

# ASC PTY LTD ANNUAL REPORT 2012

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# TRANSMITTAL LETTER

27 September 2012

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

**ASC**

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Dear Minister,

## **ASC Pty Ltd 2012 Annual Report**

I am pleased to submit the 2012 Annual Report of ASC Pty Ltd in accordance with the *Commonwealth Authorities and Companies (CAC) Act 1997*.

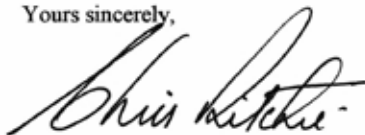
It has been prepared in accordance with the requirements referred to in section 9 of the *CAC Act* and has been approved by the Board of ASC Pty Ltd.

The Annual Report includes the financial statement for the Company for the year ended 30 June 2012 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 enables ASC to continue to self-fund Deep Blue Tech.

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

Yours sincerely,



CHRIS RITCHIE AO  
Vice Admiral RANR  
Chairman

# ACRONYMNS

<b>AMC</b>	Australian Maritime College
<b>ANAO</b>	Australian National Audit Office
<b>AWD</b>	Air Warfare Destroyer
<b>BI&amp;T</b>	Business Improvement and Transformation
<b>CCSM</b>	Collins Class Submarines
<b>CMS</b>	Corporate Management System
<b>CUF</b>	Common User Facility
<b>DBT</b>	Deep Blue Tech
<b>DIESF</b>	Defence Industry Environmental Sustainability Forum
<b>DIPP</b>	Defence Industry Pathway Program
<b>DMO</b>	Defence Materiel Organisation
<b>DOD</b>	Department of Defence
<b>DSTO</b>	Defence, Science and Technology Organisation
<b>EEO</b>	Equal Employment Opportunity
<b>EPA</b>	Environment Protection Authority
<b>EPBC</b>	Environment Protection and Biodiversity Conservation
<b>FCD</b>	Full Cycle Docking
<b>ISSC</b>	In Service Support Contract
<b>LSS</b>	Lean Six Sigma
<b>LTI</b>	Lost Time Injury
<b>LTIFR</b>	Lost Time Injury Frequency Rate
<b>MTI</b>	Medically Treated Injury
<b>MTIFR</b>	Medically Treated Injury Frequency Rate
<b>OST</b>	Outfit Support Tower
<b>PPE</b>	Personal Protective Equipment
<b>RAN</b>	Royal Australian Navy
<b>ROI</b>	Return On Investment
<b>STP</b>	Safety Transformation Program
<b>TLSA</b>	Through Life Support Contract
<b>WH&amp;S</b>	Work Health and Safety
<b>WH&amp;SW&amp;IM</b>	Work Health and Safety, Welfare and Injury Management

# 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 (CCSM).

At the conclusion of the CCSM 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. A new

performance based maintenance contract, the In Service Support Contract (ISSC), was signed in June 2012.

In 2005, ASC was awarded the role of Shipbuilder for the Hobart Class Air Warfare Destroyer (AWD) project. The most advanced and complex warships ever built in Australia, the AWDs are 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 2,270 personnel across our three facilities in South Australia and Western Australia, including over 380 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

	2011/12 \$m	2010/11 \$m
Revenue from rendering of services	796.4	695.8
Interest income	5.7	4.0
Other income and other revenue	1.7	0.3
<b>Total revenue and income</b>	<b>803.8</b>	<b>700.1</b>
<b>EBITDA</b>	<b>33.2</b>	<b>27.3</b>
Depreciation and amortisation	(17.6)	(16.0)
<b>EBIT</b>	<b>15.6</b>	<b>11.3</b>
Interest expense	(1.0)	(1.1)
Tax expense	(5.6)	(3.6)
Operating profit before tax	20.3	14.2
<b>Operating profit after tax</b>	<b>14.7</b>	<b>10.6</b>
EBIT/total revenue and income (%)	1.9%	1.6%
Shareholder's equity	230.1	217.1
Return on equity (%)	6.4%	4.9%
Dividend paid	6.3	2.6
<b>Total assets</b>	<b>616.8</b>	<b>577.2</b>

# CHAIRMAN'S REPORT



## Overview

As Australia's largest Australian owned defence prime contractor, ASC must remain dynamic and responsive to the evolving needs of our customer, the RAN. Our business is to build and sustain critical defence hardware and in order to maintain Australia's frontline naval capability that hardware must be future focused, fit for purpose and delivered on time.

ASC does this from its facilities in South Australia and Western Australia, being a major employer in states where competition for the right skills is tight.

These are complex challenges and I am pleased to report that the company is meeting them head on and that the

2011/2012 financial year was one of significant achievement for the company and one that foreshadows promise for the years ahead.

A key outcome has been the finalisation and contract signature of the long-awaited ISSC, a new, performance-based contract for the maintenance of the CCSM in partnership with the DMO. Hand in hand with the progression of ISSC, submarine availability has been steadily improving as the concepts which underlie the contract have been put in place.

ASC is proud to be the major shipbuilder leading the AWD project. Construction of Ship 1 is moving steadily towards the consolidation phase in the latter part of

2012, and work has also commenced on Ships 2 and 3. The AWD project draws on skills and resources from across Australia, with yards in both New South Wales and Victoria contributing significantly.

The company achieved annual revenue of \$802.2 million (2011: \$700 million) and profit after tax of \$14.7 million (2011: \$10.6 million).

Financial performance continues to reflect ASC's self-funding of Deep Blue Tech (DBT) in preparation for participation in the Future Submarine project (SEA 1000).

## Continuous Improvement

ASC continues to have a relentless focus on transforming organisational performance through four key elements, namely: the Safety Transformation Program; Lean Six Sigma; Organisation Design and Development; and Process Excellence.

Each individual element is focused on resolving current challenges and evolving the business for future success. ASC has invested significant time, resources and energy into these areas, and we continue to see positive outcomes across the company in terms of efficiency, timeliness and cost reduction. The pace of this improvement will be quickened in the year ahead as the confidence and surety brought about by the sign off on ISSC allows more executive attention to be devoted to core business.

## Collins Class Submarines

The new ISSC contract, to replace the previous Through Life Support Agreement (TLSA), will mark a new era for the maintenance of the CCSM.

Providing the required level of submarine availability and reliability for the RAN will be a key outcome, while ensuring safety and technical integrity requirements continue to be met.

In moving forward, it is important to acknowledge the significant achievements and efficiencies that have been achieved

in the CCSM maintenance program to date. This knowledge and experience has provided valuable input in creating the new ISSC, and ensuring that performance and efficiency continues to gain pace.

The company has also been focused on introducing business efficiencies across the business to maximise benefits to the taxpayer, without compromising service delivery to our customer. This would not be possible without the leadership we see from each of the other stakeholders in the maintenance of the Collins Class - DMO and RAN.

In July 2011, the Defence Minister, Stephen Smith, announced a Federal Government review (the Coles Review) into the optimal commercial framework for the sustainment of the Royal Australian Navy's six CCSM.

The review is being led by Mr John Coles, an independent expert from BMT Defence Services in the UK. ASC has provided significant input to the review to date and will continue to do so. Already many of the Coles' interim recommendations are being implemented.

### Air Warfare Destroyer Project

The AWD project continues to gain pace, with good progress being made towards block consolidation and the delivery of Ship 1 in 2016. ASC is an active partner in the AWD Alliance, alongside DMO and Raytheon.

The AWD Alliance decided that block construction arrangements for Ship 3 should remain the same as for Ship 2 as that approach is considered to achieve the best outcome for delivery of the AWDs. This means that some blocks will be constructed at Navantia in Spain. This decision was made taking into account the work that Australian shipyards are currently performing on the AWD project and other large projects.

ASC's shipyard increased its capacity in preparation for the consolidation of Ship

1. Two Outfit Support Towers (OSTs) were constructed to maximise efficiency in the consolidation phase, and a further two temporary blast and paint facilities were placed on the South Australian Government's Common User Facility (CUF). ASC also took delivery of all the keel blocks from BAE Systems for Ship 1.

### Future Projects

I was pleased to welcome the Prime Minister, Julia Gillard, to ASC's submarine maintenance facility in South Australia (ASC North) in May, where she announced the provision of \$214 million to the DMO for the next stage of the Future Submarine project.

ASC sees itself as having a key leadership role in Australia's future submarine project and supports an approach that utilises the capability already established in the Australian shipbuilding industry, and across the industry supply chain.

The company is already well advanced in building capability to support the Future Submarine project through our investment in DBT, a subsidiary set up to prepare for the project. The important work being undertaking in this part of the business will ensure ASC stands ready to support, and deliver, a successful future submarine program.

### Board and Management

The Board welcomed the appointment of Kathy Hirschfeld, an experienced engineer and manager as a non-executive director. We also farewelled Geoffrey Phillips and David Miles and I thank them for their services as directors of ASC, and wish them well in the future.

The Board also recognises the leadership of the Managing Director, with many of the changes he has implemented across the business now starting to reap benefits for the company.

### Conclusion

This is my last report as Chairman of ASC. I believe that the company is at an important and exciting time in its development, with significant changes in the management of the Collins Class maintenance program being put in place and work on the AWD project gaining pace. Preparations are also well advanced to meet the challenges of the future submarine program. Importantly, the company transformation that is needed is real and evident in its progress and I am confident that there is a strong commitment to achieving exemplary performance across all areas of the company's operations. ASC aims to be the industry leader in its field and I am satisfied that it is well on track to achieve that aim.

None of this could have or will be achieved without the efforts of my fellow directors and ASC's dedicated employees, along with the support of our customer, suppliers, contractors and stakeholders. I thank them all and wish them every success in their most important endeavours.



**Vice Admiral Chris Ritchie AO RANR**  
CHAIRMAN



# MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT



The 2011/12 year brought significant change and progress and I am pleased to report that ASC has performed well. The Company is entering a new era in sustaining the RAN's fleet of CCSM, and work on the next generation of AWDs continues to gain pace, supported by suppliers and sub-contractors across Australia.

## Business Improvement

ASC recognises the impact of our performance on our customer, and this remains a constant focus.

Since I joined ASC more than two years ago, we have made a number of very

significant changes in the way the business is operated. We have improved our performance on availability, and improved our performance on cost.

## Challenges and Opportunities

ASC is a major employer in the shipbuilding industry and one of the largest employers of apprentices in South Australia. Our workforce continued to grow, with more than 2,270 employees across South Australia (ASC North and ASC South) and Western Australia (ASC West) at the end of the financial year.

During the 2011/12 year, 687 permanent employees joined the company with the

majority of these roles required for the AWD project. This was a significant achievement as the demand for skills remains high, and we continue to work closely with government and educational institutions towards future skills development.

I am pleased to have been appointed to the Expert Industry Panel - led by Mr David Mortimer, AO - which is tasked with identifying what is required to build and sustain the skills that will be needed to successfully deliver Australia's Future Submarine capability.

ASC was an active participant in the Coles Review, commissioned by the Federal Government to consider the optimal commercial framework for the sustainment of the CCSM.

The release of the findings of the first phase of the Coles Report provided an important narrative on the complexities faced daily by ASC and all the stakeholders involved. It confirmed that in a number of areas we are performing well, and equally we have opportunity for improvement in other areas.

We now have a solid set of actions in place that will drive further improvement into the business.

Overall, there has been much activity in the past 18 months in refining our business and building a culture of exemplary performance both across the company and with key stakeholders in support of submarine sustainment. For all the stakeholders involved, the Coles Review will be a valuable tool to help inform us about what else we need to do and to keep us all on track to improve availability and reduce cost.

## Management Team

The management team continued to evolve to ensure the company had the best executive structure for performance improvement across the business.

The executive team has been expanded to include Martin Edwards as General Manager - Current Operations, based at the AWD Alliance adjacent to ASC South. Simon Ridgway also joined the executive group as General Manager - AWD Production, and Paul Gay is General Manager - AWD Pre-Production. Both are working within the AWD Alliance.

Liam Wallace has stepped into the role of Acting General Manager - Corporate and Commercial following the departure of Tony Kuhlmann. Wendy Hoad has been appointed as General Counsel and Company Secretary, and Peter Tromans also joined the executive group as Manager – Future Business.

### Our Business

Submarine sustainment at ASC North has focused on the completion of a full cycle docking (FCD) of HMAS *Sheean*. ASC is reducing labour hours by five per cent for successive FCDs due to efficiency improvements (based on same scope activities).

I am pleased to report that we have achieved 80 per cent of target Material Ready Days for the past six months, compared to 42 per cent for the first ten months of 2011. HMAS *Dechaineux*'s

intermediate docking was the shortest completion of an intermediate docking yet, and a good demonstration of our focus on improving performance.

At ASC West, two intermediate dockings were completed before the scheduled completion dates and the facility also undertook an emergency docking to rectify damage to an Emergency Propulsion Unit.

The AWD project is progressing well and having worked through the challenges of the previous year, we welcomed the final block allocation for Ship 2 and Ship 3. Work in ASC's shipyard in Adelaide ramped up in preparation for consolidation of Ship 1.

Facilities in our shipyard were expanded to include two OSTs and another two temporary blast and paint facilities.

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

ASC's wholly-owned subsidiary tasked with developing capability for the Future Submarine project, DBT, continued to focus on building its expertise. The highly skilled and experienced team tackled a broad program of work in 2011/12, progressing with preparations and capability development.

### Conclusion

ASC looks forward to building further on its performance in the most recent financial year. We do so with confidence as projects reach key milestones and our employees find innovative ways to deliver the best possible service to our customer.

We have many talented and capable people who work across ASC and I thank them for their hard work and dedication.

I remain positive about the long term outlook for ASC, and reiterate our commitment to 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 is responsible for the continuous design enhancements, maintenance and support of the CCSM. Our world-class team of designers and engineers is constantly developing and implementing a range of solutions which will ensure the submarines remain at the cutting edge of submarine technology.

## Support Contract

In 2011/12, the submarine business commenced the transformation from operating under the TLSA to the ISSC. As part of this change, a number of transitional activities were undertaken.

All transitional milestones for 2011/12 were successfully achieved, including the completion of the first phase of the supply chain remediation. As a result, ASC will effectively become the provider for all CCSM maintenance requirements by the end of the transition period in 2013/14.

Under the ISSC, the schedule duration will be reduced by approximately 20 per cent for a number of maintenance activities. The upkeep cycle will be re-assessed and a progressive move to a two-year FCD will be undertaken. These fundamental changes will improve performance and maintenance times, leading to a reduction in costs.

## Coles Review

In July 2011, the Federal Government announced a review into the optimal commercial framework for the sustainment of the CCSM - the Coles Review. The Review aims to examine complex engineering issues associated with CCSM sustainment.

The Interim Report, covering Phase 1 of the Review, was released in November, 2011 and provided an insight into the daily complexities faced by ASC and relevant CCSM stakeholders.

The Review documented observations relevant to ASC around a range of issues, including its role in sustainment and shipbuilding, operational supplies, governance, culture, and the relationship between ASC and its partners.

ASC has provided significant input into the Review and continues to do so. As a result, a number of actions are being undertaken that will further improve availability and reduce cost.

## Maintenance Activities

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

During 2011/12, one FCD was completed at ASC North, with a second FCD 48 per cent complete. The planning for an additional FCD, due to start in 2012/13, also commenced.

ASC West, ASC's purpose-built submarine support facility, worked towards the successful completion of HMAS *Dechaineux*'s intermediate docking. With the shortest duration of an intermediate docking yet, this was a good demonstration of our focus on efficiency and improving performance.

Other maintenance activities at ASC West included:

- The successful remediation of the generators during a mid-cycle docking, with the maintenance part of the activity scheduled to be completed in 2012/13;
- An unscheduled emergency docking to rectify damage to an Emergency Propulsion Unit; and
- Completion of one certification extension docking.

## Submarine Training School

ASC provides submariner training at the Submarine Training and Systems Centre located at HMAS *Stirling* in Western Australia. This includes initial level training through to advanced operator/maintainer level, as well as operational training support for submarine crews undergoing shore-based training prior to at sea certification. Additionally, ASC provides CCSM familiarisation and system-specific training on an ad hoc basis.

# HOBERT CLASS DESTROYER PROJECT

Since being selected as the Shipbuilder for the Hobart Class AWD project in 2005, ASC has been committed to the provision of the timely and efficient delivery of an affordable, effective, flexible and sustainable AWD capability for the security of Australia.

ASC is responsible for the construction of three AWDs at the company's dedicated shipyard at Osborne, South Australia (ASC South). Their construction will provide the RAN with one of the world's most capable multi-mission warships. This is the most significant shipbuilding project ever undertaken in Australia.

As the shipbuilder, ASC is an integral part of the AWD project and operates within the AWD Alliance along with DMO and Raytheon Australia.

In support of this role, ASC is managing:

- Block construction and integration, including combat and platform system integration and fabrication;
- Subcontracting selected blocks;
- Production Engineering;
- Planning and scheduling;
- Supply chain management for major systems and equipment;
- Platform integrated life-cycle support planning;
- Liaison with Navantia, the Platform System Designer; and
- Ship testing and activation.

## Construction Activities

The 2011/12 period saw the pace of construction rapidly increase at the three shipyards across Australia including Forgacs (NSW), BAE Systems (VIC) and ASC (SA).

To facilitate the increased construction work, the production workforce grew by more than 300 people during the period.

Block production of Ship 1 is underway with consolidation of hull blocks expected to commence in 2012/13. Block production is in progress for Ships 2 and 3 at four shipyards – BAE Systems (VIC), Forgacs (NSW), ASC (SA) and Navantia (Spain).

The year saw the project progress from the construction of individual ship blocks to the block consolidation phase.

Other major milestones for the year included:

- The design, construction and commissioning of a temporary blast and paint facility to double ASC's capacity. At the end of the period, eight blocks were successfully blasted and painted;
- The delivery of all Ship 1 blocks from BAE Systems including the first keel blocks. The ASC team restored the blocks to the required level of completion and quality;
- The move to the CUF to undertake the secondary stage of pre-outfit on the first five blocks;
- Completion of the OSTs, already in use to support construction work on the CUF;
- Installation of modular accommodation cabins into two blocks for Ship 1;
- Installation of electrical equipment and cabling has commenced; and
- Completion of the first grand block.

## Procurement

During the 2011/12 financial year, over 20,000 commodity order lines, and in excess of 28,000 fabrication subcontract orderlines, were placed. In total, ASC has taken delivery of 137 major equipment components for Ship 1, including the delivery of 42 components in the 2010/11 period. During the year, ASC also took delivery of 65 of the major equipment components for Ships 2 and 3 components.

## Alliance

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

During 2011/12, the Alliance underwent a restructure to better focus on operational excellence and improvement of cost performance. This plan will continue to be executed in 2012/13.

In the third quarter of 2011/12 the Federal Government, on recommendation from the Alliance, announced the allocation of construction work for Ship 3. This will see the four shipyards constructing the same blocks that they are for Ship 2.

The construction arrangements for block structure and block pre-outfit are as follows:

- Ship 1: BAE Systems 7, Forgacs 14, ASC 9;
- Ship 2: BAE Systems 2, Forgacs 15, ASC 8, Navantia 5; and
- Ship 3: BAE Systems 2, Forgacs 15, ASC 8, Navantia 5.

The decision to have the same shipyards build the same blocks for Ships 2 and 3 will enable the AWD project to take advantage of lessons the shipyards have learnt and the experience they have gained from building the same blocks.

DBT – a wholly owned subsidiary of ASC – was established in 2007 to conduct research and develop concepts for Australia's SEA1000 Future Submarine project.

DBT's mission is to contribute to the maximum extent possible to the design of the entire lifecycle of Australia's future submarines.

In May 2009, the Federal Government published the Defence White Paper which outlined a need for 12 highly capable submarines. In May 2012, the Australian Prime Minister announced the next phase of SEA1000 – the provision of \$214 million for further detailed studies and analysis to inform the Government's decision on the design of Australia's next submarine. This also supported the need for a highly capable submarine force with the right supporting capabilities and the importance of making use of the lessons learned from the CCSM project.

During 2010/11, DBT's goal was to build on earlier concepts and experience to conduct the A3 Future Submarine project and develop capability in readiness for the next phase of the project. The 2011/12 financial year has seen an increase in company financial support. This investment continues to develop Australia's capability to understand the complexities of submarine design in all phases, such as design for concept, design for build and design through life support. Our goal is to have the best submarine design expertise in Australia and have it ready for Government to use, should it desire.

To achieve this goal DBT is focused on:

- Developing capability;
- Building the team;
- Developing tools and processes;
- Working with the Defence Science and Technology Organisation (DSTO);
- Improving submarine engineering domain coverage and depth;
- Exploring the global market for systems and technology; and
- Undertaking work that may reduce future scope and risk.

To support these goals DBT is organised as follows:

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

During 2011/12, DBT's highly skilled and experienced team tackled a broad program of work that led to the consolidation of the capability to develop submarine concept design solutions.

DBT has focused on growing the team from approximately 30 permanent staff to 60.

During 2011/12, the program consisted of:

- Concept formulation including:
  - o Defining dimensioning missions to elicit 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 Refining the A3 concept which draws on the experience gained from earlier concepts;
  - o Conducting a crew size impact study; and
  - o Developing systems for integration in the concept design based on requirements and system modelling.
- Conducting system and technology studies which focused on energy systems, fluid systems, hydrodynamics, sensors and signature management;
- Studying whole-of-submarine issues including asset management, safety, signatures, reliability, availability and supportability that affect all subsystems;

- Developing, documenting and verifying engineering tools for the submarine development toolbox, including SUBSIM (simulation of submarine missions), SUBSAT (suite of submarine concept design tools) and the Virtual Towing Tank (for hydrodynamic assessment based on computational fluid dynamics) continued; and
- Cost modelling which saw a top down parametric acquisition cost model further developed and the early stage development of a maintenance cost model.

A cooperation agreement with DSTO was signed in June 2012 following discussions throughout 2011/12. This agreement is significant and will allow formal cooperation between DBT and DSTO.

ASC is one of Australia's largest defence engineering companies and has a range of specialist engineering skills and expertise. ASC strives to continually develop its submarine design and sustainment, and shipbuilding capabilities, in support of the ongoing maintenance and upgrade of the CCSM, and the construction of the Hobart Class AWDs.

ASC engineering is focused on encouraging innovation and enterprise, and identifying and developing niche areas of excellence, from which ASC can sustain a competitive advantage and long-term growth.

ASC's business success is dependent on its engineering expertise and technical credibility. Specialist shipbuilding and submarine expertise is assured through the attraction and retention of the right people, a comprehensive training program, the use of the latest engineering systems and tools, adherence to strict process, and developing complex engineering solutions.

ASC Engineering provides engineering services in support of AWD Shipbuilding and the Collins Class maintenance contract. Technical personnel also support DBT which operates as a separate concept design group within ASC.

ASC Engineering is responsible for Product Safety, Innovation, Engineering Training, Tools/Technologies and Software Engineering across all areas of the business.

## Hobart Class Air Warfare Destroyer Project

During 2011/12, ASC's engineering and technical skills provided a range of support to the AWD project including:

- Design support;
- The production of enabling products, including jigs, fixtures, mock-ups etc;
- Field engineering, including assisting in the block construction and consolidation process;
- Product safety, including the development of the whole-of-ship safety case;
- Test and activation, including responsibilities for verification and validation during ship construction; and
- The production of training material, maintenance and technical documentation and spares requirements.

ASC continues to coordinate and process design information from the platform designer, Navantia. The 2011/12 year saw the translation of the Navantia design package and equipment supplier documentation to meet ASC Production and Block Subcontractor needs and change management.

## Collins Class Submarine Project

The Submarine Engineering division of the Engineering Group has continued to provide engineering support to the Collins Class maintenance contracts with a focus on improving submarine reliability and availability.

During 2011/12, the Engineering team has been instrumental in progressing a number of company initiatives including:

- Improving the efficiency of the business;
- Working to stretch targets; and
- Maximising value for money for the customer.

These initiatives have been supported by work to reinforce the Submarine Enterprise concept through a focus on closer cooperation between the engineering teams in ASC, DMO and the RAN, as well as the development of the Strategic and Action Plans.

Significant engineering activities over the year included:

- The development of a concentrated root cause analysis of the major submarine reliability issues;
- The creation of a Diesel Engine Remediation Program with assistance from a European submarine diesel engine specialist; and
- The Service Life Evaluation Program, involving an analysis of the design life of submarine platform systems to create 'life of type' and 'life extension' projections, of which obsolescence management forms an integral part.

During 2011/12, ASC Engineering engaged Qantas Engineering to provide a forum for exchanging ideas, comparing logistics engineering methodologies and experiences, and form the benchmarking of ASC's Engineering Management System. This demonstrated ASC's close compliance and readiness to take on the future role of Commercial Authorised Engineering Organisation under the Navy Technical Regulatory Framework.

### External Links

ASC Engineering continued to expand upon its collaboration with local universities, including the oversight and presentation of three Masters courses: Marine Engineering; Military Systems Integration; and Support Systems Engineering. ASC Engineering is represented on a number of University Advisory Boards. ASC's capability partners, General Dynamics Electric Boat and Bath Iron Works, continue to add depth to ASC's Engineering competence by offering secondment of expertise and avenues for knowledge reach back.

The 2011/12 year also saw a close association with Engineers Australia with ASC representation on various committees, as well as the development of a dedicated program to grow chartered membership throughout the company.



# ONE COMPANY TRANSFORMATION

## One Company Transformation

The One Company Transformation Program aims to improve ASC's performance through resolving current business challenges and evolving the business for future success. The four elements of the program are:

- Safety Transformation Program (STP);
- Lean Six Sigma (LSS);
- Organisational Design and Development; and
- Process Excellence.

## Safety Transformation Program

During 2011/12, the STP commenced with the aim of improving the safety culture and performance at ASC. This program will see a conversational culture and safety framework developed through a collaborative approach involving the entirety of the ASC workforce.

In the last quarter of 2011 and the first two quarters of 2012, the program deployed safety awareness and safety leadership training across all three ASC sites. The major hazard control program, which focuses on major risks in the workplace, will be implemented in early 2012/13.

## Lean Six Sigma

LSS aims to identify sources of waste in the business and eliminate them in order to improve processes, performance, and customer and staff satisfaction.

ASC's LSS program incorporates both WorkSmart and the Ideas Scheme. The WorkSmart team is the delivery mechanism for the LSS Program. It builds continuous improvement capability within ASC through training, facilitation and mentoring of LSS improvement projects.

The LSS program is managed by steering committees at each ASC site and focuses on aligning program improvement plans and monitoring project outcomes. A key feeder for improvement projects is the Ideas Scheme, which operates within the Production areas of ASC North and ASC South, and aims to capture and implement improvement ideas from the workforce.

The LSS program features four competency levels: Yellow Belt (familiarisation), Green Belt (basic practitioner), Black Belt (advanced practitioner) and Master Black Belt (LSS program leadership). Since December 2010, three waves of training have been conducted with over 60 Green Belts and 140 Yellow Belts trained. One ASC employee has been selected from the Green Belt Program to undertake Black Belt training.

In 2011/12, the program delivered significant benefits:

- At ASC South the program has seen the completion of 50 projects since late 2010 and \$7.5 million in avoided costs and hard savings at a Return on Investment (ROI) ratio of 10:1 per year. Based largely on the success at ASC South, the program has been deployed to the AWD Alliance during the first quarter of 2012, to enable best practice across the end-to-end AWD value streams;
- Since the implementation into the CCSM business in the first quarter of 2011, 20 projects have commenced, with business improvement outcomes accounting for a net benefit of over \$1.0 million from nine projects;
- At ASC's Western Australian facility (ASC West) three major LSS projects have been completed, with business improvement outcomes accounting for a net benefit of \$300,000. In addition, a reduction in HMAS *Dechaineux's* maintenance activity by approximately 20 per cent; and
- The Ideas Scheme has generated 972 ideas with 800 implemented or closed. The scheme has delivered a benefit of over \$1.4 million since the last quarter of 2010, with improved safety, morale and engagement of the workforce.

## Organisation Design and Development

The Organisation Design and Development Program deploys a process to review elements of the business and ensure that the structure, through layers and spans, is appropriate, accountable and optimum size. During late 2011 and early 2012, the process was applied to ASC West and ASC South to improve structure, alignment and accountability. It is intended to apply the process to ASC North in the third quarter of 2012.

The program will see ASC's human resource focus move from 'right people, right time, right place', which reflected the rapid growth and development of the ASC shipbuilding workforce, to 'alignment, accountability and performance'. This will allow the business to focus on delivering the major CCSM and AWD projects successfully.

## Process Excellence

The Process Excellence Program aims to develop a stable and consistent foundation of processes that will enable ASC to function efficiently and effectively. It will ensure the end-to-end processes define responsibility, accountability and alignment with the corporate strategy and values. The core elements of the program include:

- The Corporate Management System (CMS) Overhaul, which will see an update to the CMS through a bottom up review of all processes and alignment with the ASC operating model;
- The High Level Value Stream Mapping, which involves the identification of enterprise high-level value streams;
- The ASC Scorecard, which involves the development of a series of cascading metrics which are aligned to strategic objectives and value streams. The scorecard will be used to assess, monitor and improve performance and is scheduled for completion in December 2012;
- AWD Shipbuilding Engineering Integrated Product Data Environment, which comprises of a collection of business processes, computer systems, and associated services, vital for the effective support of the design, build, construction, testing, and certification of the AWDs; and
- The Collins Enterprise Value Streams, designed to establish the high level values streams for the Collins Class Enterprise. Once established, role clarity will be improved, and waste and duplication eliminated.

# INFRASTRUCTURE DEVELOPMENT AND UPGRADES

In 2011/12, maintenance and development upgrades of infrastructure continued at ASC South, ASC North and ASC West.

## ASC North

The ASC North site is dedicated to the maintenance of the CCSM and 2011/12 saw the completion of various maintenance and upgrade activities including:

- The reseal of the Blast and Paint facility to ensure compliance with Environment Protection Authority regulations;
- The five-yearly dredging of the ship lift and wharf areas;
- The upgrade of the electrical cabling on the Submarine Transfer System which will significantly extend its life;
- The refurbishment of several shiplift hoist motors and replacement of several hoist ropes;
- The roll out of MEX Ops, a computerised maintenance system for preventive and reactive maintenance issues, at ASC West, supported by ASC North personnel;
- The upgrade of air conditioning systems in Buildings 1, 2, 4, 9, 13, 15a, 17a, and 20;
- Completion of the Safe Guarding Project involving compliance of all walkways, platforms and mezzanines;
- The roll out of a Traffic Management Plan across all ASC sites;
- The completion of a major upgrade of communication pits to prevent accidental or malicious damage to ASC networks, and drastically increasing its life expectancy;

- The installation of a dual redundant uninterrupted power supply to the server room providing an even more robust network and communications across ASC;
- The replacement of pendant controls on wall cranes with the latest technology remote controls, providing additional safety to operators as well as the increase in work flow;
- The successful commissioning of the DBT temporary building to provide 28 additional seats and facilitate the expansion of DBT;
- The upgrade of the ASC North car park to provide an additional 32 spaces;
- Installation of a personnel/material lift in the Hull Shop;
- The replacement of 10 overhead crane hoists as part of a crane-upgrade program;
- The commencement of work to upgrade the office accommodation; and
- The full upgrade to Building 9.

## ASC West

ASC West is ASC's purpose built submarine support facility based in Henderson, Western Australia. The 2011/12 year saw the completion of various maintenance and upgrade activities including:

- The upgrade of the ASC West car park to provide an additional 38 spaces;
- The installation of a further 25 Ships Information Management Systems and Defence Restricted Network points in the Administration Building;
- The installation of new pallet racking in the main warehouse;
- The acquisition of a container spray booth for spray painting of small parts fully compliant with AS 4114.1;
- The addition of pallet racking to the Support and Test Equipment warehouse;
- The replacement of pipeline for sea water submarine cooling in the Maintenance Hall;
- The installation of material hoists in the Maintenance Hall;
- Replacement of two new fire water support tanks;
- The upgrade of submarine salt water cooling water supply system in the Maintenance Hall;
- Completion of Feasibility Study and Business Case for the ASC facilities upgrade at HMAS *Stirling*, Garden Island, WA; and
- The installation of new pallet racking in the Support and Test Equipment warehouse.

## ASC South

ASC South is the company's dedicated shipyard at Osborne, South Australia. The 2011/12 period saw the completion of various maintenance and upgrade activities including:

- The completion of two OSTs to enable direct access onto the ships during construction. These towers will accommodate over 360 workers whilst working on the CUF;
- The completion of the temporary Blast and Paint facility on the CUF that doubles ASC's blast and paint capacity;
- Construction and installation of supervisor offices in the main engine reduction gear workshop;
- Installation of cable racking in the warehouse to accommodate over 140 cable drums;
- The rearranging of services and furniture in the main administration building to accommodate an additional 24 employees;
- The conversion of an empty workshop in Building 6 into an insulation workshop and quality department storage room; and
- A power upgrade to the original Blast and Paint facility to accommodate additional dust extractors.

## Techport Australia

The CUF is 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.

The 2011/12 year saw the completion of various maintenance and upgrade activities including:

- The finalisation of a Compressor Agreement with Defence SA that will allow for the supply of compressed air on the CUF;
- The finalisation of a Priority Use Agreement with Defence SA for a third set of trestles to allow for the movement of complete and partially assembled AWDs around the site; and
- The commissioning of bulk gas supply on the CUF for LPG, oxygen and welding gases.

# SAFETY PERFORMANCE

## Commitment Statement

ASC is committed to communicating and promoting Work Health and Safety, Welfare and Injury Management (WH&SW&IM) awareness among its workers, and providing a safe and healthy working environment.

ASC seeks to continually improve performance of the WH&SW&IM system and to use appropriate internal and/or external expertise where required.

ASC remains committed to working safely at all times. This is reflected in the Safety Value Statement of: People, Places, Products, Platforms - Safely.

During 2011/12, ASC focused on developing, through consultation with its workforce, a suite of documents that describe the processes for the management of safety. This work will continue in 2012/13.

ASC's Safety Management System includes:

- A Safety Values Statement;
- Safety Policy, Framework and Guiding Principles;
- Safety Standards, Guidelines and Group Procedures; and
- An Audit and Assurance evaluation.

These documents are accessible to staff through the company intranet.

## Health and Safety Initiatives

The health and safety of our workers is central to the success of the business and in 2011/12 ASC continued to provide safety training, including:

- Major hazard identification, effective controls and monitoring observations;
- Safety leadership coaching;
- Safety awareness training;
- Safety induction of new workers and the timely re-induction of incumbent workers;
- Training to perform high risk work, such as confined space entry and work at heights; and
- Use of fire extinguishers, fire wardens, chemical spills and first aid.

To increase the focus on Work Health and Safety (WH&S) issues during 2011/12, ASC:

- Appointed a WHS Manager for the ASC South site, in line with ASC North and ASC West;
- Implemented new legislative compliance for the *Work Health and Safety Act 2011*;
- Implemented Due Diligence Training for ASC Officers;
- Implemented a Safety Transformation Program to facilitate a conversational culture;
- Conducted further policy development and reviewed areas such as fatigue management, inclement weather, and drugs and alcohol;
- Implemented traffic management plans;
- Introduced lead indicator measures; and
- Trialled the introduction of a Manual Task Program.

The health and safety of all ASC workers is paramount. To demonstrate this during 2011/12 ASC:

- Introduced a Health Initiative Program;
- Assisted 18 workers to quit smoking;
- Made flu vaccinations available to all staff, with 695 employees opting to receive the vaccination;
- Facilitated 368 blood donations and 29 plasma donations; and
- Raised awareness about the importance of prostate awareness, and organ and tissue donations.

## Statistics

### Notifiable Incidents

Notifiable incidents indicate the number of incidents that were of a serious nature and required to be reported to Comcare (the Federal Government's agency responsible for workplace safety, rehabilitation and compensation).

Notifiable incidents 2011/12:

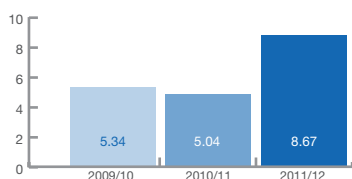
Deaths	2*
Dangerous occurrences	8
Serious personal injury	3
Incapacity	0
<b>Total</b>	<b>13</b>

\* non-work related.

## 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 8.67 for 2011/12 (including contractors).



$LTIFR = \text{number of LTIs} \times 1,000,000 \text{ divided by hours worked per month.}$

Rapid growth at ASC South has resulted in an increase in incidents. This includes a strong bias (54 per cent) toward strains and sprains. Eye injuries relating to foreign body entry (13 per cent) was the next most common occurrence.

Overall, the number of production-related incidents represented 81 per cent of the total of reported incidents. This reflects the amount of activity that is now undertaken in confined and awkward spaces leading to increased cases of muscular stress. ASC has introduced programs designed to address these two key areas including:

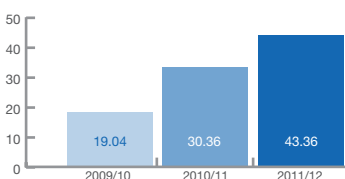
- Emphasis on the management of muscular activity;
- Emphasis on the wearing of correct personal protective equipment (PPE);

- The trial of a Manual Task Program at ASC West, designed to map individual employees' repetitive and non-repetitive movement thereby allowing specific targeted exercise programs to be undertaken across the work strata; and
- The commencement of a process for the removal and clean-up of PPE around facial areas to decrease the number of injuries occurring post-task.

## 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 43.36 was recorded for 2011/12.



$MTIFR = \text{number of MTIs} \times 1,000,000 \text{ divided by hours worked per month.}$

These MTIs are characterised by foreign objects in eyes, wrist and hand injuries, sprains and strains involving knee, shoulder and neck areas.

The increase in the MTI average in 2011/12 was due to an increase in activity levels at ASC South and a greater emphasis on reporting.

ASC is committed to addressing the root causes of LTIs and MTIs and has implemented the following strategies to prevent reoccurrences:

- Implementation of a Safety Transformation Program to develop a conversational culture where every person is encouraged to share their safety experience;
- Target programs around hand and finger injuries which look at the work activity being undertaken. Control factors are then discussed and where possible the risk eliminated or an engineering control put in place. PPE controls then supporting those initiatives;
- Emphasis on the use of the myOSH database, which is increasingly used for the recording of all incidents and analysis of trend data provides the basis for improvement programs. (myOSH is an inhouse software reporting capability);
- Encouraging the sharing of 'lessons learnt' information to prevent the possibility of any future recurrences;
- Continuous emphasis on near-miss reporting;
- A focus on appropriate PPE for different tasks undertaken. Eye injuries have reduced following an education program on the correct glasses and shields for double eye protection;
- The reinforcement of the Take 5 program, a safety awareness method, across all sites; and
- Introduction of a Healthy Initiatives Program with an emphasis on prevention of muscular skeletal injuries.

# SAFETY PERFORMANCE CONTINUED

## Investigations

Comcare did not commence an investigation into any of the 13 notifiable incidents.

However, information pertaining to some of the incidents was provided to Comcare on request, and resulted in the satisfactory closure of the incident reports.

Prior to the end of 2011/12, two electric shock incidents were reported to Comcare. The incidents occurred at the ASC South site and involved MIG welding machines. All welding work was stopped and all such machines were removed from service and inspected prior to further use. No common faults were identified and consultation with the supplier of the machine was under way at the end of the period.

## Notices

There were no notices issued against ASC in the 2011/12 financial year.

# ENVIRONMENTAL PERFORMANCE

ASC is committed to the protection and improvement of the environment in which we operate. This is demonstrated through our Environmental Policy and the associated processes and procedures that the company has in place.

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

- Promote environmental awareness amongst our workers;
- 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 ISO AS/NZS 14001: Environmental Management Systems, which forms part of the ASC CMS.

The company continues to review the environmental performance of our activities and operations in order to identify opportunities for improvement. This includes a focus on the following areas:

- Energy use;
- Water resources (including stormwater);
- Waste management and recycling;
- Hazardous materials management;
- Land management, including soil and groundwater assessments; and
- Climate change.

## Environmental Initiatives

ASC, in collaboration with a number of major defence industry partners, has formed the Defence Industry Environmental Sustainability Forum (DIESF), which continues to liaise with the Department of Defence (DoD).

The DIESF has met several times a year since 2010 and continues to gain momentum and focus, sharing lessons learnt and good practice.

ASC continues to engage and participate in benchmarking and collaborative meetings with industry partners and groups including the DoD, the RAN, and Australian Industry Group (AiGroup).

In 2011/12, ASC completed a self-assessment against the requirements of the Commonwealth *Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act)* for our South Australian sites in October 2011. This assessment concluded that while there are a number of matters of national environmental significance in the vicinity of ASC's sites, the potential for ASC's operations or activities to impact on these matters is low, given the risk profile and controls in place to mitigate ASC's environmental risks.

## 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 2011/12, 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 for our sites indicating concentrations of potential contaminants exceeding the EPA guidelines.

Further to investigations and liaison with the SA EPA in 2010 and 2011, the EPA issued a letter to ASC in February 2012 indicating satisfaction with the extent of investigations and review of the site contamination (related to historically imported) contaminated fill on our sites. The EPA accepted the environmental program findings and does not require ASC to perform any remediation or additional groundwater monitoring at the ASC North or ASC South sites.

## Environmental Licences

ASC maintains environmental licences and authorisations for our activities in South Australia and Western Australia under the respective EPA. In Western Australia, our site is registered with the Department of Environment and Conservation.



# WORKFORCE AND TRAINING

Quality, innovation and professionalism are attributes central to ASC's workforce and training strategies and have allowed us to harness an innovative workforce that optimises our business practices.

To maintain a competitive advantage, ASC continues to both attract and retain the highest quality employees. The ongoing professional development of our workforce and targeted investment in training is central to this approach.

While 2011/12 has been a challenging year, ASC has performed strongly in an increasingly competitive employment market. ASC's ongoing recruitment success has been achieved through a strategic approach allowing us to remain ahead of labour trends and meet our key objectives.

At the end of 2011/12, ASC employed over 2,270 personnel (including contractors) across three sites, ASC South and ASC North, in South Australia, and ASC West, in Western Australia. More than 40 per cent of employees are employed in a production capacity.

## Professional Development

Central to ASC's commitment to the workforce is our ongoing investment in our people through:

- Developing innovative approaches to the delivery of training;
- Focusing on training that enhances skills and knowledge in order to attain professional mastery;
- Encouraging a culture of innovation and excellence that supports the core values of the business; and
- Communicating 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 existing workforce.

Throughout 2011/12, ASC continued to grow, employing over 687 new people across the company. The AWD project continued to rapidly grow with over 400 new employees engaged during 2011/12.

As part of a major workforce recruitment campaign for the AWD project, ASC recruited 100 production workers in 100 days. This was a significant achievement in an extremely tight skills market while also competing for talent with the ever-growing resources sector.

In 2012/13, employee numbers will increase further with ASC looking for more than 200 additional employees predominantly within the following production trades: electricians, boilermakers, welders, mechanical fitters, pipe fitters, pipe welders and sheet metal workers.

In addition, ASC also will require staff in the following areas: engineering, project management, supply chain and production management.

## Government Support for Training

ASC is well supported through both state and Federal Government funding. This funding includes the state-based Productivity Places Program (PPP), in which ASC successfully gained 183 funded positions in 2011/12. The PPP provides valuable targeted training to support the development of skills in Australia to meet existing and future industry demands.

Additionally, ASC has been supported by the South Australian Government's Minister for Further Education, Employment and Training's in-kind funding program. This provided \$229,874 throughout the year to support ASC in the delivery of training programs such as Welder Up Skilling, and the Defence Industry Pathway Program (DIPP). The purpose of the DIPP is to support the development of a skilled AWD and CCSM project workforce by increasing secondary school student involvement in innovative vocational education and training experiences related to shipbuilding skills (including metal fabrication/design, technology/basic electronics and core workplace competencies) which can lead to rewarding careers within the AWD project and other defence projects in South Australia.

Both of these programs assisted ASC with courses such as:

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

### Specialist Training

The Skilling Australia's Defence Industry initiative continued during 2011/12. The initiative assisted 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. This program provides Australian defence industrial test engineers and senior technicians with the skills and knowledge required for planning and conducting Test and Evaluation Programs of naval systems. Over the 2011/12 period, 15 employees participated in the Test and Evaluation Program, and 12 in the Naval Test and Evaluation Program.

Further specialist education and training was undertaken in the vital area of marine surveying which was delivered through the Australian Maritime College (AMC). ASC has two employees enrolled in the AMC Program who are due to graduate in 2012. One employee graduated in 2011.

### Apprenticeships

ASC's Apprentice Program aims to develop tradespeople with the technical skills to meet the future needs of ASC projects. ASC offers a range of work experience and training opportunities across the business aimed at providing our apprentices with the chance to learn unique and advanced skills not found in other industries.

During 2011/12, ASC had 107 apprentices undertaking training within the business. The 2012 intake of 45 apprentices represented the largest intake of ASC apprentices to date, including four apprentices in WA, five adult, five female and five internal apprentices (already employed by ASC who then applied for an apprenticeship).

The program provides a fully structured apprenticeship that supports the unique requirements of female, adult and school-based apprentices.

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 CCSM and the construction of the Hobart Class AWDs.

### School Engagement

ASC's long-term future 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 DIPP was again a great success in 2011/12, with two DIPP students granted apprenticeships at ASC. At 30 June 2012, 11 DIPP graduates had gained apprenticeships with ASC.

### Equal Employment Opportunity Principles

ASC is committed to Equal Employment Opportunity (EEO) and Diversity Principles and continues to develop strategies to attract and retain a diverse workforce. With a female population of approximately 12 per cent at the conclusion of 2011/12, ASC is committed to attracting more females to the company, especially in non-traditional roles, in 2012/13. ASC's brand as an EEO Employer is further strengthened by maintaining generous maternity leave entitlements and flexible working options to help employees achieve work-life balance.

### Executive Remuneration

Remuneration*	No. of employees
\$300,000 and above	4
Below \$300,000	8

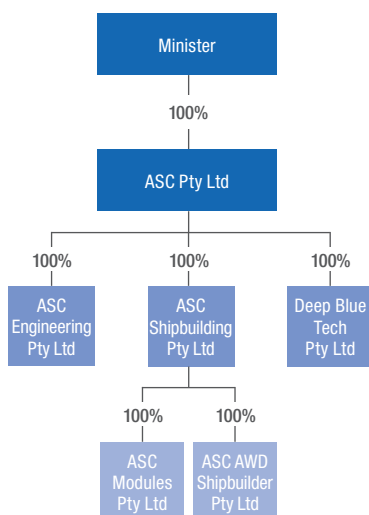
\* This excludes superannuation and performance incentives.

# CORPORATE GOVERNANCE

## Status

ASC is a proprietary company limited by shares registered under the Corporations Act and is subject to the *Commonwealth Authorities and Companies Act 1997 (Cth)* (CAC Act). All the shares issued in the capital of ASC are owned by the Minister for Finance and 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 2011/12 year.

## Directors

The directors of ASC are appointed by the Minister for a term. As at 30 June 2012, the Board was comprised as follows:

Name	Appointed	Expires
VADM Chris Ritchie, AO, RANR	28 Aug 2007	30 Sept 2012
Steve Ludlam	18 Jan 2010	17 Jan 2015
Bruce Carter	1 Jan 2010	17 April 2015
John 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
Kathy Hirschfeld	18 April 2012	17 April 2015

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 reviewing 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 that appropriate compliance frameworks and controls are in place;
- Reviewing and overseeing the implementation of ASC's code of conduct for directors and executives;

- Appointing Board committees and approving the composition, and any charters, of Board committees; and
- Monitoring and ensuring compliance with legal and regulatory requirements, ethical standards and policies.

### Audit Committee

The objectives of the Audit Committee are to:

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

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

As at 30 June 2012, the committee comprised Bruce Carter (Chairman), Sally Pitkin and John 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 2012, the committee comprised VADM Chris Ritchie, AO, RANR, (Chairman) and Sally Pitkin.

### Business Assurance and Security Committee

The objectives of the Business Assurance and Security Committee Charter 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
- Ensure compliance with the Group's obligations in respect of the International Traffic in Arms Regulations (US).

As at 30 June 2012, the committee comprised RADM USN (Ret) Dugan Shipway (Chairman), VADM Chris Ritchie, AO, RANR, and Kathy Hirschfeld.

### Attendance

Attendance at Board and committee meetings during 2011/12 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	12	12	-	-	2	2	4	4
Steve Ludlam	12	12	-	-	-	-	-	-
Bruce Carter	12	11	5	5	-	-	-	-
Kathy Hirschfeld	1	1	-	-	-	-	1	1
David Miles	10	9	-	-	-	-	4	4
John O'Connell	12	11	5	5	-	-	-	-
Geoff Phillips	7	5	4	4	1	1	-	-
Sally Pitkin	12	12	-	-	2	2	4	3
RADM USN (Ret) Dugan Shipway	12	10	-	-	-	-	4	4

# CORPORATE GOVERNANCE CONTINUED

## Board Membership:

- Kathy Hirschfeld was appointed as a non-executive director;
- Bruce Carter was appointed chairman of the Audit Committee, and Sally Pitkin was appointed a member;
- RADM USN (Ret) Dugan Shipway was appointed chairman of the Business Assurance and Security Committee, and Katherine Hirschfeld was appointed a member;
- Sally Pitkin retired from the Business Assurance and Security Committee; and
- Geoffrey Phillips and David Miles retired as directors of ASC and from the committees on which they served.

## 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:

- The 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 2011/12, the program covered:

- Defence Exports;
- Employment;
- Intellectual Property;
- Security; and
- Occupational Health and Safety.

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

# FINANCIAL REPORT

30 June 2012

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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 2012

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 2012.

#### Directors

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

VADM Christopher Angus Ritchie AO RANR

Bruce James Carter

Katherine Anne Hirschfeld (appointed on 9 May 2012)

Stephen Ludlam

John Joseph O'Connell AO

Sally Anne Majella Pitkin

RADM (retired) JF Shipway

The directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Mr Geoffrey Raymond Phillips and Mr David Arthur Miles retired as directors on 31 December 2011 and on 31 March 2012 respectively. The board acknowledged their commitment and thanked them for their services to the Board of ASC.

#### Principal activities

The principal activities of the Group during the course of the financial year ended 30 June 2012 are set out below. No significant change in the nature of these activities occurred during the year.

#### *CCSM related activities:*

The major submarine related activities included maintenance, design development, engineering and upgrading of six submarines for the Royal Australian Navy (RAN). These activities were undertaken for the CCSM under the Through-Life Support Agreement (TLSA).

#### *Hobart Class Air Warfare Destroyer (AWD) related activities:*

Activities continued under the Alliance Based Target Incentive Agreement (ABTIA) with other members of the Air Warfare Destroyer Alliance, the Commonwealth of Australia represented by the Defence Materiel Organisation (DMO) and Raytheon Australia. The ABTIA commits the Alliance members to work as an integrated team to deliver the Royal Australian Navy'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 \$14,660,000 (June 2011: \$10,577,000) after provision for income tax expense of \$5,661,000 (June 2011: income tax expense of \$3,609,000).

#### Review of operations

#### *CCSM related activities:*

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

- improving the availability of the CCSM to the Royal Australian Navy (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 Australian Submarine Programme Office (ASPO) for the management of the CCSM maintenance; and
- continuing the innovation in engineering practices to meet the challenges of obsolescence.

The Company has been negotiating with the DMO on the terms and conditions of the new In Service Support Contract (ISSC) for the maintenance of the CCSM going forward during the financial year. On 29 June 2012, the Company has entered into the ISSC with its customer, the DMO. The new ISSC, which replaces the previous TLSA, aims to support greater collaboration, cooperation and accountability, while delivering value for money through a performance-based agreement. The ISSC is operationally effective from 1 July 2012 with an initial transition period, during which the Company will be exposed to limited risks. Satisfactory performance by the Company during the transition period will lead to a performance period of the contract, when both risks and rewards in relation to operational efficiencies will be shared between the Company and the DMO.

**Hobart Class Air Warfare Destroyer (AWD) related activities:**

During the financial period, the Air Warfare Destroyers (AWD) project is in its build phase. Production of the AWD blocks is well underway at all three Australian sites i.e. ASC AWD Shipbuilder Pty Ltd (subsidiary of ASC) in South Australia, BAE Systems Australia Defence Pty Ltd in Victoria and Forgas Engineering Pty Ltd in New South Wales. Further to this, a number of blocks are now being produced by Navantia (Spain) for ship 2 and 3 as a risk mitigation activity to offset the performance of a domestic supplier.

The decision was made by the board of directors that revenue is recognised to the extent of the expenses incurred. No profit can be recognised for the AWD project as the outcome of the project cannot be estimated reliably.

**Dividends**

The directors have declared an interim unfranked dividend of \$2,500,000 paid on 15 March 2012 (2010/11: \$2,600,000).

Subsequent to the end of the financial year the directors have recommended the payment of a final unfranked dividend of \$6,300,000 (2010/11: \$3,800,000) to be paid at a date to be determined by the board, out of retained earnings at 30 June 2012.

**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 (EMS), which forms part of ASC's Corporate Management System. All sites of the Group, comprising of the South Australian and Western Australian submarine facilities and the South Australian shipbuilding facility, have accreditation for AS/NZ ISO 14001: Environmental Management Systems.

The Group completed a 'Self Assessment' against the requirements of the Commonwealth Environment Protection and Biodiversity Conservation Act 1999 (the EPBC Act) for our South Australian sites in October 2011. This assessment concluded that whilst there a number of matters of national environmental significance in the vicinity of ASC's sites the potential for the Group's operations or activities to impact on these matters is low, given the operational risk profile and controls in place to mitigate the Group's environmental risks. Based on the available information the EPBC 'Self-Assessment' has identified that it is unlikely there is the potential for the Group's operations or activities to have, or likely to have, a 'significant impact' on any matters of national environmental significance protected by the EPBC Act. This is supported by the level of regulation and monitoring imposed on the Group by the South Australian EPA, being minimal, which indicates the operations and activities are considered to be well managed and low risk. It was therefore concluded that there is no requirement for the Group to submit a referral to the Minister under the EPBC Act for our operational activities.

In September 2010 the Group 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 was undertaken in 2011 to satisfy the EPA requirements and determine whether the contamination was due to historical land-use, unrelated to the Group's operations. Based on the liaison by the Group with the EPA and assessments undertaken, the EPA issued a letter to the Group in February 2012. The letter indicated that the EPA appreciated the environmental program implemented at the ASC South Australian sites, to monitor and assess historical contamination, and is satisfied, thus far, with the extent of investigation and review of the known site contamination from historical importation of contaminated fill. The EPA accepted the environmental program findings and does not require the Group to perform any remediation or additional groundwater monitoring at the submarine and shipbuilding facilities in the South Australia sites.

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

**Events subsequent to the end of the reporting period**

The new ISSC, which replaces the previous TLSA, is operationally effective from 1 July 2012.

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.



## ASC PTY LTD AND ITS CONTROLLED ENTITIES

### DIRECTORS' REPORT - continued

For the year ended 30 June 2012

#### Likely developments

The Group will continue to pursue the One Company initiative to evolve the business structure over the coming years. This will provide an enhanced capability to secure future projects through development of skills and capability, improving performance, achieving financial targets and managing customer and stakeholders relationships.

#### 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 directors and officers

##### *Indemnification*

The Company has agreed to indemnify the current and previous directors and officers of the Company for all liabilities to another person (other than the Company or a related body corporate) that may arise in their capacity as directors and officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreements stipulate that the Company will meet, to the extent permitted by law, the full amount of any such liabilities, including costs and expenses.

##### *Insurance premiums*

Since the end of the previous financial year the Company, its directors and officers have paid insurance premiums in respect of directors' and officers' liability insurance contracts for current and former directors and officers, including executive officers of the Company and directors, executive officers and secretaries of its controlled entities. The insurance premiums cover directors and officers for actual losses incurred in their capacity as directors and officers of the Company, which are not indemnified by the Company and which the director or officer becomes legally obligated to pay on account of certain claims made against him/her individually or otherwise. The terms of insurance policy prohibit disclosure of the amounts of the premium payable.

#### Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The Auditor's Independence Declaration is set out on page 34 and forms part of the Directors' Report for the year ended 30 June 2012.

#### 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 6th day of September 2012.

Signed in accordance with a resolution of directors:



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



**Stephen Ludlam**  
DIRECTOR

## ASC PTY LTD AND ITS CONTROLLED ENTITIES

### DIRECTORS' DECLARATION

For the year ended 30 June 2012

The directors declare that, in the directors' opinion:

- (a) the financial statements and notes set out on pages 37 to 82 are in accordance with the Corporations Act 2001, including:
  - (i) complying with Accounting Standards, the *Corporation Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 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 6th day of September 2012.

Signed in accordance with a resolution of directors:



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



**Stephen Ludlam**  
DIRECTOR



**ASC PTY LIMITED AND ITS CONTROLLED ENTITIES FINANCIAL REPORT 2011-12  
AUDITOR'S INDEPENDENCE DECLARATION**

In relation to my audit of the financial report of the ASC Pty Limited and its controlled entities for the year ended 30 June 2012, 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

Jocelyn Ashford

Executive Director

Delegate of the Auditor-General

Canberra

4 September 2012



## **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 Comprehensive Income, the Consolidated Statement of Financial Position as at 30 June 2012, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended, Notes comprising a Summary of Significant Accounting Policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising 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 is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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

My responsibility is to express an opinion on the financial report based on my audit. I 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 and its controlled entities on 4 September 2012, would be in the same terms if provided to the directors as at the time of this auditor's report.

### ***Opinion***

In my opinion:

- (a) the financial report of ASC Pty Ltd and its controlled entities is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Australian National Audit Office



Jocelyn Ashford  
Executive Director  
Australian National Audit Office  
Delegate of the Auditor-General  
Canberra

6 September 2012

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 30 June 2012

	Note	Consolidated Entity	
		Jun-12 \$'000	Jun-11 \$'000
<b>Revenue from continuing operations</b>	4(a)	802,216	699,999
Other income	4(b)	1,552	82
Materials and subcontractors		(406,135)	(384,849)
Labour		(276,035)	(214,331)
Labour recruitment and relocation		(3,987)	(2,389)
Depreciation and amortisation	5	(17,551)	(15,989)
Finance costs	5	(1,291)	(1,348)
Insurance		(9,912)	(8,008)
Operating lease	5	(13,992)	(11,823)
Production consumables and supplies		(3,512)	(3,287)
Professional fees		(8,763)	(6,262)
Repairs and maintenance		(8,770)	(7,014)
Security expenses		(2,617)	(2,449)
Travelling expenses		(5,573)	(4,419)
Office expenses		(4,843)	(5,175)
Utilities expense		(7,335)	(6,740)
Other expenses		(13,131)	(11,812)
<b>Profit before income tax</b>		20,321	14,186
Income tax (expense)/revenue	7(a)	(5,661)	(3,609)
<b>Profit for the year</b>		14,660	10,577
<b>Other comprehensive income</b>			
Net gain/(losses) on revaluation of land and buildings	20	8,441	442
Net actuarial gains/(losses) on defined benefit plans	23(d)	(1,785)	624
Income tax relating to components of other comprehensive income		(1,997)	(319)
<b>Other comprehensive income, net of tax</b>		4,659	747
<b>Total comprehensive income for the year, net of tax</b>		19,319	11,324
Profit attributable to:			
member of the parent entity		14,660	10,577
Total comprehensive income attributable to:			
member of the parent entity		19,319	11,324

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 2012

		<b>Consolidated Entity</b>	
	<b>Note</b>	<b>Jun-12 \$'000</b>	<b>Jun-11 \$'000</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	161,021	140,365
Trade and other receivables	9	136,760	119,505
Inventories	10	5,780	4,075
Other current assets	11	2,477	2,959
<b>TOTAL CURRENT ASSETS</b>		<b>306,038</b>	<b>266,904</b>
<b>NON CURRENT ASSETS</b>			
Net pension assets	23(d)	-	425
Property, plant and equipment	12	306,226	305,065
Other non-current assets	13	4,512	4,756
<b>TOTAL NON CURRENT ASSETS</b>		<b>310,738</b>	<b>310,246</b>
<b>TOTAL ASSETS</b>		<b>616,776</b>	<b>577,150</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	71,046	83,391
Net unearned contract billing	15	117,243	129,522
Interest-bearing liabilities	17	86,130	76,032
Current tax liabilities	7(b)	2,084	2,442
Provisions	18	35,216	28,357
<b>TOTAL CURRENT LIABILITIES</b>		<b>311,719</b>	<b>319,744</b>
<b>NON CURRENT LIABILITIES</b>			
Non interest-bearing liabilities	16	16,724	13,814
Interest-bearing liabilities	17	29,000	-
Net pension liabilities	23(d)	1,094	-
Deferred tax liabilities	7(d)	14,849	12,251
Provisions	18	13,243	14,213
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>74,910</b>	<b>40,278</b>
<b>TOTAL LIABILITIES</b>		<b>386,629</b>	<b>360,022</b>
<b>NET ASSETS</b>		<b>230,147</b>	<b>217,128</b>
<b>EQUITY</b>			
Contributed equity	19	10,000	10,000
Reserves	20	95,845	89,937
Retained earnings	21	124,302	117,191
<b>TOTAL EQUITY</b>		<b>230,147</b>	<b>217,128</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 2012

	Consolidated Entity			Total \$'000
	Contributed Equity \$'000	Reserves \$'000	Retained Earnings \$'000	
<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	-	(133)	(187)	(320)
Total other comprehensive income	-	309	437	746
<b>Total comprehensive income for the year</b>	-	309	11,014	11,323
<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	89,936	117,191	217,127
<b>Balance at 1 July 2011</b>	10,000	89,937	117,191	217,128
Profit after tax for the year	-	-	14,660	14,660
Revaluation increment	-	8,441	-	8,441
Actuarial gains (losses) on defined benefit plans	-	-	(1,785)	(1,785)
Income tax relating to components of other comprehensive income	-	(2,533)	536	(1,997)
Total other comprehensive income	-	5,908	(1,249)	4,659
<b>Total comprehensive income for the year</b>	-	5,908	13,411	19,319
<b>Transactions with owners in their capacity as owners:</b>				
Dividends provided for or paid	-	-	(6,300)	(6,300)
<b>Balance at 30 June 2012</b>	10,000	95,845	124,302	230,147

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 2012

Note	Consolidated Entity	
	Jun-12 \$'000	Jun-11 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
	828,728	767,061
	(801,026)	(695,300)
7(b)	(5,417)	(5,586)
32(b)	22,285	66,175
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
	5,663	3,980
	40	128
	(10,112)	(19,730)
	(4,409)	(15,622)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
	(6,300)	(2,600)
	11,480	1,088
	-	(10,573)
	(1,020)	(1,088)
	4,160	(13,173)
	22,036	37,380
	(1,380)	(3,114)
	140,365	106,099
32(a)	161,021	140,365

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

**ASC PTY LTD AND ITS CONTROLLED ENTITIES**  
**INDEX TO NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 30 June 2012

Note No	Heading
1	Summary of significant accounting policies
2	Critical accounting estimates and judgements
3	Financial risk management
4	Revenue and other income
5	Expenses
6	Audit services
7	Taxation
8	Cash and cash equivalent
9	Trade and other receivables
10	Inventories
11	Other assets
12	Property, plant and equipment
13	Other non current assets
14	Trade and other receivables
15	Net unearned contract billings / Construction work in progress
16	Non interest bearing liabilities
17	Interest bearing liabilities
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19	Contributed equity
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ASC PTY LTD AND ITS CONTROLLED ENTITIES  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
For the year ended 30 June 2012

**1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements for the year ended 30 June 2012 comprise of ASC Pty Ltd (the Company) and its subsidiaries (together referred to as the "Group" or the "consolidated entity"). The financial statements are presented in Australian dollars.

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

**(a) Basis of preparation**

These general purpose financial statements have 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 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 land and buildings and the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

*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.

Notwithstanding the negative working capital of \$5,681,000 for the Group (June 2011 negative working capital of \$52,840,000), the financial statements are prepared on a going concern basis due to the following reasons:

- contracts of the Group are mostly 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 \$230,147,000 (June 2011: \$217,128,000);
- \$86,130,000 of the current liabilities are capable of but not expected to be called in full within 12 months after balance date;
- \$12,000,000 overdraft facility not utilised at balance date; and
- \$30,000,000 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 2012 reporting periods. The Group has not adopted the following standards early. The Group's assessment of the impact of these new standards and interpretations is set out below.

***AASB 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 two standards will have no impact on any amount recognised, but only impact on disclosure requirements in the financial statements of the Group.

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

***AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)***

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance 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 composition.

***AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)***

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

***Revised AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements (effective 1 January 2013)***

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. Had the group adopted the new rules in the current reporting period, profit or loss would have been lower and other comprehensive income higher by approximately \$187,000 which will be the difference between current expected return on plan assets and interest on plan assets calculated using the discount rate used for the measurement of the defined benefit obligation. The Group has not yet decided when to adopt the new standard.

***AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)***

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

***Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (effective 1 January 2014 and 1 January 2013 respectively)***

In December 2011, the IASB made amendments to the application guidance in IAS 32 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the IASB has also introduced more extensive disclosure requirements into IFRS 7 which will apply from 1 January 2013. The AASB is expected to make equivalent changes to IAS 32 and AASB 7 shortly. When they become applicable, the group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

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

### (c) Principles of consolidation

#### *Subsidiaries*

The consolidated financial statements incorporate the assets, liabilities and the results of entities controlled by the Company (subsidiaries) as at the end of the reporting period.

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 entities 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 cannot be reliably estimated, revenue is only recognised to the extent of the contract costs incurred and where it is probable that the contract costs will be recoverable.

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

#### *Secondment Income*

Revenue from secondment is recognised when the labour services have been provided and the secondment charging criteria of the relevant arrangements 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) Construction and sustainment contract work in progress

Contract work in progress is measured 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.

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

### (e) Contract work in progress (cont.)

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 the Company'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. 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 recognised in other comprehensive income.

### (g) Property, plant and equipment

Land and buildings are measured at fair value, based on valuations by external independent valuers, less subsequent depreciation and impairment, where applicable, 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 and impairment at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

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

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

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

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

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

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 the statement of comprehensive income. When re-valued 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 recognised as an asset and liability at the lower of the amounts equal to the fair value of the leased property or 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. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

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

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

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

#### *Accounting for income tax*

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

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

### (i) **Taxation (cont.)**

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. These allowances reduce 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.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.



## 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) Trade and other receivables

Trade and other 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. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collect ability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit and loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### (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. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

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

### (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. The increase in the provision due to the passage of time is recognised as interest expense.

#### *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 carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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

### (p) Impairment (cont.)

#### *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. 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.

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

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

### (q) Cash and cash equivalents

Cash and cash equivalents include:

- 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 Commonwealth of Australia (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 at 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 de-recognition*

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). 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.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss. The treatment of impairment has been disclosed in note 1(p).

#### *Subsequent measurement*

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

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

### (s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

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

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

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

### (t) Borrowing costs

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

### (u) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period. Provision must be made in compliance with s 254T of the Corporations Act 2001.

### (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 2012 and 30 June 2011 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. It is expected that on the successful completion of the Provisional Acceptance of Ship 1, an ABTIA milestone, the outcome of the project could be reliably measured and profit recognition would then commence in accordance with AASB 111.

#### *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 Through-Life Support contract with the Commonwealth of Australia represented by the Defence Materiel Organisation 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 2012 is \$6,490,000 (2011: \$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 2012 is \$5,710,000 (2011: \$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.

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

#### Financial risk management (cont.)

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-12 \$'000	Jun-11 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	161,021	140,365
Trade and other receivables	136,760	119,505
	<b>297,781</b>	<b>259,870</b>
<b>Financial liabilities</b>		
Trade and other payables	71,046	83,391
Non interest-bearing liabilities	16,724	13,814
Interest-bearing liabilities	115,130	76,032
	<b>202,900</b>	<b>173,237</b>

#### (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 Commonwealth of Australia with a "AAA" credit rating from Standard and Poor's.

##### *Cash and cash equivalents*

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

##### *Guarantees*

Credit risk 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.

##### *Financial securities received*

Credit risk also arises in relation to \$2.4 million of financial securities issued by foreign banks in favour of ASC, in respect of mobilisation payments made by ASC to overseas suppliers. Recent downgrades in the Standard and Poor's credit ratings of several of these banks has resulted the credit ratings of these banks falling below the rating level approved by the ASC corporate management policies. All practical means of remedying the non-compliance have been exhausted. The risk exposure to these securities is assessed as low.

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

#### Financial risk management (cont.)

#### (a) Credit risk (cont.)

##### *Recognised financial instruments*

#### Trade and other receivables

*Counterparties with external credit rating (Standard and Poor's)*

AAA [Australia (Commonwealth of)]

A+

Credit rating not determined

	Jun-12 \$'000	Jun-11 \$'000
AAA [Australia (Commonwealth of)]	134,761	117,846
A+	-	1,391
Credit rating not determined	1,999	268
	<b>136,760</b>	<b>119,505</b>
<b>Cash and cash equivalents</b>		
AA	-	140,365
AA-	161,021	-
	<b>161,021</b>	<b>140,365</b>

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 through life support for six CCSM and the Hobart Class AWD program for the construction of the Navantia-designed AWDs.

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

##### *Off statement of financial position financial instruments*

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

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

#### Financial risk management (cont.)

#### (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.

Contracts of the Group are mostly 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:

- \$30,000,000 overdraft facility not utilised at balance date. Interest would be payable at the rate of Bank Bill Official Rate plus 100 basis points; and
- multi option bank facility.

The Group receives advance funding for the AWD project by the Commonwealth of Australia (CoA) under the Alliance Based Target Incentive Agreement (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 of liabilities
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated - At 30 June 2012</b>				
<b>Non-derivatives</b>				
Non-interest bearing	71,046	28,865	99,911	87,770
Variable rate (including bank overdraft)	115,130	-	115,130	115,130
<b>Total non-derivatives</b>	<b>186,176</b>	<b>28,865</b>	<b>215,041</b>	<b>202,900</b>
<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>



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

#### Financial risk management (cont.)

##### (c) Market Risk

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

##### Foreign exchange risk

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

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

	Currency	Jun-12 AUD \$'000	Jun-11 AUD \$'000
<b>Financial assets</b>			
Cash and cash equivalents	USD	7,446	7,717
	EUR	8,704	21,200
	GBP	641	228
	CAD	1,883	1,523
	JPY	149	140
	Total	18,823	30,808
Trade and other receivables	USD	1,082	679
	EUR	15,126	7,895
	GBP	434	507
	CAD	45	417
	Total	16,687	9,498
<b>Financial liabilities</b>			
Trade and other payables	USD	1403	1235
	EUR	4,852	8,329
	GBP	384	508
	Total	6,639	10,072
Net unearned contract billing	USD	(439)	(19)
	EUR	(78)	(68)
	Total	(517)	(87)
Interest-bearing liabilities	USD	7,562	7,176
	EUR	19,071	20,840
	GBP	691	227
	CAD	1,928	1,940
	JPY	149	140
	Total	29,401	30,323

### 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 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:

	Total \$000	Effective interest rate %
<b>30 June 2012</b>		
<b>Financial assets</b>		
Cash and cash equivalents	161,021	2.97%
Trade and other receivables	136,760	0.00%
	297,781	
<b>Financial liabilities</b>		
Trade and other payables	71,046	0.00%
Non interest-bearing liabilities	16,724	0.00%
Interest-bearing liabilities	115,130	1.63%
	202,900	
<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%
	259,870	
<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%
	173,237	

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

#### Financial risk management (cont.)

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

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

##### Sensitivity analysis

At 30 June 2012, 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 2011. 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.

##### Consolidated Entity

	Carrying Amount	Interest Rate Risk			
		-0.75%		+0.75%	
		Profit	Other Equity	Profit	Other Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>30 June 2012</b>					
<b>Financial assets</b>					
Cash and cash equivalents	161,021	(1,208)	-	1,208	-
Trade and other receivables	136,760	-	-	-	-
<b>Financial liabilities</b>					
Trade and other payables	(71,046)	-	-	-	-
Non interest-bearing liabilities	(16,724)	-	-	-	-
Interest-bearing liabilities	(115,130)	-	-	-	-
<b>Total increase/(decrease)</b>		<b>(1,208)</b>		<b>1,208</b>	

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 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.

##### Consolidated Entity

	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>		<b>(1,053)</b>		<b>1,053</b>	

### 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-12 \$'000	Jun-11 \$'000
(a)	<b>Revenue</b>		
	<b>Revenue from continuing operations</b>		
	Revenue from rendering of services		
	Related parties	796,068	695,422
	Other parties	330	382
		796,398	695,804
	<b>Other revenue</b>		
	Secondment income received from:		
	Other parties	155	215
	Interest		
	Other parties	5,663	3,980
		5,818	4,195
	Total revenue from continuing operations	802,216	699,999
(b)	<b>OTHER INCOME</b>		
	Other income	1,552	82
	Total other income	1,552	82
	Other income received in 2011/12 financial year relates to assistance received from the South Australian Government for recruitment.		
5	<b>EXPENSES</b>		
	<b>Items included in profit before tax</b>		
	Net loss from disposal of fixed assets	42	123
	Depreciation of:		
	Buildings	10,422	9,715
	Plant and equipment	6,885	6,030
	Total depreciation	17,307	15,745
	Amortisation of:		
	Contribution to Henderson Common User Facility	244	244

ASC PTY LTD AND ITS CONTROLLED ENTITIES  
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**5 EXPENSES (CONT.)**

	Consolidated Entity	
	Jun-12 \$'000	Jun-11 \$'000
<b>Items included in profit before tax (cont.)</b>		
Finance costs:		
Bank charges	271	260
Interest expenses		
Related parties	1,020	1,088
	1,291	1,348
Operating lease rental expense:		
Minimum lease payments	13,992	11,823
Employee related expenses:		
Long service leave expense	6,174	3,763
Redundancy expenses	1,776	129
Defined benefit superannuation expense	228	20

**6 AUDITORS' REMUNERATION**

Audit services:		
Amount received or due and receivable by the Australian National Audit Office (ANAO) as auditors of the consolidated entity.	312,500	270,000

**Other services:**

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

## 7 TAXATION

		Consolidated Entity	
		Jun-12 \$'000	Jun-11 \$'000
<b>(a) Income tax expense</b>			
<b>Recognised in the income statement</b>			
<b>Current tax expense</b>			
Current year		7,318	6,113
Adjustments for prior years		(2,259)	150
		5,059	6,263
<b>Deferred tax expense</b>			
Temporary differences arising during the year, net of reversal		(1,657)	(2,504)
Adjustment for prior years deferred tax		2,259	(150)
		602	(2,654)
Total income tax expense in income statement		5,661	3,609
Attributable to:			
Continuing operations		5,661	3,609
<b>Numerical reconciliation between tax expense and pre-tax net profit</b>			
Profit before tax		20,321	14,186
Income tax using the domestic corporation tax rate of 30% (2011: 30%)		6,096	4,256
Increase in income tax expense due to:			
Non-deductible expenses		50	48
Decrease in income tax expense due to:			
Other tax deductible items			
Tax incentives not recognised in income statement		(485)	(695)
		5,661	3,609
Under/(over) provided in prior years			
Adjustment for prior year tax expense		-	-
Income tax expense on profit before tax		5,661	3,609
Attributable to:			
Continuing operations		5,661	3,609
<b>(b) Current tax liabilities/(Prepaid income tax)</b>			
Movements during the year were as follows:			
Balance at the beginning of the year		2,442	1,765
Income tax paid		(5,417)	(5,586)
Current year's current income tax expense on operating profit		7,318	6,113
Under/(over) provision in prior years		(2,259)	150
		2,084	2,442
<b>(c) Unrecognised deferred tax assets</b>			
Deferred tax assets have not been recognised in respect of the following items:			
Capital losses		11,540	11,540
		11,540	11,540

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7 TAXATION (CONT.)

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES		NET	
	Jun-12 \$'000	Jun-11 \$'000	Jun-12 \$'000	Jun-11 \$'000	Jun-12 \$'000	Jun-11 \$'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	9,683	9,585	(37,175)	(36,099)	(27,492)	(26,514)
Employee entitlements	7,646	8,998	-	-	7,646	8,998
Provisions for warranty	1,947	2,865	-	-	1,947	2,865
Project recognised profit	2,634	2,030	-	-	2,634	2,030
Interest accrual	-	-	(154)	(89)	(154)	(89)
Net pension assets	328	-	-	(127)	328	(127)
Sundry items	366	712	(124)	(125)	242	587
<b>Net tax assets/(liabilities)</b>	<b>22,604</b>	<b>24,190</b>	<b>(37,453)</b>	<b>(36,440)</b>	<b>(14,849)</b>	<b>(12,251)</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-12 \$'000	Jun-11 \$'000	Jun-12 \$'000	Jun-11 \$'000	Jun-12 \$'000	Jun-11 \$'000
<b>Consolidated Entity</b>						
<b>Movement to Income tax revenue/(expense)</b>						
Property, plant and equipment	98	83	1,457	1,281	1,555	1,364
Employee entitlements	(1,352)	1,401	-	-	(1,352)	1,401
Provisions for warranty	(918)	251	-	-	(918)	251
Project recognised profit	604	(82)	-	-	604	(82)
Interest accrual	-	-	(65)	(56)	(65)	(56)
Net pension assets	-	7	(81)	-	(81)	7
Sundry items	(346)	(221)	1	(10)	(345)	(231)
	(1,914)	1,439	1,312	1,215	(602)	2,654
<b>Movement credited/(debited) directly to equity</b>						
Property, plant and equipment			(2,533)	(133)	(2,533)	(133)
Net pension assets (refer note below)	328	(60)	208	(127)	536	(187)
	328	(60)	(2,325)	(260)	(1,997)	(320)
<b>Net tax assets/(liabilities)</b>	<b>(1,586)</b>	<b>1,379</b>	<b>(1,013)</b>	<b>955</b>	<b>(2,599)</b>	<b>2,334</b>

## 7 TAXATION (CONT.)

### (e) Amounts recognised directly in equity

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

Net deferred tax - debited (credited) directly to equity (note 7(d))

#### Consolidated Entity

Jun-12 \$'000	Jun-11 \$'000
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1,997	320
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## 8 CASH AND CASH EQUIVALENTS

Cash at bank and in hand

Term deposits

69,281	78,792
--------	--------

91,740	61,573
--------	--------

161,021	140,365
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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 Commonwealth of Australia (CoA) for the purposes of funding the working capital requirement of the Hobart Class Air Warfare Destroyer (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 2012, the balance of restricted cash was \$27.6m (June 2011: \$22.8m).



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9 TRADE AND OTHER RECEIVABLES

	Consolidated Entity	
	Jun-12 \$'000	Jun-11 \$'000
<b>Current</b>		
Trade receivables	136,056	116,593
Other receivables	704	2,912
	<u>136,760</u>	<u>119,505</u>

ACCOUNTS RECEIVABLE AGEING PROFILE

**Receivables**

Not Past Due	134,893	116,326
Past Due 1-30 Days	1,131	2,180
Past Due 31-60 Days	384	316
Past Due 61-90 Days	221	316
Past Due 90+ Days	131	367
Total receivables	<u>136,760</u>	<u>119,505</u>

10 INVENTORIES

**Current**

Raw materials and stores (at lower of cost or net realisable value)	5,780	4,075
	<u>5,780</u>	<u>4,075</u>

11 OTHER ASSETS

Prepayments	2,477	2,959
	<u>2,477</u>	<u>2,959</u>

## 12 PROPERTY, PLANT AND EQUIPMENT

		Consolidated Entity	
		Jun-12	Jun-11
		\$'000	\$'000
<b>Freehold land</b>			
At fair value		30,083	29,335
<b>Buildings</b>			
At fair value		218,659	220,166
<b>Plant and equipment</b>			
At cost		103,123	95,824
Accumulated depreciation		(49,266)	(43,300)
		53,857	52,524
Capital works in progress at cost		3,627	3,040
Total property, plant and equipment		306,226	305,065
<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	29,335
Revaluation increments/(decrements)		748	-
Carrying amount at the end of year		30,083	29,335
<b>Buildings</b>			
Carrying amount at beginning of year		220,166	222,821
Additions		226	2,891
Transfers from capital works in progress		997	3,727
Revaluation increments/(decrements)		7,692	442
Depreciation		(10,422)	(9,715)
Carrying amount at the end of year		218,659	220,166
<b>Plant and equipment</b>			
Carrying amount at beginning of year		52,524	40,406
Additions		1,284	2,650
Transfers from capital works in progress		7,016	15,607
Disposals		(82)	(109)
Depreciation		(6,885)	(6,030)
Carrying amount at the end of year		53,857	52,524

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

**Consolidated Entity**

Jun-12 \$'000	Jun-11 \$'000
------------------	------------------

**Capital works in progress**

Carrying amount at beginning of year	3,040	8,326
Additions/(write off)	8,600	14,189
Transfers to property, plant and equipment	(8,013)	(19,333)
Disposals	-	(142)
Carrying amount at the end of year	3,627	3,040

**Valuations**

An independent valuation of all land and buildings of the consolidated entity was carried out by Maloney Field Services Property Consultants and Valuers as at 30 June 2012.

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.

**Carrying amounts that would have been recognised if land and buildings were stated at cost.**

**Freehold land**

Cost	2,299	2,299
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**Buildings**

Cost	248,632	248,258
Accumulated depreciation	(126,125)	(120,893)
Net book amount	122,507	127,365

**Non current assets pledged as security**

Refer to note 25 for information on non-current assets pledged as security by the consolidated entity.

**13 OTHER NON-CURRENT ASSET**

Contribution to the Henderson Common User Facility	4,512	4,756
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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.

**14 TRADE AND OTHER PAYABLES**

Trade payables	39,391	32,817
Other payables and accruals	31,655	50,574
Total payables	71,046	83,391

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

	Consolidated Entity	
	Jun-12 \$'000	Jun-11 \$'000
Contract billings due and receivable	2,558,999	1,778,440
Contract works in progress	(2,219,282)	(1,449,783)
Profit recognised to date	(222,474)	(199,135)
Net unearned contract billing/(contract work in progress)	117,243	129,522

## 16 NON INTEREST-BEARING LIABILITIES

### Unsecured

#### Non current

Term loan	5	4
Deferred purchase obligation	16,719	13,810
	16,724	13,814

### Term Loan

Term loan consists of the interest free 99 year loans to ASC Pty Ltd and ASC Engineering Pty Ltd 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 Ltd (\$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 \$5,000 in total for the year ended 30 June 2012 (2011: \$4,000) under AASB139 (Financial Instruments: Recognition and Measurement)

### Deferred purchase obligation

As part of the Air Warfare Destroyer Program, ASC AWD Shipbuilder Pty Ltd and ASC Engineering Pty Ltd, subsidiaries of the Company entered into an agreement with the Commonwealth of Australia where the Commonwealth of Australia makes a contribution to build a production facility required for the construction of the Air Warfare Destroyers.

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 Air Warfare Destroyer 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	86,130	76,032
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ASC PTY LTD AND ITS CONTROLLED ENTITIES  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued  
For the year ended 30 June 2012

17 INTEREST-BEARING LIABILITIES (CONT.)

		Consolidated Entity	
		Jun-12 \$'000	Jun-11 \$'000
<b>Government advance</b>			
<b>Current</b>			
Government advance represents the working capital advance provided by the Commonwealth of Australia under the Alliance Based Target Incentive Agreement (ABTIA).			
Advances paid by the Commonwealth are in both Australian and foreign currencies and are required to be separately maintained in a Commonwealth of Australia 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 Air Warfare Destroyer project. All interest and expenses that accumulate in the separate bank accounts, in relation to funds advanced, accrues to the benefit of the Commonwealth of Australia.			
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 Commonwealth of Australia as to the working capital requirements for the AWD project.			
<b>Non current</b>		29,000	
Government advance			
<b>Government advance</b>			
<b>Non current</b>			
Government advance represents the working capital advance provided by the Commonwealth of Australia under the In Service Support Contract for the CCSM (ISSC).			
Advances paid by the Commonwealth is in Australian currency.			
Funds advances can only be used for the reimbursement of payment to the Company for direct project costs incurred for the ISSC activities.			
The net interest income from this advance funding will be deducted against the reimbursement claim of project direct costs by the Company.			
This advance is repayable at the end of the ISSC transition period which is expected to be the end of June 2014.			
<b>Financing arrangements</b>			
<b>Unsecured facilities</b>			
Total facilities available			
Loan facilities		30,000	30,000
Overdraft facilities		12,000	12,000
		42,000	42,000
Facilities utilised at balance date			
Loan facilities		-	-
Overdraft facilities		-	-
		-	-
Facilities not utilised at balance date			
Loan facilities		30,000	30,000
Overdraft facilities		12,000	12,000
		42,000	42,000

## 18 PROVISIONS (CONT.)

	Consolidated Entity	
	Jun-12 \$'000	Jun-11 \$'000
<b>Current</b>		
Employee entitlements, including on costs (a)	26,699	22,785
Redundancy and termination (b)	719	-
Warranty (c)	6,490	4,584
Self insured workers compensation (d)	1,306	738
Other	2	250
	<b>35,216</b>	<b>28,357</b>
<b>Non current</b>		
Employee entitlements, including on costs (a)	8,839	4,856
Warranty (c)	-	4,966
Self insured workers compensation (d)	4,404	4,391
	<b>13,243</b>	<b>14,213</b>

### (a) Employee entitlements, including on costs

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

The current portion includes the entire amount that the Group does not have an unconditional right to defer settlement. The non current portion represents the present value of the estimated future cash outflows of long service leave where there is no possibility that the Group could have to pay out the provision within the next 12 months.

### (b) Redundancy and termination

The redundancy provision is calculated based on the identified positions which would be redundant at the result of the new organisation structure for the new financial year 2012/13. This redundancy and termination provision is expected to be paid in the early part of the 2012/13 financial year.

### (c) Warranty

The Company has a warranty provision for the submarine related activities under the Through-Life Support contract with the Commonwealth of Australia represented by the Defence Materiel Organisation.

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 boat 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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued**  
For the year ended 30 June 2012

**18 PROVISIONS (CONT.)**

**(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.

**Provisions movements:**

**Redundancy and termination**

Balance at 1 July (current and non current)	-	459
Provision made during the year	1,629	-
Provision used during the year	(910)	(459)
Balance at 30 June (current and non current)	719	-

**Warranty**

Balance at 1 July (current and non current)	9,550	8,713
Provision made/(reversed) during the year	(3,060)	837
Balance at 30 June (current and non current)	6,490	9,550

**Self insured workers' compensation**

Balance at 1 July (current and non current)	5,129	4,995
Provision made/(reversed) during the year	1,887	872
Provision used during the year	(1,306)	(738)
Balance at 30 June (current and non current)	5,710	5,129

**Dividends**

Balance at 1 July (current and non current)	-	-
Provision made during the year	6,300	2,600
Provision used during the year	(6,300)	(2,600)
Balance at 30 June (current and non current)	-	-

**Other**

Balance at 1 July (current and non current)	250	335
Provision used during the year	(248)	(85)
Balance at 30 June (current and non current)	2	250

**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-12 \$'000	Jun-11 \$'000
Opening asset revaluation reserve (1 July)	89,937	89,627
Revaluation increment, gross	8,441	442
Deferred tax	(2,533)	(132)
Closing asset revaluation reserve	95,845	89,937
Total Reserves	95,845	89,937
Asset revaluation reserve		
Comprises of:		
- Land	19,450	18,926
- Buildings	76,395	71,011
Closing balance	95,845	89,937

### 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)	117,191	108,777
Actuarial gains (losses) on defined benefit plans after tax	(1,249)	437
Net profit for the year	14,660	10,577
Dividends	(6,300)	(2,600)
Closing retained earnings	124,302	117,191

## 22 DIVIDENDS

Interim dividend declared and paid for 2012 (2012: 25 cents/share, 2011: 26 cents/share)	2,500	2,600
Final dividend declared and paid for 2011 (2011: 38 cents/share)	3,800	-
Total unfranked dividend, represents a distribution to the shareholder	6,300	2,600

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.

The proposed final dividend expected to be paid out of retained earnings at 30 June 2012, but not recognised as a liability at year end is:

6,300	3,800
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## 22 DIVIDENDS (CONT.)

	Consolidated Entity	
	Jun-12 \$'000	Jun-11 \$'000
<b>Dividends franking account</b>		
Class C (30%) franking credits	112,357	105,320
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.		

## 23 COMMITMENTS

### (a) Capital expenditure commitments

Contracted but not provided for and payable:

Not later than one year

2,113 951

Later than one year but not later than five years

- -

Later than five years

- -

Total

2,113 951

### (b) Operating lease commitments

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

Not later than one year

13,255 12,716

Later than one year but not later than five years

44,639 43,363

Later than five years

85,633 94,529

Total

143,527 150,608

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 Ltd.

#### 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 2012 was carried out by David O'Keefe, Fellow of the Institute of Actuaries of Australia, of ALEA Actuarial Consulting Pty Ltd on 29 June 2012.

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.

	<b>Consolidated Entity</b>	
	<b>Jun-12</b>	<b>Jun-11</b>
	<b>\$'000</b>	<b>\$'000</b>
<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	425	(175)
Contributions received	228	20
Income/(Expense) recognised in the income statement	38	(44)
Actuarial gains/(losses) recognised directly in equity	(1,785)	624
Net asset/(liability) for defined benefit obligations at 30 June	(1,094)	425
<b>Defined benefit superannuation fund</b>		
Amounts in the statement of financial position		
Asset	-	425
Liability	(1,094)	-
Net Pension Assets/(Retirement benefit obligation)	(1,094)	425
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
Opening defined benefit obligation	7,905	8,050
Service cost	183	169
Interest cost	381	400
Actuarial losses/(gains)	1,399	479
Benefits paid	(164)	(1,193)
Closing defined benefit obligation	9,704	7,905
<b>Changes in the fair value of fund assets are as follows:</b>		
Opening fair value of fund assets	8,330	7,875
Expected return	602	525
Actuarial gains/(losses)	(386)	1,103
Contributions by employer	228	20
Benefits paid	(164)	(1,193)
	8,610	8,330

## 23 COMMITMENTS (CONT.)

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

The major categories of fund assets as a percentage of total fund assets are as follows:

	Consolidated Entity	
	Jun-12	Jun-11
Australian equities	40%	43%
International equities	31%	30%
Australian fixed interest	11%	8%
International fixed interest	2%	4%
Property trusts	1%	4%
Cash	15%	11%
	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.

#### Expense recognised in the income statement:

	Consolidated Entity	
	Jun-12 \$'000	Jun-11 \$'000
Current service costs	183	169
Interest cost	381	400
Expected return on fund assets	(602)	(525)
	(38)	44

Actuarial gains/(losses) are recognised directly in equity.

The expense is recognised in the following line items in the income statement:

Pension costs/(revenues)	(266)	24
Contribution paid (in labour costs)	228	20
	(38)	44

Actual return on fund assets

	216	1,628
	216	1,628

#### Expense recognised in statement of comprehensive income

Actuarial gains/(losses) recognised in the year (net of tax)	(1,250)	437
Cumulative actuarial gains/(losses) recognised in the statement of comprehensive income	(3,608)	(2,358)

## 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 2011 with a further review to be undertaken as at 30 June 2014.

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 2011, that a contribution to be made by the Company and its controlled entities for contributions to the fund for employees who are members of the defined benefit plan. The recommendation of the actuary has been adopted by the Company and its controlled entities.

The overall expected long-term rate of return on assets is 5.3 per cent. 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-12	Jun-11
<b>Principal actuarial assumptions at the balance date:</b>		
Discount rate at 30 June	2.9%	5.3%
Expected return on fund assets at 30 June	5.3%	7.6%
Future salary increases	4.0%	4.0%

#### Net financial position of plan

In accordance with AAS 25 Financial Reporting by Superannuation Plans the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (30 April 2012), and a deficit of \$1,094,000 was reported.

Any deficit under AAS 25 may differ from the net liabilities of \$1,094,000 recognised in the balance sheet as at 30 June 2012 due to different measurement rules in the relevant accounting standards AAS 25 and AASB 119 Employee Benefits.

	Jun-12 \$'000	Jun-11 \$'000	Jun-10 \$'000	Jun-09 \$'000	Jun-08 \$'000	Jun-07 \$'000	Jun-06 \$'000
<b>Historic summary</b>							
Defined benefit obligation	(9,704)	(7,905)	(8,050)	(9,844)	(11,105)	(14,005)	(13,874)
Fund assets	8,610	8,330	7,875	9,066	12,601	18,409	14,612
Surplus/(deficit)	(1,094)	425	(175)	(778)	1,496	4,404	738
Experience adjustments arising on fund assets	(386)	1,103	38	(2,193)	(5,194)	2,272	(310)

## 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 Commonwealth of Australia. 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 Commonwealth of Australia. 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 SA for the purpose of self insurance under the Workers Rehabilitation and Compensation Act. Certain entities within the consolidated entity have arranged the issuance of bank guarantees in favour of various beneficiaries in support of their performance obligations. The total value of the bank guarantees arranged by the consolidated entity is \$9.3 million (2011: \$9.8 million).

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

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

No losses are expected in relation to these guarantee arrangements.

## 25 REGISTERED CHARGES

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

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

The above charges are held against default of the contracts.

	Consolidated Entity	
	Jun-12	Jun-11
	\$'000	\$'000
<b>Total current assets pledged as security</b>		
Trade receivables	62,161	50,155
Other receivables	205	262
Contract work in progress	(111,323)	(99,652)
	(48,957)	(49,235)
<b>Total non current assets pledged as security</b>		
Land	18,168	17,420
Building	112,508	115,728
Plant and Equipment	15,895	16,014
	146,571	149,162

## 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	
	2012	2011
	\$	\$
Short - term employment benefits	4,610,785	4,478,281
Other long term benefits	244,507	-
Post - employment benefits	482,209	513,895
Termination benefits	702,105	-
	6,039,606	4,992,176

### 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 REPORTING PERIOD

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**  
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**29 RELATED PARTY DISCLOSURES**

**Directors**

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

VADM CAR Ritchie AO RANR;

BJ Carter;

KA Hirschfeld;

S Ludlam;

DA Miles AM;

JJ O'Connell AO;

GR Phillips;

SAM Pitkin; and

RADM (retired) JF Shipway;

Maritime Australia Limited, an organisation of which VADM CAR Ritchie AO RANR is the chairman of the Board, has received a fee of \$68,040 from the Company for the provision of a stand at the Pacific 2012 International Maritime Exposition event (2011: \$0).

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

**Other related parties**

*Australian Government Ministers*

There have been no transactions with any Australian government ministers during the financial year.

*Shareholders*

In performing its contracts, the consolidated entity has transacted on normal commercial terms and conditions with its shareholder, the Commonwealth of Australia and its related entities.

The Commonwealth of Australia 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-12</b>	<b>Jun-11</b>
<b>\$</b>	<b>\$</b>
13,810,388	15,169,863
-	-
2,909,162	(1,359,475)
<b>16,719,550</b>	<b>13,810,388</b>

## 29 RELATED PARTY DISCLOSURES (CONT.)

### Other related parties (cont.)

June 2012		Consolidated Entity					
Government advance	Total	AUD	USD	GBP	CAD	EUR	JPY
Beginning of the year		45,709,478	7,706,094	151,286	2,015,090	15,431,912	12,078,961
Advance received		10,000,000	-	300,000	-	-	-
Interest charged		(661)	-	-	-	-	-
Interest received		1,020,795	-	-	-	-	-
End of year (source currency)		56,729,612	7,706,094	451,286	2,015,090	15,431,912	12,078,961
End of year (AUD equivalent)	86,129,964	56,729,612	7,561,667	691,202	1,927,578	19,070,579	149,326

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
Advance 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

### Transactions with Shareholders

During the year, the amounts received or receivable by the consolidated entity from the Commonwealth of Australia for various projects was \$796,068,000 (2011: \$695,422,000).

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:

2012	2011
\$	\$
-	-
136,053,701	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 2012

30 PARTICULARS IN RELATION TO CONTROLLED ENTITIES AND ASSOCIATE

	Country of Incorporation	Class of Shares	Entity Interest	
			2012 %	2011 %
<b>Parent entity</b>				
ASC Pty Ltd				
<b>Controlled entities</b>				
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

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.

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-12 \$'000	Jun-11 \$'000
<b>Balance sheet</b>		
Current assets	181,067	141,841
Total assets	497,219	462,037
Current liabilities	206,166	211,175
Total liabilities	255,476	234,770
Net assets	241,743	227,267
Shareholders' equity		
Issued capital	10,000	10,000
Reserves		
Revaluation surplus - land and building	78,910	77,002
Retained earnings	152,833	140,265
	241,743	227,267
<b>Profit or loss for the year</b>	20,117	17,070
<b>Other comprehensive income</b>	659	855
<b>Total comprehensive income</b>	20,776	17,925

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

The Company has arranged the issuance of a bank guarantee in favour of WorkCover Corporation of SA for the purpose of self insurance under the Workers Rehabilitation and Compensation Act 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 \$6,530,000 (2011: \$7,090,000).

In addition to the above, the parent entity has provided guarantees and indemnities to Westpac Banking Corporation in support of the \$12,000,000 overdraft facility and \$2,819,000 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 2012 and 30 June 2011 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 2012 or 30 June 2011. 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 2012, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$2,113,000 (30 June 2011: \$950,000). 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 2012

**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-12 \$'000	Jun-11 \$'000
Cash	8	161,021	140,365
		161,021	140,365
<b>(b) Reconciliation of operating profit after income tax to net cash provided by operating activities</b>			
Operating profit after income tax		14,660	10,577
Add/(less) items classified as investing/financing activities:			
Interest received		(5,663)	(3,980)
Interest expense		1,020	1,088
(Profit)/loss on sale of fixed assets		42	123
Add/(less) non-cash items:			
Depreciation		17,551	15,989
Fair value adjustment on all financial instruments		2,910	(1,359)
Pension costs		(266)	24
Income tax expense		5,661	3,609
Income tax paid		(5,418)	(5,586)
Net cash provided by operating activities before change in assets and liabilities		30,497	20,485
Change in assets and liabilities			
(Increase)/decrease in receivables		11,293	(13,021)
(Increase)/decrease in inventories		(1,705)	856
(Increase)/decrease in prepayments		483	(3,675)
(Increase)/decrease in net unearned contract billing		(12,723)	40,915
Increase/(decrease) in trade creditors		(10,848)	16,777
Increase/(decrease) in provisions		5,288	3,838
Net cash provided by operating activities		22,285	66,175

# CORPORATE DIRECTORY

## Directors

Vice Admiral Chris Ritchie AO RANR  
Chairman

Steve Ludlam  
Managing Director and  
Chief Executive Officer

Bruce Carter

John O'Connell AO

Sally Pitkin

Rear Admiral USN (retired) Dugan Shipway

Kathy Hirschfeld

## Company Secretary

Wendy Hoad

## 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

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Adelaide SA 5001

Telephone: +61 8 7423 4000

Facsimile: +61 8 7423 4090

## ASC West

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Henderson WA 6166

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

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### Media enquiries

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

### Other enquiries

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ABN: 64 008 605 034

Copies of ASC's annual reports  
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Copies can also be requested  
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or by emailing  
[communications@asc.com.au](mailto:communications@asc.com.au)

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