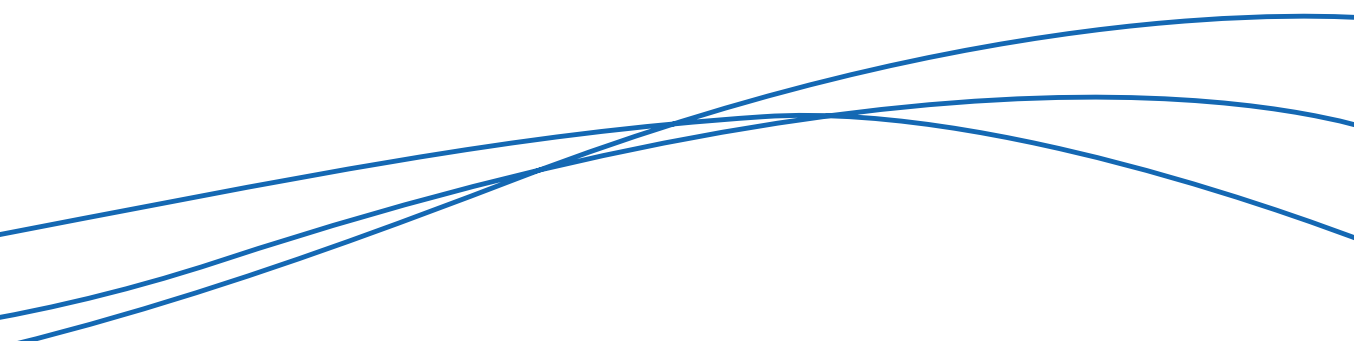


ASC PTY LTD ANNUAL REPORT 2014



CONTENTS

THE COMPANY

4

Company Profile

4

Financial Highlights

5

Chairman's Report

6

Chief Executive Officer's Report

8

REVIEW OF OPERATIONS

10

Collins Class Submarine Project

10

Hobart Class Destroyer Project

11

Future Submarines

13

Engineering

13

Business Improvement and Transformation

15

Infrastructure Development

16

Safety Performance

17

Environmental Performance

18

Workforce and Training

21

CORPORATE GOVERNANCE

20

FINANCIAL REPORT

23

CORPORATE DIRECTORY

79

ACRONYMNS

80

TRANSMITTAL LETTER



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23 September 2014

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

Dear Minister,

ASC Pty Ltd 2014 Annual Report

I am pleased to submit the 2014 Annual Report of ASC Pty Ltd in accordance with the *Commonwealth Authorities and Companies (CAC) Act 1997*.

The company's performance is characterised by notable successes in the Collins Class Submarine (CCSM) maintenance program and ongoing cost and schedule challenges in the Air Warfare Destroyer (AWD) Program

The introduction of the 10+2 Usage Upkeep Cycle (UUC) and our alignment with the Defence Materiel Organisation (DMO) and the Royal Australian Navy (RAN) have resulted in significant performance gains as noted in recent Coles progress reports and see ASC on track to deliver benchmark availability by late 2016.

We recognise our challenges on the AWD program and continue to focus on safely delivering three ships supported by our key suppliers. ASC remains committed to improving Shipyard performance efficiencies and supporting the milestones arising from the AWD reform strategy.

ASC's 2014 Annual Report 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 2014 as well as descriptive reports on ASC's performance and progress.

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Bruce Carter'.

BRUCE CARTER
Chairman

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. These are the most advanced and complex warships ever built in Australia and are 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.

We employ more than 2,600 permanent employees 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

| | 2013/14 \$m | 2012/13 \$m |
|--|----------------|----------------|
| Revenue from rendering of services | 907.2 | 915.9 |
| Interest income | 4.0 | 4.7 |
| Other income and other revenue | 7.1 | 0.2 |
| Total revenue and other income | 918.3 | 920.8 |
| EBITDA | 8.6 | 27.5 |
| Depreciation and amortisation | (17.2) | (18.4) |
| EBIT | (8.6) | 9.1 |
| Interest expense | (0.8) | (0.9) |
| Tax benefit (expense) | 1.7 | (3.2) |
| Operating profit (loss) before tax | (5.4) | 12.9 |
| Operating profit (loss) after tax | (3.8) | 9.7 |
| EBIT/total revenue and other income (%) | (0.9%) | 1.0% |
| Shareholder's equity | 221.0 | 234.6 |
| Return on equity (%) | (1.7%) | 4.1% |
| Dividend paid | 8.9 | 8.9 |
| Total assets | 646.4 | 619.6 |

CHAIRMAN'S REPORT



On behalf of the Board, I am pleased to report significant progress and the implementation of key efficiencies across our business, while recognising the challenges of working on complex defence acquisition and sustainment projects.

Continual business growth has seen the production workforce for the Hobart Class Air Warfare Destroyer project grown from 30 production employees just four years ago to more than 1,000 today.

ASC achieved annual revenue of \$918.3 million (2013: \$920.8 million) and loss after tax of \$3.8 million (2013: \$9.7m profit).

Collins Class Submarine Project

Following the 2012 release of the Study into the Business of Sustaining Australia's Strategic Collins Class Submarine Capability by international submarine expert John Coles, ASC has embarked on a transformation of the submarine maintenance program.

In late 2013, we announced we would move to a 10+2 Usage Upkeep Cycle (UUC) of 10 years in service and two years in major maintenance, compared with the previous 8+3 UUC. This means our submarines will be available for more time at sea, and less time undergoing major maintenance

This initiative will be a key enabler towards achieving international benchmarks, along with a range of other

supporting projects aimed at increasing innovation and effectiveness in our maintenance operations.

Already these efforts are being recognised, with a recent progress review by John Coles describing ASC's progress as a 'remarkable transformation' and an 'astonishing turnaround'. In 2013/14 the level of submarine material ready days exceeded the Royal Australian Navy's target.

Air Warfare Destroyer Project

As lead Shipbuilder for the AWD project, ASC continues to focus on safely delivering three ships on the re-baselined schedule and budget.

Construction continues apace at ASC's Osborne shipbuilding facility in South Australia, supported by work being undertaken at shipyards across Australia including New South Wales-based Forgacs and Victoria-based BAE Systems.

In 2013/14, ASC progressed the build from 69.6 per cent completed in June 2013 to 73 per cent complete in June 2014, with approximately \$486 million spent in this period. Significantly, this financial year has seen the full consolidation of Ship 01. We also commemorated the keel laying for Ship 02, and blocks for Ship 03 have been received from Navantia.

We also acknowledge the significant challenges on the AWD program. ASC is a learning organisation and we are committed to improving productivity in our shipyard and working with our industry partners and suppliers to improve performance across the Program. We will achieve this by applying the lessons learned from the initial phases of the AWD program, the turnaround in performance on the Collins sustainment program and by adopting the recommendations of the AWD reform strategy.

Board and Management

This year has seen some transition on the ASC Board with three new appointments. I was pleased to welcome Sophie Mirabella, Paul Rizzo and Peter Iancov as non-executive Directors. All three provide experience across several disciplines and I have no doubt they will enhance the Board's ability to meet our business objectives. This year also saw VADM USN (Ret) Dugan Shipway retire as a non-executive director and I thank him for his valuable contribution.

Our Chief Executive Officer, Steve Ludlam, retired from the business on 17 July 2014. We thank him for four and a half years of dedicated service and commitment, and we wish him well for the future.

It has also been important to explore future opportunities beyond our current projects to ensure the competitiveness and sustainability of Australia's shipbuilding industry, and the valuable contribution it makes to the nation's skills base and economy. ASC has identified core capabilities to support the Future Submarine Project (SEA1000), and we are a member of the SEA1000 Defence and Industry Integrated Project Team panel, responding to a range of service requests.

We have also expressed strong support for the Federal Government's decision to accelerate the Future Frigate (SEA5000) program and commitment to fund engineering and design work.

Working together

Close collaboration with our government and industry partners is an integral part of both the Collins Class sustainment program and the AWD project. We have worked diligently to progress construction on the three AWDs with our AWD.

Alliance partners (Raytheon Australia and Defence Materiel Organisation). Similarly, ASC is working closely with our Submarine Enterprise partners - the Royal Australian Navy and Defence Materiel Organisation - to implement considerable improvements in the Collins Class sustainment program.

Conclusion

ASC faces ongoing challenges to meet program objectives however performance in the Collins maintenance program and recently in the AWD shipyard demonstrates improving productivity and innovation. This has been made possible through the energy, persistence and diligence of our people in resolving some very complex issues.

I would like to thank all our employees for their continued dedication and commitment.



Bruce Carter
CHAIRMAN

CHIEF EXECUTIVE OFFICER'S REPORT



The past year has been one of transformation, in which ASC has strived to meet key targets and international benchmark performance.

Our programs

Significant performance improvement and innovation has been a focus in all aspects of our programs.

The Coles Progress Review into the sustainment of the Collins Class Submarine capability has shown we are on track to meet the benchmark submarine availability.

Our Collins Class submarine workforce has worked extremely hard and tested the limits of what can be achieved in such a short period. It has required a considerable amount of lateral thinking and challenging the status quo. While John Coles indicated that this is a remarkable transformation, we are only just nearing the half way mark of this long and complex program of reform, and we have much more to do.

Our commitment to achieving the new 10+2 Usage Upkeep Cycle (UUC), by reducing the length of major maintenance on the submarines from

three years to two, was reinforced by our investment in the construction of a Maintenance Support Tower (MST). The MST houses the vital services needed adjacent to the boat to achieve a two-year Full Cycle Docking (FCD). The structure was completed in time for the arrival of HMAS *Farncomb* in June 2014. The benefits of the MST have been welcomed by the teams working on the Submarine.

In July 2013, ASC was recognised as an integral part of the Submarine Authorised Engineering Organisation (AEO) for engineering support of Collins Class submarine systems and whole ship design integration. We are the first non-Government organisation to be recognised in this way.

In November, ASC signed a key contract with the Defence Materiel Organisation that will see us work closely with Saab Australia to update the control management and monitoring systems for the Collins Class submarines.

In June 2014, ASC transitioned to a new performance-based In Service Support Contract (ISSC) to continue to perform all maintenance work on the Collins Class submarines. The awarding of this contract recognises the significant improvement in performance and availability of the submarine fleet.

The construction of the three Air Warfare Destroyers continues to progress, with the completion of hull integration on Ship 01, keel laying and the commencement of consolidation on Ship 02, and arrival of keel blocks from Navantia for Ship 03.

In line with the re-baselining of AWD construction announced by the Minister for Defence in 2012, we achieved keel laying of Ship 02 in February 2014, – 17 months after the keel laying of Ship 01.

This important ceremony involved our two youngest apprentices joining the Chief of Navy, VADM Ray Griggs, to secure a silver minted coin under the keel.

In October 2013, ASC took ownership of the Integrated Platform Management System (IPMS) Training Simulator, developed by Navantia-FABA Sistemas Control to provide IPMS Operation training.

Performance improvement

Improvement across our business has been possible due to the efforts of our employees working together to improve efficiency and effectiveness. These efforts have been supported by our ongoing utilisation of Lean Six Sigma (LSS) techniques, the delivery of business improvement projects, and the coordination and training support for the Safety Transformation and Major Hazards Program across our sites. Our commitment to safety, through continual improved performance across key areas of our Safety Management System, has resulted in a significant decrease in Lost Time Injuries (LTIs) and Medically Treated Injuries (MTIs) across all three of our sites.

Workforce and Training

ASC continues to place emphasis on recruitment and the upskilling of our employees. A further 25 apprentices were welcomed to our training program in 2013/14, taking our total number of apprentices to 137.

In addition, we have continued to guide and encourage school-aged students to pursue career options that allow them to be part of the future of defence projects, including naval shipbuilding.

Amongst a range of initiatives in place already, ASC announced it will participate in a pilot program, the Future Submarine Technology Challenge, which will give students the opportunity to build their own radio-controlled submarine.

Our team continues to be recognised for exemplary contributions to the business and industry. A highlight was Engineers Australia's SA Division awarding ASC with a Commendation in the Innovation/ Research & Development category at its Engineering Excellence Awards.

The Future

ASC's focus looking forward is very much on consolidating our performance so that we can deliver the best service and meet the challenges of ensuring the effective and efficient delivery of our programs, thus supporting the Commonwealth Government in meeting its capability requirements.



Stuart Whiley
INTERIM CHIEF EXECUTIVE OFFICER

OUR PROJECTS

COLLINS CLASS SUBMARINE PROJECT

ASC is a member of Australia's Submarine Enterprise, which includes the Royal Australian Navy (RAN), Department of Defence (DoD) and Department of Finance (DoF). Our role is to support Australia's submarine capability through the provision of design, engineering, maintenance and supply chain services to meet international benchmark performance standards.

Coles Review

In March 2014, a progress report into the sustainment of the Collins Class submarines by John Coles was released. This follows the 'Study into the Business of Sustaining Australia's Strategic Collins Class Capability' in November 2012, commonly referred to as the Coles Report.

The report described progress over the past 15 months as a 'remarkable transformation' and an 'astonishing turnaround'. Of the 25 recommendations from the original Coles review, 80 per cent have already been achieved or are satisfactorily under way in just 15 months.

Additionally, it assessed that ASC is on track to achieve the enterprise benchmark of three submarines materially available for sea at all times by 2017.

Collins Class Enterprise 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; and
- The sustainment cost per Material Ready Day (MRD).

During the 2013/14 financial year, ASC with our enterprise partners:

- Exceeded the required submarine availability MRDs for the RAN;
- Reduced maintenance overruns to better than world benchmark standards;
- Reduced Priority 2 defects to exceed the RAN's requirement;
- Completed HMAS *Rankin's* Full Cycle Docking (FCD) 25 days ahead of the contracted schedule;
- Completed HMAS *Sheean's* Intermediate Maintenance period three days ahead of schedule, including undertaking an unscheduled docking within this maintenance activity with no impact to submarine availability;
- Completed HMAS *Waller's* Intermediate Maintenance period in a duration of four days shorter than planned;
- Completed major hull cuts to HMAS *Collins* in preparation for her two-year FCD. These included a large access cut to facilitate removal of diesel engines and a circumferential hull cut to remove the main propulsion motor; and
- Completed 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.

Customer Focus

ASC is committed to delivering improved submarine maintenance and availability to our customer.

We receive regular feedback from the DMO that allows us to assess progress and undertake measures to ensure we can meet key targets. Over the past financial year, DMO feedback has

complemented the views expressed in the Coles Review progress report that our schedule performance in relation to maintenance completion has exceeded benchmark. Continuing to improve the customer experience has been identified as a key driver for success and we will focus our attention on this objective.

Strategic Infrastructure Investment

In order to further improve performance and productivity, ASC has invested significantly in a state-of-the-art Maintenance Support Tower (MST) at our submarine maintenance facility in Adelaide. Plans for improved facilities in WA are also being developed. This ongoing investment is testament to ASC's commitment to continue to drive performance improvement.

Future Performance Targets

The 10+2 year Usage Upkeep Cycle (UUC) Transformation Program is the primary mechanism for improving submarine availability for the Collins Class submarines. This represents a change to a 10-year operating period followed by a 2-year FCD for each submarine, from the current regime of an 8- year operating period followed by a 3-year FCD.

This transformation is under way and will culminate with:

- Delivery of HMAS *Farncomb* from FCD in May 2016, representing completion of the first 2-year FCD under the 10+2 UUC program; and
- Shifting to the improved UUC (24-month FCD, 12-month Mid-Cycle Docking, 6-month Intermediate ASC Pty Ltd ANNUAL REPORT 2014_11 Docking) whilst improving submarine system reliability..

Engineering

ASC continues to provide engineering support to the Collins program through the implementation of availability focussed solutions that are cost effective and maintain the technical integrity of the submarine.

In the process of implementing the Coles Reports' recommendations, ASC and the DMO agreed to implement the 10+2 UUC sooner than originally anticipated. This places ASC well on the way to becoming a world class Submarine Integrator.

Significant engineering effort supports the move to the new 10+2 UUC. It is focussed on improving maintenance activities without impacting reliability, enhancing efficiency through process changes and aligning maintenance requirements with the 10+2 UUC's periodicity requirements. Other Engineering initiatives to reduce FCD production hours include innovative single coat paint schemes, TIG-TIP welding techniques and improved maintenance methods.

The reliability and asset management strategies developed in the previous reporting period continue to positively influence the available sea days for the Navy. Continuing a cooperative approach is crucial as we strive to reach international benchmark submarine availability as referred to in the Coles Report.

Business Improvement

ASC is achieving improved efficiency and effectiveness through utilisation of Lean Six Sigma (LSS) techniques. In 2013, the LSS team for ASC North shifted priority to become the team driving the core business change initiative projects for the 10+2 UUC program (in support of the Coles Report recommendations). As HMAS *Farncomb* arrived to commence her 2-year FCD, the 10+2 UUC program reported a reduction of 359,000 direct labour hours to deliver the FCD. Over 20 per cent of these saved hours are from specific business improvement and transformation projects, representing a saving of more than \$7 million during the FCD.

ASC's Safely on Time program drives performance, clarity, accountability, teamwork and safe schedule delivery during docking activities. Developed in ASC West, the program has been central to the success of the last three activities in WA, as well as being a major enabler for the early completion of the FCD for HMAS *Rankin* in SA.

The program is now proven to be consistently effective and is central to delivering the first 2-year FCD on HMAS *Farncomb*.

OUR PROJECTS

HOBART CLASS AIR WARFARE DESTROYER

This year saw the AWD Program progress from 69.6 per cent complete in June 2013 to 73 per cent in May 2014. This is broken down per ship as shown below:

- Ship 1 – 80 per cent complete
- Ship 2 – 71 per cent complete
- Ship 3 – 53 per cent complete
- Non Recurring Element – 78 per cent complete

Approximately \$486 million was spent on the project during 2013/14 (base date December 2006), \$330 million of which was ASC Shipbuilding.

Increased production was facilitated by a workforce of more than 1000 employees, growing by more than 120 people during the period.

ASC met a number of contract milestones, including:

- Ship 01 hull integration complete in March 2014;
- Ship 02 keel laying in February 2014;
- Arrival of all Ship 02 blocks from Navantia in September 2013;
- Arrival of the first four Ship 2 blocks from Forgacs in May 2014, with the remaining Forgacs blocks on track for final delivery in May 2015; and
- Arrival of Ship 03 keel blocks from Navantia, with remaining blocks well underway at other shipyards, including ASC South.

Progress on Ship 01 remains challenging as we approach major milestones including float off and power through main switch boards

Several major milestones have already been achieved including stern release, Vertical Launch System (VLS) installation, shaft installation, and the commencement of Combat System equipment load out.

Progress on Ship 02 is starting to demonstrate the learning opportunities from Ship 01 with higher levels of outfitting completed prior to consolidation.

Following the keel laying ceremony in February 2014 and the consolidation of an additional five blocks, Ship 02 also received our first delivery of high quality blocks from NSW-based shipyard, Forgacs.

A dedicated Ship 03 Project Manager was appointed during the period, overseeing block construction at all participating shipyards and the delivery of keel blocks with higher levels of outfit and build quality being received from subcontractors Navantia, BAE systems and Forgacs.

Production efficiency inside the shipyard has remained a challenge. Significant investment has been made through an improvement program, targeting the following areas:

- workforce training, noting that the majority of employees had little or no shipbuilding experience before the commencement of the project
- design challenges are being resolved and learning is embedded in process improvement and innovation
- a baseline of performance has been established to enable accurate measurement and analysis
- key production enablers including material supply, workpack readiness and engineering support are being optimised through the establishment of Integrated Work Teams.

A promising sign is that higher levels of outfit are now being achieved by enhancing the sequencing of work flow and the establishment of a robust and achievable erection schedule on all three ships

Integrated work teams have been established to interface closely with production teams to ensure the materials and workflow process is increased to meet production demand, resulting in increased manageability of work fronts.

Procurement

During the 2013/14 financial year, more than 16,000 commodity order lines and in excess of 13,000 fabrication subcontract order lines were placed. During this period, ASC has received the majority of major equipment items with Ship 01 being 99 per cent complete, Ship 02 being 93 per cent complete and Ship 03 being 77 per cent complete.

AWD Alliance

The AWD Alliance contract model is founded on collaboration between participants ASC, Raytheon Australia and the DMO and a shared risk and reward structure.

In 2013, a new contract was established to reallocate four ship blocks from ships 02 and 03, from Forgacs to BAE Systems. This move continues to relieve pressure at Forgacs and maintains skills in the BAE Systems shipyard. In the past 12 months, three additional blocks have been moved from Forgacs to BAE Systems for Ship 03.

We expect that the construction arrangements for AWD blocks will be 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 7, Forgacs 10, Navantia 6, MG Engineering 1.

Customer Focus

DMO provides regular feedback on meeting key targets across the project. While acknowledging construction and consolidation is progressing positively, it refers to significant challenges in meeting objectives of cost and schedule. DMO highlights that the focus on Australian Shipbuilding capacity and capability of the AWD program necessitates good working relationships of all parties for the industry sector to be successful. It notes that at the operational level, the people involved in the AWD Alliance have encouraged a collective approach to problem solving, but highlights the need for more effective sharing of impacts to resolve challenging issues.

ASC has established a project to directly address the shortcomings highlighted by our customer.

Engineering

During 2013/14, ASC's engineering and technical skills provided support to the construction of the Hobart Class AWD including:

- Technical support related to the procurement and integration of platform systems;
- Assurance of product safety during construction;
- Liaison with the Platform System Designer (Navantia) to resolve design issues; and
- Production engineering support to the shipyard.

Engineering guidance and direction supports procurement, planning, production, system activation and testing, as well as resolving technical issues associated with the integration of platform systems, such as weight, stability, ships structure, preservation, materials, machinery, piping, electrical, controls, outfit and accommodation.

This includes the development of enabling products used to safely and accurately build the ships., such as, supporting and lifting jigs used for transporting by land and sea. These are manufactured inverted for ease of production.

Additionally, many products are engineered to install propeller shafts, weapon systems and heavy equipment. Significant effort is placed on providing accuracy control guidelines to ensure the final product meets the design requirements, including hull form, weapon and machinery alignment tolerances.

Business Improvement

ASC is achieving improved efficiency and effectiveness through utilisation of Lean Six Sigma (LSS) techniques. Each AWD improvement project captures the benefits of the improvement made and is measured against delivery of actual equivalent cost savings and avoided costs.

For the 12-month period of May 2013 to April 2014, the AWD Alliance LSS program completed projects delivering an estimated at completion saving of \$43 million to Ship 03 delivery.

FUTURE SUBMARINES

ASC has been contracted by TKMS-AB in support of the conduct of a scoping study, evaluating the ability of the current Collins Class design to accommodate the requirements of the future submarine platform. As part of the scoping study, ASC is responsible for the development of a number of high level Broad Design Options (BDO) for an evolved Collins platform.

In order to explore the option of a new design for the Future Submarine Project, the SEA 1000 Program Office has established a Defence and Industry Integrated Project Team (IPT). ASC is a member of the SEA 1000 IPT Panel, responding to a range of service requests as required. There are currently 15 ASC employees within the IPT in a range of different roles, making ASC the largest single defence industry contributor

OUR PROJECTS

ENGINEERING

ASC is one of Australia's largest defence engineering companies and has a range of specialist skills and expertise. We strive to continually develop our capabilities, in support of the ongoing maintenance and upgrade of the Collins Class Submarines (CCSM), the construction of the Hobart Class Air Warfare Destroyers (AWD) and future naval programs including the Future Submarine Program.

ASC's engineering activity is focused on delivering products and services to our customer through encouraging innovation, and identifying and developing niche areas of excellence.

ASC's business success is dependent on having a competent, efficient and effective engineering capability. Specialist shipbuilding and submarine expertise is assured through the attraction and retention of skilled employees, complemented by a comprehensive training and professional development program, and robust Engineering Management and Assurance systems. ASC has adopted a 'safely by design' approach to ensure that all hazards inherent in our products are correctly managed.

As a member of the CCSM Enterprise Authorised Engineering Organisation (AEO), ASC is cognisant of the need to provide engineering services that comply with the Naval Technical Regulatory Framework. Part of that framework is to ensure that compliant authorised members can produce engineering excellence to meet Australia's current defence needs and for future submarine and warship programs.

ASC's engineering function is responsible for Project Management, Engineering Management, Engineering Assurance and Product Safety, Science and Technology, Engineering Tools and Digital Technologies, Integrated

Logistics Support, and Test and Activation across all areas of the business.

Project Management Office

ASC manages highly complex and demanding ship and submarine integration projects necessitating world-class project management capabilities. ASC's projects are of varying complexity and scope - from the highly complex Collins Class submarine sustainment and AWD programs, to medium-sized projects, infrastructure upgrade projects and internal change programs.

Operating with our global supply chain and with Australian partners and suppliers, ASC's Project Management Office is focussed on ensuring the right project teams, policy, processes, tools, systems and culture exist to deliver our projects successfully.

External Links

ASC has continued to expand collaboration with local and interstate universities, including the oversight of three engineering Masters Programs: Maritime Engineering; Military Systems Integration; and Support Systems Engineering. ASC is also represented on a number of university advisory boards.

A new Strategic Agreement for the Collins Class submarines was signed with the Defence Science and Technology Organisation (DSTO). The agreement means ASC and DSTO will collaborate to provide scientific expertise and resources to ensure the effective operation of the Collins Class submarine fleet until their replacement by the future submarine.

A number of external collaborations, including participation in numerous Australian Research Council (ARC)

programs were also supported, including a Linkage Grant with the Defence Science and Technology Organisation and University of Adelaide on understanding and predicting submarine hydrofoil noise.

ASC's commitment to the development of our workforce has been demonstrated through our involvement in the Industry Training and Transformation Centre program on Naval Shipbuilding. The Centre is a collaboration between four industry participants, three Australian universities and two Government funded research agencies, with an emphasis on collaboration and cross discipline research, developing industry ready higher degree graduates.

Participation in the Manufacturing Innovation Precinct and the Innovative Manufacturing Co-operative Research Centre bid highlights ASC's desire to be at the forefront of naval shipbuilding within Australia and internationally.

Our capability partners, General Dynamics Electric Boat and Bath Iron Works, continue to add depth and engineering competency through secondment of expertise and avenues for knowledge reach back.

ASC is also working with industry and research providers to stimulate capability and innovation that will align with ASC's priorities, where knowledge and expertise clusters are needed, and develop collaborations that offer long-term value. A Science & Technology (S&T) Board has been established providing governance and oversight of S&T activities, ensuring alignment with ASC corporate strategy.

BUSINESS IMPROVEMENT AND TRANSFORMATION

ASC is focussed on business improvement and transformation aiming to:

- Improve efficiency and effectiveness through utilising Lean Six Sigma (LSS) techniques to remove waste and improve the quality of our products and services;
- Provide a consistent and structured approach to improvement across the organisation;
- Encourage all employees to work together to achieve improved project outcomes; and
- Partner with business areas to improve customer satisfaction and drive cost, quality and schedule performance.

A range of key initiatives support increased performance levels in the business, including:

- Training in LSS and mentoring in tools and methods;
- Delivering business improvement projects; and
- Training support for the Safety Transformation and Major Hazards Program across ASC North, ASC South and ASC West.

ASC has 12 employees directly engaged in delivering improvement outcomes. Recent team additions and training has resulted in 7 trained LSS Black Belts operating across the business.

This team forms the core of LSS training capability to deliver LSS skills and capability growth across ASC and the AWD Alliance. As of May 2014, 224 people had been trained in LSS methodologies to Yellow Belt level (team member and project support – 2-day course), 107 people to Green Belt level (team leader on improvement projects – 6-day course) and an additional 210 people have attended relevant basic lean methodology courses.

The Safety Transformation Program is a business capability program based around building safety leadership,

values and behaviours at all levels of the organisation. As of May 2014, more than 3,300 employees and contractors had been trained in courses to improve safety awareness, leadership and hazard reduction.

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 shop floor engagement. Teams meet regularly and use a visual whiteboard to drive improvement in their own areas and across the business.

Since commencing in 2010, the scheme has seen more than 2,200 ideas generated, with more than 820 improvements implemented. Estimates show the ideas implemented have generated a total cost saving of more than \$7.6 million to date, determined on an annual basis. The ideas scheme has now matured to a point where the production teams at ASC North and ASC South manage it internally as an integrated part of their business operations.

Process Improvement

The sustainment of improved performance is only achieved when changes are systemised and permanent. Since September 2010, the internal process burden has been reduced by 40 per cent (more than 1000 documents, forms and processes). Conducting value stream analysis work allows identification of areas for improvement, further projects and savings realisation.

INFRASTRUCTURE DEVELOPMENT

ASC North

The ASC North facility is dedicated to the maintenance of the Collins Class submarines. In 2013/14, ASC undertook significant upgrades of our maintenance facility with the construction of the Maintenance Support Tower in our Outfitting Shop. Completion of this significant project in May 2014 is a major enabler towards ASC achieving a 10+2 FCD. ASC has also completed the design and commenced construction of a new diesel generator test facility.

Initiatives related to the new 10+2 FCD have included:

- Upgrade and relocation of the sheet metal workshop to the Hullshop;
- Upgrade and relocation of the weapons team workshop into Outfitting; and
- Upgrades to the Hatchery and Hydraulic workshops.

Other maintenance and upgrade activities completed in 2013/14 included:

- A new gantry crane assisting production with surveying of equipment;
- Pipe shop refurbishment; and
- Replacement of the diesel workshop floor and general refurbishment;

ASC South

The ASC South site hosts the construction of the three Hobart Class AWDs. In 2013/14, several infrastructure and maintenance upgrades were completed across the site, including:

- The procurement and installation of a solvent still to enable ASC to re-use and recycle used solvent from paint operations;
- Conversion of Building 05 warehouse into a suitable workshop for combat systems to enable staging of equipment prior to load out;
- Refurbishment of the maintenance workshop annex, including new concrete floor, cladding, racking, power and compressed air feeds;
- Warehouse services connections to Building 08, and provision of a transportable office facility and storage area for subcontractors; and
- Supply and installation of shipping container storage solutions for Building 05 warehouse, including weather proofing, ventilation, lighting, power and data.

Common User Facility (Techport)

The Common User Facility (CUF) allows for the consolidation of the three AWDs and forms part of the South Australian Government's Techport Australia precinct. It sits directly adjacent ASC's shipyard.

In 2013/14, several initiatives were undertaken to upgrade facilities and provide for a safer and more efficient worksite.

Investment in the Outfit Support Towers (OST) has included:

- Replication of gas manifolds to support ship construction;
- Provision of an additional Alimak hoist landing at Level 3½ for OST 14;
- Fit out of the OST 14 Level 1 store room into a metrics war room to be utilised by Production; and
- Supply and installation of air conditioned shipping container for welding consumables on top of OST 14.

Other activities have included:

- Relocation and modification of the existing blast and paint vacuum unit to enable blasting;
- Conversion of West Blast and Paint chamber to an insulation workshop;
- Installation & commissioning of the first of three frequency convertors used to power the ships during construction and at the wharf;
- Augmentation of power on the CUF to ensure adequate power capabilities; and
- Provision of ship cooling units for introducing high volumes of fresh, cool air to the ship compartments while undergoing consolidation and fit out activities.

ASC West

ASC West at Henderson in Western Australia is the company's state-of-the-art submarine repair and support facility. It features accommodation for 185 ASC employees and dedicated facilities for boat crews and RAN personnel.

In 2013/14, maintenance and upgrade activities included expansion of facilities to cater for increased employee numbers, including:

- Installation and commissioning of a new container blast room with recovery system and dust extraction; and
- Installation of an additional 17 workstations and a fully compliant containerised paint booth

SAFETY PERFORMANCE

Health and Safety Initiatives

Throughout 2013/14, ASC continued the Safety Transformation Program (STP) strongly promoting our working safely ethos.

Principle safety initiatives deployed during the period included:

- Delivery of a five-year Work Health and Safety and Injury Management Strategic Plan;
- Implementation of an improved legislative compliance toolset to ensure timely advice in respect to legislative change; and
- Introduction of an immediate response management communication protocol for the provision of advice and information sharing in respect to serious or major incidents.

A follow-up safety culture survey conducted and completed by 95 per cent of the ASC workforce revealed a significant improvement toward the goal of achieving a 'generative' safety culture, where a generative culture would score of 5 out of 5. ASC currently scores 3.78 – a significant improvement on initial survey results in May 2012 that scored ASC at 2.45.

Notifiable Incidents

The WHS 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.

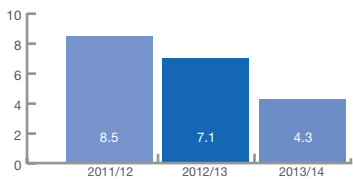
Notifiable incidents 2013/14:

| | |
|-------------------------|-----------|
| Deaths | 0 |
| Dangerous incidents | 33 |
| Serious personal injury | 2 |
| Total | 35 |

Lost Time Injuries

A lost time injury (LTI) is recorded when a worker is unable to present for the 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 4.3 for 2013/14 (including contractors) representing a 39 per cent reduction from the previous reporting period.

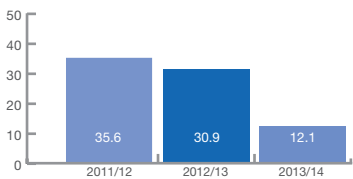


LTIFR = number of LTI's X 1,000,000 divided by exposure hours worked per month

Medically Treated Injuries

A medically treated injury (MTI) is recorded when a worker is assessed to require medical attention from a health professional beyond the requirements of First Aid.

Across all three ASC facilities, a medically treated injury frequency rate (MTIFR) of 12.1 was recorded for 2013/14 representing a 61 per cent reduction from the previous reporting period.



MTIFR = number of MTI's X 1,000,000 divided by exposure hours worked per month.

ASC is committed to establishing and addressing the root causes of the lost time and medically treated injuries incurred at our workplaces. In 2013/14, ASC further improved safety via the following initiatives:

- Defined sub-committees are investigating initiatives to reduce the propensity for eye injuries due to foreign bodies and musculoskeletal injuries (sprains and strains).
Initiatives include:
 - o Prescribed eye protection defined by task;
 - o Prescribed lifting limits, including application of weight stickers to components for easy reference; and
 - o Daily stretching program, to warm up in readiness for physical work activities.
- A Return to Work program assists workers back into the workforce. The average days lost per lost time injury has been reduced to 7.0 days compared with 9.7 days in 2012/13.
- Greater emphasis on near miss and hazard reporting yielded approximately 50 per cent of all safety reports falling into this category, which offers an opportunity to take considered action in the absence of injury or damage.

Investigations

Comcare commenced investigations into 4 of the 35 notifiable incidents. Information pertaining to these incidents was provided to Comcare upon request and resulted in the satisfactory closure of the incident reports.

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 ASC has in place.

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 was audited and recommended by SAI Global for re-certification in March 2014.

ASC engaged an external provider in March 2014 to undertake an independent review of Environmental Compliance in relation to operations and activities against the relevant State and Commonwealth legislation. This is being undertaken as a due diligence exercise to enable ASC to demonstrate and assure compliance with the relevant legislation.

In April 2014, an online Environmental & Safety Legislation directory and look-up tool was implemented for use by ASC workers. This provides the business and workers with clear, comprehensive and easy to understand summaries of legal obligations in Australia. This will enable ASC employees to ensure the appropriate management of operational activities.

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 2013/14 financial year, there were no environmental incidents that required official regulatory notification.

A number of minor environmental incidents (<10) were reported during the period. Each of these were managed appropriately by employees located on site, including Facilities, Production and the Emergency Response Group (ERG), which contained and collected spills/leaks using spill kits and booms, and managed subsequent improvement actions in relation to the incidents. These typically included minor spills of liquids (<20 litres) which were waste waters and/or oils (being non-dangerous goods).

WORKFORCE AND TRAINING

ASC's workforce is the foundation upon which our ongoing success is built. We value the contributions and diverse talents of our workforce and this year we have continued our strong investment in workforce development through the delivery of tailored training solutions aimed at increasing our overall productivity and efficiency.

Along with a focus on enhancing performance, ASC continues to place a key emphasis on harnessing the diversity of our workforce.

At the end of 2013/14, ASC employed over 2,600 permanent employees across three sites, ASC North and ASC South in South Australia and ASC West in Western Australia.

Professional Development

In 2013/14, professional development initiatives have included:

- The ongoing Safety Transformation and Diversity programs;
- Participation in the South Australian Defence Industry Leadership Program;
- ASC Apprentice and Graduate programs;
- Lean Six Sigma training; and
- Targeted tertiary and vocational education in disciplines such as engineering and project management.

In 2013/14, ASC has been actively involved in shaping the next generation of shipbuilders through involvement in external initiatives including:

- Support to the South Australian Government's Science, Technology, Engineering and Mathematics (STEM) strategy through participation in the Advanced Technology Pathway Program;
- Development and oversight of the Defence Industry Pathway Program

along with partners TAFESA and the Department for Further Education, Employment, Science and Technology;

- Support to the Advanced Manufacturing Industry Cluster targeting indigenous employment challenges; and
- Support to the Defence Material Organisation's Future Submarine Technology Challenge.

Diversity and Inclusion

Our approach to diversity and inclusion is an integral part of our culture, values and the way we do business at ASC. We believe that a diverse and inclusive workforce offers tangible benefits to our employees, customer and shareholder.

As Australia's pre-eminent naval shipbuilder and maintainer, we have a proud history of supporting our employees to achieve world-class results. We focus on diversity and inclusion because we recognise that sustainable world-class performance is realised through establishing an environment where all employees can thrive. This commitment to diversity and inclusion is enshrined in our Diversity Guidelines and aligned to our Diversity Strategy.

Government Support for Training

In 2013/14, ASC received \$ 658,691 of Skilling Australian Defence Industry (SADI) funding.

The SADI funding supported:

- Apprenticeship supervision;
- Executive Masters of Business (Complex Project Management);
- Master of Systems Support Engineering (MSSE);
- Masters in Marine Engineering; and
- Military Systems Integration.

ASC also received in-kind support from the South Australian Government's Department for Further Education, Employment, Science and Technology worth \$723,234. This valuable contribution to ASC's workforce development supported training in areas such as:

- Welding technologies;
- Project management;
- Advanced ship lift crane operations; and
- Repair and design.

Apprentices and Graduates

ASC remains committed to our apprentice and graduate programs.

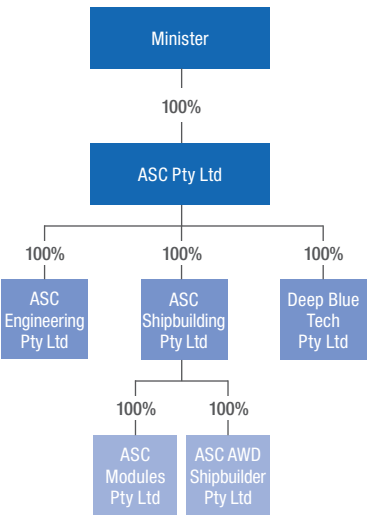
ASC took on a further 25 apprentices in 2013 to bring our total to 137. ASC's apprentice program completion rate remains high at over 94 per cent, well above the national average. In addition, ASC took on five additional engineering graduates in 2013/14 bringing the total graduate program numbers to 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) and the Public, Governance Performance & Accountability Act 2013 (Cth). All the shares issued in the capital of ASC are owned by the Minister for Finance (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 2013/14 year.

Directors

The directors of ASC (other than the Managing Director) are appointed by the Minister for a term. As at 30 June 2014, the Board was comprised as follows:

| Name | Appointed | Expires |
|----------------------|---------------|--------------------------|
| Steve Ludlam | 18 Jan 2010 | resigned 18 July 2014 |
| Bruce Carter | 1 Jan 2010 | 30 Sep 2015 |
| John O'Connell AO, | 1 Jan 2010 | 31 Dec 2015 |
| Dr Sally Pitkin | 1 Jan 2010 | 31 Dec 2015 |
| Katherine Hirschfeld | 18 April 2012 | 17 April 2015 |
| Rosalind Dubs | 1 May 2013 | 30 April 2016 |
| Sophie Mirabella | 13 Dec 2013 | 12 Dec 2016 |
| Paul Rizzo | 13 Dec 2013 | 12 Dec 2016 |
| Peter Iancov | 13 Dec 2013 | 12 Dec 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, Human Resources and Remuneration Committee, and Business Assurance and Security Committee; and
- A Code of Conduct.

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

Board

Under the Board Charter, the Board is responsible for:

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

- Monitoring and verifying compliance with legal and regulatory requirements, ethical standards and policies; and
- Exercising due diligence to ensure that ASC complies with its work, health and safety obligations including by taking reasonable steps to:
 - Acquire and keep up-to-date knowledge of work health and safety matters;
 - Gain an understanding of the nature of ASC's operations and the hazards and risks within those operations;
 - Ensure appropriate resources are available and processes implemented to enable hazards to be identified and risks eliminated or minimised;
 - Ensure ASC has appropriate processes for receiving and considering information regarding incidents, hazards and risks, and responding in a timely way to that information;
 - Ensure the business implements processes for complying with work health and safety laws, regulations and codes of practice; and
 - 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:

- Financial reporting;
- Annual Budgeting and forward forecasts;
- The application of accounting policies;
- 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; and
- Maintain an effective external and internal audit function, in compliance with all applicable laws.

As at 30 June 2014, the committee comprised John O'Connell AO (Chairman), Sally Pitkin, Bruce Carter and Sophie Mirabella.

Human Resources and Remuneration Committee

The objective of the Human Resources and Remuneration Committee Charter is to assist the Board to fulfil its corporate governance and oversight responsibilities in relation to the Company's people strategy, including:

- Remuneration components;
- Performance measurements and accountability frameworks;
- Recruitment and retention;
- Talent management; and
- Succession planning.

As at 30 June 2014, the committee comprised Bruce Carter (Chairman), Sally Pitkin and Sophie Mirabella.

Executive Remuneration

| Remuneration* | No. of employees |
|---------------------|------------------|
| \$300,000 and above | 6 |
| Below \$300,000 | 12 |

*Excludes superannuation and performance incentives

Business Assurance and Security Committee

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

- Verify 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; and
- Satisfy itself that the Group's compliance strategies and functions are effective.

As at 30 June 2014, the committee comprised Kathy Hirschfeld (Chairman), Bruce Carter, Rosalind Dubs, Peter Iancov and Paul Rizzo.

Board Membership

During the year:

- VADM USN (Ret) Dugan Shipway retired as a non-executive director of ASC and from the committees on which he served.
- Kathy Hirschfeld was appointed Chairman of the Business Assurance and Security Committee.
- Sophie Mirabella, Paul Rizzo and Peter Iancov were appointed as non-executive directors.

Code of Conduct

ASC has implemented a Code of Conduct for directors, employees and contractors which seeks to:

- Articulate the high standards of honest integrity, ethical and law-abiding behaviour expected of directors and other ASC personnel;
- Encourage the observance of those standards to protect and promote the interests of shareholders and other stakeholders; and
- Guide directors and ASC personnel as to the practices considered necessary to maintain confidence in the ASC Group's integrity.

CORPORATE GOVERNANCE

Audit

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

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

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

Risk management

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

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

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

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

Legal compliance

ASC has established a legal compliance program which complies with Australian Standard 8306. In 2013/14, the program covered:

- Defence Exports;
- Work Health and Safety;
- Equal Opportunity and bullying;
- Environment;
- Intellectual Property;
- Security; and
- 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 2013/14 was as follows:

| Director | Board | | Audit Committee | | Human Resources and Remuneration Committee | | Business Assurance and Security Committee | |
|------------------------------|-------|----------|-----------------|----------|--|----------|---|----------|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| Steve Ludlam | 11 | 11 | - | - | - | - | - | - |
| Bruce Carter | 11 | 10 | 5 | 5 | 3 | 3 | 3 | 3 |
| Katherine Hirschfeld | 11 | 10 | - | - | - | - | 3 | 3 |
| John O'Connell | 11 | 11 | 5 | 5 | - | - | - | - |
| Dr Sally Pitkin | 11 | 11 | 5 | 4 | 3 | 3 | | |
| RADM USN (Ret) Dugan Shipway | 2 | 2 | - | - | - | - | 3 | 3 |
| Rosalind Dubs | 11 | 11 | - | - | - | - | 3 | 3 |
| Sophie Mirabella | 5 | 5 | 1 | 1 | 2 | 2 | - | - |
| Paul Rizzo | 5 | 5 | - | - | - | - | - | - |
| Peter Iancov | 5 | 5 | - | - | - | - | 2 | 2 |

FINANCIAL REPORT

30 June 2014

CONTENTS

| | |
|---|----|
| DIRECTORS' REPORT | 26 |
| DIRECTORS' DECLARATION | 29 |
| AUDITOR'S INDEPENDENCE DECLARATION | 30 |
| AUDITOR'S REPORT TO SHAREHOLDERS | 31 |
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | 33 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 34 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 35 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 36 |
| NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS | 38 |

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 2014

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 2014.

Directors

The following persons were directors of the Company during the entire year and up to the date of this report:

Bruce James Carter

Dr Rosalind Vivienne Dubs

Katherine Anne Hirschfeld

John Joseph O'Connell AO

Dr Sally Anne Majella Pitkin

Peter Predrag Iancov, Sophie Mirabella and Paul John Rizzo were appointed as directors on 13 December 2013 and continue in office at the date of this report.

John Francis Shipway was a director from the beginning of the financial year until his resignation on 31 August 2013. Stephen Ludlam was a director from the beginning of the financial year until his resignation on 18 July 2014.

Principal activities

The principal activities of the Group during the course of the financial year ended 30 June 2014 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 AWD 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 RAN's next generation warships.

Consolidated result

The consolidated loss of the Group for the financial year attributable to the shareholders of ASC Pty Ltd was \$3,757,000 (June 2013: \$9,717,000 profit) after provision for income tax benefit of \$1,657,000 (June 2013: income tax expense of \$3,176,000).

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 RAN;
- implementation of a project aligned to moving to a 10+2 usage upkeep cycle;
- improving business performance by the systemisation of the underlying business processes;
- identifying and pursuing productivity and efficiency improvements;
- working closely with the RAN and the DMO through the Australian Submarine Programme Office (ASPO) for the management of the Collins class submarine maintenance; and
- continuing the innovation in engineering practices to meet the challenges of obsolescence.

On 1 October 2013 the DMO wrote to the Company and confirmed the first ISSC strategic review has been completed with ASC's performance being assessed as satisfactory and the DMO shared ASC's preference to commence the ISSC performance period two from 1 July 2014.

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. A number of blocks are also being produced by Navantia (Spain) for ships two and three as a risk mitigation activity to offset the performance of a domestic supplier. The AWD project has also commenced the consolidation phase with ships one and two blocks being joined together.

The decision was made by the board of directors that based on management's most recent forecast, it is probable that the forecast of the costs to complete the three Hobart Class Air Warfare Destroyers will exceed total contract revenues. As such, an expected loss has been recognised in the current period in line with AASB 111 Construction Contracts.

Dividends

The directors have declared an interim unfranked dividend of \$5,600,000 paid on 28 March 2014 (2012/13: \$2,600,000).

State of affairs

The Commonwealth of Australia announced the establishment of an independent review of the AWD program in December 2013. The review was led by former US Secretary of the Navy Professor Don Winter. This review has provided the Commonwealth with an independent assessment of the program's costs, schedule and quality of performance as well as identifying a range of solutions. The Commonwealth is implementing the recommendations for a reform strategy made by the review. The reform strategy will:

- improve shipbuilding productivity at ASC and its subcontractors BAE, Forgacs and Navantia;
- include the insertion of an experienced shipbuilding management team in to ASC; and
- after augmented shipbuilding capability has been put in place, pursue the reallocation of blocks between shipyards to make the AWD project more sustainable.

As at balance date none of the recommendations for a reform strategy has been implemented, however any impact on the implementation could have a material impact upon the assumptions and estimates at balance date.

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 review the structure and operating model of the business to ensure that performance meets and exceeds our customer's expectations and that of our other key stakeholders. Cost continues to be a major focus and right-sizing the organisation will be a key method to deliver cost control.

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 2014

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 6 and forms part of the Directors' Report for the year ended 30 June 2014.

Rounding of amounts

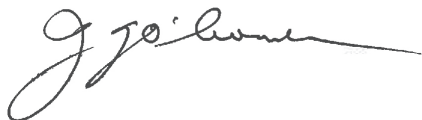
The Company is of a kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in this report and the accompanying financial statements have been rounded off to the nearest thousand dollars unless otherwise stated.

Dated at Adelaide this 5th day of September 2014.

Signed in accordance with a resolution of directors:



Bruce James Carter
CHAIRMAN



John Joseph O'Connell AO
DIRECTOR

ASC PTY LTD AND ITS CONTROLLED ENTITIES

DIRECTORS' DECLARATION

For the year ended 30 June 2014

The directors declare that, in the directors' opinion:

a) the financial statements and notes set out on pages 31 to 78 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 2014 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.

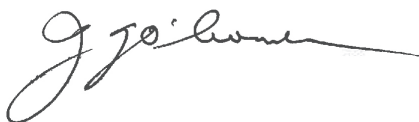
This declaration is made in accordance with a resolution of the directors.

Dated at Adelaide this 5th day of September 2014.

Signed in accordance with a resolution of the directors:



Bruce James Carter
CHAIRMAN



John Joseph O'Connell AO
DIRECTOR



**ASC PTY LTD AND ITS CONTROLLED ENTITIES FINANCIAL REPORT 2013-14
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 2014, 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 2014



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 2014, 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 2014, Notes comprising a Summary of Significant Accounting Policies and other explanatory information, and the Directors' Declaration of the consolidated entity comprising ASC Pty Ltd and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

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

Auditor's Responsibility

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

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

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT 2600
Phone (02) 6203 7300 Fax (02) 6203 7777

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 2014, would be in the same terms if provided to the directors as at the time of this auditor's report.

Opinion

In my opinion:

- (a) the financial report of ASC Pty Ltd and its controlled entities is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Australian National Audit Office



Jocelyn Ashford
Executive Director
Delegate of the Auditor-General

Canberra

5 September 2014

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2014

| | Note | Consolidated Entity | |
|--|-------|---------------------|------------------|
| | | Jun-14 \$'000 | Jun-13 \$'000 |
| | | | Restated |
| Revenue from continuing operations | 6(a) | 913,250 | 920,745 |
| Other income | 6(b) | 5,049 | 5 |
| Materials and subcontractors | | (420,079) | (474,152) |
| Labour | | (391,921) | (327,977) |
| Labour recruitment and relocation | | (1,697) | (2,953) |
| Depreciation and amortisation | 7 | (17,243) | (18,400) |
| Finance costs | 7 | (1,036) | (1,142) |
| Insurance | | (13,902) | (11,741) |
| Operating lease | 7 | (14,534) | (14,275) |
| Production consumables and supplies | | (10,572) | (6,250) |
| Professional fees | | (3,751) | (7,167) |
| Repairs and maintenance | | (9,820) | (10,903) |
| Security expenses | | (2,668) | (2,602) |
| Travelling expenses | | (2,582) | (4,144) |
| Office expenses | | (4,970) | (5,085) |
| Utilities expense | | (8,380) | (7,863) |
| Impairment of plant and equipment | 7 | (3,317) | - |
| Other expenses | | (17,241) | (13,204) |
| Profit (loss) before income tax | | (5,414) | 12,893 |
| Income tax (expense)/revenue | 9(a) | 1,657 | (3,176) |
| Profit (loss) for the year | | (3,757) | 9,717 |
| 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 | 23 | (1,649) | 3,102 |
| Remeasurement of defined benefit plans | 26(d) | 380 | 2,074 |
| Income tax relating to these items | 9(e) | 381 | (1,552) |
| Other comprehensive income, net of tax | | (888) | 3,624 |
| Total comprehensive income for the year, net of tax | | (4,645) | 13,341 |
| Profit attributable to: | | | |
| member of the parent entity | | (3,757) | 9,717 |
| Total comprehensive income attributable to: | | | |
| member of the parent entity | | (4,645) | 13,341 |

The above statement should be read in conjunction with the accompanying notes.
Refer to note 2 for impact of change in accounting policy.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

| | Note | Consolidated Entity | | |
|--------------------------------------|-------|---------------------|----------------|----------------|
| | | Jun-14 | Jun-13 | 01-Jul-12 |
| | | \$'000 | \$'000 | \$'000 |
| | | | Restated | Restated |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 10 | 219,237 | 162,539 | 161,021 |
| Trade and other receivables | 11 | 109,822 | 139,187 | 136,760 |
| Inventories | 12 | 2,344 | 3,584 | 5,780 |
| Other financial assets | 13 | 405 | 322 | - |
| Other current assets | 14 | 2,984 | 2,669 | 2,477 |
| TOTAL CURRENT ASSETS | | 334,792 | 308,301 | 306,038 |
| NON CURRENT ASSETS | | | | |
| Net pension assets | 26(d) | 921 | 716 | - |
| Property, plant and equipment | 15 | 306,923 | 306,619 | 306,226 |
| Other non-current assets | 16 | 3,780 | 4,024 | 4,512 |
| TOTAL NON CURRENT ASSETS | | 311,624 | 311,359 | 310,738 |
| TOTAL ASSETS | | 646,416 | 619,660 | 616,776 |
| LIABILITIES | | | | |
| CURRENT LIABILITIES | | | | |
| Trade and other payables | 17 | 95,851 | 86,936 | 71,046 |
| Net unearned contract billing | 18 | 133,303 | 95,227 | 117,243 |
| Interest-bearing liabilities | 20 | 114,415 | 119,335 | 86,130 |
| Current tax liabilities | 9(b) | 72 | 2,290 | 2,084 |
| Provisions | 21 | 40,391 | 36,961 | 35,221 |
| TOTAL CURRENT LIABILITIES | | 384,032 | 340,749 | 311,724 |
| NON CURRENT LIABILITIES | | | | |
| Non interest-bearing liabilities | 19 | 15,831 | 14,764 | 16,724 |
| Interest-bearing liabilities | 20 | - | - | 29,000 |
| Net pension liabilities | 26(d) | - | - | 1,094 |
| Deferred tax liabilities | 9(d) | 5,938 | 13,841 | 14,849 |
| Provisions | 21 | 19,576 | 15,723 | 13,243 |
| TOTAL NON CURRENT LIABILITIES | | 41,345 | 44,328 | 74,910 |
| TOTAL LIABILITIES | | 425,377 | 385,077 | 386,634 |
| NET ASSETS | | 221,039 | 234,583 | 230,142 |
| EQUITY | | | | |
| Contributed equity | 22 | 10,000 | 10,000 | 10,000 |
| Reserves | 23 | 96,863 | 98,017 | 95,845 |
| Retained earnings | 24 | 114,176 | 126,566 | 124,297 |
| TOTAL EQUITY | | 221,039 | 234,583 | 230,142 |

The above statement should be read in conjunction with the accompanying notes.
Refer to note 2 for impact of change in accounting policy.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2014

| | Note | Consolidated Entity | | |
|--|------|---------------------|----------|-------------------|
| | | Contributed Equity | Reserves | Retained Earnings |
| | | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2012 | | 10,000 | 95,845 | 124,302 |
| Opening balance adjustment | | | | |
| Change in accounting policy | 2c | - | - | (5) |
| Adjusted opening balance | | 10,000 | 95,845 | 124,297 |
| Profit after tax for the year as reported in the 2013 financial statements | | - | - | 9,862 |
| Changes in accounting policies | 2c | - | - | (145) |
| Restated profit after tax for the period | | - | - | 9,717 |
| Other comprehensive income as reported in the 2013 financial statements | | - | 2,172 | 1,308 |
| Changes in accounting policies | 2c | - | - | 144 |
| Restated other comprehensive income for the period | | - | 2,172 | 1,452 |
| Total comprehensive income for the year | | - | 2,172 | 11,169 |
| Transactions with owners in their capacity as owners: | | | | |
| Dividends provided for or paid | | - | - | (8,900) |
| Balance at 30 June 2013 | | 10,000 | 98,017 | 126,566 |
| Balance at 1 July 2013 | | 10,000 | 98,017 | 126,566 |
| Loss after tax for the year | | - | - | (3,757) |
| Net gain / (losses) on revaluation of land and buildings | | - | (1,649) | - |
| Remeasurement of defined benefit plans | | - | - | 380 |
| Income tax relating to these items | | - | 495 | (114) |
| Total other comprehensive income | | - | (1,154) | 266 |
| Total comprehensive income for the year | | - | (1,154) | (3,491) |
| Transactions with owners in their capacity as owners: | | | | |
| Dividends provided for or paid | | - | - | (8,900) |
| Balance at 30 June 2014 | | 10,000 | 96,863 | 114,176 |

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2014

| | | Consolidated Entity | |
|--|-------|---------------------|------------------|
| | Note | Jun-14 \$'000 | Jun-13 \$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts in the course of operations inclusive of GST | | 1,057,289 | 958,019 |
| Payments to suppliers and employees in the course of operations inclusive of GST | | (958,433) | (961,815) |
| Income taxes | 9(b) | (8,084) | (5,530) |
| Net cash flows provided by / (used in) operating activities | 35(b) | 90,772 | (9,326) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | 3,905 | 4,345 |
| Proceeds from sale of property, plant & equipment | | 142 | 13 |
| Purchase of property, plant and equipment | | (22,735) | (15,456) |
| Net cash flows provided by / (used in) investing activities | | (18,688) | (11,098) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Dividends paid | | (8,900) | (8,900) |
| Proceeds from interest-bearing liabilities | | 791 | 29,594 |
| Repayment of non interest-bearing liabilities | | (6,929) | - |
| Interest paid | | (791) | (888) |
| Net cash flows provided by / (used in) financing activities | | (15,829) | 19,806 |
| Net increase/(decrease) in cash and cash equivalents | | 56,255 | (618) |
| Effects of exchange rate changes on cash and cash equivalents | | 443 | 2,136 |
| Cash and cash equivalents at the beginning of the financial period | | 162,539 | 161,021 |
| Cash and cash equivalents at the end of the financial period | 35(a) | 219,237 | 162,539 |

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 2014

| Note No | Heading |
|---------|--|
| 1 | Summary of significant accounting policies |
| 2 | Impact of change in accounting policy |
| 3 | Critical accounting estimates and judgements |
| 4 | Fair value measurement |
| 5 | Financial risk management |
| 6 | Revenue and other income |
| 7 | Expenses |
| 8 | Audit remuneration |
| 9 | Taxation |
| 10 | Cash and cash equivalent |
| 11 | Trade and other receivables |
| 12 | Inventories |
| 13 | Other financial assets |
| 14 | Other assets |
| 15 | Property, plant and equipment |
| 16 | Other non current assets |
| 17 | Trade and other receivables |
| 18 | Net unearned contract billings / Construction work in progress |
| 19 | Non interest bearing liabilities |
| 20 | Interest bearing liabilities |
| 21 | Provisions |
| 22 | Contributed equity |
| 23 | Reserves |
| 24 | Retained earnings |
| 25 | Dividends |
| 26 | Commitments |
| 27 | Contingent liabilities |
| 28 | Registered charges |
| 29 | Economic dependency |
| 30 | Key management personnel disclosure |
| 31 | Events occurring after the reporting period |
| 32 | Related party disclosures |
| 33 | Interests in other entities |
| 34 | Parent financial information |
| 35 | Notes to the statement of cash flow |

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended 30 June 2014 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 and Interpretations issued by the Australian Accounting Standards Board 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 also comply with IFRS as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared on a historical cost basis, except for the following:

- certain classes of property, plant and equipment – measured at fair value
- financial assets and liabilities (including derivative instruments) – measured at fair value
- retirement benefit obligation – plan assets measured at fair value

The group has amended the classification of prior year materials and subcontractors to production consumables to provide more reliable and relevant information to users.

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 3.

Notwithstanding the negative working capital of \$49,240,000 for the Group (June 2013 negative working capital of \$32,448,000), 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 \$223,039,000 (June 2013: \$234,589,000);
- \$85,415,000 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 5(b).

Rounding of amounts

The consolidated entity is of a kind referred to in Class Order 98/100, issued by the ASIC, 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 standards adopted

The consolidated entity has applied the following standards for the first time in the financial year commencing 1 July 2013:

- AASB 10 Consolidated Financial Statements - introduces a single definition of control that applies to all entities. It focuses on the need to have power, right or exposure to variable returns and the ability to use its power to affect those 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. This change will not have a significant impact on the consolidation process.

- AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from Consolidation and Joint Arrangements Standards - no impact to ASC and no changes are required to the accounting policies.
- AASB 12 Disclosures of interests in other entities – requires increased disclosure requirements for entities that have interests in subsidiaries, associates, joint ventures or unconsolidated structured entities.
- AASB 13 Fair Value Measurement - provides a precise definition of fair value, a single source of fair value measurement and aims to enhance fair value disclosure. ASC already measures its land and buildings at fair value using a methodology that is in line with the requirements of the new standard. Therefore, no change is required in ASC's accounting policy on property, plant and equipment.
- AASB 119 Employee Benefits (Defined Benefit Superannuation Plans)
 - Removal of the 'corridor' method - no change on the accounting policy on retirement benefit obligations as ASC already recognises the remeasurement of the defined benefit liability/assets in other comprehensive income.
 - Past service costs are recognised immediately in profit or loss rather than recognised on a straight line basis over the vesting period - ASC's accounting policy on retirement benefit obligations has been amended to reflect this new requirement.
- AASB 119 Employee Benefits (Short-Term Employee Benefits) - the revised standard has changed the definition of short-term employee benefits. Short-term employee benefits, such as annual leave, are defined as those due to be settled wholly within 12 months in which the employees render the related service. The change in definition shifts the focus to the benefit as a whole, and to when the entity expects the benefit to be settled, as opposed to when settlement is due. This may result in benefits previously classified as short-term being treated as long-term employee benefits, which will require measurement on a discounted basis.
- AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-12 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements - this has no impact as the reduced disclosure regime is not adopted.

The adoption of AASB 119 has resulted in a change in the accounting policy and adjustments to the amounts recognised in the financial statements. These are explained and summarised in note 2 below.

(c) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not been adopted early by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments (effective for financial years commencing on or after 1 January 2017)

AASB 9 addresses the classification, measurement and derecognition of financial assets and liabilities. AASB 9 replaces the multiple classification and measurement models in AASB 139 Financial Instruments: Recognition and measurement with a single model that has only two classification categories: amortised cost and fair value. For financial assets, all fair value movements must be recognised in profit or loss, except for equity investments that are not held for trading (short-term profit taking) which may be recorded in other comprehensive income. For financial liabilities that are measured under the fair value option, entities will need to recognise the part of the fair value change that is due to changes in the entity's own credit risk in other comprehensive income rather than profit or loss. This standard has no impact on the Group as the Group does not have any financial assets that are designated at fair value through profit or loss and the change in the fair value of the financial liabilities is not due to the change in the Group's own credit risk.

AASB 2013-3 Recoverable amounts for disclosures for non-financial assets (effective for financial years commencing on or after 1 January 2014)

AASB 2013-3 focuses on the amendments to the disclosures required under AASB 136 Impairment of assets which remove the requirement to disclose the recoverable amount of all cash generating units (CGU) that contain goodwill or identifiable assets with indefinite lives if there has been no impairment, require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognised and reversed, and require detailed disclosure of how the fair value less costs of disposal have been measured when an impairment loss has been recognised and reversed. The application of the standard will impact the type of information disclosed in the notes to the financial statements and will not impact amounts recognised in the financial statements.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (effective for financial years commencing on or after 1 January 2014)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(c) New standards and interpretations not yet adopted (cont.)

The amendment clarifies the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. Under the previous version, most entities deducted the contributions from the pension cost earned in the year the contributions were paid. The changes made to IAS 19 allow contributions that are linked to service, but that do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Since the Group's defined benefit plan do not require employees or third parties to contribute towards the cost of the benefits, this amendment does not have any impact to the Group.

IAS 15 Revenue from Contracts with Customers

In May 2014 the IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. It is expected that the AASB will endorse the standard to replace AASB 118 Revenue and AASB 111 Construction Contracts. It is expected that the standard will be effective for the 30 June 2018 financial year.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. The Group will have to adopt a new five-step process for the recognition of revenue:

1. Identify contract with customers
2. Identify the separate performance obligation
3. Determine the transaction price of the contract
4. Allocate the transaction price to each of the separate performance obligations
5. Recognise the revenue as each performance obligation is satisfied

Extensive disclosures will be required to provide greater insight into both revenue that has been recognised and revenue that is expected to be recognised in the future from existing contracts. Quantitative and qualitative information will need to be provided about the significant judgments and changes in those judgments that management made to determine revenue that is recorded. The Group is still evaluating the impact of the new standard.

(d) 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 entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the 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 33. They are de-consolidated from the date that control ceases.

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

Transactions eliminated on consolidation

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

(e) 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.

(f) 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.

(g) 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.

(h) 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

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

Assets are tested for impairment whenever events and 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. Further details are disclosed in note 1(q).

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

(i) 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.

(j) 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.

(k) 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 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 liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are recognised in the provision for employee benefits and 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 of government bonds with terms and currency that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(k) Employee benefits (cont.)

Retirement benefit obligations

All employees of the Group who elect to join the Group's superannuation plan are entitled to benefits from the Group's superannuation plan on retirement, disability or death or can direct the Group to make contributions to a defined benefit contribution plan of their choice. The Group has a defined benefit section and a defined contribution section. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from entities within the Group and the Group's legal or constructive obligation is limited to these contributions.

The liability or asset recognised in the balance sheet in respect of defined benefit superannuation plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation. In countries where there is a deep market in high-quality corporate bonds, the market rates on those bonds are used rather than government bonds.

Remeasurement 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. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Contributions to the defined contribution section of the Group's superannuation fund and other independent defined contribution superannuation funds are recognised as 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.

Termination benefits that are in any way dependent on providing future services will be recognised prospectively over the future service period.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) Impairment

Financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(q) Impairment (cont.)

Non financial assets

The carrying amount of the Group's assets other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(r) 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 the Company and to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the Group, by the Commonwealth of Australia (CoA), for the purpose of funding the working capital requirement of the Collins class submarine ISSC and the Hobart Class Air Warfare Destroyer project. The amounts advanced have certain contractual restrictions placed on their 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 10.

(s) 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(q).

Subsequent measurement

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

(t) 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.

(u) 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.

(v) 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.

(w) 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 2014 and 30 June 2013 are immaterial.

(x) Parent entity financial information

The financial information for the parent entity, ASC Pty Ltd, disclosed in note 34 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(j).

(y) Contributed Equity

Ordinary shares are classified as equity.

2 IMPACT OF CHANGE IN ACCOUNTING POLICY

(a) Employee benefits (defined benefit superannuation plans)

The Australian Accounting Standards Board (AASB) has released a revised standard on the accounting for employee benefits which requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the "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 the income statement. All past service costs are now included immediately in the income statement. 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 impact of the new standard is summarised below:

| | Previous standard \$'000 | As presented \$'000 | Change \$'000 |
|---|--------------------------------|------------------------|------------------|
| As at 30 June 2014 | | | |
| Expected return on plan assets | 492 | 0 | (492) |
| Contributions paid | 29 | 29 | 0 |
| Interest cost | (281) | (7) | 274 |
| Current service cost | (197) | (197) | 0 |
| Net pension cost (income) before tax | 43 | (175) | (218) |
| Income tax (30%) | (13) | 52 | 65 |
| Net pension cost (income) after tax | 30 | (123) | (153) |
| Remeasurement (actuarial gain) | 162 | 380 | 218 |
| Tax | (49) | (114) | (65) |

| | As recognised \$'000 | AASB 119 revised \$'000 | Change \$'000 |
|---------------------------------------|-------------------------|-------------------------------|------------------|
| As at 30 June 2013 | | | |
| Expected return on plan assets | 414 | 240 | (174) |
| Contributions paid | 27 | 27 | 0 |
| Interest cost | (278) | (309) | (31) |
| Current service cost | (222) | (222) | 0 |
| Total | (59) | (264) | (205) |
| Income tax (30%) | 18 | 79 | 61 |
| Net after tax | (41) | (185) | (144) |
| Remeasurement (actuarial gain) | 1,869 | 2,074 | 205 |
| Tax | (561) | (622) | (62) |

(b) Employee benefits (short term employee benefits)

The revised standard has changed the accounting for the Group's annual leave obligations. As the entity does not expect all annual leave to be taken within 12 months of the respective service being provided, the measurement of these obligations have changed, as the obligations are now measured on a discounted basis based on when employees are expected to take annual leave.

The impact of the new standard is summarised below:

| | Balance | Restated | Change |
|-------------------------------|---------|----------|--------|
| | \$'000 | \$'000 | \$'000 |
| Annual Leave Provision | | | |
| As at 30 June 2014 | 16,494 | 16,572 | 78 |
| As at 30 June 2013 | 15,389 | 15,570 | 181 |

(c) Impact on financial statements

i. Impact on prior year

| Income Statement (extract) | For the full year ended | | |
|--|-------------------------|-------|---------------------|
| | 30 Jun 13 | AASB | Restated |
| | \$'000 | 119 | 30 Jun 13 \$'000 |
| Revenue from continuing operations | 920,565 | 180 | 920,745 |
| Labour | (327,795) | (182) | (327,977) |
| Other expenses | (12,999) | (205) | (13,204) |
| Profit before income tax | 13,099 | (206) | 12,893 |
| Income tax (expense)/revenue | (3,237) | 61 | (3,176) |
| Profit for the year | 9,862 | (145) | 9,717 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss | | | |
| Remeasurement of defined benefit plan | 1,869 | 205 | 2,074 |
| Income tax relating to these items | (1,491) | (62) | (1,553) |
| Other comprehensive income, net of tax | 3,480 | 144 | 3,624 |
| Total comprehensive income for the year, net of tax | 13,342 | (1) | 13,341 |

| Balance Sheet (extract) | As at | | | As at | | |
|----------------------------------|-----------|------|---------------------|-----------|-------|---------------------|
| | 30 Jun 12 | AASB | Restated | 30 Jun 13 | AASB | Restated |
| | \$'000 | 119 | 30 Jun 12 \$'000 | \$'000 | 119 | 30 Jun 13 \$'000 |
| Net unearned contract billing | 117,243 | | 117,243 | 95,407 | (180) | 95,227 |
| Current tax liabilities | 2,084 | | 2,084 | 2,290 | (0) | 2,290 |
| Provisions | 35,216 | 5 | 35,221 | 36,774 | 186 | 36,961 |
| Total Current Liabilities | 311,719 | 5 | 311,724 | 340,743 | 6 | 340,749 |
| Retained Earnings | 124,302 | (5) | 124,297 | 126,572 | (6) | 126,566 |

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

2 IMPACT OF CHANGE IN ACCOUNTING POLICY (CONT.)

ii. Impact on current year

| Income Statement (extract) | For the full year ended | | |
|--|-------------------------|-------|--------------|
| | 30 Jun 14 | AASB | As Presented |
| | \$'000 | 119 | 30 Jun 14 |
| | | | \$'000 |
| Revenue from continuing operations | 913,167 | 83 | 913,250 |
| Labour | (391,843) | (78) | (391,921) |
| Other expenses | (17,023) | (218) | (17,241) |
| Profit before income tax | (5,202) | (212) | (5,414) |
| Income tax (expense)/revenue | 1,593 | 64 | 1,657 |
| Profit for the year | (3,609) | (148) | (3,757) |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss | | | |
| Remeasurement of defined benefit plan | 162 | 218 | 380 |
| Income tax relating to these items | 446 | (65) | 381 |
| Other comprehensive income, net of tax | (1,041) | 153 | (888) |
| Total comprehensive income for the year, net of tax | (4,650) | 5 | (4,645) |
| | | | |
| | | As at | |
| | | | As Presented |
| Balance Sheet (extract) | 30 Jun 14 | AASB | 30 Jun 14 |
| | \$'000 | 119 | \$'000 |
| Net unearned contract billing | 133,567 | (264) | 133,303 |
| Current tax liabilities | 71 | 1 | 72 |
| Provisions | 40,126 | 265 | 40,391 |
| Total Current Liabilities | 384,030 | 2 | 384,032 |
| Retained Earnings | 114,178 | (2) | 114,176 |

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates, judgements and assumptions concerning the future. These estimates, judgements and assumptions 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 Group 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.

Forecast of costs to complete the construction of the three Hobart Class Air Warfare Destroyers are undertaken quarterly as part of the contractual requirements of ABTIA. The most recent management forecasts of costs to complete the three Hobart Class Air Warfare Destroyers indicates it is probable that total costs related to the contract will exceed total contract revenues which would cause ASC to incur a loss pursuant to ABTIA. The estimated loss has been recognised in the current period in line with AASB 111 *Construction Contracts*.

The provision for the loss is based on estimates which will be revised as the contract proceeds. If the future estimates or outcome of the long term construction contract differs from earlier estimates this will impact future period financial results. For example, if there was a material change to the estimate of future production hours or compensation for design change or other funds are allocated to the project there could be a material impact on the financial outcome of the contract and accordingly the estimated loss or profit of the project would change. Any future changes to estimates of contract revenue or contract costs resulting in a change to the estimated loss or profit of the project will be accounted for as a change in accounting estimate and recognised in the period those changes occur.

In June 2014, the Minister for Finance, the honourable Senator David Johnston, and the Minister for Finance and Deregulation, the honourable Mathias Cormann, announced the findings from the review of the AWD program. The Commonwealth is implementing the recommendations for a reform strategy made by the review. The reform strategy will:

- Improve shipbuilding capability at ASC and its subcontractors BAE, Forgacs and Navantia;
- Include the insertion of an experienced shipbuilding management team into ASC; and
- After augmented shipbuilding capability has been put in place, pursue the reallocation of blocks between shipyards to make the AWD project more sustainable.

As at balance date none of the recommendations for a reform strategy has been implemented, however any impact on the implementation could have a material impact upon the assumptions and estimates at balance date.

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 entered into the ISSC 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 2014 is \$3,800,000 (2013: \$3,800,000). If there are events that differ from the estimates and assumptions made at balance date, such differences will impact the warranty provision in future periods.

Provision for self insurance – workers compensation

The provision for self insurance is raised when an incident occurs that may give rise to a workers' compensation claim. This is measured by the estimated cost of that claim, discounted to its present value. The margin is inclusive of a contingency which is intended to increase the probability that the provision will remain adequate to meet the expected liabilities. The risk margin is required to allow for the inherent risks in the self insurance industry and for environmental uncertainty. Under the APRA prudential standards for private sector insurers a probability sufficiency of 75% is required as a minimum. While the Group's provision level is in line with the Group's assessment of the risks that it is exposed to, there continues to be judgement associated with this estimate. The provision for self insurance – workers compensation as at 30 June 2014 is \$6,480,000 (2013: \$5,750,000). If there are events that differ from the estimates and assumptions made at balance date, such differences will impact the workers compensation provision in future periods.

Fair value of land and building

The fair value of land and buildings is determined by market-based evidence. 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 2014 is \$249,165,000 (2013: \$244,468,000). If there are events that differ from the estimates and assumptions made at balance date, such differences will impact the fair value of land and buildings in future periods.

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 2014. 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 asset (liability) as at 30 June 2014 is \$921,000 (2013: asset of \$716,000). If there are events that differ from the estimates and assumptions made at balance date, such differences will impact the Net Pension Assets/Liabilities provision in future periods.

4 FAIR VALUE MEASUREMENTS

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Land and buildings

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

4 FAIR VALUE MEASUREMENTS (CONT.)

(a) Fair value hierarchy (cont.)

(i) Recognised fair value measurements

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2014 and 2013.

| | Note | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|------|-------------------|-------------------|-------------------|-----------------|
| At 30 June 2014 | | | | | |
| <i>Recurring fair value measurements</i> | | | | | |
| Non-financial assets | | | | | |
| Land and buildings | | | | | |
| Freehold land | 15 | - | 30,083 | - | 30,083 |
| Buildings | 15 | - | - | 219,082 | 219,082 |
| Total non-financial assets | | - | 30,083 | 219,082 | 249,165 |

At 30 June 2013

Recurring fair value measurements

Non-financial assets

| | | | | | |
|-----------------------------------|----|---|--------|---------|---------|
| Land and buildings | | | | | |
| Freehold land | 15 | - | 30,083 | - | 30,083 |
| Buildings | 15 | - | - | 214,385 | 214,385 |
| Total non-financial assets | | - | 30,083 | 214,385 | 244,468 |

(iii) Disclosed fair values

The Group also has a number of assets and liabilities which are not required to be measured at fair value, but for which fair values are required to be disclosed in the notes.

The carrying amounts of trade receivables, trade payables and interest and non-interest bearing liabilities are approximately their fair values.

(b) Valuation techniques used to derive level 2 and 3 fair values

The Group obtains independent valuations for its land and buildings (classified as property, plant and equipment) at least annually. At the end of each reporting period, management updates their assessment of the fair value of each property, taking into account the most recent independent valuations. Management determines a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. The level 2 fair value of land has been derived using the sales comparison approach. Sales prices of comparable land in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach for land and buildings is price per square metre. All resulting fair value estimates for buildings are included in level 3 as their level 2 input are adjusted for depreciation which is an unobservable input.

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the financial year ending 30 June 2014 for recurring fair value measurements:

| | |
|---|------------------|
| | Buildings |
| | \$'000 |
| Opening balance 1 July 2013 | 214,385 |
| Additions | 320 |
| Transfers from capital work in progress | 15,443 |
| Revaluation increment/(decrement) | (1,649) |
| Disposals | - |
| Depreciation | (9,417) |
| Closing balance 30 June 2014 | 219,082 |

(i) *Valuation inputs and relationship to fair value*

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements. See (b) above for the valuation techniques adopted.

| Description | Fair value as at 30 Jun 14 | Unobservable Inputs | Range of inputs (probability-weighted average) | Relationship of unobservable inputs to fair value |
|-------------|----------------------------|---------------------|--|--|
| Buildings | 219,082 | Depreciation rates | 7.10% | The higher the depreciation rate, the lower the fair value |

(ii) *Valuation processes*

The Group engages an external, independent and qualified valuer to determine the fair value of the land and buildings at the end of every financial year. As at 30 June 2014, the fair values of the land and buildings were determined by Maloney Field Services.

5 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:

Financial assets

Cash and cash equivalents
Trade and other receivables
Other financial assets

| Jun-14 \$'000 | Jun-13 \$'000 |
|------------------------------|------------------|
| 219,237 | 162,539 |
| 109,822 | 139,187 |
| 405 | 322 |
| 329,464 | 302,048 |
| Financial liabilities | |
| 95,851 | 86,936 |
| 15,831 | 14,764 |
| 114,415 | 119,335 |
| 226,097 | 221,035 |

(a) **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counter party 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 & Poor's.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

5 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

(a) Credit risk (cont.)

Cash and cash equivalents

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

Guarantees

Credit risk arises in relation to financial guarantees given to certain parties (see note 27 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 \$66.6 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 & 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 [Commonwealth of Australia]

AA

Credit rating not determined

| | Jun-14 | Jun-13 |
|----------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| | 109,094 | 138,873 |
| | - | 187 |
| | 728 | 111 |
| | 109,822 | 139,171 |
| Cash and cash equivalents | | |
| AA- | 219,237 | 162,539 |
| | 219,237 | 162,539 |

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.

(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 not utilised at balance rate.

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 | > 12 months and < 5 years | Over 5 years \$'000 | Total contractual cash flows \$'000 | Carrying amount of liabilities \$'000 |
|--|-------------------------------|------------------------------|---------------------------|--|--|
| Consolidated - At 30 June 2014 | | | | | |
| Non-derivatives | | | | | |
| Non-interest bearing | 95,851 | - | 25,605 | 121,456 | 111,682 |
| Variable rate (including bank overdraft) | 114,415 | - | - | 114,415 | 114,415 |
| Total non-derivatives | 210,266 | - | 25,605 | 235,871 | 226,097 |
| Consolidated - At 30 June 2013 | | | | | |
| Non-derivatives | | | | | |
| Non-interest bearing | 86,936 | - | 27,239 | 114,159 | 101,700 |
| Variable rate (including bank overdraft) | 119,335 | - | - | 119,335 | 119,335 |
| Total non-derivatives | 206,271 | - | 27,239 | 233,494 | 221,035 |

(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.

5 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

(c) Market Risk (cont.)

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

| | | Consolidated Entity | |
|-------------------------------|----------|---------------------|----------|
| | | Jun-14 | Jun-13 |
| | Currency | AUD '000 | AUD '000 |
| Financial assets | | | |
| Cash and cash equivalents | USD | 7,650 | 6,847 |
| | EUR | 17,683 | 20,383 |
| | GBP | 813 | 744 |
| | CAD | 2,004 | 2,078 |
| | JPY | 127 | 132 |
| | Total | 28,277 | 30,184 |
| Trade and other receivables | USD | 640 | 1,471 |
| | EUR | 1,223 | 5,130 |
| | GBP | - | 905 |
| | CAD | - | - |
| | Total | 1,863 | 7,506 |
| Financial liabilities | | | |
| Trade and other payables | USD | 653 | 190 |
| | EUR | 2,654 | 14,577 |
| | GBP | (2) | 1 |
| | NOK | 16 | - |
| | Total | 3,321 | 14,768 |
| Net unearned contract billing | USD | (125) | (121) |
| | EUR | (458) | (10,718) |
| | GBP | - | 905 |
| | NOK | (16) | - |
| | Total | (599) | (9,934) |
| Interest-bearing liabilities | USD | 7,822 | 8,310 |
| | EUR | 16,752 | 21,752 |
| | GBP | 816 | 743 |
| | CAD | 2,004 | 2,078 |
| | JPY | 127 | 132 |
| | Total | 27,521 | 33,015 |

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 |
|----------------------------------|----------------|----------------------------|
| 30 June 2014 | | |
| Financial assets | \$'000 | % |
| Cash and cash equivalents | 219,237 | 1.79 |
| Trade and other receivables | 109,822 | 0.00 |
| Other financial assets | 405 | 0.00 |
| | 329,464 | |
| Financial liabilities | | |
| Trade and other payables | 95,851 | 0.00 |
| Non interest-bearing liabilities | 15,831 | 3.04 |
| Interest-bearing liabilities | 114,415 | 1.07 |
| | 226,097 | |
| 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 | 86,936 | 0.00 |
| Non interest-bearing liabilities | 14,764 | 3.16 |
| Interest-bearing liabilities | 119,335 | 1.44 |
| | 221,035 | |

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

Sensitivity analysis

At 30 June 2014, 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 2013. 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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

5 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

(c) Market Risk (cont.)

Sensitivity analysis (cont.)

| Consolidated Entity | Amount | Carrying Interest Rate Risk | | | |
|----------------------------------|-----------|-----------------------------|--------|--------------|--------|
| | | -0.75% | | +0.75% | |
| | | Profit | Other | Profit | Other |
| | | | Equity | | Equity |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 30 June 2014 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 219,237 | (1,644) | - | 1,644 | - |
| Trade and other receivables | 109,822 | - | - | - | - |
| Other financial assets | 405 | (3) | - | 3 | - |
| Financial liabilities | | | | | |
| Trade and other payables | (95,851) | - | - | - | - |
| Non interest-bearing liabilities | (15,831) | - | - | - | - |
| Interest-bearing liabilities | (114,415) | 314 | - | (314) | - |
| Total increase/(decrease) | | (1,333) | | 1,333 | |

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 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 | Amount | Carrying Interest Rate Risk | | | |
|----------------------------------|-----------|-----------------------------|--------|--------------|--------|
| | | -0.75% | | +0.75% | |
| | | Profit | Other | Profit | Other |
| | | | Equity | | 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 | (86,936) | - | - | - | - |
| Non interest-bearing liabilities | (14,764) | - | - | - | - |
| Interest-bearing liabilities | (119,335) | 193 | - | (193) | - |
| Total increase/(decrease) | | (1,028) | | 1,028 | |

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.

6 REVENUE

| | | Consolidated Entity | |
|--|---------|---------------------|----------|
| | | Jun-14 | Jun-13 |
| | | \$'000 | \$'000 |
| | | | Restated |
| (a) REVENUE | | | |
| Revenue from continuing operations | | | |
| Revenue from rendering of services | | | |
| Related parties | 902,057 | 915,704 | |
| Other parties | 5,113 | 199 | |
| | 907,170 | 915,903 | |
| Other revenue | | | |
| Facilities and business services charges | | | |
| Related parties | 17 | - | |
| Secondment income received from: | | | |
| Related parties | 341 | - | |
| Other parties | 1,734 | 175 | |
| Interest | | | |
| Other parties | 3,988 | 4,667 | |
| | 6,080 | 4,842 | |
| Total revenue from continuing operations | 913,250 | 920,745 | |
| (b) OTHER INCOME | | | |
| Net profit from disposal of fixed assets | 1 | 1 | |
| Other income | 5,048 | 4 | |
| Total other income | 5,049 | 5 | |
| 7 EXPENSES | | | |
| Items included in profit before tax | | | |
| Net loss from disposal of fixed assets | - | - | |
| Depreciation of: | | | |
| Buildings | 9,417 | 10,765 | |
| Plant and equipment | 7,582 | 7,391 | |
| Total depreciation | 16,999 | 18,156 | |
| Amortisation of: | | | |
| Contribution to Henderson Common User Facility | 244 | 244 | |
| Total depreciation and amortisation | 17,243 | 18,400 | |

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

7 EXPENSES (CONT.)

Items included in profit before tax (cont.)

| Consolidated Entity | |
|--|-----------------|
| Jun-14 | Jun-13 |
| \$'000 | \$'000 |
| | Restated |
| Finance costs: | |
| Bank charges | 245 |
| Interest expenses | |
| Related parties | 791 |
| Other parties | - |
| | 1,036 |
| Operating lease rental expense: | |
| Minimum lease payments | 14,534 |
| | 14,275 |
| Employee related expenses: | |
| Long service leave expense | 7,433 |
| Redundancy expenses | 1,662 |
| Defined benefit superannuation expense | 29 |
| Total Employee related expenses | 9,124 |
| | 7,667 |
| Loss on AWD project | 34,096 |
| | - |
| Impairment of plant and equipment | 3,317 |
| | - |

8 AUDITORS' REMUNERATION

Audit services:

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

Other services:

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

| Consolidated Entity | |
|----------------------------|---------------|
| Jun-14 | Jun-13 |
| \$ | \$ |
| 354,000 | 312,000 |

9 TAXATION

| | | Consolidated Entity | |
|---|--|---------------------|----------|
| | | Jun-14 | Jun-13 |
| | | \$'000 | \$'000 |
| | | | Restated |
| (a) Income tax expense | | | |
| Recognised in the income statement | | | |
| Current tax expense | | | |
| Current year | | 5,795 | 5,555 |
| Adjustments for prior years | | 71 | 181 |
| | | 5,866 | 5,736 |
| Deferred tax expense | | | |
| Temporary differences arising during the year, net of reversal | | (7,452) | (2,380) |
| Adjustment for prior years deferred tax | | (71) | (180) |
| | | (7,523) | (2,560) |
| Total income tax expense in income statement | | (1,657) | 3,176 |
| Attributable to: | | | |
| Continuing operations | | (1,657) | 3,176 |
| Numerical reconciliation between tax expense and pre-tax net profit | | | |
| Profit before tax | | (5,414) | 12,893 |
| Income tax using the domestic corporation tax rate of 30% (2013: 30%) | | (1,626) | 3,869 |
| Increase in income tax expense due to: | | | |
| Non-deductible expenses | | 13 | 2 |
| Decrease in income tax expense due to: | | | |
| Other tax deductible items | | (4) | |
| Tax incentives not recognised in income statement | | (40) | (696) |
| | | (1,657) | 3,175 |
| Under/(over) provided in prior years | | - | 1 |
| Adjustment for prior year tax expense | | | |
| Income tax expense on profit before tax | | (1,657) | 3,176 |
| Attributable to: | | | |
| Continuing operations | | (1,657) | 3,176 |
| (b) Current tax liabilities/(Prepaid income tax) | | | |
| Movements during the year were as follows: | | | |
| Balance at the beginning of the year | | 2,290 | 2,084 |
| Income tax paid | | (8,084) | (5,530) |
| Current year's current income tax expense on operating profit | | 5,795 | 5,555 |
| Under/(over) provision in prior years | | 71 | 181 |
| | | 72 | 2,290 |
| (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 |

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

9 TAXATION (CONT.)

| | DEFERRED TAX ASSETS | | DEFERRED TAX LIABILITIES | | NET | |
|--|---------------------|---------------|--------------------------|-----------------|----------------|-----------------|
| | Jun-14 | Jun-13 | Jun-14 | Jun-13 | Jun-14 | Jun-13 |
| (d) Deferred tax assets and liabilities | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Recognised deferred tax assets and liabilities | | | | | | |
| Deferred tax assets and liabilities are attributable to the following: | | | | | | |
| Consolidated Entity | | | | | | |
| Property, plant and equipment | 11,039 | 9,845 | (35,357) | (36,750) | (24,318) | (26,905) |
| Employee entitlements | 9,153 | 8,502 | - | - | 9,153 | 8,502 |
| Provisions for warranty | 1,140 | 1,140 | - | - | 1,140 | 1,140 |
| Project recognised profit | (2,015) | 3,652 | - | - | (2,015) | 3,652 |
| Interest accrual | - | - | - | - | - | - |
| Net pension assets | - | - | (276) | - | (276) | - |
| Sundry items | 10,415 | 139 | (37) | (369) | 10,378 | (230) |
| Net tax assets/(liabilities) | 29,732 | 23,278 | (35,670) | (37,119) | (5,938) | (13,841) |

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

MOVEMENTS

| | DEFERRED TAX ASSETS | | DEFERRED TAX LIABILITIES | | NET | |
|---|---------------------|------------|--------------------------|------------|--------------|------------|
| | Jun-14 | Jun-13 | Jun-14 | Jun-13 | Jun-14 | Jun-13 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Consolidated Entity | | | | | | |
| Movement to Income tax revenue/(expense) | | | | | | |
| Property, plant and equipment | 1,194 | 162 | 1,393 | 1,355 | 2,587 | 1,517 |
| Employee entitlements | 651 | 856 | - | - | 651 | 856 |
| Provisions for warranty | - | (807) | - | - | - | (807) |
| Project recognised profit | (5,667) | 1,018 | - | - | (5,667) | 1,018 |
| Interest accrual | - | - | - | 154 | - | 154 |
| Net pension assets | - | - | (276) | 233 | (276) | 233 |
| Sundry items | 10,276 | (227) | 332 | (245) | 10,608 | (472) |
| | 6,454 | 1,002 | 1,449 | 1,497 | 7,903 | 2,499 |
| Movement credited/(debited) directly to equity | | | | | | |
| Property, plant and equipment | | | (495) | (930) | (495) | (930) |
| Net pension assets (refer note on following page) | (328) | (328) | 442 | (294) | 114 | (622) |
| | (328) | (328) | (53) | (1,224) | (381) | (1,552) |
| Net movement in tax assets/(liabilities) | 6,126 | 674 | 1,396 | 273 | 7,523 | 947 |

9 TAXATION (CONT.)

(e) Amounts recognised directly in equity

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

Net deferred tax - debited (credited) directly to equity (note 9(d))

Consolidated Entity

| Jun-14 | Jun-13 |
|--------|----------|
| \$'000 | \$'000 |
| | Restated |

| | |
|-------|---------|
| (381) | (1,552) |
|-------|---------|

10 CASH AND CASH EQUIVALENTS

Cash at bank and in hand

Term deposits

| | |
|---------|--------|
| 114,084 | 81,351 |
|---------|--------|

| | |
|---------|--------|
| 105,153 | 81,188 |
|---------|--------|

| | |
|---------|---------|
| 219,237 | 162,539 |
|---------|---------|

The consolidated entity's exposure to interest rate risk is discussed in note 5.

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 ISSC and 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 2014, the balance of restricted cash for ISSC was \$0 (June 2013: \$0) and for AWD was \$41.9 million (June 2013: \$25.7 million).

11 TRADE AND OTHER RECEIVABLES

Current

Trade receivables

Other receivables

Consolidated Entity

| Jun-14 | Jun-13 |
|--------|----------|
| \$'000 | \$'000 |
| | Restated |

| | |
|---------|---------|
| 108,908 | 138,626 |
|---------|---------|

| | |
|-----|-----|
| 914 | 561 |
|-----|-----|

| | |
|---------|---------|
| 109,822 | 139,187 |
|---------|---------|

ACCOUNTS RECEIVABLE AGEING PROFILE

Receivables

Not Past Due

Past Due 1-30 Days

Past Due 31-60 Days

Past Due 61-90 Days

Past Due 90+ Days

Total receivables

| | |
|---------|---------|
| 107,883 | 138,493 |
|---------|---------|

| | |
|-----|-----|
| 266 | 636 |
|-----|-----|

| | |
|-----|---|
| 373 | - |
|-----|---|

| | |
|---|----|
| - | 27 |
|---|----|

| | |
|-------|----|
| 1,300 | 31 |
|-------|----|

| | |
|---------|---------|
| 109,822 | 139,187 |
|---------|---------|

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

| | | Consolidated Entity | |
|---|--|----------------------------|-----------------|
| | | Jun-14 | Jun-13 |
| | | \$'000 | \$'000 |
| | | | Restated |
| 12 INVENTORIES | | | |
| Current | | | |
| Raw materials and stores (at lower of cost or net realisable value) | | 2,344 | 3,584 |
| | | 2,344 | 3,584 |
| Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2014 amounted to \$0.6 million (June 2013: \$0.5 million) | | | |
| 13 OTHER FINANCIAL ASSETS | | | |
| Current | | | |
| Interest Receivables | | 405 | 322 |
| | | 405 | 322 |
| 14 OTHER ASSETS | | | |
| Current | | | |
| Prepayments | | 2,984 | 2,669 |
| | | 2,984 | 2,669 |
| 15 PROPERTY, PLANT AND EQUIPMENT | | | |
| Freehold land | | | |
| At fair value | | 30,083 | 30,083 |
| Buildings | | | |
| At fair value | | 219,082 | 214,385 |
| Plant and equipment | | | |
| At cost | | 102,704 | 112,630 |
| Accumulated depreciation | | (50,606) | (56,666) |
| | | 52,098 | 55,964 |
| Capital works in progress at cost | | 5,660 | 6,187 |
| Total property, plant and equipment | | 306,923 | 306,619 |
| 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 | 30,083 |
| Revaluation increments/(decrements) | | - | - |
| Carrying amount at the end of year | | 30,083 | 30,083 |
| Buildings | | | |
| Carrying amount at beginning of year | | 214,385 | 218,659 |
| Additions | | 320 | 137 |
| Transfers from capital works in progress | | 15,443 | 3,252 |
| Revaluation increments/(decrements) | | (1,649) | 3,102 |
| Depreciation | | (9,417) | (10,765) |
| Carrying amount at the end of year | | 219,082 | 214,385 |

| | | Consolidated Entity | |
|-----------|---|---------------------|-----------|
| | | Jun-14 | Jun-13 |
| | | \$'000 | \$'000 |
| | | | Restated |
| 15 | PROPERTY, PLANT AND EQUIPMENT (cont.) | | |
| | Plant and Equipment | | |
| | Carrying amount at beginning of year | 55,964 | 53,857 |
| | Additions | 1,770 | 1,750 |
| | Transfers from capital works in progress | 5,403 | 7,760 |
| | Disposals | (139) | (12) |
| | Impairment | (3,317) | - |
| | Depreciation | (7,583) | (7,391) |
| | Carrying amount at the end of year | 52,098 | 55,964 |
| | Capital works in progress | | |
| | Carrying amount at beginning of year | 6,187 | 3,627 |
| | Additions/(write off) | 20,321 | 13,572 |
| | Transfers to property, plant and equipment | (20,848) | (11,012) |
| | Carrying amount at the end of year | 5,660 | 6,187 |
| | Valuations | | |
| | An independent valuation of all land and buildings of the consolidated entity was carried out by Maloney Field Services Property Consultants & Valuers as at 30 June 2014. 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 | 267,786 | 252,020 |
| | Accumulated depreciation | (138,864) | (132,382) |
| | Net book amount | 128,922 | 119,638 |
| | Non-current assets pledged as security | | |
| | Refer to note 28 for information on non-current assets pledged as security by the consolidated entity. | | |
| 16 | OTHER NON-CURRENT ASSET | | |
| | Contribution to the Henderson Common User Facility 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. | 3,780 | 4,024 |
| 17 | TRADE AND OTHER PAYABLES | | |
| | Trade payables | 43,350 | 45,834 |
| | Other payables and accruals | 52,501 | 41,102 |
| | Total payables | 95,851 | 86,936 |

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

| | | Consolidated Entity | |
|---|--|---------------------|-------------|
| | | Jun-14 | Jun-13 |
| | | \$'000 | \$'000 |
| | | | Restated |
| 18 NET UNEARNED CONTRACT BILLING / (CONSTRUCTION WORK IN PROGRESS) | | | |
| Contract billings due and receivable | | 4,303,146 | 3,379,093 |
| Contract works in progress | | (3,916,950) | (3,046,622) |
| Profit recognised to date | | (270,735) | (237,244) |
| Provision for loss | | 17,842 | - |
| Net unearned contract billing/(Contract work in progress) | | 133,303 | 95,227 |
| 19 NON INTEREST-BEARING LIABILITIES | | | |
| Unsecured | | | |
| Non current | | | |
| Term loan | | 5 | 5 |
| Deferred purchase obligation | | 15,826 | 14,759 |
| | | 15,831 | 14,764 |

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
- (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 \$5,200 in total for the year ended 30 June 2014 (2013: \$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.

20 INTEREST-BEARING LIABILITIES

| | | Consolidated Entity | |
|--------------------|--|---------------------|----------|
| | | Jun-14 | Jun-13 |
| | | \$'000 | \$'000 |
| | | | Restated |
| Current | | | |
| Unsecured | | | |
| Government advance | | 114,415 | 119,335 |

Government advance

Current

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

ISSC advances:

Advances paid by the CoA are in Australian dollars and 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.

The advance of \$29 million will be offset against the final invoice of the ISSC transition period. The settlement will occur in August 2014.

ABTIA advance:

This advance represents the working capital advance provided by the CoA under the ABTIA. At 30 June 2014, the balance is \$85 million. (June 2013: \$90 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 AWD project. All interest and expenses that accumulate in the separate bank accounts, in relation to funds advanced, accrues to the benefit of the CoA. This advance is repayable on demand when certain criteria have been met or if the ABTIA is terminated. ABTIA requires regular review of the advance amount which may be increased or decreased after consideration by the CoA as to the working capital requirements for the AWD project.

| | Consolidated Entity | |
|---|---------------------|------------------------------|
| | Jun-14 \$'000 | Jun-13 \$'000 Restated |
| Non-current | | |
| Government advance | - | - |
| 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 |

21 PROVISIONS

| | Consolidated Entity | |
|---|---------------------|------------------------------|
| | Jun-14 \$'000 | Jun-13 \$'000 Restated |
| Current | | |
| Employee entitlements, including on costs (a) | 34,307 | 31,253 |
| Redundancy and termination (b) | 768 | 408 |
| Warranty (c) | 3,800 | 3,800 |
| Self insured workers compensation (d) | 1,516 | 1,500 |
| Other | - | - |
| | 40,391 | 36,961 |
| Non-current | | |
| Employee entitlements, including on costs (a) | 14,612 | 11,473 |
| Self insured workers compensation (d) | 4,964 | 4,250 |
| | 19,576 | 15,723 |

(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) *Termination*

The termination provision is calculated based on the identified positions which would be redundant as part of the efficiency improvement program. This provision is expected to be paid in the early part of the 2014/15 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.

| | | Consolidated Entity | |
|--|--|----------------------------|-----------------|
| | | Jun-14 | Jun-13 |
| | | \$'000 | \$'000 |
| | | | Restated |
| Provisions movements: | | | |
| Termination | | | |
| Balance at 1 July (current and non-current) | | 408 | 719 |
| Provision made during the year | | 1,689 | 1,133 |
| Provision used during the year | | (1,329) | (1,444) |
| Balance at 30 June (current and non-current) | | 768 | 408 |
| Warranty | | | |
| Balance at 1 July (current and non-current) | | 3,800 | 6,490 |
| Provision made/(reversed) during the year | | - | (2,664) |
| Provision used during the year | | - | (26) |
| Balance at 30 June (current and non-current) | | 3,800 | 3,800 |
| Self insured workers compensation | | | |
| Balance at 1 July (current and non-current) | | 5,750 | 5,710 |
| Provision made/(reversed) during the year | | 2,246 | 1,540 |
| Provision used during the year | | (1,516) | (1,500) |
| Balance at 30 June (current and non-current) | | 6,480 | 5,750 |
| Dividends | | | |
| Balance at 1 July (current and non-current) | | - | - |
| Provision made during the year | | 8,900 | 8,900 |
| Provision used during the year | | (8,900) | (8,900) |
| Balance at 30 June (current and non-current) | | - | - |

- (e) 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 \$34.6 million (2013: \$31.3 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 | 16,887 | 13,646 |
|--|--------|--------|

22 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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

23 RESERVES

Consolidated Entity

| | Jun-14 | Jun-13 |
|--|---------------|-----------------|
| | \$'000 | \$'000 |
| | | Restated |
| Opening asset revaluation reserve (1 July) | 98,017 | 95,845 |
| Revaluation increment, gross | (1,649) | 3,102 |
| Deferred tax | 495 | (930) |
| Closing asset revaluation reserve | 96,863 | 98,017 |
| Total Reserves | 96,863 | 98,017 |
| Asset revaluation reserve | | |
| Comprises of : | | |
| - Land | 19,450 | 19,450 |
| - Buildings | 77,413 | 78,567 |
| Closing balance | 96,863 | 98,017 |

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.

24 RETAINED EARNINGS

| | | |
|--|---------|---------|
| Opening retained earnings (1 July) | 126,566 | 124,297 |
| Remeasurement of defined benefit plans | 266 | 1,452 |
| Net profit for the year | (3,757) | 9,717 |
| Dividends | (8,900) | (8,900) |
| Closing retained earnings | 114,176 | 126,566 |

25 DIVIDENDS

| | | |
|---|-------|-------|
| Interim dividend has declared and paid for 2014 (2014: 56 cents/ share, 2013: 26 cents/share) | 5,600 | 2,600 |
| Final dividend declared and paid for 2013 (2013: 33 cents/share) | 3,300 | 6,300 |
| Total unfranked dividend, represents a distribution to the shareholder | 8,900 | 8,900 |

All dividends declared during the year were paid out of retained earnings.

Dividends franking account

| | | |
|--------------------------------|---------|---------|
| Class C (30%) franking credits | 123,581 | 117,708 |
|--------------------------------|---------|---------|

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.

26 COMMITMENTS

| | | Consolidated Entity | |
|--|--|---------------------|----------|
| | | Jun-14 | Jun-13 |
| | | \$'000 | \$'000 |
| | | | Restated |
| (a) Capital expenditure commitments | | | |
| Contracted but not provided for and payable: | | | |
| Not later than one year | | 5,666 | 1,550 |
| Later than one year but not later than five years | | - | - |
| Later than five years | | - | - |
| Total | | 5,666 | 1,550 |
| (b) Operating lease commitments | | | |
| Non-cancellable future operating lease rentals not provided for in the financial statements and payable: | | | |
| Not later than one year | | 15,250 | 13,308 |
| Later than one year but not later than five years | | 40,480 | 42,531 |
| Later than five years | | 76,572 | 82,715 |
| Total | | 132,302 | 138,554 |

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 from the start of the financial year up to 16 May 2014 was The Trust Company (Superannuation) Ltd. On 17 May 2014, Equity Trustees Limited was appointed trustee of the fund. KPMG Superannuation Services Pty Ltd is the administrator of the fund.

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 2014 was carried out by David O'Keefe, Fellow of the Institute of Actuaries of Australia, of ALEA Actuarial Consulting Pty Ltd in June 2014.

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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

26 COMMITMENTS (CONT.)

| | Consolidated Entity | |
|--|---------------------|------------------------------|
| | Jun-14 \$'000 | Jun-13 \$'000 Restated |
| 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 | 716 | (1,094) |
| Contributions received | 29 | 27 |
| Income/(Expense) recognised in the income statement | (204) | (291) |
| Remeasurement of defined benefit plan | 380 | 2,074 |
| Net asset/(liability) for defined benefit obligations at 30 June | 921 | 716 |
| Defined benefit superannuation fund | | |
| Amounts in the statement of financial position | | |
| Asset | 921 | 716 |
| Liability | - | - |
| Net Pension Assets / (Retirement benefit obligation) | 921 | 716 |
| Changes in the present value of the defined benefit obligation are as follows: | | |
| Opening defined benefit obligation | 8,976 | 9,704 |
| Service cost | 197 | 222 |
| Interest cost | 314 | 278 |
| Actuarial losses/(gains) | 203 | (504) |
| Benefits paid | (847) | (724) |
| Closing defined benefit obligation | 8,843 | 8,976 |
| Changes in the fair value of fund assets are as follows: | | |
| Opening fair value of fund assets | 9,692 | 8,610 |
| Expected return | 307 | 414 |
| Actuarial gains/(losses) | 583 | 1,365 |
| Contributions by employer | 29 | 27 |
| Benefits paid | (847) | (724) |
| | 9,764 | 9,692 |

The investment policies and strategies of the Trustee of the ASC Superannuation Fund are to invest the assets of the Fund in a manner to ensure compliance with the Superannuation Industry (Supervision) Act and any other legislation. The Trustee has formulated and given effect to an investment strategy that recognises the whole of the Fund's circumstances, including the risk and potential return of investments in relation to the Fund's investment objectives. The investment strategy has regard to the diversification of the Fund's investments, the liquidity of its investments, its expected cash flow requirements and the ability of the Fund to discharge its existing and prospective liabilities. The risk management policies of the Fund permits the investment in externally managed Investment Funds and prohibits direct investment in debt and equity securities and derivative financial instruments. For the defined benefit category of membership, members are provided with a benefit based upon their salary, years of service and accrual rate.

| | Consolidated Entity | |
|---|---------------------|------------------------------|
| | Jun-14 \$'000 | Jun-13 \$'000 Restated |
| Expense recognised in the income statement: | | |
| Current service costs | 197 | 222 |
| Interest cost | 314 | 278 |
| Expected return on fund assets | (307) | (414) |
| | 204 | 86 |
| Actuarial gains/(losses) are recognised directly in equity. | | |
| The expense is recognised in the following line items in the income statement: | | |
| Pension costs/(revenues) | 175 | 59 |
| Contribution paid (in labour costs) | 29 | 27 |
| | 204 | 86 |
| Actual return on fund assets | 890 | 1,779 |
| | 890 | 1,779 |
| Expense recognised in statements of comprehensive income | | |
| Actuarial gains/(losses) recognised in the year (net of tax) | 266 | 1,308 |
| Cumulative actuarial gains/(losses) recognised in the statement of comprehensive income | (2,034) | (2,300) |

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 and review will 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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

26 COMMITMENTS (CONT.)

Categories of plan assets

The major categories of plan assets are as follows:

| | 30 June 2014 | | | | 30 June 2013 | | | |
|----------------------------|------------------|--------------------|-----------------|---------------|------------------|--------------------|-----------------|---------------|
| | Quoted \$'000 | Unquoted \$'000 | Total \$'000 | in % | Quoted \$'000 | Unquoted \$'000 | Total \$'000 | in % |
| Equity securities | | | 6,122 | 62.7% | | | 6,077 | 62.7% |
| Australia | 3,779 | - | 3,779 | | 3,712 | - | 3,712 | |
| Overseas | 2,343 | - | 2,343 | | 2,365 | - | 2,365 | |
| Debt securities | | | 1,924 | 19.7% | | | 1,531 | 15.8% |
| Australia | 1,572 | - | 1,572 | | 1,250 | - | 1,250 | |
| Overseas | 352 | - | 352 | | 281 | - | 281 | |
| Property securities | | | 674 | 6.9% | | | 407 | 4.2% |
| Australia | 674 | - | 674 | | 407 | - | 407 | |
| Overseas | - | - | - | | - | - | - | |
| Other securities | | | 1,044 | 10.7% | | | 1,677 | 17.3% |
| Australia | 1,044 | - | 1,044 | | 1,677 | - | 1,677 | |
| Overseas | - | - | - | | - | - | - | |
| Total | 9,764 | - | 9,764 | 100.0% | 9,692 | - | 9,692 | 100.0% |

| | Consolidated Entity | |
|---|---------------------|-------------|
| | Jun-14 | Jun-13 |
| Significant actuarial assumptions at the balance date: | | |
| Discount rate at 30 June | 3.5% | 3.3% |
| Future salary increases | 4.0% | 4.0% |

The sensitivity of the defined benefit obligation to changes in the significant assumptions is:

| | Discount rate | | Future salary increase | |
|--|---------------|--------|------------------------|--------|
| | + 0.5% | - 0.5% | + 0.5% | - 0.5% |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Present value of defined benefit obligation | 8,535 | 9,195 | 9,191 | 8,535 |

Comparative information has not been provided for the sensitivity analysis as permitted by the transitional provisions of the revised standard.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised in the balance sheet.

Risk exposure

Through its defined benefit plan, the group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to government bond yields. If plan assets under perform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform government bonds in the long term while providing volatility and risk in the long term. To reduce the volatility within the investment strategy supporting the defined benefit assets, ASC has asked the administrator, KPMG Superannuation Services Pty Limited, to introduce a 50/50 asset allocation (50% growth assets and 50% defensive assets) in the fund assets. The current asset allocation is 70% growth assets and 30% defensive assets. KPMG's modelling indicates an investment return of 6-7% could be targeted using a portfolio containing less volatility than the current 70/30 asset allocation.

Changes in bond yields

A decrease in government bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

Inflation risks

The majority of the plans' benefit obligations are linked to salary inflation, and higher inflation will lead to higher liabilities. The majority of the plan's assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.

The weighted average duration of the defined benefit obligation is 8 years (2013: 9 years). The expected maturity analysis of undiscounted defined benefit obligations is as follows:

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6-10 | Total |
|---------------------|--------------|------------|----------|------------|------------|--------------|--------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 30 June 2014 | 3,394 | 871 | - | 810 | 824 | 3,346 | 9,245 |
| 30 June 2013 | 2,755 | 1,143 | 858 | 83 | 790 | 3,980 | 9,609 |

(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.

27 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 \$10.2 million (2013: \$10.5 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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

28 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.

| | Consolidated Entity | |
|---|----------------------------|----------------|
| | Jun-14 | Jun-13 |
| | \$'000 | \$'000 |
| <i>Total current assets pledged as security</i> | | |
| Trade receivables | 42,708 | 54,718 |
| Other receivables | 13 | 128 |
| | 42,721 | 54,846 |
| <i>Total non current assets pledged as security</i> | | |
| Land | 18,168 | 18,168 |
| Building | 116,366 | 109,435 |
| Plant and Equipment | 19,448 | 17,419 |
| | 153,982 | 145,022 |

29 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.

30 KEY MANAGEMENT PERSONNEL DISCLOSURE

Key management personnel compensation

| | Consolidated Entity | |
|----------------------------------|----------------------------|------------------|
| | Jun-14 | Jun-13 |
| | \$ | \$ |
| Short - term employment benefits | 7,324,181 | 5,539,913 |
| Other long term benefits | 136,762 | 337,835 |
| Post - employment benefits | 550,163 | 480,800 |
| Termination benefits | 37,417 | 541,699 |
| | 8,048,523 | 6,900,247 |

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.

31 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.

32 RELATED PARTY DISCLOSURES

Key management personnel compensation

Disclosures relating to key management personnel are set out in note 30.

Subsidiaries

Interests in subsidiaries are set out in note 33.

Directors

The following persons were directors of ASC Pty Ltd during the entire financial year:

Bruce James Carter

Dr Rosalind Vivienne Dubs

Katherine Anne Hirschfield

John Joseph O'Connell AO

Dr Sally Anne Majella Pitkin

Peter Predrag Iancov, Sophie Mirabella and Paul John Rizzo were appointed directors on 13 December 2013 and continue in office at the date of this report.

John Francis Shipway was a director from the beginning of the financial year until his resignation on 31 August 2013.

Stephen Ludlam was a director from the beginning of the financial year until his resignation on 18 July 2014.

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

Other related parties

Australian government ministers

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

Shareholders

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

The Commonwealth of Australia is the ultimate parent entity.

Loans to/(from) the Commonwealth of Australia and its related entities

Deferred purchase obligation

Beginning of the year

Loan advanced

Fair value adjustment

End of year

Consolidated Entity

| | Jun-14 | Jun-13 |
|-----------------------|------------|-------------|
| | \$ | \$ |
| Beginning of the year | 14,759,174 | 16,719,550 |
| Loan advanced | - | - |
| Fair value adjustment | 1,066,657 | (1,960,376) |
| End of year | 15,825,831 | 14,759,174 |

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued
For the year ended 30 June 2014

32 RELATED PARTY DISCLOSURES (CONT.)

Other related parties (CONT.)

| June 2014 | | Consolidated Entity | | | | | |
|-------------------------------|-------------|---------------------|-----------|---------|-----------|-------------|------------|
| Government advance | Total | AUD | USD | GBP | CAD | EUR | JPY |
| Beginning of the year | | 86,320,095 | 7,707,689 | 451,286 | 2,015,092 | 15,432,757 | 12,078,961 |
| Advance received | | - | - | - | - | - | - |
| Advance repaid | | - | (339,586) | - | - | (3,863,676) | - |
| Interest charged | | (1,381) | - | - | - | - | - |
| Interest received | | 576,074 | - | - | 1 | - | - |
| End of year (source currency) | | 86,894,788 | 7,368,103 | 451,286 | 2,015,093 | 11,569,081 | 12,078,961 |
| End of year (AUD equivalent) | 114,414,935 | 86,894,788 | 7,821,766 | 815,921 | 2,003,669 | 16,752,217 | 126,574 |

| 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 | - | - | - | - | - |
| Advance repaid | | - | - | - | - | - | - |
| 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 |

Transactions with Shareholders

During the year, the amounts received or receivable by the consolidated entity from the Commonwealth of Australia for various projects was \$902,057,000 (2013: \$915,524,000).

Certain expenditure incurred by the consolidated entity on behalf of shareholders has been recharged and will be settled in accordance with normal commercial terms and conditions.

Balances with Shareholders

The aggregate amounts payable to the shareholders in relation to these transactions are:

The aggregate amounts receivable from the shareholders in relation to these transactions are:

| Jun-14 | Jun-13 |
|-------------|-------------|
| \$ | \$ |
| - | - |
| 108,180,260 | 138,617,009 |

33 INTERESTS IN OTHER ENTITIES

The Company's principal subsidiaries at 30 June 2014 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the company and the proportion of ownership interest held equals the voting rights held by the company. The country of incorporation is also their principal place of business.

| Name of entity | Country of Incorporation | Ownership interest held by the company | | Principal activities |
|-----------------------------|--------------------------|--|--------|--|
| | | 2014 % | 2013 % | |
| ASC Engineering Pty Ltd | Australia | 100 | 100 | Holds property, plant and equipment to be utilised for the AWD program |
| ASC Shipbuilding Pty Ltd | Australia | 100 | 100 | Employs labour for the AWD program |
| ASC Modules Pty Ltd | Australia | 100 | 100 | Non-trading |
| ASC AWD Shipbuilder Pty Ltd | Australia | 100 | 100 | Part of the alliance executing the AWD program |
| Deep Blue Tech Pty Ltd | Australia | 100 | 100 | Dormant |

All subsidiaries have reporting dates of 30 June.

34 PARENT FINANCIAL INFORMATION

(a) Summary financial information

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

| | Jun-14 \$'000 | Jun-13 \$'000 |
|---|------------------|------------------|
| Balance sheet | | |
| Current assets | 205,802 | 181,852 |
| Total assets | 527,388 | 497,068 |
| Current liabilities | 244,076 | 228,563 |
| Total liabilities | 261,962 | 248,178 |
| Net assets | 265,426 | 248,890 |
| Shareholders' equity | | |
| Issued capital | 10,000 | 10,000 |
| Reserves | | |
| Revaluation surplus - land and building | 76,935 | 79,080 |
| Retained earnings | 178,491 | 159,778 |
| | 265,426 | 248,858 |
| Profit or loss for the year | 27,347 | 14,537 |
| Other comprehensive income | (1,879) | 1,478 |
| Total comprehensive income | 25,468 | 16,015 |

(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 \$7,366,000 (2013: \$7,674,000).

In addition to the above, the parent entity has provided \$2,819,000 bank guarantees (2013: \$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(w) as the fair values of these guarantees as at 30 June 2014 and 30 June 2013 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 AWD Shipbuilder Pty Ltd
- ASC Engineering Pty Ltd
- ASC Shipbuilding 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 2014 or 30 June 2013. 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 2014, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$3,275,809 (30 June 2013: \$1,550,290). 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 2014

35 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-14 \$'000 | Jun-13 \$'000 |
| Cash | 10 | 219,237 | 162,539 |
| | | 219,237 | 162,539 |
| (b) Reconciliation of operating profit after income tax to net cash provided by operating activities | | | |
| Operating profit after income tax | | (3,757) | 9,862 |
| Add/(less) items classified as investing/financing activities: | | | |
| Interest received | | (3,988) | (4,667) |
| Interest expense | | 791 | 888 |
| (Profit)/loss on sale of fixed assets | | (1) | (1) |
| Add/(less) non-cash items: | | | |
| Depreciation | | 17,243 | 18,400 |
| Fair value adjustment on all financial instruments | | 1,067 | (1,960) |
| Pension costs | | 175 | 59 |
| Transfer of Deep Blue Tech's fixed assets to ASC | | - | - |
| Income tax expense | | (1,657) | 3,239 |
| Income tax paid | | (8,084) | (5,530) |
| Impairment of plant and equipment | | 3,317 | - |
| Net cash provided by operating activities before change in assets and liabilities | | 5,106 | 20,290 |
| Change in assets and liabilities | | | |
| (Increase)/decrease in receivables | | 28,706 | (28,167) |
| (Increase)/decrease in inventories | | 1,240 | 2,196 |
| (Increase)/decrease in prepayments | | (395) | 50 |
| (Increase)/decrease in net unearned contract billing | | 37,807 | (19,994) |
| Increase/(decrease) in trade creditors | | 11,107 | 12,656 |
| Increase/(decrease) in provisions | | 7,201 | 3,643 |
| Net cash provided by operating activities | | 90,772 | (9,326) |

CORPORATE DIRECTORY

Directors

Bruce Carter
Chairman

John O'Connell AO
Sally Pitkin
Kathy Hirschfeld
Rosalind Dubs
Sophie Mirabella
Paul Rizzo
Peter Iancov

Company Secretary

Wendy Hoad

Auditors

ANAO and PricewaterhouseCoopers
(as agent for ANAO)

Bankers

Westpac Banking Corporation

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Adelaide SA 5001
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Facsimile: +61 8 8348 7001

ASC South

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Media enquiries
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Other enquiries
info@asc.com.au

ABN: 64 008 605 034

Copies of ASC's annual reports can be found at www.asc.com.au.
Copies can also be requested by telephoning +61 8 8348 7000 or by emailing communications@asc.com.au.



ACRONYMNS

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