenance philosophy and maintenance regime;
- A comprehensive analysis of life cycle costing, including an obsolescence management program; and
- Consolidation of the business tools environment with the introduction of MatrixOne Product Lifecycle Management (PLM) Systems and Aveva Marine 3-D CAD.

In another step forward, the Engineering team supporting submarine maintenance adopted an Integrated Product Team Structure with an increased emphasis on lean work practices and prioritising customer needs.

The year saw the Engineering team overcome many challenges including:

- Development and qualification of a complex in-situ repair process to rectify design flaws internal to the 5.4 MW Jeumont DC propulsion motors;
- Development of a difficult in-situ repair to resolve problems with the main generators originating from build; and
- Continued introduction of diesel engine performance and reliability improvements.

## Hobart Class Destroyer Project

ASC continues to coordinate and process design information from the Platform designer, Navantia and is providing production and field engineering assistance in support of AWD module construction at ASC, BAE Systems, and Forgacs.

During 2010/11 the Integrated Logistics Support and Test Activation teams continued the development of the maintenance and test documentation as the AWD project accelerates towards the trial and testing phase of the project.

Deep Blue Tech (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 involved in the design of Australia's future submarines.

During 2010/11 the goal was to build on earlier concepts and experience to conduct the A3 Future Submarine project and develop the capability in readiness for the next phase of the project.

To achieve this goal, DBT is divided into the following:

- The Program Team; and
- The Product Team comprising of three teams:
  - o Combat Systems, Signatures and Modelling and Simulation;
  - o Concept Design; and
  - o Ship Systems.

During 2010/11 DBT's highly skilled and experienced team tackled a broad program of work that led to the development of submarine concept design solutions.

This program consisted of:

- A3 Concept Formulation including:
  - o Defining dimensioning missions for requirements on the technical system and crew;
  - o Breaking down high level requirements to create order and traceability and producing a Functional Performance Specification;
  - o Modelling the functions needed to meet the requirements and defining the system architecture;
  - o Developing a designated A3 concept which draws on the experience gained from earlier concepts; and
  - o Developing systems for integration in the concept design based on requirements and system modelling.
- Conducting system and technology studies, which focused on flood recovery, energy systems, accommodation, sensors and signature management studies;
- Studying whole-of-submarine issues including safety, signatures, reliability, and supportability that affect all subsystems;
- Developing engineering tools for the submarine development toolbox; including Subsim (simulation of submarine missions), Subsize (parametric submarine tool) and the Virtual Towing Tank (for hydrodynamic assessment based on computational fluid dynamics) continued; and

- Program management which included:
  - o Project management of 2010/11 activities;
  - o Process development which saw a number of processes developed to guide and support the work done;
  - o Cost modelling which saw a top down cost model developed; and
  - o Planning for future phases.

In 2010/11 DBT has focused on exploring what the market for submarine systems and technology has to offer and have established non disclosure agreements with potential providers.

The capability of DBT has developed during 2010/11 and now consists of a competent team supported by processes, tools and knowledge on available systems and technology.

# BUSINESS IMPROVEMENT AND TRANSFORMATION

The Business Improvement and Transformation (BI&T) group, established during the 2009/10 financial year, is responsible for the management, implementation, and monitoring of ASC corporate strategy, policies, plans and decisions relating to the continual improvement of ASC.

The BI&T group is accountable for facilitating the transformation of ASC to a service orientated, performance based organisation and is responsible for ASC's WorkSmart and Process Excellence programs.

## WorkSmart

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

Participants in the Lean Six Sigma (LSS) program are trained according to a Black, Green and Yellow Belt system, which acknowledges levels of training and experience.

Black Belts are trained in the total set of LSS. They provide leadership to the Green Belt and Yellow Belts and undertake the most complex improvement projects.

Green Belts are trained in problem solving, efficiency improvement tools and methods to lead teams on critical projects, while Yellow Belts are trained to fill the vital role of connecting the program to their own core business.

2010/11 saw major achievements including:

- The Ideas Scheme, which is active across Production at ASC North and ASC South and designed to collect and implement ideas from the workforce that benefit the business. During the year 475 ideas were collected and assigned, 159 of these for action with a further 244 already implemented or closed;
- The LSS program saw 21 Green Belt projects commence in the second half of 2010/11, with 14 projects completed to deliver improvements and efficiencies across the business. After the first six months the LSS program at ASC South delivered \$1.4 million of benefits, at a cost of \$0.4 million. This cost benefit ratio of 3.5 equates to a saving of over \$700 per ASC employee and is consistent with efficiency benchmarks from Electric Boat in the United States.
- The jointly funded ASC-DMO Production Work Management System (PWMS) is fully operational across ASC North Production and has seen the measured labour increase to a world's best practice level of utilisation. A tailored version of the PWMS system is planned for implementation in ASC West in 2011/12; and
- The Material Flow – 'Production 5S' project at ASC North delivered a consistent and flexible process of storing process materials during maintenance events. It improved work flow, reduced lost or misplaced parts, with 170 lines resolved in the period. It has also ensured the clear visual tracking of materials and their life cycle process.

Work continues on the Safety Transformation Program, which saw ASC work with specialist consultant, ZEAL to co-design an improved safety framework. Rollout at ASC South began in 2010/11 and will be implemented at ASC North and ASC West in 2011/12.

## Process Excellence Program

The Process Excellence program aims to develop stable and consistent foundation 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 2010/11 the Balanced Scorecard methodology was introduced with the aim of better aligning ASC with the corporate strategic objectives and ensuring these are met. Significant progress has been made with the corporate level of the scorecard which focuses on measuring ASC's achievement of strategic objectives. This was delivered on 30 June 2011.

Further development of the system will occur in 2011/12 with the implementation of the departmental level, focusing on supporting metrics and operational execution scheduled for December 2012.

Additional achievements in 2010/11 include:

- The deployment of the Corporate Change Model which saw the introduction of the Business Review Board as a cross functional forum to provide a crucial role of coordinating change across the organisation;
- The mapping of the ASC high level value streams, which defines the process by which ASC added value for the customer. This process saw key flows of work, information and materials captured to identify and quantify any cost leakages and inefficiencies;
- Support provided across various business processes including:
  - o Change and configuration management involving value stream mapping and data analysis used to baseline performance across the organisation;
  - o Implementation of a streamlined recruitment process to save time during the referee and testing stages which resulted in an estimated saving of \$25,000 annually; and
  - o Improvements in the Certification and Supply Chain components of ASC.

The initiatives implemented by ASC employees and supported by the BI&T team in the Submarine Business have achieved a 6.5 percent increase in performance for depot level maintenance. This is expected to increase in 2011/12 when the benefits from the current initiatives are realised.

### Independent Analysis

Independent analysis of ASC's performance showed an improvement in 2010/11 in four main areas:

- Labour utilisation measured directly at the work front on FCDs improved from 47 percent in 2009/10 to 75 percent in 2010/11;
- Production labour cost improved by 11 percent in 2010/11 saving approximately \$6.1 million per annum;
- The ratio of overhead to maintenance costs improved by 28 percent over the last two financial years saving approximately \$6.1 million per annum; and
- The ratio of non-production labour costs per production hour improved by 14 percent over the last two financial years saving approximately \$3.7 million per annum.



# INFRASTRUCTURE DEVELOPMENT

In 2010/11 maintenance and development of infrastructure at ASC South, ASC North and ASC West continued. Most notably the year saw the commencement and completion of major infrastructure and facilities at the ASC South Shipyard.

## ASC North

2010/11 saw the completion of various maintenance and upgrade activities including:

- Upgrades to the level of secure construction to the Equipment and Systems Test Building;
- Construction of a secure Material Control Storage facility;
- Upgrade of the site's main communication room;
- Installation of a new Contingency Store to improve access to frequently required materials;
- Completion of the new Emergency Response Group (ERG) building;
- Installation of a new industrial gas manifold to improve availability, safety and efficiency of industrial gases on board the submarine; and
- Refurbishment of the Rotary Frequency Converter to continue the reliable supply of 60Hz power to the submarine systems.

Work to complete a new fabrication area including grinding and gouging booths to improve safety and efficiency and, upgrades to the safety guarding on several workshop machines continues.

Furthermore the year saw the recertification of the Shiplift permitting ongoing use. There was also an upgrade to the Fire Brigade notification unit ensuring the communication link between the Metropolitan Fire Service and ASC is guaranteed.

## ASC South

2010/11 saw the completion of additional facilities for ASC's state-of-the art shipyard, opened in January 2010. Various maintenance and upgrade activities were also undertaken to support the AWD project including:

- Completion of a Blast and Paint Facility including operating contractor offices and amenities;
- Refurbishment of the site's gantry crane rails to extend their life throughout the AWD project;
- Installation of four dip tanks at the Pipe Workshop to support pipe manufacture for the AWDs;
- Installation of an additional lunch room to support growing Production staff numbers;
- Refit of an existing building to support ERG operations and completion of the ERG support vehicle upgrade;
- Refurbishment of a new personal protective equipment (PPE) store to support the relocation and control of the sites rigging materials; and
- Conversion of the site's carbon dioxide gas reticulation to argon to support efficient AWD pipe installation across the site.

Both ASC North and ASC South facilities have seen a streamline in several site service contracts including Fire Protection Services and air conditioning services. Additionally, the introduction of MEXOps, a computer based program accessed by department administrators for the efficient logging and tracking of facilities related issues, at both sites, has significantly increased the effectiveness of the Maintenance team.

## Techport Australia

The CUF, officially opened in February 2010, will be a vital site for the consolidation and transportation of the three AWDs. It forms part of the Techport Australia precinct, adjacent to ASC's shipyard, in which the South Australian Government has invested \$300 million.

2010/11 saw the commencement of the construction of two OSTs to support the consolidation and fit out of the AWDs and are expected to be completed early in the new financial year.

In 2010/11 a further 100 AWD Alliance staff from ASC, the Commonwealth, Raytheon Australia, Navantia, Bath Iron Works, Lockheed Martin and the United States Navy moved into the AWD Systems Centre, taking the total to 400 staff.

## Australian Marine Complex

Since the Western Australian Government's \$60 million floating dock was opened at the AMC in Henderson, Western Australia ASC has successfully docked and transferred three different Collins Class submarines to ASC West for maintenance.

ASC thanks the South Australian and Western Australian Governments for their continued invaluable 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.

ASC remains committed to achieving safe work practices and a safety conscious culture.

## 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 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 2010/11 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 increase the focus on OHS issues, ASC:

- Appointed a General Manager for OHS;
- Introduced the myOSH Safety software program to facilitate in depth analysis of incidents, near miss and hazard identification;
- Implemented standardised Safety Systems and training across all ASC sites;
- Improved communication and consultation across the total workforce; and
- Developed programs to further Executive Level involvement.

To further promote employee health, ASC:

- Assisted 21 employees to quit smoking;
- Made flu vaccinations available to all staff and 680 employees opted to receive the vaccination;
- Facilitated 513 blood donations and 11 plasma donations; and
- Raised awareness about the importance of nutrition and a healthy heart.

# SAFETY PERFORMANCE CONTINUED

## Statistics

### Notifiable Incidents

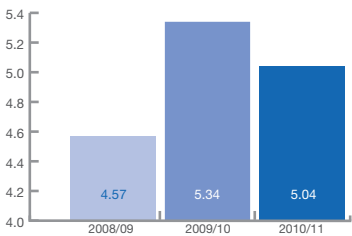
Notifiable incidents indicate the number of incidents that were of a serious nature and had to be reported to Comcare.

Notifiable incidents	2010/11
Deaths	0
Dangerous occurrences	6
Serious personal injury	1
Incapacity	0
Total	7

### 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 5.04 for 2010/11 (including contractors).

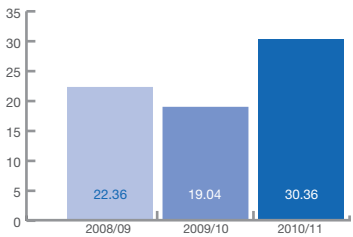


LTIFR = number of LTIs X 1,000,000 divided by hours worked per month.

### 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 30.36 was recorded for 2010/11 (including contractors).



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

ASC is committed to addressing the root causes of LTI's and MTI's and have implemented the following strategies to prevent reoccurrences:

- The introduction of a software database for the recording of all incidents providing greater transparency and the ability to trend injuries through site specific locations, body locations and workforce groups;
- Emphasis at toolbox level where injuries are prevalent in specific areas and types of rectification;
- Continuous emphasis on near miss reporting;
- A focus on appropriate PPE for different tasks undertaken; and
- The reinforcement of the Take 5 program, a safety awareness method, across all sites.

### Investigations

The increase in the MTI average number in 2010/11 was due to an increase in activity levels at ASC South and a greater emphasis on reporting. Management is paying close attention to these numbers in an effort to decrease these averages for 2011/12.

Averages at ASC North and ASC West plateaued in the period and further work will be done to reduce these averages for 2011/12.

Specific areas of concern highlighted through the myOSH data base resulted in the implementation of effective measures and a reduction of injuries.

During 2010/11 a dangerous incident was reported to Comcare involving the alleged use of unsuitable lifting equipment while performing a task at ASC South. Subsequent investigations revealed the correct equipment was used.

Additionally, a personal injury relating to a static shock issue was reported to ComCare. The incident occurred during the service of a submarine at Diamantina Wharf, HMAS *Stirling*, Garden Island, Western Australia.

ComCare was satisfied that the implementation of all internal recommendations were taken in response to the incident and will eliminate the possibility of any future reoccurrences.

### Notices

There were no notices issued against ASC in the 2010/11 financial year.

# 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 amongst employees and contractors;
- Define and meet our environmental objectives and targets;
- 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 the ASC 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 2010/11 there were no environmental incidents that required official regulatory notification.

In September 2010 ASC submitted a Notification of site contamination of underground water (pursuant to Section 83A of the Environmental Protection Act 1993) for ASC North and ASC South sites, as a result of groundwater monitoring indicating concentrations of potential contaminants exceeding the Environmental Protection Authority (EPA) guidelines. ASC is undertaking further monitoring and assessment of the groundwater to determine the source and whether this is due to historical land-use, unrelated to ASC operations. ASC will work with the EPA in order to resolve this issue.

## Environmental Licences

ASC North and ASC South facilities are licensed under the EPA for the related scheduled activities undertaken at each site. ASC West is registered with the Department of Environment and Conservation.

# WORKFORCE AND TRAINING

ASC continues its ongoing commitment to both retaining and attracting the highest quality employees. Through the development of our workforce ASC seeks to harness innovation as we strive to optimise our business practices.

2010/11 was a challenging year but ASC competed strongly in an increasingly competitive employment environment. These challenges were met through the execution of a robust recruitment strategy and the delivery of quality training; a key element of ASC's value proposition to both existing and future employees.

At the end of 2010/11 ASC employed over 1,950 personnel (including contractors) across the three sites, ASC South, ASC North and ASC West. One third of employees were employed in a production capacity.

## Professional Development

Central to ASC's value proposition to its workforce is our ongoing investment in our people through:

- Delivery of training that enhances skills and knowledge as well as career development opportunities;
- Encouraging a culture of innovation and excellence that support the business core values; and
- Communication to better understand where flexible work practices can support sustainable work/life balance.

## Recruitment and Training

ASC is committed to attracting high quality employees while also striving to further develop and retain our employees to ensure the ongoing success of the business.

Throughout 2010/11 ASC continued its growth, employing over 400 new people across both projects. Momentum grew for the AWD project with 285 positions filled.

In 2011/12, numbers will further increase with ASC looking for more than 200 additional employees predominately in the following Production areas:

- Boilermakers;
- Welders;
- Pipe Welders;
- Pipe Fitters;
- Electricians;
- Mechanical Fitters; and
- Operators.

In addition, ASC will also require staff in the following areas:

- Engineering;
- Planning;
- Project Management;
- Supply Chain; and
- Production Management.

## Government Support for Training

ASC continued to maximise the use of State and Federal Government funding. This funding included the Productivity Places Program which provides targeted training to support the development of skills in Australia to meet existing and future industry demands. The program expanded to 109 positions in 2010/11.

Additionally, ASC was supported by the South Australian government's Minister for Further Education, Employment and Training (DFEEST) in-kind funding program. This provided \$374,000 throughout the year to support the delivery of pre-employment and qualification based training.

Both programs assisted ASC in offsetting the training costs associated with courses such as:

- Certificate IV in Business Administration, Competitive Manufacturing, Frontline Management, Occupational Health and Safety, Project Management and Training and Assessment;
- Diplomas in Engineering (Technical), Management, Occupational Health and Safety and Project Management; and
- Advanced Diplomas in Electrical Engineering (Design) and Mechanical Engineering (Design).

## Specialist Training

The Skilling Australia's Defence Industry funding continued during 2010/11. The initiative enabled ASC to maintain its support of the University of South Australia's Naval Test and Evaluation program which remains vital to the ongoing quality of engineering within the business.

Further specialist education and training was undertaken in the vital area of Marine Surveying which was delivered through the Australian Maritime College. ASC currently has five employees enrolled in the College program, the first of whom is due to graduate later in 2011, with the remaining completing their studies in 2012.

This is the only qualification for marine surveyors available in Australia.

## Apprenticeships

ASC continues to be at the forefront of supporting young and upcoming workers. As such the company established a new Apprentice Program in 2010/11. The new program saw an intake of 26 new apprentices in January 2011, lifting ASC's apprentice numbers to 76 overall and putting ASC on the map as having one of the largest apprenticeship programs in the state.

The program provides a fully structured apprenticeship supporting unique requirements. The January 2011 intake included five adult apprentices, one female apprentice and one school based apprentice.

Our new apprentice program reflects the company's commitment to developing a pool of skilled talent to meet our growing production requirements and expectations of our customer.

ASC also offers a range of training opportunities across the business that enables apprentices to learn technically advanced skills that they will not find in other industries.

The ASC apprentice program provides apprentices with a unique opportunity to work on two of the most complex defence programs ever undertaken; the maintenance of the Collins Class submarines and the construction of the Hobart Class AWDs.

## School Engagement

The long term future of ASC will rely on its ability to have access to a future workforce with the skills, knowledge and attitude necessary to maintain Australia's frontline naval capabilities.

ASC has continued its involvement as a key industry leader in the development of viable strategies to better inform students, teachers and families of the opportunities available within defence industries.

The Defence Industry Pathway Program, a school engagement program sponsored by ASC, was again a great success in 2010/11, with four students granted apprenticeships at ASC. ASC will seek to continue this program in 2011/12.

## Equal Employment Opportunity Principles

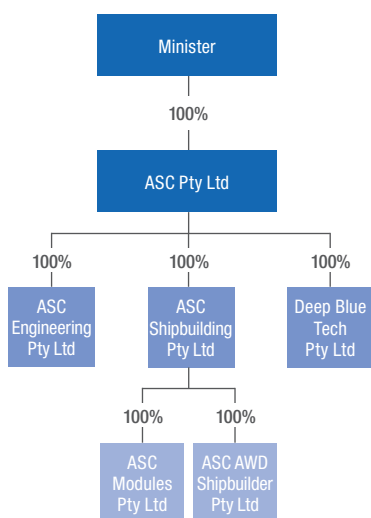
ASC is committed to Equal Employment Opportunity (EEO) Principles and continues to develop EEO strategies to ensure no discriminatory policies, practices or procedures exist at ASC. With a population of approximately 15 percent, ASC is committed to attracting more females to the company. ASC's brand as an EEO Employer is further strengthened by maintaining generous maternity leave entitlements in addition to the Government Paid Parental Leave which was introduced during 2010/11.

# 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 2010/11 year.

## Directors

The directors of ASC (other than the Managing Director) are appointed by the Minister for a term. As at 30 June 2011, 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
RADM USN (Ret) 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 function are effective; and

- Maintain an effective external and internal audit function, in compliance with all applicable laws.

As at 30 June 2011, 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 2011, 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 2011, the committee comprised David Miles, AM (Chairman), VADM Chris Ritchie AO RANR, Sally Pitkin and RADM USN (Ret) Dugan Shipway.

### Attendance

Attendance at Board and committee meetings during 2010/11 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	10	10	-	-	2	2	2	2
Steve Ludlam	10	10	-	-	-	-	-	-
Geoff Phillips	10	10	3	3	2	2	-	-
Bruce Carter	10	9	3	3	-	-	-	-
David Miles	10	10	-	-	-	-	2	2
Jack O'Connell	10	9	3	3	-	-	-	-
Sally Pitkin	10	10	-	-	2	2	2	2
RADM USN (Ret) Dugan Shipway	10	9	-	-	-	-	2	2



# CORPORATE GOVERNANCE CONTINUED

## 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 minimise 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 2010/11, the program covered:

- Defence Exports;
- Environment;
- Intellectual Property; and
- Occupational Health and Safety.

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

# FINANCIAL REPORT

30 June 2011

## CONTENTS

DIRECTORS' REPORT	26
AUDITOR'S INDEPENDENCE DECLARATION	29
STATEMENT OF COMPREHENSIVE INCOME	30
STATEMENT OF FINANCIAL POSITION	31
STATEMENT OF CHANGES IN EQUITY	32
STATEMENT OF CASH FLOWS	33
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS	34
DIRECTORS' DECLARATION	73
INDEPENDENT AUDITOR'S REPORT	74

This financial report covers ASC Pty Ltd and its controlled entities.  
The financial report is presented in Australian currency.

## ASC PTY LTD AND ITS CONTROLLED ENTITIES

### DIRECTORS' REPORT

For the year ended 30 June 2011

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 2011.

#### Directors

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

VADM Christopher Angus Ritchie AO RANR

Bruce James Carter

Stephen Ludlam

David Arthur Miles AM

John Joseph O'Connell AO

Geoffrey Raymond Phillips

Sally Anne Majella Pitkin

RADM USN (retired) RADM John Francis "Dugan" Shipway

#### Principal Activities

The principal activities of the Group during the course of the financial year ended 30 June 2011 are set out below:

##### **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 TLSA.

##### **Hobart Class AWD related activities:**

Activities continued under the Alliance Based Target Incentive Agreement (ABTIA) with other members of the AWD Alliance, the 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.

#### Consolidated result

The consolidated profit of the Group for the financial year attributable to the shareholders of ASC Pty Ltd was \$10,577,000 (June 2010: \$4,269,000) after provision for income tax expense of \$3,609,000 (June 2010: income tax expense of \$623,000).

#### Review of operations

##### **Collins Class Submarine related activities:**

During the financial year, the key CCSM activities focused on the following areas:

- Improving the availability of the CCSM to the RAN;
- Improving business performance by the systemisation of the underlying business processes;
- Identifying and pursuing productivity and efficiency improvements;
- Working closely with the RAN and the DMO through the ASPO for the management of the CCSM maintenance; and
- Continuing the innovation in engineering practices to meet the challenges of obsolescence.

##### **Hobart Class AWD related activities:**

During the financial year, the AWD project has completed the Support System Detailed Design Review. 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 the ASC shipyard. Across the three sites, construction of twenty-eight of the thirty-one blocks has commenced for Ship 1. Planning and procurement activities are well advanced in support of production of Ship 2 blocks. Following difficulties experienced by BAE in the construction of the blocks allocated to it, the CoA announced changes to the scope of work assigned to the three shipyards fabricating blocks for the AWD project. The AWD Alliance plans to re-allocate work assigned to BAE Systems to Forgacs, Navantia and ASC, in accordance with the Commonwealth's announcement.

No profit has been recognised for the AWD project as the project is still at its early stage and the outcome of the project cannot be estimated reliably yet.

**Dividends**

The directors have declared an interim unfranked dividend of \$2,600,000 paid on 15 April 2011.

The total 2010/11 unfranked dividend represents a distribution to the shareholder of \$2,600,000, compared with the special franked dividend of \$5,000,000 in the 2009/10 financial year.

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final unfranked dividend of \$3,800,000 to be paid at a date to be determined by the Board, out of retained earnings at 30 June 2011.

**State of affairs**

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

**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: Environmental Management Systems, which forms part of ASC's Corporate Management System. The Company's South Australian and Western Australian submarine facilities and the South Australian shipbuilding facility have accreditation for AS/NZ ISO 14001: Environmental Management Systems.

In September 2010 the Company submitted a "Notification of site contamination of underground water (pursuant to Section 83A of the Environmental Protection Act 1993)" for the South Australian submarine site and South Australian shipbuilding site, as a result of groundwater monitoring undertaken at the sites that identified concentrations of potential contaminants which exceeded the EPA guidelines. Further assessment, including a screening risk assessment for the submarine site, is being undertaken to satisfy the EPA requirements and determine whether the contamination is due to historical land-use, unrelated to the Group's operations. This assessment is planned for completion in September 2011. The Company is to work with the EPA to resolve this issue. Subject to the favourable assessment of this issue, the Group has 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 DMO has indicated its intention to replace TLSA with a new agreement. It is anticipated that the new agreement will incorporate significantly different commercial terms to the current TLSA. 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.

## ASC PTY LTD AND ITS CONTROLLED ENTITIES

### DIRECTORS' REPORT

For the year ended 30 June 2011

#### *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 29 and forms part of the Directors' Report for the year ended 30 June 2011.

#### **Rounding of amounts**

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 7th day of September 2011.

Signed in accordance with a resolution of directors:



**VADM 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 AND ITS CONTROLLED ENTITIES FINANCIAL REPORT 2010-11 AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the financial report of the ASC Pty Ltd and its controlled entities for the year ended 30 June 2011, to the best of my knowledge and belief, there have been:

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

Australian National Audit Office

A handwritten signature in black ink, appearing to read 'JA', is written over a horizontal line.

Jocelyn Ashford

Executive Director

Delegate of the Auditor-General

Canberra

6 September 2011

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 30 June 2011

	Note	Consolidated Entity	
		Jun-11 \$'000	Jun-10 \$'000
<b>Revenue from continuing operations</b>	4(a)	699,999	516,451
Other income	4(b)	82	484
Materials and subcontractors		(384,849)	(258,731)
Labour		(214,331)	(178,535)
Depreciation and amortisation	5	(15,745)	(10,815)
Finance costs	5	(1,348)	(1,723)
Insurance		(8,008)	(5,161)
Operating lease	5	(11,823)	(10,511)
Professional fees		(6,262)	(7,059)
Repairs and maintenance		(7,014)	(5,559)
Travelling expenses		(4,419)	(4,824)
Office expenses		(5,175)	(6,930)
Utilities expense		(6,740)	(6,044)
Other expenses		(20,181)	(16,151)
<b>Profit before income tax</b>		14,186	4,892
Income tax (expense)/revenue	7(a)	(3,609)	(623)
<b>Profit for the year</b>		10,577	4,269
<b>Other comprehensive income</b>			
Net gain / (losses) on revaluation of land and buildings	20	442	35,794
Net actuarial gains (losses) on defined benefit plans	23	624	671
Income tax relating to components of other comprehensive income		(319)	(10,939)
<b>Other comprehensive income, net of tax</b>		747	25,526
<b>Total comprehensive income for the year, net of tax</b>		11,324	29,795
Profit attributable to:			
member of the parent entity		10,577	4,269
Total comprehensive income attributable to:			
member of the parent entity		11,324	29,795

The above statement 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 2011

		<b>Consolidated Entity</b>	
	<b>Note</b>	<b>Jun-11 \$'000</b>	<b>Jun-10 \$'000</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	140,365	106,099
Trade and other receivables	9	119,505	107,165
Inventories	10	4,075	4,931
Other current assets	11	2,959	1,284
<b>Total current assets</b>		<b>266,904</b>	<b>219,479</b>
<b>Non current assets</b>			
Net pension assets	23(d)	425	-
Property, plant and equipment	12	305,065	300,888
Other non current assets	13	4,756	3,000
<b>Total non current assets</b>		<b>310,246</b>	<b>303,888</b>
<b>TOTAL ASSETS</b>		<b>577,150</b>	<b>523,367</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	83,391	66,365
Net unearned contract billing	15	129,522	87,440
Interest-bearing liabilities	17	76,032	89,665
Current tax liabilities	7(b)	2,442	1,765
Provisions	18	28,357	25,912
<b>Total current liabilities</b>		<b>319,744</b>	<b>271,147</b>
<b>Non current liabilities</b>			
Non interest-bearing liabilities	16	13,814	15,174
Net pension liabilities	23(d)	-	175
Deferred tax liabilities	7(d)	12,251	14,585
Provisions	18	14,213	13,882
<b>Total non current liabilities</b>		<b>40,278</b>	<b>43,816</b>
<b>TOTAL LIABILITIES</b>		<b>360,022</b>	<b>314,963</b>
<b>NET ASSETS</b>		<b>217,128</b>	<b>208,404</b>
<b>EQUITY</b>			
Contributed equity	19	10,000	10,000
Reserves	20	89,937	89,627
Retained earnings	21	117,191	108,777
<b>TOTAL EQUITY</b>		<b>217,128</b>	<b>208,404</b>

The above statement 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 2011

	Consolidated Entity			
	Contributed Equity	Reserves	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2009</b>	10,000	64,571	109,038	183,609
Profit after tax for the year	-	-	4,269	4,269
Revaluation increment	-	35,794	-	35,794
Actuarial gains (losses) on defined benefit plans	-	-	671	671
Income tax relating to components of other comprehensive income	-	(10,738)	(201)	(10,939)
Total other comprehensive income	-	25,056	470	25,526
<b>Total comprehensive income for the year</b>	-	25,056	4,739	29,795
<b>Transactions with owners in their capacity as owners:</b>				
Dividends provided for or paid	-	-	(5,000)	(5,000)
<b>Balance at 30 June 2010</b>	10,000	89,627	108,777	208,404
<b>Balance at 1 July 2010</b>	10,000	89,627	108,777	208,404
Profit after tax for the year	-	-	10,577	10,577
Revaluation increment	-	442	-	442
Actuarial gains (losses) on defined benefit plans	-	-	624	624
Income tax relating to components of other comprehensive income	-	(132)	(187)	(319)
Total other comprehensive income	-	310	437	747
<b>Total comprehensive income for the year</b>	-	310	11,014	11,324
<b>Transactions with owners in their capacity as owners:</b>				
Dividends provided for or paid	-	-	(2,600)	(2,600)
<b>Balance at 30 June 2011</b>	10,000	89,937	117,191	217,128

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

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
For the year ended 30 June 2011

Note	Consolidated Entity	
	Jun-11 \$'000	Jun-10 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts in the course of operations (inclusive of goods and services tax)	767,061	536,032
Payments to suppliers and employees in the course of operations (inclusive of goods and services tax)	(695,300)	(518,936)
Income taxes refunded / (paid)	(5,586)	(495)
Net cash provided by / (used in) operating activities	66,175	16,601
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	3,980	2,353
Proceeds from disposal of non current assets	128	19
Proceeds from invested funds	-	33,756
Purchase of property, plant and equipment	(19,730)	(36,631)
Net cash provided by / (used in) investing activities	(15,622)	(503)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(2,600)	(10,100)
Proceeds from interest-bearing liabilities	1,088	37,873
Repayment of interest-bearing liabilities	(10,573)	(19,305)
Repayment of non interest-bearing liabilities	-	3,077
Interest paid	(1,088)	(6)
Net cash provided by / (used in) financing activities	(13,173)	11,539
<b>Net increase/(decrease) in cash and cash equivalents</b>	37,380	27,637
Effects of exchange rate changes on cash and cash equivalents	(3,114)	(7,546)
<b>Cash and cash equivalents at the beginning of the financial year</b>	106,099	86,008
<b>Cash and cash equivalents at the end of the financial period</b>	140,365	106,099

The above statement 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 2011

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial report for the year ended 30 June 2011 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 financial assets and liabilities (including derivative instruments) at fair value through profit or loss and land and buildings.

*Critical accounting estimates and judgements*

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.

*Basis of preparation*

Notwithstanding the negative working capital of \$52,840,000 for the Group (June 2010 negative working capital of \$51,668,000), 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 the timing of the receipts of the billings meets the timing of the payments for the operating expenditure of the relevant contracts;
- Net assets of \$217,128,000 (June 2010: \$208,404,000);
- Certain current liabilities are not expected to be paid out in full within twelve months after balance date;
- \$12.0 million overdraft facility not utilised at balance date; and
- \$30.0 million multi option bank facility 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.

**(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 2011 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.

*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 as the Group's transactions with government-related entities are likely to be considered too significant to the Group's operations to be eligible for exemption from disclosures.

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

### (b) New accounting standards and interpretations not adopted early (cont.)

*AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective 1 July 2013)*

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Group has no public accountability as defined in AASB 1053 and is therefore eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will have no impact on any amount recognised in the financial statements but will likely reduce the disclosure requirements of the Group if adopted.

*AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-5 Amendments to Australian Accounting Standards (effective for annual periods beginning on or after 1 January 2011)*

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.

*IFRS 10 Consolidated financial statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of interests in other entities and revised IAS 27 Separate financial statements and IAS 28 Investments in associates (effective 1 January 2013)*

In May 2010, the IASB issued a suite of guidance on control and consolidation, on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard to have a significant impact on its financial statements.

*IFRS 13 Fair value measurement (effective 1 January 2013)*

IFRS 13 was released in May 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group does not expect the new guidance to have a significant impact on its 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 2011 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. Details of the subsidiaries are set out in note 30. 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.

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**(d) Revenue recognition (cont.)**

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 are 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 measured at fair value, based on valuations by external independent valuers, less subsequent depreciation for buildings. Revaluations by external independent valuers are undertaken with sufficient regularity to ensure that the carrying amount does not differ materially from the fair value at the end of the reporting period. 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.

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

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

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.

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.

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. Further details are disclosed in note 1(p).

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.

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

### (i) Taxation (cont.)

#### *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 who elect to join the Group's superannuation plan 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.

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.



**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**(n) Provisions (cont.)**

*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.

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

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.

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

### (q) Cash and cash equivalents

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

- Cash at bank and in 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.

Included in the cash at bank are amounts advanced to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the consolidated entity, by the CoA, for the purpose 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. This amount has been disclosed in note 8.

### (r) Investments and other financial assets

#### *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.

#### *Subsequent measurement*

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

### (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.

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

### (u) Dividends

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

### (v) Financial guarantee contracts

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

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

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

No liability has been recognised by the consolidated entity in relation to these guarantees, as the fair values of the guarantees as at 30 June 2011 and 30 June 2010 are immaterial.

### (w) Parent entity financial information

The financial information for the parent entity, ASC Pty Ltd, disclosed in note 31 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 CRITICAL 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.

In line with the accounting policy, no profit has been recognised for the Hobart Class AWD project yet.

#### *Provision for warranty*

The consolidated entity has a warranty provision for submarine related activities. This provision is calculated based on the six CCSM schedule and their relevant exposure index. ASC Pty Ltd has a TLSA with the CoA represented by the DMO for the maintenance of the CCSM. Given the nature and the age of the assets under warranty, there is significant judgement in the determination of the provision for warranty. The historical details from the obsolescence, urgent defects and a few specific incidents have also been considered for determining potential future warranty claims. The provision for warranty as at 30 June 2011 is \$9,550,000.

#### *Provision for self insurance – workers compensation*

The provision for self insurance is raised when an incident occurs that may give rise to a workers' compensation claim. This is measured by the estimated cost of that claim, discounted to its present value. The margin is inclusive of a contingency which is intended to increase the probability that the provision will remain adequate to meet the expected liabilities. The risk margin is required to allow for the inherent risks in the self insurance industry and for environmental uncertainty. Under the APRA prudential standards for private sector insurers a probability sufficiency of 75% is required as a minimum. While the Group's provision level is in line with the Group's assessment of the risks that it is exposed to, there continues to be judgement associated with this estimate. The provision for self insurance – workers compensation as at 30 June 2011 is \$5,129,000.

### 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.

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-11 \$'000	Jun-10 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	140,365	106,099
Trade and other receivables	119,505	107,165
	259,870	213,264
<b>Financial liabilities</b>		
Trade and other payables	83,391	66,365
Non interest-bearing liabilities	13,814	15,174
Interest-bearing liabilities	76,032	89,665
	173,237	171,204

#### (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.

### 3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

## Financial risk management (cont.)

(a) Credit risk (cont.)

### Guarantees

Credit risk also arises in relation to financial guarantees given to certain parties (see note 24 for details). Such guarantees are issued in accordance with the ASC Corporate Management Policies and are only provided to support a financial/commercial arrangement.

*Recognised financial instruments*

	Jun-11 \$'000	Jun-10 \$'000
<b>Trade and other receivables</b>		
<i>Counterparties with external credit rating (Standard &amp; Poor's)</i>		
AAA [Australia (Commonwealth of)]	117,846	106,723
A+	1,391	365
Credit rating not determined	268	77
	119,505	107,165
<b>Cash and cash equivalents</b>		
AA	140,365	106,099
	140,365	106,099

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 TLSA for six CCSM 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 & 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 the Bank Bill Official Rate plus 100 basis points; and
- \$30.0 million multi option bank facility.

### 3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

#### Financial risk management (cont.)

##### (b) Liquidity risk (cont.)

The Group receives 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.

##### *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
<b>Consolidated - At 30 June 2011</b>				
<b>Non-derivatives</b>				
Non-interest bearing	83,391	19,625	103,016	97,205
Variable rate (including bank overdraft)	76,032	-	76,032	76,032
<b>Total non-derivatives</b>	<b>159,423</b>	<b>19,625</b>	<b>179,048</b>	<b>173,237</b>
<b>Consolidated - At 30 June 2010</b>				
<b>Non-derivatives</b>				
Non-interest bearing	66,365	20,701	104,725	81,539
Variable rate (including bank overdraft)	89,665	-	89,665	89,665
<b>Total non-derivatives</b>	<b>156,030</b>	<b>20,701</b>	<b>194,390</b>	<b>171,204</b>

##### (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.

### 3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

#### Financial risk management (cont.)

#### (c) Market Risk (cont.)

##### 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.

	Currency	Jun-11 AUD \$'000	Jun-10 AUD \$'000
<b>Financial assets</b>			
Cash and cash equivalents	USD	7,717	5,684
	EUR	21,200	28,370
	GBP	228	267
	CAD	1,523	1,763
	NOK	-	254
	JPY	140	160
	Total	30,808	36,498
Trade and other receivables	USD	679	11,879
	EUR	7,895	11,162
	GBP	507	218
	CAD	417	482
	NOK	-	47
	Total	9,498	23,788
<b>Financial liabilities</b>			
Trade and other payables	USD	1235	9522
	EUR	8,329	7,013
	GBP	508	302
	NOK	-	301
	Total	10,072	17,138
Net unearned contract billing	USD	(19)	(1,010)
	EUR	(68)	(822)
	GBP	-	(84)
	Total	(87)	(1,916)
Interest-bearing liabilities	USD	7,176	9,042
	EUR	20,840	33,330
	GBP	227	267
	CAD	1,940	2,245
	JPY	140	160
	Total	30,323	45,044

### 3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

#### Financial risk management (cont.)

#### (c) Market Risk (cont.)

##### *Interest rate risk*

As the Group holds 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.

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.

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:

	<b>Total</b>	<b>Effective interest rate</b>
	<b>\$000</b>	<b>%</b>
<b>30 June 2011</b>		
<b>Financial assets</b>		
Cash and cash equivalents	140,365	2.41%
Trade and other receivables	119,505	0.00%
	<b>259,870</b>	
<b>Financial liabilities</b>		
Trade and other payables	83,391	0.00%
Non interest-bearing liabilities	13,814	0.00%
Interest-bearing liabilities	76,032	2.03%
	<b>173,237</b>	
<b>30 June 2010</b>		
<b>Financial assets</b>		
Cash and cash equivalents	106,099	0.77%
Trade and other receivables	107,165	0.00%
	<b>213,264</b>	
<b>Financial liabilities</b>		
Trade and other payables	66,365	0.00%
Non interest-bearing liabilities	15,174	0.00%
Interest-bearing liabilities	89,665	1.23%
	<b>171,204</b>	



### 3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

#### Financial risk management (cont.)

#### (c) Market Risk (cont.)

##### Interest rate risk (cont.)

##### Sensitivity analysis

At 30 June 2011, 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 2010. 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
<b>30 June 2011</b>					
<b>Financial assets</b>					
Cash and cash equivalents	140,365	(1,053)	-	1,053	-
Trade and other receivables	119,505	-	-	-	-
<b>Financial liabilities</b>					
Trade and other payables	(83,391)	-	-	-	-
Non interest-bearing liabilities	(13,814)	-	-	-	-
Interest-bearing liabilities	(76,032)	-	-	-	-
<b>Total increase/(decrease)</b>		(1,053)		1,053	

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 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
<b>30 June 2010</b>					
<b>Financial assets</b>					
Cash and cash equivalents	106,099	(795)	-	795	-
Trade and other receivables	107,165	-	-	-	-
<b>Financial liabilities</b>					
Trade and other payables	(66,365)	-	-	-	-
Non interest-bearing liabilities	(15,174)	-	-	-	-
Interest-bearing liabilities	(89,665)	-	-	-	-
<b>Total increase/(decrease)</b>		(795)		795	

### 3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

#### 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

		Consolidated Entity	
		Jun-11 \$'000	Jun-10 \$'000
<b>(a) Revenue from continuing operations</b>			
Revenue from rendering of services			
Related parties		695,422	512,660
Other parties		382	883
		695,804	513,543
(a) Other revenue			
Secondment income received from:			
Other parties		215	554
Interest			
Other parties		3,980	2,354
		4,195	2,908
Total revenue from continuing operations		699,999	516,451
<b>(b) OTHER INCOME</b>			
Other income		82	484
Total other income		82	484
<b>5 EXPENSES</b>			
<b>Items included in profit before tax</b>			
Net loss from disposal of fixed assets		123	13
Depreciation of:			
Buildings		9,715	6,792
Plant and equipment		6,030	4,023
Total depreciation		15,745	10,815

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued**  
For the year ended 30 June 2011

**5 EXPENSES (CONT.)**

	<b>Consolidated Entity</b>	
	<b>Jun-11 \$'000</b>	<b>Jun-10 \$'000</b>
<b>Items included in profit before tax (cont.)</b>		
Finance costs:		
Bank charges	260	965
Interest expenses		
Related parties	1,088	752
Other parties	-	6
	<b>1,348</b>	<b>1,723</b>
Operating lease rental expense:		
Minimum lease payments	11,823	10,511
Employee related expenses:		
Long service leave expense	3,763	1,371
Redundancy expenses	129	3,251
Defined benefit superannuation expense	20	26

**6 AUDITORS' REMUNERATION**

Audit services:		
Amount received or due and receivable by the Australian National Audit Office (ANAO) as auditors of the consolidated entity.	310,000	304,000

Other services:

PricewaterhouseCoopers (PwC) have been contracted by ANAO to provide audit related services on the ANAO's behalf. Besides that, PricewaterhouseCoopers has not earned other fees from ASC.

## 7 TAXATION

		Consolidated Entity	
		Jun-11 \$'000	Jun-10 \$'000
<b>(a) Income tax expense</b>			
<b>Recognised in the income statement</b>			
<b>Current tax expense</b>			
Current year		6,113	3,581
Adjustments for prior years		150	(97)
		6,263	3,484
<b>Deferred tax expense</b>			
Temporary differences arising during the year, net of reversal		(2,504)	(2,948)
Adjustment for prior years deferred tax		(150)	87
		(2,654)	(2,861)
Total income tax expense in income statement		3,609	623
Attributable to:			
Continuing operations		3,609	623
<b>Numerical reconciliation between tax expense and pre-tax net profit</b>			
Profit before tax		14,186	4,892
Income tax using the domestic corporation tax rate of 30% (2010: 30%)		4,256	1,467
Increase in income tax expense due to:			
Non-deductible expenses		48	89
Decrease in income tax expense due to:			
Tax exempt revenues		-	(65)
Tax incentives not recognised in income statement		(695)	(858)
		3,609	633
Under/(over) provided in prior years			
Adjustment for prior year tax expense		-	(10)
Income tax expense on profit before tax		3,609	623
Attributable to:			
Continuing operations		3,609	623
<b>(b) Current tax liabilities/(prepaid income tax)</b>			
Movements during the year were as follows:			
Balance at the beginning of the year		1,765	(1,224)
Income tax paid		(5,586)	(495)
Current year's current income tax expense on Operating profit		6,113	3,581
Controlled entity provision			
Under/(over) provision in prior years		150	(97)
		2,442	1,765
<b>(c) Unrecognised deferred tax assets</b>			
Deferred tax assets have not been recognised in respect of the following items:			
Capital losses		11,540	11,445
		11,540	11,445

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued**  
For the year ended 30 June 2011

**7 TAXATION (CONT.)**

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES		NET	
	Jun-11 \$'000	Jun-10 \$'000	Jun-11 \$'000	Jun-10 \$'000	Jun-11 \$'000	Jun-10 \$'000
<b>(d) Deferred tax assets and liabilities</b>						
<b>Recognised deferred tax assets and liabilities</b>						
Deferred tax assets and liabilities are attributable to the following:						
<b>Consolidated Entity</b>						
Property, plant and equipment	9,585	9,502	(36,099)	(37,247)	(26,514)	(27,745)
Employee entitlements	8,998	7,597	-	-	8,998	7,597
Provisions for warranty	2,865	2,614	-	-	2,865	2,614
Project recognised profit	2,030	2,112	-	-	2,030	2,112
Interest accrual	-	-	(89)	(33)	(89)	(33)
Net pension assets	-	53	(127)	-	(127)	53
Sundry items	712	933	(126)	(116)	586	817
<b>Net tax assets/(liabilities)</b>	<b>24,190</b>	<b>22,811</b>	<b>(36,441)</b>	<b>(37,396)</b>	<b>(12,251)</b>	<b>(14,585)</b>

Deferred tax assets have been offset against deferred tax liabilities pursuant to set-off provisions.

**MOVEMENTS**

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES		NET	
	Jun-11 \$'000	Jun-10 \$'000	Jun-11 \$'000	Jun-10 \$'000	Jun-11 \$'000	Jun-10 \$'000
<b>Consolidated Entity</b>						
<b>Movement to Income tax revenue/(expense)</b>						
Property, plant and equipment	83	(14)	1,281	460	1,364	446
Employee entitlements	1,401	(218)	-	-	1,401	(218)
Provisions for warranty	251	737	-	-	251	737
Project recognised profit	(82)	1,620	-	-	(82)	1,620
Interest accrual	-	-	(56)	614	(56)	614
Net pension assets	7	20	-	-	7	20
Sundry items	(221)	(349)	(10)	(9)	(231)	(358)
	<b>1,439</b>	<b>1,796</b>	<b>1,215</b>	<b>1,065</b>	<b>2,654</b>	<b>2,861</b>
<b>Movement credited/(debited) directly to equity</b>						
Property, plant and equipment			(133)	(10,738)	(133)	(10,738)
Net pension assets (refer note below)	(60)	(201)	(127)	-	(187)	(201)
	<b>(60)</b>	<b>(201)</b>	<b>(260)</b>	<b>(10,738)</b>	<b>(320)</b>	<b>(10,939)</b>
<b>Net tax assets/(liabilities)</b>	<b>1,379</b>	<b>1,595</b>	<b>955</b>	<b>(9,673)</b>	<b>2,334</b>	<b>(8,078)</b>

## 7 TAXATION (CONT.)

	Consolidated Entity	
	Jun-11 \$'000	Jun-10 \$'000
<b>(e) Amounts recognised directly in equity</b>		
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.		
Current tax - credited directly to equity	-	-
Net deferred tax - debited (credited) directly to equity (note 7(d))	320	10,939
<b>8 CASH AND CASH EQUIVALENTS</b>		
Cash at bank and in hand		
Term deposits	78,792	87,880
Cash at bank and in hand	61,573	18,219
	<b>140,365</b>	<b>106,099</b>

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

Included in cash in operating accounts 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 the use of these funds. 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 2011, the balance of restricted cash was \$22.8m (2010: \$31.2m).

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued**  
For the year ended 30 June 2011

**9 TRADE AND OTHER RECEIVABLES**

	<b>Consolidated Entity</b>	
	<b>Jun-11</b>	<b>Jun-10</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current</b>		
Trade receivables	116,593	106,953
Other receivables	2,912	212
	<b>119,505</b>	<b>107,165</b>

**ACCOUNTS RECEIVABLE AGEING PROFILE**

<b>Receivables</b>		
Not Past Due	116,326	98,074
Past Due 1-30 Days	2,180	9,072
Past Due 31-60 Days	316	11
Past Due 61-90 Days	316	8
Past Due 90+ Days	367	-
Total receivables	<b>119,505</b>	<b>107,165</b>

**10 INVENTORIES**

<b>Current</b>		
Raw materials and stores (at lower of cost or net realisable value)	4,075	4,931
	<b>4,075</b>	<b>4,931</b>

**11 OTHER ASSETS**

Prepayments	2,959	1,284
	<b>2,959</b>	<b>1,284</b>

## 12 PROPERTY, PLANT AND EQUIPMENT

		Consolidated Entity	
		Jun-11	Jun-10
		\$'000	\$'000
<b>Freehold land</b>			
At fair value		29,335	29,335
<b>Buildings</b>			
At fair value		220,166	222,821
<b>Plant and equipment</b>			
At cost		95,824	77,913
Accumulated depreciation		(43,300)	(37,507)
		52,524	40,406
Capital works in progress at cost		3,040	8,326
Total property, plant and equipment		305,065	300,888
<b>Reconciliations</b>			
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:			
<b>Freehold land</b>			
Carrying amount at beginning of year		29,335	27,769
Transfers from capital works in progress		-	83
Revaluation increments/(decrements)		-	1,483
Carrying amount at the end of year		29,335	29,335
<b>Buildings</b>			
Carrying amount at beginning of year		222,821	109,770
Additions		2,891	519
Transfers from capital works in progress		3,727	85,013
Disposals		-	-
Revaluation increments/(decrements)		442	34,311
Depreciation		(9,715)	(6,792)
Carrying amount at the end of year		220,166	222,821
<b>Plant and equipment</b>			
Carrying amount at beginning of year		40,406	18,758
Additions		2,650	6,794
Transfers from capital works in progress		15,607	18,908
Disposals		(109)	(31)
Depreciation		(6,030)	(4,023)
Carrying amount at the end of year		52,524	40,406



**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued**  
For the year ended 30 June 2011

**12 PROPERTY, PLANT AND EQUIPMENT (CONT.)**

	<b>Consolidated Entity</b>	
	<b>Jun-11 \$'000</b>	<b>Jun-10 \$'000</b>
<b>Capital works in progress</b>		
Carrying amount at beginning of year	8,326	83,013
Additions/(write off)	14,189	29,317
Transfers to property, plant & equipment	(19,333)	(104,004)
Disposals	(142)	-
Carrying amount at the end of year	3,040	8,326
<b>Valuations</b>		
An independent valuation of all land and buildings of the consolidated entity was carried out by Maloney Field Services Property Consultants & Valuers as at 30 June 2011.		
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.		
<b>Carrying amounts that would have been recognised if land and buildings were stated at cost.</b>		
<b>Freehold land</b>		
Cost	2,299	2,299
<b>Buildings</b>		
Cost	248,258	241,640
Accumulated depreciation	(120,893)	(114,936)
Net book amount	127,365	126,704
<b>Non current assets pledged as security</b>		
Refer to note 25 for information on non-current assets pledged as security by the consolidated entity.		
<b>13 OTHER NON-CURRENT ASSET</b>		
Contribution to the Henderson Common User Facility	4,756	3,000
ASC has made a \$5 million contribution to the Henderson Common User Facility. This amount is expensed over the expected period of usage of the facility.		
<b>14 TRADE AND OTHER PAYABLES</b>		
Trade payables	32,817	23,739
Other payables and accruals	50,574	42,626
Total payables	83,391	66,365

## 15 NET UNEARNED CONTRACT BILLING / (CONSTRUCTION WORK IN PROGRESS)

	<b>Consolidated Entity</b>	
Contract billings due and receivable	1,778,440	1,171,072
Contract works in progress	(1,449,783)	(897,771)
Profit recognised to date	(199,135)	(185,861)
Net unearned contract billing/(Contract work in progress)	129,522	87,440

## 16 NON INTEREST-BEARING LIABILITIES

### Unsecured

#### Non current

Term loan	4	4
Deferred purchase obligation	13,810	15,170
	13,814	15,174

### 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 for the year ended 30 June 2011 (2010: \$4,000) under AASB139 (Financial Instruments: Recognition and Measurement)

### Deferred purchase obligation

As part of the AWD project, ASC AWD Shipbuilder Pty Ltd and ASC Engineering Pty. Limited, 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, ASC AWD Shipbuilder Pty Ltd, 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.

No loss is expected to be incurred in relation to this deferred purchase obligation.

## 17 INTEREST-BEARING LIABILITIES

### Current

#### Unsecured

Government advance	76,032	89,665
	76,032	89,665

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued**  
For the year ended 30 June 2011

**17 INTEREST-BEARING LIABILITIES (CONT.)**

**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.

**Financing arrangements**

**Unsecured facilities**

Total facilities available

Loan facilities

Overdraft facilities

Facilities utilised at balance date

Loan facilities

Overdraft facilities

Facilities not utilised at balance date

Loan facilities

Overdraft facilities

**Consolidated Entity**

**Jun-11  
\$'000**

**Jun-10  
\$'000**

30,000

30,000

12,000

12,000

42,000

42,000

-

6,606

-

-

-

6,606

30,000

23,394

12,000

12,000

42,000

35,394

**18 PROVISIONS**

**Current**

Employee entitlements, including on costs (a)

Redundancy and termination (b)

Warranty (c)

Self insured workers compensation (d)

Other

22,785

19,600

-

459

4,584

3,686

738

1,832

250

335

28,357

25,912

## 18 PROVISIONS (CONT.)

### Non current

Employee entitlements, including on costs (a)  
Warranty (c)  
Self insured workers compensation (d)

Consolidated Entity	
Jun-11 \$'000	Jun-10 \$'000
4,856	5,692
4,966	5,027
4,391	3,163
14,213	13,882

#### (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 circumstance

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 was calculated based on the identified positions which would be redundant at the result of the new organisation structure for the financial year 2009/10. This redundancy and termination provision was 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 TLSA 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 costs on obsolescence and urgent defects and takes into account the timing of 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) 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.

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued**  
For the year ended 30 June 2011

**18 PROVISIONS (CONT.)**

**Consolidated Entity**

<b>Jun-11</b>	<b>Jun-10</b>
<b>\$'000</b>	<b>\$'000</b>

**Provisions movements:**

**Redundancy and termination**

Balance at 1 July (current and non current)	459	916
Provision made during the year	-	459
Provision used during the year	(459)	(916)
Balance at 30 June (current and non current)	-	459

**Warranty**

Balance at 1 July (current and non current)	8,713	6,256
Provision made/(reversed) during the year	837	2,457
Balance at 30 June (current and non current)	9,550	8,713

**Self insured workers compensation**

Balance at 1 July (current and non current)	4,995	4,970
Provision made/ (reversed) during the year	872	890
Provision used during the year	(738)	(865)
Balance at 30 June (current and non current)	5,129	4,995

**Dividends**

Balance at 1 July (current and non current)	-	5,100
Provision made during the year	2,600	5,000
Provision used during the year	(2,600)	(10,100)
Balance at 30 June (current and non current)	-	-

**Other**

Balance at 1 July (current and non current)	335	-
Provision made during the year	-	335
Provision used during the year	(85)	-
Balance at 30 June (current and non current)	250	335

**19 Contributed Equity**

Opening issued and paid-up share capital - 10 million ordinary shares (1 July)	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.

## 20 RESERVES

	Consolidated Entity	
	Jun-11 \$'000	Jun-10 \$'000
Opening asset revaluation reserve (1 July)	89,627	64,571
Revaluation increment, gross	442	35,794
Deferred tax	(133)	(10,738)
Closing asset revaluation reserve	89,936	89,627
Total Reserves	89,936	89,627
Asset revaluation reserve		
Comprises of:		
- Land	18,925	18,925
- Buildings	71,011	70,702
Closing balance	89,936	89,627

### 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.

## 21 RETAINED EARNINGS

Opening retained earnings (1 July)	108,777	109,038
Actuarial gains (losses) on defined benefit plans after tax	437	470
Net profit for the year	10,577	4,269
Dividends	(2,600)	(5,000)
Closing retained earnings	117,191	108,777

## 22 DIVIDENDS

Interim dividend has declared and provided for (2010: 50 cents/share)  
Final dividend declared and provided for (2010: 0 cents/share)  
Total unfranked dividend, represents a distribution to the shareholder  
All dividends declared during the year were paid out of retained earnings.

### Dividends not recognised at the end of the reporting period

In addition to the above dividends, since year end the directors have resolved to pay a final unfranked dividend of \$3,800,000.

The proposed dividend expected to be paid out of retained earnings at 30 June 2011, but not recognised as a liability at year end is:

Interim dividend	2,600	5,000
Final dividend	-	-
Total unfranked dividend	2,600	5,000
Dividend not recognised at year end	3,800	-

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued**  
For the year ended 30 June 2011

**22 DIVIDENDS (CONT.)**

	<b>Consolidated Entity</b>	
	<b>Jun-11 \$'000</b>	<b>Jun-10 \$'000</b>
<b>Dividends franking account</b>		
Class C (30%) franking credits	105,320	101,113
The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:		
(a) franking credits that will arise from the payment of the amount of the provision for income tax		
(b) franking debits that will arise from the payment of the dividends recognised as a liability at year-end		
(c) franking credits that will arise from the receipt of dividends recognised as receivables at year-end		
(d) franking credits that the entity may be prevented from distributing in subsequent years		
The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.		
<b>23 COMMITMENTS</b>		
<b>(a) Capital expenditure commitments</b>		
Contracted but not provided for and payable:		
Not later than one year	951	1,003
Later than one year but not later than five years	-	-
Later than five years	-	-
Total	951	1,003
<b>(b) Operating lease commitments</b>		
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:		
Not later than one year	12,716	13,498
Later than one year but not later than five years	43,363	41,440
Later than five years	94,529	101,014
Total	150,608	155,952

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.

## 23 COMMITMENTS (CONT.)

### (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 The Trust Company (Superannuation) 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 2011 was carried out by David O'Keefe, Fellow of the Institute of Actuaries of Australia, of ALEA Actuarial Consulting Pty Limited on 29 June 2011. The actuary concluded that the assets of the defined benefit category of the fund are sufficient to meet all benefits payable in the event of the defined benefit category's termination, or the voluntary or compulsory termination of employment of each employee of the consolidated entity.

	Consolidated Entity	
	Jun-11 \$'000	Jun-10 \$'000
<b>Movements in the net asset/(liability) for defined benefits obligations recognised in the statement of financial position</b>		
Net asset/(liability) for defined benefit obligations at 1 July	(175)	(778)
Contributions received	20	30
Income/(Expense) recognised in the income statement	(44)	(98)
Actuarial gains/(losses) recognised directly in equity	624	671
Net asset/(liability) for defined benefit obligations at 30 June	425	(175)
<b>Defined benefit superannuation fund</b>		
Amounts in the statement of financial position		
Asset	425	-
Liability	-	(175)
Net Pension Assets / (Retirement benefit obligation)	425	(175)
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
Opening defined benefit obligation	8,050	9,844
Service cost	169	187
Interest cost	400	514
Actuarial losses/(gains)	479	(633)
	1,048	68
Benefits paid	(1,193)	(1,862)
Closing defined benefit obligation	7,905	8,050
<b>Changes in the fair value of fund assets are as follows:</b>		
Opening fair value of fund assets	7,875	9,066
Expected return	525	603
Actuarial gains/(losses)	1,103	38
	1,628	641
Contributions by employer	20	30
Benefits paid	(1,193)	(1,862)
	8,330	7,875



## 23 COMMITMENTS (CONT.)

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

	Consolidated Entity	
	Jun-11 \$'000	Jun-10 \$'000
<b>The major categories of fund assets as a percentage of total fund assets are as follows:</b>		
Australian equities	43%	41%
International equities	30%	29%
Australian fixed interest	8%	16%
International fixed interest	4%	4%
Property trusts	4%	6%
Cash	11%	4%
	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-11 \$'000	Jun-10 \$'000
<b>Expense recognised in the income statement:</b>		
Current service costs	169	187
Interest cost	400	514
Expected return on fund assets	(525)	(603)
	44	98
Actuarial gains/(losses) are recognised directly in equity.		
<b>The expense is recognised in the following line items in the income statement:</b>		
Pension costs/(revenues)	24	68
Contribution paid ( in labour costs)	20	30
	44	98
Actual return on fund assets	1,628	641
	1,628	641
<b>Expense recognised in statement of comprehensive income</b>		
Actuarial gains/(losses) recognised in the year (net of tax)	437	470
Cumulative actuarial gains/(losses) recognised in the statement of comprehensive income	(2,358)	(2,795)

## 23 COMMITMENTS (CONT.)

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

#### Employer contributions

Contributions by the Company and its controlled entities to the defined benefits plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals. The last such full assessment was made as at 30 June 2008 with a further review to be undertaken as at 30 June 2011.

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.

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-11 \$'000	Jun-10 \$'000
<b>Principal actuarial assumptions at the balance date:</b>		
Discount rate at 30 June	5.3%	5.3%
Expected return on fund assets at 30 June	7.6%	7.6%
Future salary increases	4.0%	4.0%

#### Net financial position of plan

In accordance with AAS25 Financial Reporting by Superannuation Plans the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (31 March 2011), and a surplus of \$425,000 was reported.

Any surplus under AAS25 may differ from the net assets of \$425,000 recognised in the balance sheet as at 30 June 2011 due to different measurement rules in the relevant accounting standards AAS25 and AASB 119 Employee Benefits.

	Jun-11 \$'000	Jun-10 \$'000	Jun-09 \$'000	Jun-08 \$'000	Jun-07 \$'000	Jun-06 \$'000	Jun-05 \$'000
<b>Historic summary</b>							
Defined benefit obligation	(7,905)	(8,050)	(9,844)	(11,105)	(14,005)	(13,874)	(12,277)
Fund assets	8,330	7,875	9,066	12,601	18,409	14,612	13,594
Surplus/(deficit)	425	(175)	(778)	1,496	4,404	738	1,317
Experience adjustments arising on fund assets	1,103	38	(2,193)	(5,194)	2,272	(310)	549

## 23 COMMITMENTS (CONT.)

### (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.

## 24 CONTINGENT LIABILITIES

The consolidated entity has arranged the issuance of a bank guarantee in favour of Workcover Corporation of South Australia 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 \$9.8 million (2010: \$9.7 million).

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

- 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;
- 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
- 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.

## 25 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-11 \$'000	Jun-10 \$'000
<b>Total current assets pledged as security</b>		
Trade receivables	50,155	55,790
Other receivables	262	96
Contract work in progress	(99,652)	(70,718)
	(49,235)	(14,832)
<b>Total non current assets pledged as security</b>		
Land	17,420	17,420
Building	115,728	119,456
Plant and Equipment	16,014	15,036
	149,162	151,912

## 26 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 air warfare destroyers. That dependency existed during all of the financial year.

## 27 KEY MANAGEMENT PERSONNEL DISCLOSURE

### Key management personnel compensation

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

	Consolidated Entity	
	2011	2010
Short - term employment benefits	4,478,281	3,767,100
Post - employment benefits	513,895	405,339
Termination benefits	-	426,458
	4,992,176	4,598,897

### 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

There have been no transactions with key management personnel during the financial year.

## 28 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.

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued**  
For the year ended 30 June 2011

**29 RELATED PARTY DISCLOSURES**

**Directors**

The names of each person holding the position of Director of ASC Pty Ltd during the financial year are:

VADM CAR Ritchie AO RANR;

BJ Carter;

S Ludlam;

DA Miles;

JJ O'Connell AO;

GR Phillips;

SAM Pitkin; and

RADM (retired) JF Shipway.

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.

**Loans to/(from) the CoA and its related entities**

**Deferred purchase obligation**

Beginning of the year

Loan advanced

Fair value adjustment

End of year

<b>Consolidated Entity</b>	
<b>Jun-11</b>	<b>Jun-10</b>
<b>\$'000</b>	<b>\$'000</b>
15,169,863	12,092,724
-	100,000
(1,359,475)	2,977,139
<b>13,810,388</b>	<b>15,169,863</b>

## 29 RELATED PARTY DISCLOSURES (CONT.)

### Other related parties (cont.)

June 2011		Consolidated Entity					
Government advance	Total	AUD	USD	GBP	CAD	EUR	JPY
Beginning of the year		44,621,754	7,706,094	151,286	2,015,090	23,260,660	12,078,961
Advanced received		-	-	-	-	-	-
Advanced repaid		-	-	-	-	(7,828,748)	-
Interest charged		(661)	-	-	-	-	-
Interest received		1,088,385	-	-	-	-	-
End of year (source currency)		45,709,478	7,706,094	151,286	2,015,090	15,431,912	12,078,961
End of year (AUD equivalent)	76,031,607	45,709,478	7,175,803	226,918	1,939,638	20,839,854	139,916

### June 2010

Government advance							
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

### Transactions with Shareholders

During the year, the amounts received or receivable by the consolidated entity from the CoA for various projects was \$695,422,000 (2010: \$512,647,000).

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:

2011

\$

-

114,769,836

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued**  
For the year ended 30 June 2011

**30 PARTICULARS IN RELATION TO CONTROLLED ENTITIES AND ASSOCIATE**

	Country of Incorporation	Class of Shares	Entity Interest	
			2011 %	2010 %
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	0	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 Build Program.

Australian Submarine Corporation (Thailand) Limited is a non trading company and has been liquidated during this financial year.

All subsidiaries have reporting dates of 30 June.

## 31 PARENT FINANCIAL INFORMATION

### (a) Summary financial information

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

	Jun-11 \$'000	Jun-10 \$'000
<b>Balance sheet</b>		
Current assets	141,841	81,242
Total assets	462,037	375,512
Current liabilities	211,175	138,230
Total liabilities	234,770	163,570
Net assets	227,267	211,942
Shareholders' equity		
Issued capital	10,000	10,000
Reserves		
Revaluation surplus - land and building	77,002	76,583
Retained earnings	140,265	125,359
	227,267	211,942
<b>Profit or loss for the year</b>	17,070	6,630
<b>Other comprehensive income</b>	855	22,728
<b>Total comprehensive income</b>	17,925	29,358

### (b) Guarantees entered into by the parent entity

The Company has arranged the issuance of a bank guarantee in favour of Workcover Corporation of South Australia for the purpose of self insurance under the Workers Rehabilitation and Compensation Act and a bank guarantee in favour of Department of Defence for the purpose of performance security deed for the Training School contract. The total value of the bank guarantees arranged by the parent company is \$7.1 million (2010: \$6.6 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 \$2.8 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 2011 and 30 June 2010 are immaterial.

### (c) Financial support by the parent entity

The Company has committed to provide the financial support to the following subsidiaries to enable them to pay their debts as and when they become due and payable:

- ASC Shipbuilding Pty Ltd
- ASC Engineering Pty Ltd
- Deep Blue Tech Pty Ltd

### (d) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010. For information about guarantees given by the parent entity, please see above.

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

As at 30 June 2011, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$951,000 (30 June 2010: \$1,003,000). 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 2011

**32 NOTES TO THE STATEMENT OF CASH FLOWS**

**(a) Reconciliation of cash and cash equivalents**

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:

	Note	Consolidated Entity	
		Jun-11 \$'000	Jun-10 \$'000
Cash	8	140,365	106,099
		140,365	106,099

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

Operating profit after income tax	10,577	4,269
Add/(less) items classified as investing/financing activities:		
Interest received	(3,980)	(1,602)
Interest expense	1,088	6
(Profit)/loss on sale of fixed assets	123	13
Add/(less) non-cash items:		
Depreciation	15,745	10,815
Fair value adjustment on all financial instruments	(1,359)	3,077
Pension costs	24	68
Income tax expense	3,609	623
Income tax paid	(5,586)	(495)
Net cash provided by operating activities before change in assets and liabilities	20,241	16,774
Change in assets and liabilities		
(Increase)/decrease in receivables	(13,021)	(69,919)
(Increase)/decrease in inventories	856	1,280
(Increase)/decrease in prepayments	(3,431)	(1,804)
(Increase)/decrease in net unearned contract billing	40,915	54,786
Increase/(decrease) in trade creditors	16,777	12,686
Increase/(decrease) in provisions	3,838	2,798
Net cash provided by operating activities	66,175	16,601

## DIRECTORS' DECLARATION

For the year ended 30 June 2011

The directors declare that, in the directors' opinion:

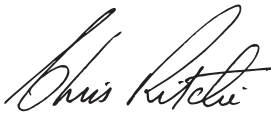
- a) the financial statements and notes set out on pages 30 to 72 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the Corporation Regulations 2001 and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 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 7th day of September 2011.

Signed in accordance with a resolution of the directors:



**VADM Christopher A. Ritchie AO RANR**  
CHAIRMAN



**Stephen Ludlam**  
DIRECTOR



## INDEPENDENT AUDITOR'S REPORT

### To the members of ASC Pty Ltd

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 2011, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, and the Consolidated Statement of Cash Flows for the year then ended, Notes to and forming part of the Financial Statements comprising a Summary of Significant Accounting Policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising the ASC Pty Ltd and the entities it controlled at the year's end or from time to time during the financial year.

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

The directors of the ASC Pty Ltd are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial report based on my audit. I have 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 about 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 company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of the 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 on 6 September 2011, would be in the same terms if provided to the directors as at the time of this auditor's report.

### ***Opinion***

In my opinion 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 the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Australian National Audit Office



Jocelyn Ashford  
Executive Director

Delegate of the Auditor-General

Canberra

7 September 2011

CONTENTS OF THE ANNUAL REPORT  
**CORPORATE DIRECTORY**  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued  
For the year ended 30 June 2011

**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**

ANAO and PricewaterhouseCoopers  
(as agent for ANAO)

**Solicitors**

Mallesons Stephen Jacques

**Bankers**

Westpac Banking Corporation

**ASC North**

(Registered and head office)  
694 Mersey Road North  
Osborne SA 5017

GPO Box 2472  
Adelaide SA 5001

Telephone: +61 8 8348 7000

Facsimile: +61 8 8348 7001

**ASC South**

640 Mersey Road North  
Osborne SA 5017

GPO Box 2472  
Adelaide SA 5001

Telephone: +61 8 7423 4000

Facsimile: +61 8 7423 4090

**ASC West**

20 Nautical Drive  
Henderson WA 6166

GPO Box 599  
Rockingham WA 6168

Telephone: +61 8 9410 4100

Facsimile: +61 8 9410 4340

**Website**

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

**Useful Email Contacts**

**Employment enquiries**

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

**Media enquiries**

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

**Other enquiries**

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

ABN: 64 008 605 034

Copies of ASC's annual reports  
can be found at [www.asc.com.au](http://www.asc.com.au)

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

