

ASC PTY LTD ANNUAL REPORT 2013

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TRANSMITTAL LETTER

4 October 2013

Senator The Hon. Mathias Cormann
Minister for Finance
Parliament House
Canberra ACT 2600

Dear Minister,

ASC Pty Ltd 2013 Annual Report

I am pleased to submit the 2013 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 2013 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.

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

Yours sincerely,



BRUCE CARTER
Chairman



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COMPANY PROFILE

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

Initially established in 1985, ASC was subsequently chosen in 1987 as the prime contractor for the design, manufacture and delivery of the Royal Australian Navy's (RAN) fleet of six Collins Class submarines.

At the conclusion of the Collins Class submarine build program in 2003, ASC commenced a 25-year contract with the Defence Materiel Organisation (DMO) for the ongoing repair, maintenance and design upgrades of the submarines through-life. This contract was replaced by the In Service Support Contract (ISSC) in mid-2012.

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

ASC is the lead Shipbuilder for the AWD Alliance, which is made up of ASC, the DMO representing the Australian Government, and Raytheon Australia as the mission systems integrator.

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 2,400 permanent staff across our three facilities in South Australia and Western Australia.

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 employees 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.

FINANCIAL HIGHLIGHTS

Two Year Performance at a Glance

| | 2012/13 \$m | 2011/12 \$m |
|------------------------------------|----------------|----------------|
| Revenue from rendering of services | 915.7 | 796.4 |
| Interest income | 4.7 | 5.7 |
| Other income and other revenue | 0.2 | 1.7 |
| Total revenue and income | 920.6 | 803.8 |
| EBITDA | 27.7 | 33.2 |
| Depreciation and amortisation | (18.4) | (17.6) |
| EBIT | 9.3 | 15.6 |
| Interest expense | (0.9) | (1.0) |
| Tax expense | (3.2) | (5.6) |
| Operating profit before tax | 13.1 | 20.3 |
| Operating profit after tax | 9.9 | 14.7 |
| EBIT/total revenue and income (%) | 1.0% | 1.9% |
| Shareholder's equity | 234.6 | 230.1 |
| Return on equity (%) | 4.2% | 6.4% |
| Dividend paid | 8.9 | 6.3 |
| Total assets | 619.6 | 616.8 |

CHAIRMAN'S REPORT



ASC is moving through an exciting phase in its corporate history.

We continue to improve the way we serve our customer and we are now considering opportunities to grow ASC beyond its core business of sustaining the Collins Class submarine fleet and operating as the prime contractor for the construction of the three Hobart Class AWDs. This continues to involve a major transformation in the way ASC approaches every element of its business.

I am pleased to say, on behalf of the Board, that under the leadership of ASC's management team this transformation is being achieved with diligence and commitment.

The outcomes over the financial year could not have been achieved without the close collaboration of our partners.

Across the Collins Class Submarine (CCSM) program we enjoy strong relationships with the DMO and the RAN. With our partners in the AWD Alliance, Raytheon Australia and DMO, we have worked assiduously to achieve important milestones in the construction of the three Hobart Class AWDs.

The Company achieved annual revenue of \$920.6 million (2012: \$802.2 million) and profit after tax of \$9.9 million (2012: \$14.7 million).

Continuous Improvement

ASC is one year into the new ISSC for the CCSM and, in conjunction with this new contract, ASC is implementing the Government's endorsed recommendations of the Coles Review into CCSM sustainment as a member of the Submarine Enterprise (together with the RAN, the DMO and the Department of Finance and Deregulation (DOFD)).

ASC's focus remains on delivery of capable and available submarines and increasing customer value in the sustainment program. The Submarine Engineering business has increased submarine reliability and availability by continuing its key engineering support of Collins Class maintenance contracts in 2012/13. The refocusing of the CCSM support model, as instructed by Phase 2 of the Coles Report, has played a key role in the achievement availability targets throughout the past 12 months.

The Collins Class Enterprise Transformation Program has been central to the provision of a more effective Collins Class usage and upkeep cycle (UUC) in line with the Submarine Enterprise.

Specific achievements include attaining the RAN required submarine availability for 2012/13 and the delivery of 100 per cent of transition milestones as specified under the ISSC.

Air Warfare Destroyer Project

The AWD project, where ASC is lead Shipbuilder and an industrial participant in the AWD Alliance, is at the midpoint and ASC's focus remains on safely delivering three ships on time and budget.

During the 2012/13 year, 17 blocks were consolidated onto the ship structure. During this time ASC also took delivery of the final blocks for Ship 01, including the mast and we continue

to take delivery of major equipment components for all three ships.

Overall the AWD project progressed from 50.5 per cent complete in June 2012 to 69.6 per cent in June 2013. The pace of construction rapidly increased at shipyards across Australia including New South Wales-based Forgacs, Victorian-based BAE Systems and ASC in South Australia.

Board and Management

Dr Rosalind Dubs was appointed as a Director to the ASC Board during the financial year. Ros brings a wealth of expertise and understanding to Board discussion and, on behalf of my fellow Directors, I welcome her to ASC.

ASC ensures it is well-prepared to address the demands and challenges that face the Company. The Managing Director continues to lead by example and the Board acknowledges his leadership and positive impact across each ASC site and across the naval shipbuilding industry and defence sector.

ASC continues to measure and improve its performance and invest in our employees, capabilities and infrastructure to ensure we can deliver on our promises to our customer and build a future for naval shipbuilding in Australia. The ASC One Company operating model continues to reduce waste and improve efficiency. By focusing on improving performance and stakeholder relationships we will be in a better position to secure future business opportunities, which will enable the Company to grow, become more efficient and deliver improved shareholder value.

To this end, ASC is actively involved in the Future Submarine project through secondment of highly qualified and experienced personnel to both the

evolved Collins Class option and the new submarine option for the project. ASC aims to become the Submarine Integrator and lead industrial participant for the project.

Conclusion

In 2012/13, ASC increased efficiency and worked hard towards meeting the customer's requirements in a spirit of close collaboration. This could not have been achieved without the commitment of all employees and I thank them for their continuing dedication and commitment.

ASC is fundamentally committed to provide a safe place to work, an environment that encourages all to contribute and a set of values that provide for all.



Bruce Carter
CHAIRMAN

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT



It has been a progressive year for ASC, highlighted by the successful completion of the One Company program that has seen previously separate parts of the organisation integrated back into a single and focused business over a three-year period.

This is fundamental to realise ASC's full potential as a world-class naval engineering and shipbuilding organisation. In order to win future work and secure the long-term future of the organisation, our combined capabilities from across both the Collins Class maintenance program and AWD project must be applied successfully to new opportunities.

Already, this change is achieving results with a clear understanding throughout the Company about the importance of finding new ways of working that are smarter, more efficient and achieve the best outcome first time.

Improving performance

A significant amount of work has been undertaken across the business to improve efficiency at a grass roots level through programs such as Lean Six Sigma, Ideas Scheme and training support for the Safety Transformation and Major Hazards Program. Concurrently, a great deal of work has been undertaken by the Board and me to examine the skills and leadership we

now need to achieve our strategic vision and be world class in our field.

As a result, we are organising the business with a greater focus on driving our operations towards world's best practice. My core executive team consists of key roles focused on Performance; Operations; Engineering; and Strategy and Communications.

Considerable work has been put into generating efficiency in the layers and processes of the business at all levels with a view to improving performance and I believe we are now realising the benefits of that hard work.

Our projects

The Collins Class maintenance program has benefited greatly from increased collaboration between the DMO, the RAN and industry with a renewed focus on increasing reliability and availability.

The new ISSC for the maintenance of the Collins Class submarines is having a significant and positive impact on the way we manage the maintenance program for the submarines.

ASC plays a major role in the Submarine Enterprise and the associated transformation projects that have resulted from the Coles Report commissioned by the Federal Government.

The report makes it clear that the Collins Class submarines were well built. However, we are now at a point where we need to fundamentally change the way we maintain them going forward in order to meet the availability and reliability requirements of the Navy.

Importantly, work on many of the key recommendations is well advanced in collaboration with our partners in this activity, the DMO and the RAN.

As a result of these combined efforts, in terms of availability, I am pleased to report that we've delivered, and at times exceeded, the Navy's requirement during this period.

The progress on the AWD project has been significant with the consolidation of Ship 01 progressing rapidly. This truly national project has seen blocks delivered to ASC for consolidation into the ship structure from partner shipyards in Williamstown, Victoria and Newcastle, New South Wales, in addition to blocks from Spain and those built in our own shipyard in Adelaide.

A significant milestone was reached in September with the keel-laying ceremony for Ship 01 taking place in front of hundreds of our employees and invited guests. As the first keel-laying ceremony to take place at the ASC shipyard, I was particularly pleased to have our youngest male and female apprentices in the shipyard perform the laying of the coin with the Chief of Navy.

The re-baselining of the AWD project announced by the Federal Government in September will be significant in helping to retain skills in the naval shipbuilding industry, in addition to reducing peak demand on project critical resources and facilities, and reducing project risk.

ASC is working with our Alliance partners – Raytheon and the DMO – to ensure the project is managed in order to realise the intended benefits without significant cost implications.

Conclusion

ASC is now well positioned to move forward with confidence and through harnessing the combined capabilities from the Collins and AWD programs. We must now successfully apply these skills to new work opportunities, partner well and secure a long-term future for the Company and naval shipbuilding 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 Collins Class Submarine Project (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.

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 examined complex engineering issues associated with CCSM sustainment.

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

Phase 2 of the report, titled “Study into the business of sustaining Australia’s strategic Collins Class submarine capability”, was delivered in November 2012. This report has been fundamental to the establishment of a true Submarine Enterprise and a transformation program involving ASC, DMO and the RAN.

The refocusing of the CCSM support model, as instructed by the Coles Review, has provided ASC greater alignment and coherence in the CCSM Enterprise model facilitating an improved level of availability performance (as defined by the Coles Review) over the past 12 months.

Maintenance/Transformation Program

The Collins Class Enterprise Transformation Program aims to improve performance by increasing availability, reliability and cost performance to world-class benchmarks.

The Program’s objectives are to reduce:

- Submarine maintenance durations.
- Overruns in submarine maintenance.
- Days lost to defects.
- The sustainment cost per Material Readiness Days (MRDs).

During the 2012/13 financial year the following objectives were achieved:

- Met required submarine availability (Material Ready Days (MRD)) for the RAN.
- Completion of HMAS *Sheean*’s full cycle docking (FCD) on 29 August 2012 against a scheduled completion date of 31 July 2012 (2 per cent schedule extension). The submarine sailed in perfect material state with no defects.
- Completion of HMAS *Waller*’s mid cycle docking (MCD) maintenance activity on 22 December 2012 against a contracted completion date of 15 October 2012 (17 per cent schedule extension). The root causes for the delay have been analysed to improve future maintenance activities.
- Completion of HMAS *Farncomb*’s certification extension docking (CED) on the contracted completion date of 31 May 2013. This was the first activity to be implemented entirely under the new ISSC.
- Completion of the Supply Chain Transition Program, which involved ASC transitioning material procurement for In Service Support tasks from the Navy Inventory Procurement Office. ASC is now responsible for 93 per cent of the materials for the submarine platform systems.

- Delivery of 100 per cent of the 2012/13 transition milestones as specified under the ISSC transition framework.

Future Performance Targets

The 10+2 year Usage Upkeep Cycle (UUC) Transformation Program¹ is the primary mechanism for reducing maintenance durations on Collins Class Submarines. This work is underway and will culminate with the following:

- Delivery of HMAS *Farncomb* from FCD in May 2016.
- Shifting to an improved UUC (24-month FCD, 12-month MCD, six-month intermediate docking) whilst improving submarine system reliability.

ASC will focus on key submarine availability exceeding RAN’s MRD targets for the 2013/14 financial year and delivering HMAS *Rankin* from her FCD by the contract date.

¹ The 10+2 UUC Transformation Program means a change in the manner in which maintenance is performed while the boats are in service, that is current eight years in service and a three year FCD will move to 10 years in service with a two year FCD.

HOBART CLASS DESTROYER PROJECT

The AWD project has gained pace in 2012/13 with block construction occurring in four shipyards, three in Australia (ASC at Osborne, BAE at Williamstown in Victoria and Forgacs at Newcastle in New South Wales) and one in Spain at Navantia.

To facilitate the increased construction work, ASC's production workforce grew by another 160 people during the period to reach over 780 in total.

Block production for Ship 01, future destroyer *Hobart*, is nearing completion with all blocks now at the ASC Shipyard. The keel-laying was celebrated in September 2012, and consolidation is progressing well with over half of the 31 blocks being erected on the CUF. Hull integration is scheduled for 2013-14.

Block production is under way for Ship 02, future destroyer *Brisbane*, at the four shipyards and is progressing well within a tight schedule. The focus is on block production and achieving keel-laying in the first quarter of 2014.

Construction of blocks for Ship 03, future destroyer *Sydney*, has begun and the keel blocks at Navantia are all approaching structural completion.

The year saw the AWD project progress from 50.5 per cent complete in June 2012 to 69.6 per cent in June 2013 with approximately \$659.8 million spent in this period (base date December 2006), of which \$491.1 million was ASC Shipbuilding.

Other major milestones for the year included:

- Successful delivery of all Ship 01 blocks to ASC.
- Delivery of the complete set of gas turbines for all three ships.
- Arrival of the sonar domes from international suppliers for Ship 01 and Ship 02.
- Delivery of the five-storey high mast for Ship 01.

- Commencement of the outfit on the Advanced Electronic Guidance and Instrumentation System (AEGIS) tower.
- 'Capping off' of the first engine rooms in Ship 01, including installation of all major propulsion equipment.
- Arrival of Ship 02 blocks from BAE Systems, which will house the Vertical Launch System.
- Completion of all Ship 02 keel blocks from Navantia.

Procurement

During the 2012/13 financial year, more than 10,000 commodity order lines, and in excess of 25,000 fabrication subcontract order lines, were placed. In total, ASC has taken delivery of 17 major equipment components for Ship 01, 61 major equipment components for Ship 02 and 68 for Ship 03.

AWD Alliance

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

In September 2012, the Minister of Defence announced a re-baselining of the AWD construction to extend the keel-to-keel interval to 18 months between each ship. The re-baselined schedule will mean the delivery dates for the ships will be:

- *Hobart* (Ship 01) – March 2016.
- *Brisbane* (Ship 02) – September 2017.
- *Sydney* (Ship 03) – March 2019.

Extending the AWD ship building program also contributes to maintenance of key naval shipbuilding skills.

In the first quarter of 2013, a new contract was established with the Minister of Defence announcing the reallocation of four ship blocks (from Ships 02 and 03) from Forgacs to BAE

Systems. This move relieves pressure at Forgacs and maintains skills in the BAE Systems shipyard.

The construction arrangements for AWD blocks are as follows:

- Ship 01: ASC 8, BAE Systems 7, Forgacs 14, Navantia 1, MG Engineering 1.
- Ship 02: ASC 7, BAE Systems 4, Forgacs 13, Navantia 6, MG Engineering 1.
- Ship 03: ASC 7, BAE Systems 4, Forgacs 13, Navantia 6, MG Engineering 1.

Having the same shipyards build the same blocks for Ships 02 and 03 enables the AWD project to benefit from previous experience and lessons learned.

ENGINEERING

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 sustainment, and shipbuilding capabilities, in support of the ongoing maintenance and upgrade of the CCSM, the construction of the Hobart Class AWDs, and the DMO's Future Submarine concept design development program.

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

Collins Class Submarine Project

The Submarine Engineering division of ASC Engineering has continued to provide engineering support to the Collins Class maintenance contracts with a focus on improving submarine reliability and availability in 2012/13.

The team has been central in supporting the program to transition to a more effective Collins Class usage and upkeep cycle as part of the Submarine Enterprise.

Engineering has continued to support the Submarine Enterprise concept through a focus on closer cooperation between the engineering teams in ASC, DMO and the RAN, as well as progressing Action Plans.

Significant engineering activities during 2012/13 included:

- Development of a Collins Class submarine reliability strategy.
- Agreement that ASC Engineering will become part of the Collins Class Authorised Engineering Organisation under the Navy's Technical Regulations Framework.
- Diesel Remediation.

Hobart Class Air Warfare Destroyer Project

During 2012/13, ASC's engineering and technical skills provided 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 ongoing development of the whole-of-ship safety case.
- Test and activation, including responsibilities for verification and validation during ship construction.
- 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 2012/13 year saw increasing support to ASC Production and Block Subcontractor needs, design change management and technical interface issue resolution.

Future Submarine

ASC is conducting research, developing concepts and growing engineering capability for Australia's SEA1000 Future Submarine project. ASC's mission is to contribute to the maximum extent possible to the design of the entire lifecycle of Australia's future submarines. Until May 2013, it was conducting this work under the Deep Blue Tech brand. This has been retired in line with ASC's One Company program and staff and activities have been integrated with ASC Engineering.

The DMO has established the project structure for the concept phase of the SEA1000 Future Submarine project. ASC is supporting this project with capability drawn from across the Company.

ASC has identified core capabilities to support Future Submarine Project and will continue to grow these areas and support targeted research and development from within ASC Engineering. Employees are being deployed into delivery roles in the Collins Class and AWD programs.

In June 2013, the first ASC placement was deployed into the DMO's Future Submarine Integrated Project Team. We expect to meet strong growth in demand by Future Submarine technical capability during 2013/14.

Furthermore, ASC is working closely with TKMS (formerly Kockums), which is leading the evolved Collins Class option for the Future Submarine.

External Links

ASC Engineering continued to expand on 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.

ASC Engineering is working with industry and research and development organisations to stimulate capability development and innovation that can be deployed in support of our activities.

The 2012/13 year also saw continued close association with Engineers Australia with ASC representation on various committees.

BUSINESS IMPROVEMENT AND TRANSFORMATION

The aim of the Business Improvement and Transformation Department (BI&T) is to:

- Support the development of business initiatives and strategies to deliver improved outcomes.
- Improve ASC's performance through the selection, initiation and delivery of improvement programs aligned with business needs and strategies.
- Build continuous improvement capabilities within ASC.

The department is responsible for the delivery of a number of key initiatives to support increased performance levels in the business:

- Training in Lean Six Sigma (LSS) and mentoring in tools and methods.
- Delivery of LSS improvement projects.
- Leadership and delivery of the Ideas Scheme program at ASC North, support of the Ideas scheme at ASC South.
- Coordination and training support for the Safety Transformation and Major Hazards Program across ASC North, ASC West and ASC South.

The current BI&T team consists of nine personnel all directly engaged in delivering improvement outcomes. In 2012, the first member of the ASC BI&T team completed the process of becoming a formally qualified Black Belt (expert LSS practitioner). In 2013, another three members of the BI&T team began the second wave of Black Belt training.

The BI&T team forms the core of LSS training capability to deliver LSS skills and capability growth across ASC and the AWD Alliance. Within BI&T, seven team members are now trained and experienced in delivery of LSS course material. As of June 2013, 203 people have been trained to Yellow Belt level (team member and project support – two-day course) and 89 people to Green Belt level (team leader on improvement projects – six day course).

The Safety Transformation Program is another business capability program led as a partnership between the business, BI&T and Safety Groups. The program is based around building safety leadership, values and behaviours at all levels of the organisation. As of June 2013, over 2,500 people had been trained in courses to improve safety awareness, leadership and hazard reduction.

AWD LSS Project Results

Each AWD improvement project captures the benefit of the improvement made and is measured against delivery of hard equivalent annual cost savings as well as avoided costs.

For the financial year, the Pre-Production Continuous Improvement Program, completed projects delivering an estimated at completion savings of \$5.3 million to the end of Ship 03 completion.

In addition, the projects delivered a combined avoided cost of \$15 million. A total of 33 improvement projects were completed in this period.

CCSM LSS Project Results

For CCSM, the focus in 2012 was on delivery of improvement projects by the LSS office and trained Green Belt leaders in the business. Analysis for CCSM is based on annual cost savings, aligned with the ongoing nature of the program. From February 2012 to end June 2013, annualised cost savings of \$2.8 million were delivered from completed projects. A total of 17 improvement projects were completed in this period.

In March 2013, the LSS team for ASC North shifted priority to become the core team driving the Core Business Change Initiatives project for the 10+2 UUC program (in support of the requirements of the Coles Report). The team is directly leading six of the

12 initiatives required to deliver the program and has also assumed the role as overall core business change initiative project lead.

Process Excellence

In 2012/13 the Process Excellence team was largely focused on support of Enterprise and One Company initiatives. Key outputs included:

- Development, maintenance and communication of the ASC Scorecard.
- Compilation and communication of the Integrated Performance Report;
- Coordination of the Business Review Board.
- Compilation of the Performance Management Framework and ASPO Dashboard reports.
- Mapping the top level value stream across ASC.

Ideas Scheme

The aim of the Ideas Scheme is to capture, assess and, where beneficial, implement improvement ideas from across the business, with an emphasis on shopfloor engagement. Teams meet regularly and use a visual whiteboard to drive improvement in their own areas and across the business. A key benefit of the scheme is worker engagement, empowerment and motivation.

Since commencing in 2010, the scheme has seen over 1700 ideas generated, with more than 640 improvements implemented. Estimates show the ideas implemented have generated a total cost saving of over \$4 million to date, determined on an annual basis.

ASC West 'Safely on Time Project

ASC West began the 'Safely on Time' Project during 2012/13. The project goals were to drive performance, clarity, accountability and teamwork for docking activities. Visual project status boards and issues look-ahead is used to drive performance of the activity and workflow as well as manage resources and schedule from a daily, weekly and full activity viewpoint.

As a result of the project, HMAS *Farncomb* was formally delivered back to the RAN as scheduled, with the ASC contracted work scope completed three days ahead of schedule. This working practice has now been adopted by the business with support from the BI&T team for future docking activities at ASC West.

INFRASTRUCTURE DEVELOPMENT AND UPGRADES

In 2012/13, maintenance and upgrades of existing facilities continued at ASC North, ASC South and ASC West.

ASC North

The ASC North site is dedicated to the maintenance of the CCSM. In 2012/13 several upgrades to the site buildings were made. In addition to the refurbishment of the Reception and Security building, the ground floor of the Administration building underwent refurbishment and there also was a major upgrade to the Outfitting Office areas.

Other maintenance and upgrade activities completed in 2012/13 included:

- Upgrade to the main warehouse racking to increase pallet storage capacity from 1800 to 3200 pallets, as well as the addition of one reach truck and two order pickers.
- Establishment of Ship Lift Corrosion Protection Project to prolong the life of the ship lift and an upgrade of ship lift main switchboard.
- Relocation of the Weapons Production Team and workshop fit out.
- Upgrade of extraction systems to pipe workshop, welding bays, fabrication workshop and boilermaker area and machining workshop.
- Completion of design for a new water supply and ring main installation throughout the site.
- Completion of high voltage maintenance across the site.
- Replacement of:
 - o crane hoists;
 - o 10 tonne forklift;
 - o 50 tonne mobile crane with a new 60 tonne Grove RT765;
 - o winching system for 4-off wharf overside booms;
 - o 50 groups of in-ground service pits and pit lids; and
 - o non-slip walkways in various workshops.

ASC also signed a five year site-wide facilities management contract with SODEXO. This contract includes cleaning, canteen services, pest control, garden services, waste management, hygiene services and water supplies.

ASC South

The ASC South site is dedicated to the construction of the three AWDs. In 2012/13 several maintenance and infrastructure upgrade projects were completed, not only on the shipyard but also on the adjacent CUF.

Activities completed in 2012/13 included:

- Installation of:
 - o stormwater detention basin emergency shut-off valve in case of environmental spillage on site;
 - o audio visual alarms for fire and emergency to blast and paint facilities, facilities maintenance office and workshop areas;
 - o extraction system at outfit support towers to pipe workshops and general workshops; and
 - o pipe workshop dip tank lining to prevent premature corrosion.
- Conversion of Building 08 from warehouse to subcontractor workshop for AWD accommodation, assembly and fit out.
- Construction of safe pedestrian access way between the AWD Systems Centre car park and the ASC South car park.
- Conversion of northern hinged door to sliding door at administration building.
- Design, supply and installation of ship cooling units for introducing high volumes of fresh, dry and cool air to the ship compartments while undergoing consolidation and fit-out activities.

- Lining of pipe workshop dip tank to prevent premature corrosion as a result of chemicals being used in the processing of pipes.
- Procurement of two intrinsically safe boom lifts for blast and paint.
- Repair of a major water leak in the fire main to the south of Building 04.
- Commencement of work on the Maintenance Workshop annex.

Common User Facility

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 Government of South Australia has invested \$300 million.

During 2012/13, ASC invested in several key pieces of equipment on the CUF. These include the procurement of:

- 3-off static 60 Hz shore power converters for the AWD commissioning, due for delivery in April 2014 (equipment converts 50Hz power supply to 60Hz ship's power).
- Temporary, tarpaulin clad buildings for weather production during consolidation of the destroyers and an upgrade to CUF lighting to improve visibility and safety during early morning and afternoon shifts.
- Eight elevated work platforms and two boom lifts for CUF consolidation.

The Outfit Support Towers were modified to provide better weather protection to level 1, and the level 3 consumables store was converted to a 12-person office. A tool crib was also opened in one of the towers.

The temporary blast and paint facilities on the CUF were also fitted with audio visual alarms for fire emergency.

ASC West

ASC West represents the amalgamation of three previous service facilities into one state-of-the-art submarine support and repair facility. It features accommodation for 185 ASC employees and dedicated facilities for boat crews and RAN personnel.

Maintenance and upgrade activities completed in 2012/13 included:

- Procurement of supplementary dining room facilities to accommodate growing staff numbers and the relocation of bulk gas storage to accommodate the facility.
- Creation of 40 additional car spaces to accommodate growing staff numbers.
- Installation and fit out of additional 17 workstations at Henderson.
- Specification, procurement and installation of a safe and fully compliant containerised paint booth.
- Procurement and installation of ventilated hazardous goods containers at Fleet Base West.

SAFETY PERFORMANCE

Commitment Statement

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

ASC seeks to continually improve the performance of the WHSW&IM system and to use appropriate internal and/or external expertise where required. The Company is committed to working safely at all times and this is embodied in our Safety Value Statement: People, Places, Products, Platforms SAFELY.

ASC has, and continues to develop in consultation with its workforce, a suite of documents that describe the processes for the management of safety. ASC's Safety Management System details:

- Safety Values Statement.
- Safety Policy, Framework and Guiding Principles.
- Safety Standards, guidelines and group procedures.
- Audit and assurance evaluation.

Health and Safety Initiatives

During the 2012/13 period, ASC continued the Safety Transformation Program (STP) strongly promoting our working safely ethos and empowering all workers to stop the job if it is unsafe to continue.

Activities undertaken include:

- Training:
 - 85 per cent of the workforce was trained in leadership skills or safety basic awareness; and
 - Train the Trainer capability established to deliver STP training. Thirteen trainers cover ASC's three sites.
- Establishment of the Major Hazards Program with site Committees and programmed observations in place. Observations conducted on a monthly schedule with an average of 10 areas covered each month.

- Increasing the Safety profile through Executive involvement with safety conversations now a standard agenda items across all business forums.
- Safety Management Activity Planners introduced for Chief Executive and Executive Managers.
- Establishment of weekly safety walk arounds with Senior Managers on all sites.
- Introduction of the Fair Treatment Model in relation to human factor performance.
- Completion of a Cultural Safety Survey to gauge our safety maturity.

Other initiatives:

- All Meetings to start with a 'safety minute'.
- Improved performance of myOSH incident close out rates with a reduction in the number of actions outstanding beyond the 21 day target level.
- Improved close out performance of safety related requests to ASC's Facilities department.
- Daily conference call to discuss any site serious incident or injury. This initiative promotes visible and active leadership through the involvement of senior managers, supervisors and safety coordinators.
- A review of our Emergency Response Group (ERG) and the appointment of an ERG Coordinator.
- General Managers demonstrating visible active leadership and commitment through opening all safety training workshops and articulating ASC's working safely culture.
- A review and restructure of our Incident Investigation Management Group (IIMG) process to improve responsiveness and escalation reporting, resource allocation and close-out of recommendations.
- Independent safety statistics analysis conducted (Results, Presentation and Recommendations).

To further promote employee health, ASC:

- Assisted 29 workers to quit smoking.
- Made flu vaccinations available to all staff and 901 workers opted to receive the vaccination.
- Facilitated 398 blood donations 29 plasma donations.
- Conducted three mental health awareness sessions.

Statistics Notifiable Incidents

The Work Health and Safety Act details the types of incidents notifiable to Comcare. Under section 35 an incident is notifiable if it arises out of the conduct of a business or undertaking and results in death, serious injury or serious illness of a person or involves a dangerous incident.

Notifiable incidents 2012/13:

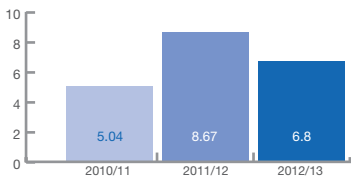
| | |
|-------------------------|-----------|
| Deaths | 0 |
| Dangerous incidents | 25 |
| Serious personal injury | 7 |
| Total | 32 |

Lost Time Injuries

A lost time injury (LTI) is recorded when a worker is unable to present for their next scheduled workplace attendance 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 6.8 for 2012/13 (including contractors).

Frequency rates are now based on all hours worked.

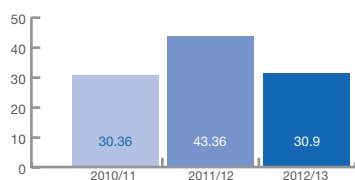


LTIFR = number of LTIs X 1,000,000 divided by hours worked per month.

Medically Treated Injuries

A medically treated injury (MTI) is recorded when a worker is assessed to require medical attention from a health professional above the expertise of an Occupational Health Nurse.

Across all three ASC facilities, a medically treated injury frequency rate (MTIFR) of 30.9 was recorded for 2012/13.



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

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

- Use of all myOSH (incident reporting system) reports as lessons learnt opportunities at pre-start meetings the following day.
- Formation of sub committees to investigate recurring injuries.
- Establishment of a lesson learnt bulletin to ensure internal and external incidents and injuries are conveyed to all ASC sites.
- Continuation of a robust Return to Work programme to assist workers back into the workforce. This has seen the annual days lost per LTI drop from 9.7 days compared to 15.1 previously.
- Review of ASC induction processes with a view to creating an on-line induction facility.
- Increased usage of the myOSH database for analysis of trend data providing the basis for improvement programmes.

- Emphasis on near miss reporting with a simplified kiosk myOSH access trialled to encourage more reporting.
- Undertaken review of mandatory PPE for different tasks resulting in usage of full face goggles for grinding work.
- Reinforcement of the Take 5 program, a safety mindfulness method, across all sites.
- Introduction of 'Healthy Initiatives Program with an emphasis on prevention of muscular skeletal injuries.

Investigations

Comcare commenced investigations into seven of the 32 notifiable incidents. Information pertaining to these incidents was provided to Comcare on request and resulted in the satisfactory closure of the incident reports.

Notices

There was one Comcare notice issued against ASC in the 2012/13 financial year which involved incidents with mobile plant.

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.
- Provide adequate resources for the management of the environment.
- Apply a systematic approach to hazard management with the aim of preventing pollution.
- Comply with legislative requirements.
- Continually improve our environmental performance.

Environmental Management System

The Environmental Management System requirements have been integrated into the ASC Corporate Management System (CMS), in line with ISO AS/NZS 14001, for which ASC is certified.

ASC continues to review our environmental performance of activities and operations in order to identify opportunities for improvement.

This includes focusing on areas including:

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

Environmental Initiatives

ASC, in collaboration with other major defence industry partners, formed the Defence Industry Environmental Sustainability Forum (DIESF) with the Department of Defence (DoD). The DIESF meets several times a year and continues to focus on reviewing and sharing information and opportunities in the strategic environmental and operational/activity areas.

We continue to engage and participate in collaborative meetings with industry partners and groups including the DoD, DMO, RAN and Australian Industry Group (Ai Group).

The baseline energy audit completed in December 2012 for ASC North identified a number of environmental opportunities for which initiatives have been considered and acted upon to provide energy savings, increased efficiencies and a reduced carbon footprint. This has included air conditioning/handling unit upgrades, condensing boiler upgrades, lighting de-lamping or change to LED, renewable energy options and improved energy metering.

ASC continues to work with our service providers in order to identify and improve our practices in areas such as waste and water management. This has been assisted through the appointment by the Facilities Department of a single facilities service provider across ASC North and South.

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 regulator.

During the 2012/13 financial year, there were no environmental incidents that required official regulatory notification.

Less than 10 minor environmental incidents were reported during 2012/13. Each of these was managed appropriately by staff located on site, including Facilities, Production and the ERG, which contained and collected spills/leaks using spill kits and managed subsequent improvement actions in relation to the incidents. These typically included minor spills of liquids (<20 litres) which comprised waste waters and/or oils (being non-dangerous goods) to hardstand surfaces and or isolated pits.

Environmental Licences

ASC maintains environmental licences and authorisations for our activities in South Australia and Western Australia, for the Submarine and AWD projects, under the respective Environment Regulators. These relate to scheduled activities and operations undertaken on our site.

WORKFORCE AND TRAINING

ASC's commitment to quality, innovation and professionalism are core elements of the Company's competitive advantage and underpin ASC as an employer of choice.

ASC continued to invest heavily in the training and development of its staff throughout 2012/13.

This investment was formally recognised through the 2013 Defence Teaming Centre Workforce Development Award, which recognised ASC for its contribution to building the skills base of the defence industry in South Australia.

The 2012/13 year has seen renewed focus in the areas of diversity and inclusion at ASC. ASC recognises that diversity is central to unlocking even greater innovation, staff engagement and retention in a highly competitive labour market.

At the end of 2012/13, ASC employed 2,480 permanent staff across three sites, ASC North and ASC South in South Australia and ASC West in Western Australia.

Professional Development

Central to ASC's commitment to the workforce is our ongoing investment in our people through professional development. In 2012/13 this included:

- Safety Transformation Program.
- Diversity and Inclusion Program.
- Apprentice and Graduate Development Program.
- Support to the South Australian Governments' Advanced Manufacturing Aboriginal Employment Program.
- Technical training and education such as the Masters of Marine Engineering, Masters of Systems Integration and Masters of System Support Engineering Programs.
- Project Management Capability Development Program.
- Worksmart Lean Six Sigma Training Program.

Diversity and Inclusion

ASC is committed to Equal Employment Opportunity (EEO) and takes its obligations beyond its legal requirements.

ASC recognises the value that a diverse workforce brings to the business and continues its commitment to enhancing capability, innovation and driving a 'conversational culture'.

ASC's Diversity and Inclusion Program, which was launched in 2012, is a key supporting project of the Transformation Program and aims to tap into the full potential of each employee. ASC recognises that drawing on the strengths of our differences is essential for our current and future productivity and growth. The launch of the Diversity and Inclusion Education Program, which commenced with the Executive team and leaders across ASC, aims to provide the foundation for the program by raising the awareness of diversity and its benefits across the business.

A significant component of the Company's diversity and inclusion strategy is to increase female leadership, lift potential barriers and encourage more females into the business and the defence industry as a whole.

ASC's increased focus on flexibility across the workforce aims to provide a further value proposition to prospective and existing employees, both males and females, by assisting employees in finding a balance between work, home and health.

The 2012/13 year saw a strong focus on the importance of health and wellbeing by promoting ASC's Healthy Plus Program and introducing Mental Health awareness education. Breastfeeding accreditation also was gained and provisions introduced across three sites, with the aim of supporting new mothers when returning to the workplace following the birth of a child.

Recruitment

ASC is committed to attracting high quality employees while also striving to further develop and retain our existing workforce.

ASC has continued to recruit a high number of new employees across a diverse spectrum of skill areas. In 2012/13, ASC employed more than 227 new employees for the AWD project and an overall 435 new employees across the Company. ASC also launched a female centric recruitment campaign, which brought an increase in females applying for, and being appointed into, non-traditional roles.

Government Support for Training

In 2012/13, ASC received Skilling Australian Defence Industry (SADI) funding to the value of \$806,751.

The SADI funding supported the following training initiatives:

- Apprentice Supervision.
- Military Systems Integration Program.
- Master of Systems Support Engineering.
- Masters in Marine Engineering.
- Diploma of Project Management.
- Diesel Engine Courses.
- Executive Masters of Business (Complex Project Management).

ASC also received in-kind funding from the South Australian Government's Department of Further Education, Employment, Science and Technology (DFEEST) worth \$1,525,243. This invaluable in-kind support directly supported ASC's shipbuilding workforce through development initiatives including:

- specialised welding.
- pipe brazing.
- contract management for ship construction.
- repair and design.
- specialised electrical mock up training.
- optical fibre.

WORKFORCE AND TRAINING

Apprenticeships

ASC has one of the largest apprentice programs in SA and is a firm believer in supporting young workers. Through our Apprentice Development Program we develop qualified tradespeople with the technical skills to meet the needs of future projects.

The program offers individuals a career path by way of a structured training program tailored to meet national qualifications and enables apprentices to learn technically advanced skills working on two of the most complex defence programs: maintenance of the Collins class submarines and the construction of the Hobart Class AWDs.

During 2012/13, ASC had 131 apprentices undertaking training within the business and in February 2013 ASC recruited an additional 44 apprentices, including four in WA.

The program provides a fully structured apprenticeship that supports the unique requirements of female, adult and school-based apprentices with currently 128 apprentices in training across SA and WA.

Graduate Program

The ASC Graduate Program is a two-year program designed to expose graduate engineers to a variety of engineering roles, within ASC business activities in SA and WA.

In 2013 ASC recruited 10 graduates into the current program, giving a total of 20 engineering graduates in training.

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

The Defence Industry Pathway Program (DIPP) was a great success in 2012/13, with two DIPP students being granted apprenticeships at ASC.

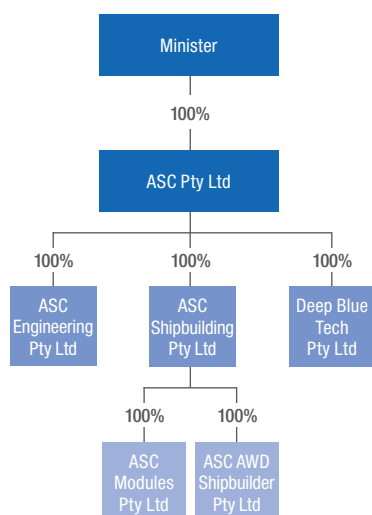
ASC will continue this program in 2013/14.

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 2012/13 year.

Directors

The directors of ASC (other than the Managing Director) are appointed by the Minister for a term. As at 30 June 2013, the Board was comprised as follows:

| Name | Appointed | Expires |
|---------------------------------|---------------|---------------|
| Steve Ludlam | 18 Jan 2010 | N/A |
| Bruce Carter | 1 Jan 2010 | 17 April 2015 |
| Jack O'Connell, AO | 1 Jan 2010 | 31 Dec 2015 |
| Sally Pitkin | 1 Jan 2010 | 31 Dec 2015 |
| RADM USN (Ret) Dugan Shipway | 18 June 2010 | 31 Aug 2013 |
| Katherine Hirschfeld | 18 April 2012 | 17 April 2015 |
| Rosalind Dubs | 1 May 2013 | 30 April 2016 |

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.
- A Code of Conduct for directors and executives.

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

Board

Under the Board Charter, the Board is responsible for:

- Overseeing the ASC Group, including control and accountability systems.
- Appointing and monitoring the performance of the Managing Director and the Company Secretary and, where appropriate, the removal of the Managing Director and Company Secretary.
- Approving other executive appointments, organisational changes and senior management remuneration policies and practices.
- Monitoring and reviewing senior management's performance and implementation of strategy, and ensuring appropriate resources are available.
- Providing strategic advice to management.
- Determining the strategy of the ASC Group and monitoring the performance of objectives.
- Approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures, as well as financial and other reporting.
- Approving budgets and other key performance indicators, and review the Group's performance against them and to ensure that corrective action is devised and implemented as necessary.
- Reviewing and ratifying systems of risk management, internal control and legal compliance to ensure appropriate compliance frameworks and controls are in place.
- Reviewing and overseeing the implementation of ASC's code of conduct for Directors and Executives.
- Appointing Board committees and approving the composition, and any charters, of Board committees.
- Monitoring and verifying compliance with legal and regulatory requirements, ethical standards and policies.

CORPORATE GOVERNANCE

- Exercising due diligence to ensure that ASC complies with its work, health and safety obligations including by taking reasonable steps to:
 - o acquire and keep up-to-date knowledge of work health and safety matters;
 - o gain an understanding of the nature of ASC's operations and the hazards and risks within those operations;
 - o ensure appropriate resources are available and processes implemented to enable hazards to be identified and risks eliminated or minimised;
 - o ensure ASC has appropriate processes for receiving and considering information regarding incidents, hazards and risks, and responding in a timely way to that information;
 - o ensure the business implements processes for complying with work health and safety laws, regulations and codes of practice; and
 - o verify the provision, and use, of the resources and processes referred to above.

Audit Committee

The objectives of the Audit Committee are to:

- Help the Board achieve its objectives in relation to:
 - o financial reporting;
 - o annual Budgeting and forward forecasts;
 - 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).
- Establish and oversee effective internal and external audit functions and communication between the

Board and the external and internal auditors.

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

As at 30 June 2013, the committee comprised Jack O'Connell AO (Chairman), Sally Pitkin and Bruce Carter.

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);
 - 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 2013, the committee comprised Bruce Carter (Chairman) and Sally Pitkin.

Business Assurance and Security Committee

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

- Ensure as far as possible that the Group's material risks other than those arising from financial reporting and accountability (being risks considered by the Audit Committee) are identified, monitored and appropriately managed or controlled.
- Promote a culture of compliance.
- Ensure compliance strategies and functions are effective.
- Satisfy itself that the Group's compliance strategies and functions are effective.

As at 30 June 2013, the committee comprised RADM USN (Ret) Dugan Shipway (Chairman), Bruce Carter, Katherine Hirschfeld and Rosalind Dubs.

Board Membership

During the year:

- VADM Chris Ritchie retired as Chairman of ASC and from the committees on which he served.
- Bruce Carter was appointed Chairman of ASC and Chairman of the Nomination and Remuneration Committee.
- Rosalind Dubs was appointed as a non-executive director.
- Jack O'Connell was appointed Chairman of the Audit Committee.
- Rosalind Dubs was appointed member of the Business Assurance and Security Committee.

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.
- 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.
- 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.
- Implementing strategies to avoid, mitigate or minimize 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.
- 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 2012/13, the program covered:

- Defence Exports.
- Work Health and Safety.
- Equal Opportunity and bullying.
- Environment.
- Intellectual Property.
- Security.
- Corporate Governance.

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

Attendance

Attendance at Board and committee meetings during 2012/13:

| 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 | 3 | 3 | - | - | 1 | 1 | 1 | 1 |
| Steve Ludlam | 11 | 11 | - | - | - | - | - | - |
| Bruce Carter | 11 | 11 | 5 | 5 | 1 | 1 | - | - |
| Katherine Hirschfeld | 11 | 11 | - | - | - | - | 3 | 3 |
| Jack O'Connell | 11 | 11 | 5 | 5 | - | - | - | - |
| Sally Pitkin | 11 | 11 | 5 | 5 | 2 | 2 | - | - |
| RADM USN (Ret) Dugan Shipway | 11 | 11 | - | - | - | - | 3 | 3 |
| Rosalind Dubs | 1 | 1 | - | - | - | - | 1 | 1 |

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FINANCIAL REPORT

30 June 2013

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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 2013

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 2013.

Directors

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

Bruce James Carter

Rosalind Vivienne Dubs

Katherine Hirschfeld

Stephen Ludlam

John Joseph O'Connell AO

Sally Anne Majella Pitkin

John Francis Shipway

VADM Christopher Angus Ritchie AO RANR retired as director on 30 September 2012. The board acknowledged his commitment and thanked him for his services to the board of ASC Pty Ltd and the entities it controlled.

Dr Rosalind Dubs has been appointed as director on 1 May 2013.

Principal activities

The principal activities of the Group during the course of the financial year ended 30 June 2013 are set out below. No significant change in the nature of these activities occurred during the year.

Collins Class Submarine 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 Collins Class Submarine under the In Service Support Contract (ISSC) which was operationally effective from 1 July 2012.

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 \$9,862,000 (June 2012: \$14,660,000) after provision for income tax expense of \$3,237,000 (June 2012: income tax expense of \$5,661,000).

Review of operations

Collins Class Submarine related activities:

During the financial period, the key Collins Class Submarine activities focused on the following areas:

- improving the availability of the Collins Class Submarines to the Royal Australian Navy (RAN);
- improving business performance through rationalisation of the underlying business processes;
- identifying and pursuing productivity and efficiency improvements;
- working closely with the RAN and the DMO through the Collins Class Transformation Program in establishing a Collins Class Enterprise; and
- continuing the innovation in engineering practices to meet the challenges of obsolescence.

On 29 June 2012, the Company entered into the ISSC with its customer, the DMO. The ISSC was operationally effective from 1 July 2012 with an initial transition period from the Through Life Support Agreement (TLSA), during which the Company is exposed to limited risks. The full year ended 30 June 2013 was within the transition period. 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:

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

The AWD project has also commenced the consolidation phase with several ship 1 blocks being joined together. Nineteen out of thirty one blocks have been erected on ship 1 by the end of June 2013.

The decision was made by the board of directors that revenue is recognised to the extent of the expenses incurred. As the outcome of the project cannot be estimated reliably at this point in time the board of directors have determined that no profit should be recognised for the AWD project for the year ended 30 June 2013.

Dividends

The directors have declared an interim unfranked dividend of \$2,600,000 paid on 28 March 2013 (2011/12: \$2,500,000).

Subsequent to the end of the financial year the directors have recommended the payment of a final unfranked dividend of \$3,300,000 (2011/12: \$6,300,000) to be paid at a date to be determined by the board, out of retained earnings at 30 June 2013.

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 of the Group sites, comprised 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 has complied with all applicable environmental regulations and site specific environmental licence requirements. There have been no environmental incidents in the reporting period requiring official regulatory notification.

Events subsequent to the end of 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 Company, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the Group, in subsequent financial periods.

Likely developments

The 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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT - CONTINUED

For the year ended 30 June 2013

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 the 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 33 and forms part of the Directors' Report for the year ended 30 June 2013.

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 5th day of September 2013.

Signed in accordance with a resolution of directors:



Bruce James Carter
CHAIRMAN



Stephen Ludlam
DIRECTOR

ASC PTY LTD AND ITS CONTROLLED ENTITIES

DIRECTORS' DECLARATION

For the year ended 30 June 2013

The directors declare that, in the directors' opinion:

a) the financial statements and notes set out on pages 35 to 76 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 2013 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 5th day of September 2013.

Signed in accordance with a resolution of the directors:



Bruce James Carter
CHAIRMAN



Stephen Ludlam
DIRECTOR



**ASC PTY LTD AND ITS CONTROLLED ENTITIES FINANCIAL REPORT
2012-13
AUDITOR'S INDEPENDENCE DECLARATION**

In relation to my audit of the financial report of the ASC Pty Ltd and its controlled entities for the year ended 30 June 2013, 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

2 September 2013



INDEPENDENT AUDITOR'S REPORT

To the members of ASC Pty Ltd and its controlled entities

I have audited the accompanying financial report of ASC Pty Ltd and its controlled entities, which comprises the Consolidated Statement of Financial Position as at 30 June 2013, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year ended 30 June 2013, Notes to and forming part of the Financial Statements comprising a Summary of Significant Accounting Policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising 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 and its controlled entities 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, the directors also state, in accordance with Accounting Standards *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 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

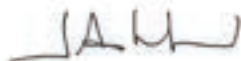
In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*. I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of ASC Pty Ltd and its controlled entities on 2 September 2013, would be in the same terms if it had been given to the directors at the time the auditor's report was made.

Opinion

In my opinion the financial report of ASC Pty Ltd and its controlled entities is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Australian National Audit Office



Jocelyn Ashford
Executive Director
Delegate of the Auditor-General
Canberra

5 September 2013

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2013

| | Note | Consolidated Entity | |
|---|-------|---------------------|------------------|
| | | Jun-13 \$'000 | Jun-12 \$'000 |
| Revenue from continuing operations | 4(a) | 920,565 | 802,216 |
| Other income | 4(b) | 5 | 1,552 |
| Materials and subcontractors | | (476,130) | (406,135) |
| Labour | | (327,795) | (276,035) |
| Labour recruitment and relocation | | (2,953) | (3,987) |
| Depreciation and amortisation | 5 | (18,400) | (17,551) |
| Finance costs | 5 | (1,142) | (1,291) |
| Insurance | | (11,741) | (9,912) |
| Operating lease | 5 | (14,275) | (13,992) |
| Production consumables and supplies | | (4,272) | (3,512) |
| Professional fees | | (7,167) | (8,763) |
| Repairs and maintenance | | (10,903) | (8,770) |
| Security expenses | | (2,602) | (2,617) |
| Travelling expenses | | (4,144) | (5,573) |
| Office expenses | | (5,085) | (4,843) |
| Utilities expense | | (7,863) | (7,335) |
| Other expenses | | (12,999) | (13,131) |
| Profit before income tax | | 13,099 | 20,321 |
| Income tax (expense)/revenue | 7(a) | (3,237) | (5,661) |
| Profit for the year | | 9,862 | 14,660 |
| Other comprehensive income | | - | - |
| Items that may be reclassified to profit or loss | | - | - |
| Items that will not be reclassified to profit or loss | | - | - |
| Net gain/(losses) on revaluation of land and buildings | 21 | 3,102 | 8,441 |
| Net actuarial gains/(losses) on defined benefit plans | 24(d) | 1,869 | (1,785) |
| Income tax relating to components of other comprehensive income | 7(e) | (1,491) | (1,997) |
| Other comprehensive income, net of tax | | 3,480 | 4,659 |
| Total comprehensive income for the year, net of tax | | 13,342 | 19,319 |
| Profit attributable to: | | | |
| member of the parent entity | | 9,862 | 14,660 |
| Total comprehensive income attributable to: | | | |
| member of the parent entity | | 13,342 | 19,319 |

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 2013

| | | Consolidated Entity | |
|--------------------------------------|-------------|----------------------------|--------------------------|
| | Note | Jun-13 \$'000 | Jun-12 \$'000 |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 8 | 162,539 | 161,021 |
| Trade and other receivables | 9 | 139,171 | 136,760 |
| Other financial assets | 11 | 322 | - |
| Inventories | 10 | 3,584 | 5,780 |
| Other current assets | 12 | 2,425 | 2,477 |
| TOTAL CURRENT ASSETS | | 308,041 | 306,038 |
| NON CURRENT ASSETS | | | |
| Net pension assets | 24(d) | 716 | - |
| Property, plant and equipment | 13 | 306,619 | 306,226 |
| Other non-current assets | 14 | 4,268 | 4,512 |
| TOTAL NON CURRENT ASSETS | | 311,603 | 310,738 |
| TOTAL ASSETS | | 619,644 | 616,776 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 15 | 86,920 | 71,046 |
| Net unearned contract billing | 16 | 95,408 | 117,243 |
| Interest-bearing liabilities | 18 | 119,335 | 86,130 |
| Current tax liabilities | 7(b) | 2,290 | 2,084 |
| Provisions | 19 | 36,774 | 35,216 |
| TOTAL CURRENT LIABILITIES | | 340,727 | 311,719 |
| NON CURRENT LIABILITIES | | | |
| Non interest-bearing liabilities | 17 | 14,764 | 16,724 |
| Interest-bearing liabilities | 18 | - | 29,000 |
| Net pension liabilities | 24(d) | - | 1,094 |
| Deferred tax liabilities | 7(d) | 13,841 | 14,849 |
| Provisions | 19 | 15,723 | 13,243 |
| TOTAL NON CURRENT LIABILITIES | | 44,328 | 74,910 |
| TOTAL LIABILITIES | | 385,055 | 386,629 |
| NET ASSETS | | 234,589 | 230,147 |
| EQUITY | | | |
| Contributed equity | 20 | 10,000 | 10,000 |
| Reserves | 21 | 98,017 | 95,845 |
| Retained earnings | 22 | 126,572 | 124,302 |
| TOTAL EQUITY | | 234,589 | 230,147 |

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 2013

| | Consolidated Entity | | | Total \$'000 |
|---|---------------------------------|--------------------|--------------------------------|-----------------|
| | Contributed Equity \$'000 | Reserves \$'000 | Retained Earnings \$'000 | |
| Balance at 1 July 2011 | 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 |
| Total comprehensive income for the year | - | 5,908 | 13,411 | 19,319 |
| Transactions with owners in their capacity as owners: | | | | |
| Dividends provided for or paid | - | - | (6,300) | (6,300) |
| Balance at 30 June 2012 | 10,000 | 95,845 | 124,302 | 230,147 |
| Balance at 1 July 2012 | 10,000 | 95,845 | 124,302 | 230,147 |
| Profit after tax for the year | - | - | 9,862 | 9,862 |
| Revaluation increment | - | 3,102 | - | 3,102 |
| Actuarial gains (losses) on defined benefit plans | - | - | 1,869 | 1,869 |
| Income tax relating to components of other comprehensive income | - | (930) | (561) | (1,491) |
| Total other comprehensive income | - | 2,172 | 1,308 | 3,480 |
| Total comprehensive income for the year | - | 2,172 | 11,170 | 13,342 |
| Transactions with owners in their capacity as owners: | | | | |
| Dividends provided for or paid | - | - | (8,900) | (8,900) |
| Balance at 30 June 2013 | 10,000 | 98,017 | 126,572 | 234,589 |

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 2013

| | | Consolidated Entity | |
|---|-------|---------------------|------------------|
| | Note | Jun-13 \$'000 | Jun-12 \$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts in the course of operations | | 958,019 | 828,728 |
| Payments to suppliers and employees in the course of operations | | (961,815) | (801,026) |
| Income taxes | 7(b) | (5,530) | (5,417) |
| Net cash provided by / (used in) operating activities | 33(b) | (9,326) | 22,285 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | 4,345 | 5,663 |
| Proceeds from sale of property, plant and equipment | | 13 | 40 |
| Purchase of property, plant and equipment | | (15,456) | (10,112) |
| Net cash provided by / (used in) investing activities | | (11,098) | (4,409) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid | | (8,900) | (6,300) |
| Proceeds from interest-bearing liabilities | | 29,594 | 11,480 |
| Interest paid | | (888) | (1,020) |
| Net cash flows provided by / (used in) financing activities | | 19,806 | 4,160 |
| Net increase/(decrease) in cash and cash equivalents | | (618) | 22,036 |
| Effects of exchange rate changes on cash and cash equivalents | | 2,136 | (1,380) |
| Cash and cash equivalents at the beginning of the financial year | | 161,021 | 140,365 |
| Cash and cash equivalents at the end of the financial year | 33(a) | 162,539 | 161,021 |

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 2013

| 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 remuneration |
| 7 | Taxation |
| 8 | Cash and cash equivalent |
| 9 | Trade and other receivables |
| 10 | Inventories |
| 11 | Other financial assets |
| 12 | Other assets |
| 13 | Property, plant and equipment |
| 14 | Other non current assets |
| 15 | Trade and other receivables |
| 16 | Net unearned contract billings / Construction work in progress |
| 17 | Non interest bearing liabilities |
| 18 | Interest bearing liabilities |
| 19 | Provisions |
| 20 | Contributed equity |
| 21 | Reserves |
| 22 | Retained earnings |
| 23 | Dividends |
| 24 | Commitments |
| 25 | Contingent liabilities |
| 26 | Registered charges |
| 27 | Economic dependency |
| 28 | Key management personnel disclosure |
| 29 | Events occurring after the reporting period |
| 30 | Related party disclosures |
| 31 | Particulars in relation to controlled entities and associate |
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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 2013

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended 30 June 2013 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. ASC Pty Ltd is a for-profit entity for the purpose of preparing the financial statements.

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 \$32,686,000 for the Group (June 2012 negative working capital of \$5,681,000), 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 \$234,589,000 (June 2012: \$230,147,000);
- \$90,335,000 of the current liabilities are capable of but not expected to be called in full within twelve 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 2013 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.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and 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 is still evaluating the impact of this standard but does not expect the new standard to have a significant impact on its consolidation.

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 financial year starting 1 July 2013.

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 will adopt the new standard in the financial year starting 1 July 2013.

(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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(c) Principles of consolidation (cont.)

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.

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.

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(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.

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 twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(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 twelve months after the reporting date.

Collectability 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 twelve months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(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.

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 Air Warfare Destroyer 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(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.

(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 2013 and 30 June 2012 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).

(x) Contributed Equity

Ordinary shares are classified as equity.

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 Air Warfare Destroyer 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 – Construction Contracts.

Provision for warranty

The consolidated entity has a warranty provision for submarine related activities. This provision is calculated based on the six Collins Class submarines schedule and their relevant exposure index. ASC Pty Ltd has an In Service Support Contract with the Commonwealth of Australia represented by the Defence Materiel Organisation for the maintenance of the Collins Class submarines since 1 July 2012 which replaced the Through Life Support Contract. 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 2013 is \$3,800,000 (2012: \$6,490,000).

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 per cent 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 2013 is \$5,750,000 (2012: \$5,710,000).

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2013

Fair value of land and building

The fair value of land and buildings is determined by market-based evidence appraisal from professionally qualified valuer. If no market-based evidence exists, the depreciated replacement costs approach is applied. This approach is often used if an item is of a specialised nature and is rarely sold. Based on the independent professionally qualified valuer's assessment, the fair value of land and building for the Group as at 30 June 2013 is \$244,468,000 (2012: \$248,742,000).

Net pension assets/liabilities

The ASC Superannuation Fund engaged the services of an independent consulting actuary for the purpose of the ASC Superannuation Fund asset and liability valuation as at 30 June 2013. The "projected unit credit" method has been used for this valuation in accordance with AASB 119 – Employee Benefits. Based on the independent actuarial assessment, the value of net pension assets as at 30 June 2013 is \$716,000 (2012: liabilities of \$1,094,000).

3 FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial risk management

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

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

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

Both committees report regularly to the board on their activities.

The consolidated entity holds the following financial instruments:

| | Jun-13 \$'000 | Jun-12 \$'000 |
|----------------------------------|------------------|------------------|
| Financial assets | | |
| Cash and cash equivalents | 162,539 | 161,021 |
| Trade and other receivables | 139,171 | 136,760 |
| Other financial assets | 322 | - |
| | 302,032 | 297,781 |
| Financial liabilities | | |
| Trade and other payables | 86,920 | 71,046 |
| Non interest-bearing liabilities | 14,764 | 16,724 |
| Interest-bearing liabilities | 119,335 | 115,130 |
| | 221,019 | 202,900 |

(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 and 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 \$91.5 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.

Recognised financial instruments

Trade and other receivables

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

AAA [Australia (Commonwealth of)]

AA

Credit rating not determined

Cash and cash equivalents

AA

AA-

| Jun-13 \$'000 | Jun-12 \$'000 |
|------------------|------------------|
| 138,873 | 134,761 |
| 187 | - |
| 111 | 1,999 |
| 139,171 | 136,760 |
| | |
| - | - |
| 162,539 | 161,021 |
| 162,539 | 161,021 |

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 Collins Class submarines and the Hobart Class Air Warfare Destroyer (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.)

(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:

- \$12,000,000 overdraft facility not utilised at balance date. Interest would be payable at the rate of Bank Bill Official Rate plus 100 basis points; and
- \$30,000,000 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 \$'000 | Over 5 years \$'000 | Total contractual cash flows \$'000 | Carrying amount of liabilities \$'000 |
|--|-------------------------------|------------------------|---|---|
| Consolidated - At 30 June 2013 | | | | |
| Non-derivatives | | | | |
| Non-interest bearing | 86,920 | 27,239 | 114,159 | 101,684 |
| Variable rate (including bank overdraft) | 119,335 | - | 119,335 | 119,335 |
| Total non-derivatives | 206,255 | 27,239 | 233,494 | 221,019 |
| Consolidated - At 30 June 2012 | | | | |
| Non-derivatives | | | | |
| Non-interest bearing | 71,046 | 28,865 | 99,911 | 87,770 |
| Variable rate (including bank overdraft) | 115,130 | - | 115,130 | 115,130 |
| Total non-derivatives | 186,176 | 28,865 | 215,041 | 202,900 |

(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 generally 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 to the right.

3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

(c) Market Risk (cont.)

| | | Consolidated Entity | |
|-------------------------------|----------|---------------------|----------|
| | | Jun-13 | Jun-12 |
| | Currency | AUD '000 | AUD '000 |
| Financial assets | | | |
| Cash and cash equivalents | USD | 6,847 | 7,446 |
| | EUR | 20,383 | 8,704 |
| | GBP | 744 | 641 |
| | CAD | 2,078 | 1,883 |
| | JPY | 132 | 149 |
| | Total | 30,184 | 18,823 |
| | | | |
| Trade and other receivables | USD | 1,471 | 1,082 |
| | EUR | 5,130 | 15,126 |
| | GBP | 905 | 434 |
| | CAD | - | 45 |
| | Total | 7,506 | 16,687 |
| | | | |
| Financial liabilities | | | |
| Trade and other payables | USD | 190 | 1403 |
| | EUR | 14,577 | 4,852 |
| | GBP | 1 | 384 |
| | Total | 14,768 | 6,639 |
| | | | |
| Net unearned contract billing | USD | (121) | (439) |
| | EUR | (10,718) | (78) |
| | GBP | 905 | - |
| | Total | (9,934) | (517) |
| | | | |
| Interest-bearing liabilities | USD | 8,310 | 7,562 |
| | EUR | 21,752 | 19,071 |
| | GBP | 743 | 691 |
| | CAD | 2,078 | 1,928 |
| | JPY | 132 | 149 |
| | Total | 33,015 | 29,401 |

3 FINANCIAL AND CAPITAL 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 | Effective interest rate |
|----------------------------------|----------------|----------------------------|
| | \$'000 | % |
| 30 June 2013 | | |
| Financial assets | | |
| Cash and cash equivalents | 162,539 | 2.17 |
| Trade and other receivables | 139,171 | 0.00 |
| Other financial assets | 322 | 0.00 |
| | 302,032 | |
| Financial liabilities | | |
| Trade and other payables | 86,920 | 0.00 |
| Non interest-bearing liabilities | 14,764 | 3.16 |
| Interest-bearing liabilities | 119,335 | 1.44 |
| | 221,019 | |
| 30 June 2012 | | |
| Financial assets | | |
| Cash and cash equivalents | 161,021 | 2.97 |
| Trade and other receivables | 136,760 | 0.00 |
| | 297,781 | |
| Financial liabilities | | |
| Trade and other payables | 71,046 | 0.00 |
| Non interest-bearing liabilities | 16,724 | 2.63 |
| Interest-bearing liabilities | 115,130 | 1.63 |
| | 202,900 | |

The effective interest rate of the non interest-bearing liabilities reflects the effective discount rate applied in calculating the present value of the liabilities.

3 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONT.)

Sensitivity analysis

At 30 June 2013, 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 2012. 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 |
| 30 June 2013 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 162,539 | (1,219) | - | 1,219 | - |
| Trade and other receivables | 139,171 | - | - | - | - |
| Other financial assets | 322 | (2) | - | 2 | - |
| Financial liabilities | | | | | |
| Trade and other payables | (86,920) | - | - | - | - |
| Non interest-bearing liabilities | (14,764) | - | - | - | - |
| Interest-bearing liabilities | (119,335) | 193 | - | (193) | - |
| Total increase/(decrease) | | (1,028) | | 1,028 | |

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 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 |
| 30 June 2012 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 161,021 | (1,208) | - | 1,208 | - |
| Trade and other receivables | 136,760 | - | - | - | - |
| Financial liabilities | | | | | |
| Trade and other payables | (71,046) | - | - | - | - |
| Non interest-bearing liabilities | (16,724) | - | - | - | - |
| Interest-bearing liabilities | (115,130) | 207 | - | (207) | - |
| Total increase/(decrease) | | (1,001) | | 1,001 | |

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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2013

4 REVENUE

| | | Consolidated Entity | |
|-----|---|---------------------|---------|
| | | Jun-13 | Jun-12 |
| | | \$'000 | \$'000 |
| (a) | REVENUE | | |
| | Revenue from continuing operations | | |
| | Revenue from rendering of services | | |
| | Related parties | 915,524 | 796,068 |
| | Other parties | 199 | 330 |
| | | 915,723 | 796,398 |
| | Other revenue | | |
| | Secondment income received from: | | |
| | Other parties | 175 | 155 |
| | Interest | | |
| | Other parties | 4,667 | 5,663 |
| | | 4,842 | 5,818 |
| | Total revenue from continuing operations | 920,565 | 802,216 |
| (b) | OTHER INCOME | | |
| | Net profit from disposal of fixed assets | 1 | - |
| | Other income | 4 | 1,552 |
| | Total other income | 5 | 1,552 |

Other income received in 2011/12 financial year relates to assistance received from the South Australian Government for recruitment.

5 EXPENSES

Items included in profit before tax

| | | |
|--|--------|--------|
| Net loss from disposal of fixed assets | - | 42 |
| Depreciation of: | | |
| Buildings | 10,765 | 10,422 |
| Plant and equipment | 7,391 | 6,885 |
| Total depreciation | 18,156 | 17,307 |
| Amortisation of: | | |
| Contribution to Henderson Common User Facility | 244 | 244 |
| Total depreciation and amortisation | 18,400 | 17,551 |

5 EXPENSES (CONT.)

Items included in profit before tax (cont.)

| | Consolidated Entity | |
|--|---------------------|------------------|
| | Jun-13 \$'000 | Jun-12 \$'000 |
| Finance costs: | | |
| Bank charges | 254 | 271 |
| Interest expenses | | |
| Related parties | 886 | 1,020 |
| Other parties | 2 | - |
| | 1,142 | 1,291 |
| Operating lease rental expense: | | |
| Minimum lease payments | 14,275 | 13,992 |
| Employee related expenses: | | |
| Long service leave expense | 6,090 | 6,174 |
| Redundancy expenses | 1,550 | 1,776 |
| Defined benefit superannuation expense | 27 | 228 |
| Total Employee related expenses | 7,667 | 8,178 |

6 AUDITORS' REMUNERATION

Audit services:

Amount received or due and receivable by the Australian National Audit Office (ANAO) as auditors of the consolidated entity.

| Consolidated Entity | |
|---------------------|--------------|
| Jun-13 \$ | Jun-12 \$ |
| 312,000 | 312,500 |

Other services:

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2013

7 TAXATION

| | | Consolidated Entity | |
|---|--|---------------------|------------------|
| | | Jun-13 \$'000 | Jun-12 \$'000 |
| (a) Income tax expense | | | |
| Recognised in the income statement | | | |
| Current tax expense | | | |
| Current year | | 5,555 | 7,318 |
| Adjustments for prior years | | 181 | (2,259) |
| | | 5,736 | 5,059 |
| Deferred tax expense | | | |
| Temporary differences arising during the year, net of reversal | | (2,319) | (1,657) |
| Adjustment for prior years deferred tax | | (180) | 2,259 |
| | | (2,499) | 602 |
| Total income tax expense in income statement | | 3,237 | 5,661 |
| Attributable to: | | | |
| Continuing operations | | 3,237 | 5,661 |
| Numerical reconciliation between tax expense and pre-tax net profit | | | |
| Profit before tax | | 13,099 | 20,321 |
| Income tax using the domestic corporation tax rate of 30% (2012: 30%) | | 3,930 | 6,096 |
| Increase in income tax expense due to: | | | |
| Non-deductible expenses | | 2 | 50 |
| Decrease in income tax expense due to: | | | |
| Tax incentives not recognised in income statement | | (696) | (485) |
| | | 3,236 | 5,661 |
| Under/(over) provided in prior years | | | |
| Adjustment for prior year tax expense | | 1 | - |
| Income tax expense on profit before tax | | 3,237 | 5,661 |
| Attributable to: | | | |
| Continuing operations | | 3,237 | 5,661 |
| (b) Current tax liabilities/(Prepaid income tax) | | | |
| Movements during the year were as follows: | | | |
| Balance at the beginning of the year | | 2,084 | 2,442 |
| Income tax paid | | (5,530) | (5,417) |
| Current year's current income tax expense on operating profit | | 5,555 | 7,318 |
| Under/(over) provision in prior years | | 181 | (2,259) |
| | | 2,290 | 2,084 |
| (c) Unrecognised deferred tax assets | | | |
| Deferred tax assets have not been recognised in respect of the following items: | | | |
| Capital losses | | 11,540 | 11,540 |
| | | 11,540 | 11,540 |

7 TAXATION (CONT.)

| | DEFERRED TAX ASSETS | | DEFERRED TAX LIABILITIES | | NET | |
|--|---------------------|------------------|--------------------------|------------------|------------------|------------------|
| | Jun-13 \$'000 | Jun-12 \$'000 | Jun-13 \$'000 | Jun-12 \$'000 | Jun-13 \$'000 | Jun-12 \$'000 |
| (d) Deferred tax assets and liabilities | | | | | | |
| Recognised deferred tax assets and liabilities | | | | | | |
| Deferred tax assets and liabilities are attributable to the following: | | | | | | |
| Consolidated Entity | | | | | | |
| Property, plant and equipment | 9,845 | 9,683 | (36,750) | (37,175) | (26,905) | (27,492) |
| Employee entitlements | 8,502 | 7,646 | - | - | 8,502 | 7,646 |
| Provisions for warranty | 1,140 | 1,947 | - | - | 1,140 | 1,947 |
| Project recognised profit | 3,652 | 2,634 | - | - | 3,652 | 2,634 |
| Interest accrual | - | - | - | (154) | - | (154) |
| Net pension assets | - | 328 | - | - | - | 328 |
| Sundry items | 139 | 366 | (369) | (124) | (230) | 242 |
| Net tax assets/(liabilities) | 23,278 | 22,604 | (37,119) | (37,453) | (13,841) | (14,849) |

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

MOVEMENTS

| | DEFERRED TAX ASSETS | | DEFERRED TAX LIABILITIES | | NET | |
|---|---------------------|------------------|--------------------------|------------------|------------------|------------------|
| | Jun-13 \$'000 | Jun-12 \$'000 | Jun-13 \$'000 | Jun-12 \$'000 | Jun-13 \$'000 | Jun-12 \$'000 |
| Consolidated Entity | | | | | | |
| Movement to Income tax revenue/(expense) | | | | | | |
| Property, plant and equipment | 162 | 98 | 1,355 | 1,457 | 1,517 | 1,555 |
| Employee entitlements | 856 | (1,352) | - | - | 856 | (1,352) |
| Provisions for warranty | (807) | (918) | - | - | (807) | (918) |
| Project recognised profit | 1,018 | 604 | - | - | 1,018 | 604 |
| Interest accrual | - | - | 154 | (65) | 154 | (65) |
| Net pension assets | - | - | 233 | (81) | 233 | (81) |
| Sundry items | (227) | (346) | (245) | 1 | (472) | (345) |
| | 1,002 | (1,914) | 1,497 | 1,312 | 2,499 | (602) |
| Movement credited/(debited) directly to equity | | | | | | |
| Property, plant and equipment | | | (930) | (2,533) | (930) | (2,533) |
| Net pension assets (refer note on following page) | (328) | 328 | (233) | 208 | (561) | 536 |
| | (328) | 328 | (1,163) | (2,325) | (1,491) | (1,997) |
| Net movement in tax assets/(liabilities) | 674 | (1,586) | 334 | (1,013) | 1,008 | (2,599) |

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2013

7 TAXATION (CONT.)

| | Consolidated Entity | |
|---|---------------------|------------------|
| | Jun-13 \$'000 | Jun-12 \$'000 |
| (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)) | 1,491 | 1,997 |

8 CASH AND CASH EQUIVALENTS

| | | |
|--------------------------|----------------|----------------|
| Cash at bank and in hand | 81,351 | 69,281 |
| Term deposits | 81,188 | 91,740 |
| | 162,539 | 161,021 |

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

Included in cash in operating accounts are amounts advanced to the Company and 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 Collins Class Submarine In Service Support Contract (ISSC) and the Hobart Class Air Warfare Destroyer (AWD) project respectively. 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 2013, the balance of restricted cash for ISSC was \$0 (June 2012: \$0) and for AWD was \$25.7 million (June 2012: \$27.6 million).

9 TRADE AND OTHER RECEIVABLES

| | Consolidated Entity | |
|---|---------------------|------------------|
| | Jun-13 \$'000 | Jun-12 \$'000 |
| Current | | |
| Trade receivables | 138,626 | 136,056 |
| Other receivables | 545 | 704 |
| | 139,171 | 136,760 |
| ACCOUNTS RECEIVABLE AGEING PROFILE | | |
| Receivables | | |
| Not Past Due | 138,477 | 134,893 |
| Past Due 1-30 Days | 636 | 1,131 |
| Past Due 31-60 Days | - | 384 |
| Past Due 61-90 Days | 27 | 221 |
| Past Due 90+ Days | 31 | 131 |
| Total receivables | 139,171 | 136,760 |

| | | Consolidated Entity | |
|--|--|----------------------------|---------------|
| | | Jun-13 | Jun-12 |
| | | \$'000 | \$'000 |
| 10 INVENTORIES | | | |
| Current | | | |
| Raw materials and stores (at lower of cost or net realisable value) | | 3,584 | 5,780 |
| | | 3,584 | 5,780 |
| Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2013 amounted to \$0.5 million (June 2012: \$1.7 million reversal of write down) | | | |
| 11 OTHER FINANCIAL ASSETS | | | |
| Current | | 322 | - |
| Interest Receivables | | 322 | - |
| 12 OTHER ASSETS | | | |
| Current | | | |
| Prepayments | | 2,425 | 2,477 |
| | | 2,425 | 2,477 |
| 13 PROPERTY, PLANT AND EQUIPMENT | | | |
| Freehold land | | | |
| At fair value | | 30,083 | 30,083 |
| Buildings | | | |
| At fair value | | 214,385 | 218,659 |
| Plant and equipment | | | |
| At cost | | 112,630 | 103,123 |
| Accumulated depreciation | | (56,666) | (49,266) |
| | | 55,964 | 53,857 |
| Capital works in progress at cost | | 6,187 | 3,627 |
| Total property, plant and equipment | | 306,619 | 306,226 |
| Reconciliations | | | |
| Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below: | | | |
| Freehold land | | | |
| Carrying amount at beginning of year | | 30,083 | 29,335 |
| Revaluation increments/(decrements) | | - | 748 |
| Carrying amount at the end of year | | 30,083 | 30,083 |
| Buildings | | | |
| Carrying amount at beginning of year | | 218,659 | 220,166 |
| Additions | | 137 | 226 |
| Transfers from capital works in progress | | 3,252 | 997 |
| Revaluation increments/(decrements) | | 3,102 | 7,692 |
| Depreciation | | (10,765) | (10,422) |
| Carrying amount at the end of year | | 214,385 | 218,659 |

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2013

| | | Consolidated Entity | |
|-----------|---|----------------------------|---------------|
| | | Jun-13 | Jun-12 |
| | | \$'000 | \$'000 |
| 13 | PROPERTY, PLANT AND EQUIPMENT (cont.) | | |
| | Plant and Equipment | | |
| | Carrying amount at beginning of year | 53,857 | 52,524 |
| | Additions | 1,750 | 1,284 |
| | Transfers from capital works in progress | 7,760 | 7,016 |
| | Disposals | (12) | (82) |
| | Depreciation | (7,391) | (6,885) |
| | Carrying amount at the end of year | 55,964 | 53,857 |
| | Capital works in progress | | |
| | Carrying amount at beginning of year | 3,627 | 3,040 |
| | Additions/(write off) | 13,572 | 8,600 |
| | Transfers to property, plant and equipment | (11,012) | (8,013) |
| | Carrying amount at the end of year | 6,187 | 3,627 |
| | 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 2013. 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 |
| | Buildings | | |
| | Cost | 252,020 | 248,632 |
| | Accumulated depreciation | (132,382) | (126,125) |
| | Net book amount | 119,638 | 122,507 |
| | Non-current assets pledged as security | | |
| | Refer to note 25 for information on non-current assets pledged as security by the consolidated entity. | | |
| 14 | OTHER NON-CURRENT ASSET | | |
| | Contribution to the Henderson Common User Facility | 4,268 | 4,512 |
| | 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. | | |
| 15 | TRADE AND OTHER PAYABLES | | |
| | Trade payables | 45,834 | 39,391 |
| | Other payables and accruals | 41,086 | 31,655 |
| | Total payables | 86,920 | 71,046 |

| | | Consolidated Entity | |
|---|--|---------------------|-------------|
| | | Jun-13 | Jun-12 |
| | | \$'000 | \$'000 |
| 16 NET UNEARNED CONTRACT BILLING / (CONSTRUCTION WORK IN PROGRESS) | | | |
| Contract billings due and receivable | | 3,379,274 | 2,558,999 |
| Contract works in progress | | (3,046,622) | (2,219,282) |
| Profit recognised to date | | (237,244) | (222,474) |
| Net unearned contract billing/(Contract work in progress) | | 95,408 | 117,243 |
| 17 NON INTEREST-BEARING LIABILITIES | | | |
| Unsecured | | | |
| Non current | | | |
| Term loan | | 5 | 5 |
| Deferred purchase obligation | | 14,759 | 16,719 |
| | | 14,764 | 16,724 |

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 2013 (2012: \$5,000) 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.

18 INTEREST-BEARING LIABILITIES

| | | Consolidated Entity | |
|--------------------|--|---------------------|--------|
| | | Jun-13 | Jun-12 |
| | | \$'000 | \$'000 |
| Current | | | |
| Unsecured | | | |
| Government advance | | 119,335 | 86,130 |

Government advance

Current

Government advance represents the working capital advance provided by the Commonwealth of Australia under both the In Service Support Contract for the Collins Class submarines (ISSC) and the Alliance Based Target Incentive Agreement (ABTIA).

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18 INTEREST-BEARING LIABILITIES (CONT.)

Government advance (cont.)

Current (cont.)

ISSC advances:

Advances paid by the Commonwealth are in Australian dollars.

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 of \$29 million is repayable at the end of the ISSC transition period which is expected to be the end of June 2014.

It was presented as a non current liability for the year ended 30 June 2012.

ABTIA advance:

Government advance represents the working capital advance provided by the Commonwealth of Australia under the ABTIA.

At 30 June 2013, the balance is \$90 million. (June 2012: \$86 million)

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.

| | Consolidated Entity | |
|---|----------------------------|---------------|
| | Jun-13 | Jun-12 |
| | \$'000 | \$'000 |
| Non current | | |
| Government advance | - | 29,000 |
| Financing arrangements | | |
| Unsecured facilities | | |
| 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 |

19 PROVISIONS

| | Consolidated Entity | |
|---|---------------------|------------------|
| | Jun-13 \$'000 | Jun-12 \$'000 |
| Current | | |
| Employee entitlements, including on costs (a) | 31,066 | 26,699 |
| Redundancy and termination (b) | 408 | 719 |
| Warranty (c) | 3,800 | 6,490 |
| Self insured workers compensation (d) | 1,500 | 1,306 |
| Other | - | 2 |
| | 36,774 | 35,216 |
| Non current | | |
| Employee entitlements, including on costs (a) | 11,473 | 8,839 |
| Self insured workers compensation (d) | 4,250 | 4,404 |
| | 15,723 | 13,243 |

(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 as part of the efficiency improvement program. This redundancy and termination provision is expected to be paid in the early part of the 2013/14 financial year.

(c) Warranty

The Company has a warranty provision for the submarine related activities under the In Service 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 boats schedule.

(d) Self insured workers compensation

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

(e) Other

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

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19 PROVISIONS (CONT.)

| | Consolidated Entity | |
|--|---------------------|------------------|
| | Jun-13 \$'000 | Jun-12 \$'000 |
| Provisions movements: | | |
| Redundancy and termination | | |
| Balance at 1 July (current and non current) | 719 | - |
| Provision made during the year | 1,133 | 1,629 |
| Provision used during the year | (1,444) | (910) |
| Balance at 30 June (current and non current) | 408 | 719 |
| Warranty | | |
| Balance at 1 July (current and non current) | 6,490 | 9,550 |
| Provision made/(reversed) during the year | (2,664) | (3,060) |
| Provision used during the year | (26) | - |
| Balance at 30 June (current and non current) | 3,800 | 6,490 |
| Self insured workers compensation | | |
| Balance at 1 July (current and non current) | 5,710 | 5,129 |
| Provision made/(reversed) during the year | 1,540 | 1,887 |
| Provision used during the year | (1,500) | (1,306) |
| Balance at 30 June (current and non current) | 5,750 | 5,710 |
| Dividends | | |
| Balance at 1 July (current and non current) | - | - |
| Provision made during the year | 8,900 | 6,300 |
| Provision used during the year | (8,900) | (6,300) |
| Balance at 30 June (current and non current) | - | - |
| Other | | |
| Balance at 1 July (current and non current) | 2 | 250 |
| Provision used during the year | (2) | (248) |
| Balance at 30 June (current and non current) | - | 2 |

- (f) The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of \$31.1 million (2012: \$26.7 million) is presented as current, since the group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

| | | |
|--|--------|-------|
| Current leave obligations expected to be settled after 12 months | 13,646 | 9,279 |
|--|--------|-------|

20 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.

21 RESERVES

| | | Consolidated Entity | |
|--|--|---------------------|---------|
| | | Jun-13 | Jun-12 |
| | | \$'000 | \$'000 |
| Opening asset revaluation reserve (1 July) | | 95,845 | 89,937 |
| Revaluation increment, gross | | 3,102 | 8,441 |
| Deferred tax | | (930) | (2,533) |
| Closing asset revaluation reserve | | 98,017 | 95,845 |
| Total Reserves | | 98,017 | 95,845 |
| Asset revaluation reserve | | | |
| Comprises of : | | | |
| - Land | | 19,450 | 19,450 |
| - Buildings | | 78,567 | 76,395 |
| Closing balance | | 98,017 | 95,845 |

Nature and purpose of reserves

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

22 RETAINED EARNINGS

| | | |
|---|---------|---------|
| Opening retained earnings (1 July) | 124,302 | 117,191 |
| Actuarial gains (losses) on defined benefit plans after tax | 1,308 | (1,249) |
| Net profit for the year | 9,862 | 14,660 |
| Dividends | (8,900) | (6,300) |
| Closing retained earnings | 126,572 | 124,302 |

23 DIVIDENDS

| | | |
|---|-------|-------|
| Interim dividend has declared and paid for 2013 (2013: 26 cents/ share, 2012: 25 cents/share) | 2,600 | 2,500 |
| Final dividend declared and paid for 2012 (2012: 63 cents/share) | 6,300 | 3,800 |
| Total unfranked dividend, represents a distribution to the shareholder | 8,900 | 6,300 |

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 2013, but not recognised as a liability at year end is:

| | |
|-------|-------|
| 3,400 | 6,300 |
|-------|-------|

Dividends franking account

Class C (30%) franking credits

| | |
|---------|---------|
| 117,708 | 112,357 |
|---------|---------|

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax
- franking debits that will arise from the payment of the dividends recognised as a liability at year-end
- franking credits that will arise from the receipt of dividends recognised as receivables at year-end
- franking credits that the entity may be prevented from distributing in subsequent years

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

24 COMMITMENTS

| | | Consolidated Entity | |
|--|--|---------------------|---------|
| | | Jun-13 | Jun-12 |
| | | \$'000 | \$'000 |
| (a) Capital expenditure commitments | | | |
| Contracted but not provided for and payable: | | | |
| Not later than one year | | 1,550 | 2,113 |
| Later than one year but not later than five years | | - | - |
| Later than five years | | - | - |
| Total | | 1,550 | 2,113 |
| (b) Operating lease commitments | | | |
| Non-cancellable future operating lease rentals not provided for in the financial statements and payable: | | | |
| Not later than one year | | 13,308 | 13,255 |
| Later than one year but not later than five years | | 42,531 | 44,639 |
| Later than five years | | 82,715 | 85,633 |
| Total | | 138,554 | 143,527 |

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

(c) Hire purchase commitments

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

(d) Superannuation commitments

The consolidated entity contributes to the ASC Superannuation Fund that provides for a combination of accumulation and defined benefits.

Employees contribute to the fund at various percentages of their gross income. The consolidated entity also contributes to the fund at varying contribution rates depending on the category of fund membership of each member.

Members of the ASC Superannuation Fund are entitled to benefits on retirement, disability or death.

The trustee of the fund is 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 2013 was carried out by David O'Keefe, Fellow of the Institute of Actuaries of Australia, of ALEA Actuarial Consulting Pty Ltd in June 2013.

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.

24 COMMITMENTS (CONT.)

| | Consolidated Entity | |
|--|---------------------|------------------|
| | Jun-13 \$'000 | Jun-12 \$'000 |
| Movements in the net asset/(liability) for defined benefits obligations recognised in the statement of financial position | | |
| Net asset/(liability) for defined benefit obligations at 1 July | (1,094) | 425 |
| Contributions received | 27 | 228 |
| Income/(Expense) recognised in the income statement | (86) | 38 |
| Actuarial gains/(losses) recognised directly in equity | 1,869 | (1,785) |
| Net asset/(liability) for defined benefit obligations at 30 June | 716 | (1,094) |
| Defined benefit superannuation fund | | |
| Amounts in the statement of financial position | | |
| Asset | 716 | - |
| Liability | - | (1,094) |
| Net Pension Assets/(Retirement benefit obligation) | 716 | (1,094) |
| Changes in the present value of the defined benefit obligation are as follows: | | |
| Opening defined benefit obligation | 9,704 | 7,905 |
| Service cost | 222 | 183 |
| Interest cost | 278 | 381 |
| Actuarial losses/(gains) | (504) | 1,399 |
| Benefits paid | (724) | (164) |
| Closing defined benefit obligation | 8,976 | 9,704 |
| Changes in the fair value of fund assets are as follows: | | |
| Opening fair value of fund assets | 8,610 | 8,330 |
| Expected return | 414 | 602 |
| Actuarial gains/(losses) | 1,365 | (386) |
| Contributions by employer | 27 | 228 |
| Benefits paid | (724) | (164) |
| | 9,692 | 8,610 |
| The major categories of fund assets as a percentage of total fund assets are as follows: | | |
| Australian equities | 40% | 40% |
| International equities | 23% | 31% |
| Australian fixed interest | 9% | 11% |
| International fixed interest | 2% | 2% |
| Property trusts | 4% | 1% |
| Cash | 22% | 15% |
| | 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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2013

24 COMMITMENTS (CONT.)

(d) Superannuation commitments (cont.)

| | Consolidated Entity | |
|---|----------------------------|---------------|
| | Jun-13 | Jun-12 |
| | \$'000 | \$'000 |
| Expense recognised in the income statement: | 222 | 183 |
| Current service costs | 278 | 381 |
| Interest cost | (414) | (602) |
| Expected return on fund assets | 86 | (38) |
| Actuarial gains/(losses) are recognised directly in equity. | | |
| The expense is recognised in the following line items in the income statement: | | |
| Pension costs/(revenues) | 59 | (266) |
| Contribution paid (in labour costs) | 27 | 228 |
| | 86 | (38) |
| Actual return on fund assets | 1,779 | 216 |
| | 1,779 | 216 |
| Expense recognised in statements of comprehensive income | | |
| Actuarial gains/(losses) recognised in the year (net of tax) | 1,308 | (1,250) |
| Cumulative actuarial gains/(losses) recognised in the statement of comprehensive income | (2,300) | (3,608) |

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 5.6 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.

Principal actuarial assumptions at the balance date:

| | | |
|---|------|------|
| Discount rate at 30 June | 3.3% | 2.9% |
| Expected return on fund assets at 30 June | 5.6% | 5.3% |
| 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 2013), and a surplus of \$716,000 was reported.

Any surplus under AAS 25 may differ from the net assets of \$716,000 recognised in the balance sheet as at 30 June 2013 due to different measurement rules in the relevant accounting standards AAS25 and AASB 119 Employee Benefits.

24 COMMITMENTS (CONT.)

(d) Superannuation commitments (cont.)

Historic Summary

| | Jun-13 | Jun-12 | Jun-11 | Jun-10 | Jun-09 | Jun-08 | Jun-07 |
|---|----------------|---------|---------|---------|---------|----------|----------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Defined benefit obligation | (8,976) | (9,704) | (7,905) | (8,050) | (9,844) | (11,105) | (14,005) |
| Fund assets | 9,692 | 8,610 | 8,330 | 7,875 | 9,066 | 12,601 | 18,409 |
| Surplus/(deficit) | 716 | (1,094) | 425 | (175) | (778) | 1,496 | 4,404 |
| Experience adjustments arising on fund assets | 1,365 | (386) | 1,103 | 38 | (2,193) | (5,194) | 2,272 |

(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.

25 CONTINGENT LIABILITIES

The consolidated entity has arranged the issuance of a bank guarantee in favour of Workcover Corporation of SA for the purpose of self insurance under the Workers Rehabilitation and Compensation Act. Certain entities within the consolidated entity have arranged the issuance of bank guarantees in favour of various beneficiaries in support of their performance obligations. The total value of the bank guarantees arranged by the consolidated entity is \$10.5 million (2012: \$9.3 million).

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

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

26 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. There are currently no amounts owing to the Commonwealth of Australia in relation to these charges.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2013

26 REGISTERED CHARGES (CONT.)

| | Consolidated Entity | |
|---|---------------------|------------------|
| | Jun-13 \$'000 | Jun-12 \$'000 |
| Total current assets pledged as security | | |
| Trade receivables | 54,718 | 62,161 |
| Other receivables | 128 | 205 |
| | 54,846 | 62,366 |
| Total non current assets pledged as security | | |
| Land | 18,168 | 18,168 |
| Building | 109,435 | 112,508 |
| Plant and Equipment | 17,419 | 15,895 |
| | 145,022 | 146,571 |

27 ECONOMIC DEPENDENCY

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

28 KEY MANAGEMENT PERSONNEL DISCLOSURE

Key management personnel compensation

| | Consolidated Entity | |
|----------------------------------|---------------------|--------------|
| | Jun-13 \$ | Jun-12 \$ |
| Short - term employment benefits | 5,539,913 | 4,610,785 |
| Other long term benefits | 337,835 | 244,507 |
| Post - employment benefits | 480,800 | 482,209 |
| Termination benefits | 541,699 | 702,105 |
| | 6,900,247 | 6,039,606 |

Loans to key management personnel

No loans were made available to key management personnel during the financial year.

Other key management personnel transactions with the consolidated entity

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

29 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.

30 RELATED PARTY DISCLOSURES

Directors

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

CAR Ritchie (retired);
BJ Carter;
RV Dubs;
KA Hirschfeld;
S Ludlam;
JJ O'Connell AO;
SAM Pitkin; and
JF Shipway;

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

30 RELATED PARTY DISCLOSURES (CONT.)

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.

| | | Consolidated Entity | |
|---|--|----------------------------|---------------|
| | | Jun-13 | Jun-12 |
| | | \$ | \$ |
| Loans to/(from) the Commonwealth of Australia and its related entities | | | |
| Deferred purchase obligation | | | |
| Beginning of the year | | 16,719,550 | 13,810,388 |
| Loan advanced | | - | - |
| Fair value adjustment | | (1,960,376) | 2,909,162 |
| End of year | | 14,759,174 | 16,719,550 |

June 2013

| | | Consolidated Entity | | | | | |
|-------------------------------|--------------|----------------------------|------------|------------|------------|------------|------------|
| Government advance | Total | AUD | USD | GBP | CAD | EUR | JPY |
| Beginning of the year | | 56,729,612 | 7,706,094 | 451,286 | 2,015,090 | 15,431,912 | 12,078,961 |
| Advance received | | 29,000,000 | | | | | |
| Interest charged | | (716) | - | - | - | - | - |
| Interest received | | 591,199 | 1,595 | - | 2 | 845 | - |
| End of year (source currency) | | 86,320,095 | 7,707,689 | 451,286 | 2,015,092 | 15,432,757 | 12,078,961 |
| End of year (AUD equivalent) | 119,334,529 | 86,320,095 | 8,310,178 | 743,225 | 2,077,626 | 21,751,596 | 131,809 |

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 |

Transactions with Shareholders

During the year, the amounts received or receivable by the consolidated entity from the Commonwealth of Australia for various projects was \$915,524,000 (2012: \$796,068,000).

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.

| | | Jun-13 | Jun-12 |
|---|--|---------------|---------------|
| | | \$ | \$ |
| 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: | | 138,617,009 | 136,053,701 |

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2013

31 PARTICULARS IN RELATION TO CONTROLLED ENTITIES AND ASSOCIATE

| | Country of Incorporation | Class of Shares | Entity Interest | |
|-----------------------------|-----------------------------|--------------------|-----------------|-----------|
| | | | 2013 % | 2012 % |
| Parent entity | | | | |
| ASC Pty Ltd | Australia | Ordinary | n/a | n/a |
| Controlled entities | | | | |
| ASC Engineering Pty Ltd | Australia | Ordinary | 100 | 100 |
| ASC Shipbuilding Pty Ltd | Australia | Ordinary | 100 | 100 |
| ASC Modules Pty Ltd | Australia | Ordinary | 100 | 100 |
| ASC AWD Shipbuilder Pty Ltd | Australia | Ordinary | 100 | 100 |
| Deep Blue Tech Pty Ltd | Australia | Ordinary | 100 | 100 |

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.

Deep Blue Tech Pty Ltd has changed activities from 1 July 2013 and the company is now dormant.

All subsidiaries have reporting dates of 30 June.

32 PARENT FINANCIAL INFORMATION

(a) Summary financial information

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

| | Jun-13 \$'000 | Jun-12 \$'000 |
|---|------------------|------------------|
| Balance sheet | | |
| Current assets | 181,608 | 181,067 |
| Total assets | 497,068 | 497,219 |
| Current liabilities | 228,595 | 206,166 |
| Total liabilities | 248,210 | 255,476 |
| Net assets | 248,858 | 241,743 |
| Shareholders' equity | 10,000 | 10,000 |
| Issued capital | | |
| Reserves | 79,080 | 78,910 |
| Revaluation surplus - land and building | 159,778 | 152,833 |
| Retained earnings | 248,858 | 241,743 |
| Profit or loss for the year | 14,537 | 20,117 |
| Other comprehensive income | 1,478 | 659 |
| Total comprehensive income | 16,015 | 20,776 |

32 PARENT FINANCIAL INFORMATION (CONT.)

(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 \$7,674,000 (2012: \$6,530,000).

In addition to the above, the parent entity has provided \$2,819,000 bank guarantees (2012: \$2,819,000) 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 2013 and 30 June 2012 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 2013 or 30 June 2012. 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 2013, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$1,550,290 (30 June 2012: \$2,113,000). 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 2013

33 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-13 \$'000 | Jun-12 \$'000 |
| Cash | 8 | 162,539 | 161,021 |
| | | 162,539 | 161,021 |

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

| | | |
|---|----------|----------|
| Operating profit after income tax | 9,862 | 14,660 |
| Add/(less) items classified as investing/financing activities: | | |
| Interest received | (4,667) | (5,663) |
| Interest expense | 888 | 1,020 |
| (Profit)/loss on sale of fixed assets | (1) | 42 |
| Add/(less) non-cash items: | | |
| Depreciation | 18,400 | 17,551 |
| Fair value adjustment on all financial instruments | (1,960) | 2,910 |
| Pension costs | 59 | (266) |
| Income tax expense | 3,239 | 5,661 |
| Income tax paid | (5,530) | (5,418) |
| Net cash provided by operating activities before change in assets and liabilities | 20,290 | 30,497 |
| Change in assets and liabilities | | |
| (Increase)/decrease in receivables | (28,167) | 11,293 |
| (Increase)/decrease in inventories | 2,196 | (1,705) |
| (Increase)/decrease in prepayments | 50 | 483 |
| (Increase)/decrease in net unearned contract billing | (19,994) | (12,723) |
| Increase/(decrease) in trade creditors | 12,656 | (10,848) |
| Increase/(decrease) in provisions | 3,643 | 5,288 |
| Net cash provided by operating activities | (9,326) | 22,285 |

CORPORATE DIRECTORY

Directors

Bruce Carter
Chairman

Steve Ludlam
Managing Director and
Chief Executive Officer

Katherine Hirschfeld
Rosalind Dubs
Jack O'Connell AO
Sally Pitkin
Rear Admiral USN (retired) Dugan
Shipway

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)
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Rockingham WA 6168
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Other enquiries

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

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

ACRONYMNS

| | | | |
|--------|---|---------|--|
| ABTIA | Alliance Bared Target Incentive Agreement | LSS | Lean Six Sigma |
| AMC | Australian Marine Complex | LTIFR | Lost Time Injury Frequency Rate |
| ANAO | Australian National Audit Office | MTI | Medically Treated Injury |
| ASPO | Australian Submarine Program Office | MTIFR | Medically Treated Injury Frequency Rate |
| AWD | Air Warfare Destroyer | OHSW&IM | Occupational Health, Safety, Welfare and Injury Management |
| BI&T | Business Improvement and Transformation | OHS | Occupational Health and Safety |
| CAC | <i>Commonwealth Authorities and Companies Act 1997</i> | OSTs | Outfit Support Towers |
| CCSM | Collins Class Submarines | PLM | Product Lifecycle Management |
| CED | Certification Extension Docking | PPE | Personal Protective Equipment |
| CUF | Common User Facility | PWMS | Production Work Management System |
| CoA | Commonwealth of Australia | RAN | Royal Australian Navy |
| DBT | Deep Blue Tech | SADI | Skilling Australian Defence Industry |
| DFEEST | Department of Further Education, Employment, Science and Technology | SPMT | Self-propelled modular transporter |
| DIPP | Defence Industry Pathway Program | SSFCD | Single Stream Full Cycle Docking |
| DIESF | Defence Industry Environmental Sustainability Forum | STO | Safety Transformation Program |
| DMO | Defence Materiel Organisation | TLSA | Through Life Support Agreement |
| DoD | Department of Defence | UUC | Usage Upkeep Cycle |
| EEO | Equal Employment Opportunity | WHSW&IM | Work Health, Safety, Welfare and Injury Management |
| EPA | Environmental Protection Authority | | |
| ERG | Emergency Response Group | | |
| FCD | Full Cycle Docking | | |
| HSMAAs | Health and Safety Management Arrangements | | |
| IASB | International Accounting Standards Board | | |
| IFRS | International Financial Reporting Standards | | |
| IIMG | Incident Investigation Management Group | | |
| IMAV | Intermediate Maintenance Availability | | |
| IMS | Integrated Master Schedule | | |
| IPT | Integrated Project Team | | |
| ISSC | In Service Support Contract | | |
| LTI | Lost Time Injury | | |

