

ANNUAL REPORT

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ASC PTY LTD

Building and
maintaining
Australia's
frontline
naval defence
capabilities.



ASC
www.asc.com.au

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TRANSMITTAL LETTER

26 September 2017

Senator the Hon Mathias Cormann
Minister for Finance
Parliament House
CANBERRA ACT 2600



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Dear Minister,

ASC Pty Ltd 2017 Annual Report

I am pleased to submit the 2017 Annual Report of ASC Pty Ltd, which has been prepared in accordance with the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and approved by ASC's Board.

The Annual Report includes the financial statement for the Company for the year ended 30 June 2017 as well as reports on ASC's performance and progress.

Throughout this financial year the company has continued its strong performance in the Collins Class Submarine (CCSM) program and Air Warfare Destroyer (AWD) project. ASC also achieved a profit after tax of \$29.2 million.

During the year, ASC delivered its first air warfare destroyer, *Hobart*, in partnership with the AWD Alliance and Navantia, and continued to achieve strong and pleasing productivity improvements on the second and the third AWDs. Ship02 *Brisbane* was launched in December 2016 and Ship 03 *Sydney* was further consolidated.

ASC has maintained international benchmark performance in Collins Class submarine maintenance, while completing numerous maintenance activities at ASC West and progressed the full cycle docking of HMAS *Collins* at ASC North. ASC completed its transition to the 10+2 Usage Upkeep Cycle and ASC also agreed with the Commonwealth a renewed five-year performance period for the In Service Support Contract for submarine sustainment.

Meanwhile, ASC is seeking to establish significant roles in the Future Submarine, Offshore Patrol Vessel and Future Frigate projects, as well as pursue other opportunities.

Australian Naval Infrastructure was established in March 2017 and now owns all critical infrastructure previously held by ASC, in accordance with the Government's decision to structurally separate ASC.

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.

With more than 2400 employees across three facilities in South Australia and Western Australia, ASC remains Australia's largest specialised defence shipbuilding organisation, with naval design and engineering resources unparalleled within Australia's defence industry.

ASC is responsible for submarine sustainment and the construction of major steel-hulled warships for the Australian Defence Force. ASC is committed to supporting the Australian Defence Force by maintaining open lines of communication with its customer, understanding their expectations and priorities, and striving to deliver the best possible results through an unwavering commitment to productivity and efficiency improvements.

ASC is a proprietary limited company registered under the Corporations Act 2001, wholly-owned by the Commonwealth and represented by the Minister for Finance.

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

At the conclusion of the Collins Class submarine build program in 2003, ASC commenced a 25-year contract for the ongoing repair, maintenance and design upgrades of the submarines' through-life support. 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 Department of Defence representing the Australian Government, and Raytheon Australia as the mission systems integrator.

Vision

Our vision is to be an enduring and integral part of Australia's maritime strategy and national security.

Mission

Our mission is to be a trusted and efficient partner with sovereign design, build and sustainment capabilities driving best value for our customers.

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
- Safety
- Leadership
- Integrity
- Results
- Innovation

FINANCIAL HIGHLIGHTS

Two-year performance at a glance

	2016/17 \$m	2015/16 \$m
Revenue from rendering of services	798.5	797.0
Interest income	3.0	3.5
Other income and other revenue	9.6	0.3
Total revenue and other income	811.1	800.8
EBITDA	54.0	53.9
Depreciation and amortisation	(14.9)	(19.3)
EBIT	39.1	34.6
Interest expense	(0.3)	(0.1)
Tax expense	(12.6)	(11.4)
Operating profit before tax	41.8	38.0
Operating profit (loss) after tax	29.2	26.6
EBIT/total revenue and other income (%)	4.8%	4.3%
Shareholder's equity	113.8	280.0
Return on equity (%)	25.7%	9.5%
Dividend paid	19.7	16.1
Total assets	578.4	702.6

CHAIRMAN'S REPORT

BRUCE CARTER
Chairman



On behalf of the Board, I am pleased to report that in 2016/17 ASC performed strongly in our submarine maintenance and shipbuilding business, continuing to deliver productivity and efficiency improvements, and again delivering positive financial results.

For the first time in Collins Class history, there was a period with five submarines in the water at the same time, and that highlight of the year reflected ASC's strong performance in Collins Class sustainment.

The Australian Submarine Enterprise as a whole has been widely recognised as running an exemplar program in the maintenance of the Collins Class submarine fleet.

Our shipbuilding achievements were also significant, with the successful launch of the second future destroyer, *Brisbane*, in December 2016 and delivery of the first-in-class future destroyer *Hobart*, to our customer in June 2017.

The financial year also saw the announcement of the Naval Shipbuilding Plan by the Prime Minister the Hon Malcolm Turnbull MP, which maps the way forward to achieving a sovereign, sustainable national shipbuilding industry.

ASC looks forward to participating in this important national endeavour in both submarine capability and naval shipbuilding.

ASC recorded profit after tax of \$29.2 million (2015/16: \$26.6 million) and annual revenue of \$811.1 million (2015/16: \$800.8 million).

Collins Class Submarine Program

ASC achieved international benchmark performance in submarine sustainment in the financial year, following an ambitious, organisation-wide reform of submarine deep maintenance, which cut the time for a full cycle docking (FCD) from three-years to two.

Following on from this success, ASC agreed with the Commonwealth a renewed Performance Period of five-years for the In Service Support Contract (ISSC) for the Collins Class fleet, which commenced on 1 July 2017.

The long term requirement for the Collins Class fleet was confirmed in the Federal Government's Naval Shipbuilding Plan, with funding of \$2.6 billion in capability enhancements and obsolescence management, along with \$6.7 billion for Collins Class sustainment into the 2030s.

ASC continues to work closely with its Submarine Enterprise partners to improve submarine availability beyond international benchmarks, as well as pursue new work to support the growth of our sovereign submarine capabilities and in supporting regional superiority.

The submarine organisation is committed to the professional development of its workforce and the attraction and retention of the best candidates for ASC's diverse submarine roles. ASC continues to develop long-term, mutually beneficial partnerships with the RAN, the Capability Acquisition and Sustainment Group (CASG) of the Australian Defence Force and the broader Australian defence industry.

Alongside its successful Collins Class sustainment operations, ASC is expanding its submarine platform capability, working to support the build-up of Australia's sovereign submarine industry, including supporting the Future Submarine program, and Collins Class submarine life of type extension (LOTE) so that Australia's submarine force retains regional superiority for decades to come.

Air Warfare Destroyer Project

ASC Shipbuilding's performance has continued its strong improvement, meeting or exceeding all cost and schedule milestones as Shipbuilder for the AWD program since internal reform and AWD program reform in 2015.

ASC Shipbuilding's scope of work on the AWD project continued to achieve improvements and historic milestones

through the financial year, with Ship 01 *Hobart* completing builder's and Category 5 sea trials during the financial year, the successful launch of Ship 02 *Brisbane*. Ship 03 *Sydney* continues to achieve efficiency improvements, tracking at approximately 60 per cent less expensive than Ship 01.

In June 2017, ASC Shipbuilding celebrated a major milestone with Provisional Acceptance by the Commonwealth of the first destroyer *Hobart*, at the Osborne Naval Shipyard in South Australia. *Hobart* is the first of three destroyers being built and integrated by the AWD Alliance which comprises the Department of Defence, Raytheon Australia and ASC Shipbuilding with support from ship designer Navantia.

ASC Shipbuilding remains focused on maintaining its positive performance trajectory and achieving, by the delivery of the third AWD *Sydney*, international benchmark productivity performance for the construction of similarly complex warships in overseas shipyards.

Continued progress on the AWD program is a testament to ASC's highly skilled and professional naval shipbuilding capability and workforce, and lays the foundation for future shipbuilding work in South Australia.

Future Projects

ASC welcomes the Naval Shipbuilding Plan, announced by the Prime Minister the Hon Malcolm Turnbull MP at the Osborne shipyard in May 2017. The Plan set out the Government's commitment to a sovereign, sustainable shipbuilding industry and presents significant opportunities for ASC across shipbuilding and submarine programs.

Alongside its successful Collins Class sustainment operations, ASC is working to support Australia's strategic build-up in submarine industrial capability to support the Future Submarine program. This will see ASC provide additional support to the Commonwealth's SEA1000 project office as well as to prime contractors Naval Group (submarine design) and Lockheed Martin (combat system integration).

ASC Shipbuilding continues to pursue future shipbuilding work in Australia's upcoming minor and major warship projects the SEA1180 Offshore Patrol Vessel program, with Australian partner Forgacs Marine and Defence and SEA5000 Future Frigate program, with Australian partner Austal.

Separately, ASC Shipbuilding and Austal have entered into an agreement for the SEA5000 Future Frigate Program, to offer a joint sovereign Australian shipbuilding solution to the three frigate designers engaged in the SEA5000 competitive evaluation process. The program will see nine major warships built for the RAN in Adelaide from 2020, with a final decision on the project expected in 2018.

ASC is seeking to explore all future work opportunities to achieve a sustainable future for its sovereigns shipbuilding capability.

Industrial Relations

Negotiations for new Enterprise Agreements for the production workforces at ASC North, South and West were ongoing throughout the financial year, with significant progress made toward agreements. A range of protected industrial actions were taken across all sites in the period October 2016 to June 2017 and the impacts on ASC operations were managed effectively using mitigations including increased use of contract labour in the submarine business. Any potential material impact on submarine deep maintenance in Adelaide has been, and continues to be, closely monitored and plans have been put in place to mitigate any potential loss of schedule.

Structural Separation of ASC

Following an announcement by the Federal Government in October 2016, ASC continues to work towards implementing structural separation of the company into three separate Government-owned entities; one each for submarine sustainment, naval shipbuilding and critical infrastructure.

The announced structural separation would build on the company's existing successful operating model of separate submarine and shipbuilding businesses.

The Department of Finance is leading the process for the structural separation of the shipbuilding and submarine businesses.

Australian Naval Infrastructure Pty Ltd (ANI) was established in March 2017 as the first phase of the structural separation. As part of this transaction a special distribution of \$55 million was agreed, which will be paid in staged equity injections from the Department of Finance over the next five-years, to strengthen ASC's balance sheet, following the transfer of assets from ASC to ANI.

Board and Management

In January 2017 three new board members were appointed to the ASC Board, Joycelyn Morton, Jeremy Schultz and Gary Gray, to provide continued expertise and direction to the Board. Following the establishment of ANI, two ASC Board members, Jeremy Schultz and Peter Iancov, were asked to take up positions as Board members of ANI and resigned from the ASC Board.

I thank them for their valuable contribution.

People

ASC achieved an excellent safety record in 2016/17 and the group implemented initiatives to keep our people safe, both physically and psychologically.

ASC's commitment to diversity and inclusion was strengthened, with its All Aboard program seeking to foster a culture of inclusion and achieve greater diversity, and the organisation-wide *Call it Out* campaign was launched to reduce and eliminate bullying behaviour.

Conclusion

ASC's proven high performance and recognised role in high profile current programs has seen it consolidate its position as a reliable sovereign partner for the Commonwealth.

The expertise and experience of ASC's 2400 highly-skilled employees represent the nation's leading submarine and naval shipbuilding industrial capability.

With continued improvement ASC looks forward to earning further recognition and significant roles in Australia's future naval platform construction programs.

On behalf of the Board, I would like to express our sincerest thanks and congratulations to our staff for what has been achieved this year and for the hard work, innovation and commitment that has been demonstrated to position ASC so strongly for future growth and sustainability.



Bruce Carter
CHAIRMAN

CHIEF EXECUTIVE OFFICER'S REPORT

STUART WHILEY
Interim Chief Executive Officer



ASC's submarine business in 2016/17 consolidated its position as Australia's leading submarine platform capability – the nation's only sovereign submarine company, with expertise and experience earned over 30 years in Australia working with the Defence Department and the RAN.

ASC achieved better-than-benchmark performance in its core CCSM maintenance operations and continues to grow its capability to assist the Future Submarine program across a range of areas.

Among the year's highlights was the construction of a major upgrade to ASC's Western Australian facility to improve efficiency; the Federal Government finding that Collins Class sustainment was an "exemplar Defence program", following a further review by Dr John Coles; and the agreement between ASC and the Commonwealth to extend ASC's submarine maintenance contract to a further five-year performance period.

ASC's submarine workforce will remain Australia's leading expertise in submarine platforms and in coming years can look forward to rewarding and challenging roles across Collins Class and future submarine-related operations.

Collins Class Submarine Program

ASC exceeded its submarine maintenance performance target throughout the financial year, as a partner in the Submarine Enterprise made up of the Defence Department, the RAN and Raytheon Australia.

The FCD of HMAS *Collins* in South Australia, which commenced in mid-2016, has progressed well towards its scheduled completion in mid-2018. ASC West in Henderson, WA, has performed six separate maintenance activities on five submarines, including its first 12 month mid-cycle docking (MCD), for HMAS *Sheean*, which commenced in January 2017.

ASC's transformation of submarine deep maintenance was recognised in September 2016 with the awarding of the Malcolm Kinnaird Excellence award from Engineers Australia (SA) for the most outstanding entry in South Australia. ASC also won the Engineers Australia Project Management award in South Australia.

The release in October 2016 of the findings of the Coles Review (part 5 – *Beyond Benchmark*) confirmed that ASC and its partners in the Submarine Enterprise had achieved international benchmark performance and were delivering an "exemplar defence program".

The Coles Review, which was conducted in the previous financial year, described the improvement in Collins Class maintenance by the Enterprise as “remarkable”, built on a foundation of collegiate, collaborative and well-functioning Enterprise relationships.

ASC completed its transition to the updated 10+2 Usage Upkeep Cycle (UUC), which sees Australian submarines in operational service for ten years followed by two-years in deep maintenance. The completion of a major redevelopment of ASC West will deliver further efficiency improvements, as ASC’s WA workforce completes maintenance activities in higher numbers and complexity.

With the agreement of the Commonwealth in June 2017 to an extension of the Collins Class ISSC, ASC will continue to focus on delivering beyond benchmark performance for submarine maintenance, while exploring future opportunities in the areas of LOTE and capability enhancement to ensure the Collins Class fleet remains regionally superior, as outlined in the Defence White Paper of 2016 and National Shipbuilding Plan of 2017.

ASC also entered into a Strategic Relationship Agreement with Indigenous Defence Consortium to increase the uptake of Indigenous-owned and controlled businesses in ASC’s submarine maintenance national supply chain. ASC’s objective is to achieve improved long-term, meaningful outcomes for Indigenous people.

Personnel Retention

Retaining critical personnel in Collins Class submarine maintenance is a high priority for the business, to ensure continued achievement of international benchmark maintenance performance for the RAN. This became increasingly challenging due to increased competition in the submarine platform sector from companies involved in the Future Submarine program. ASC is working with its partners in the Submarine Enterprise to seek a co-ordinated approach, across Government and industry, to manage the utilisation of submarine platform personnel in Australia as the Government seeks to meet the personnel demands of the Future Submarine program over coming decades.

Capability Development

Following the decision by the Federal Government to establish continuous naval shipbuilding in Australia, including the construction of 12 Future Submarines in Adelaide commencing in the early 2020s, Australia’s submarine workforce will be required to more than double in the next decade.

As Australia’s only current submarine industrial capability, employing more than 900 submarine platform personnel in South Australia and 390 personnel in Western Australia, ASC will have a central role in building up Australia’s industrial capability for submarines in coming years.

ASC’s submarine business restructured its internal management to maximise capability development across a range of activities, including CCSM maintenance, LOTE, and submarine upgrades and enhancements to ensure the Collins Class fleet remains ‘regionally superior’.

In addition, ASC will also assist in developing Australia’s submarine capability to meet the requirements of the Future Submarine program, by assisting the Commonwealth’s SEA1000 Project Office as well as the SEA1000 prime contractors under appropriate commercial arrangements.

As part of ASC’s growing support for the Future Submarine program, ASC has more than 20 seconded platform experts in the Commonwealth’s SEA1000 project office – the most of any single industry partner.

ASC’s submarine workforce will continue to be Australia’s leading provider of submarine capability, encountering challenging and rewarding engineering and technical assignments across both serving and future classes of submarine.

ASC also looks forward to working with prime contractors Naval Group (submarine design) and Lockheed Martin (combat system integration) under appropriate commercial arrangements in due course.

The Future

For the past 30 years ASC’s nation-leading expertise in submarine platforms has helped solve complex submarine engineering, manufacturing, design and maintenance challenges.

ASC’s submarine business looks forward with enthusiasm to the next 30-years in which its expert personnel across engineering, project management and production will help to ensure Australia continues to deploy a regionally superior and available submarine force.



Stuart Whiley
INTERIM CHIEF EXECUTIVE OFFICER

ASC SHIPBUILDING CHIEF EXECUTIVE OFFICER'S REPORT

MARK LAMARRE
Chief Executive Officer ASC Shipbuilding



As the lead shipbuilder on the Hobart Class AWD program, ASC Shipbuilding, in collaboration with our capability partner Navantia, has continued to achieve strong performance on the program this year, further cementing its position as Australia's only proven builder of major warships.

As a shipbuilding team, we have made dramatic progress on the AWD program, consistently improving our performance building three complex warship platforms through to delivery – providing an unprecedented capability to the RAN.

Our workforce's sustained commitment to improvement and implementation of lessons learned, in collaboration with our AWD Alliance partners and program partner Navantia, have allowed ASC to continue to meet and exceed the expectations of the Government during the delivery and acceptance of these key naval assets.

Our continued achievement of productivity improvements ship-on-ship, means ASC Shipbuilding is well placed to achieve international benchmark shipyard productivity with the delivery of Ship 03, further securing our position as Australia's proven builder of major warships and positioning us for a prominent role in Australia's naval shipbuilding future.

Air Warfare Destroyer Project

The 2016/17 financial year saw the delivery of numerous milestones in the AWD project.

In December 2016, ASC Shipbuilding celebrated the launch of the second future destroyer *Brisbane* at the ASC South shipyard in Osborne, South Australia. Over 4000 people including Government, Naval and Defence industry dignitaries, alongside AWD Alliance employees and their families, watched as the ship's sponsor Mrs Robyn Shackleton, wife of former Chief of Navy and HMAS *Brisbane* II Commanding Officer Vice Admiral David Shackleton AO, broke a commemorative bottle of wine on the ship's bow and officially named the ship '*Brisbane*'. It was a moment of immense pride for the thousands of Australian shipbuilders and combat system integrators who have worked on the project.

In June 2017, following the success of sea trials earlier in the year, the ASC Shipbuilding team celebrated a historic milestone with the Government's provisional acceptance of our first surface combatant, future destroyer *Hobart*.

Construction of *Hobart* saw approximately 5000 skilled shipbuilders work on the ship throughout the program, along with 3000 other Australians in supplier organisations and is a testament to our highly skilled shipbuilding workforce.

Hobart is the first of three destroyers, in a first of class program, being built and integrated by the AWD Alliance, which comprises the Department of Defence, Raytheon Australia and ASC Shipbuilding with support from Navantia. Following *Hobart*'s acceptance, the ship will transit from Adelaide to Sydney where she will be commissioned into service.

Ship 03 *Sydney* has continued to progress at a rapid rate, benefitting from lessons learned on both preceding ships. We are achieving productivity improvements ship-on-ship of the order of 40 per cent, on ASC Shipbuilding scope-of-work.

The Future

This year we welcomed the announcement by the Prime Minister the Hon Malcolm Turnbull MP of the Naval Shipbuilding Plan; a plan paving the way for a sovereign, sustainable national shipbuilding sector.

With ASC Shipbuilding on a trajectory to meet international benchmarks with the delivery of Ship 03 we are well placed to play a significant role in the future of Australia's naval shipbuilding industry.

As Australia's steel-hulled warship builder, our focus remains not only on successfully delivering the AWD Program at, or better than, international benchmark productivity, but also securing roles as lead shipbuilder for major and minor warships in Australia.

As an organisation we are focussing our attention on the development of a warship sustainment capability to support Defence's requirements for future major and minor warship requirements, creating new business opportunities through diversification and in establishing an independent and sustainable shipbuilding entity as part of the structural separation of ASC.

Offshore Patrol Vessels

ASC Shipbuilding continues to pursue future shipbuilding work in Australia's upcoming minor and major warship projects, the SEA1180 OPV program and the SEA5000 Future Frigate program.

Partnered with Forgacs Marine and Defence, ASC Shipbuilding has been selected by two of three OPV design tenderers, Lürssen of Germany and Damen of the Netherlands, in separate teaming arrangements. An ASC Shipbuilding-Forgacs joint venture will become the OPV shipbuilder should either designer be awarded the tender.

The ASC Shipbuilding-Forgacs solution will deliver on the Government's enterprise approach to naval shipbuilding, with the initial OPVs built in South Australia to retain shipbuilding capability until the start of construction for SEA5000 Future Frigates from 2020, followed by continuous minor warship construction in Western Australia.

A decision by the Government is expected later this year. The OPV build will create several hundred shipbuilding jobs at its peak in 2019/20, after which the ASC Shipbuilding-Forgacs joint venture will build the remaining ten vessels at Forgacs' new \$80 million state-of-the-art facility in Henderson, Western Australia.

Future Frigate Program

In June 2016 ASC Shipbuilding and Austal entered into a partnership to support Government's National Shipbuilding endeavour.

ASC Shipbuilding and Austal have partnered to offer a sovereign Australian shipbuilding solution for the build of the SEA5000 Future Frigates Program, which will secure the future of naval shipbuilding in Australia for decades to come. The program will see nine major warships built for the RAN in Adelaide from 2020, with a final decision on the project expected in 2018.

Under this arrangement, ASC Shipbuilding and Austal will act as one in support of the program, pooling our complementary strengths, skills and experience. The partnership offers a compelling, low risk, Australian shipbuilding solution for each of the three shortlisted international designers: BAE, Fincantieri and Navantia. ASC Shipbuilding and Austal represent the success and excellence of Australia's sovereign naval shipbuilding capacity and bring an unparalleled record in steel and aluminium shipbuilding, exports and operational efficiency.

This is a powerful partnership that not only achieves the Government's objectives for a sovereign and sustainable shipbuilding capability in Australia, as set out in the recent Naval Shipbuilding Plan, but confirms there should be a bright and successful future for ASC Shipbuilding.



Mark Lamarre
CHIEF EXECUTIVE OFFICER ASC SHIPBUILDING

COLLINS CLASS SUBMARINE PROGRAM

As the industry member of Australia's Submarine Enterprise, ASC supports the nation's submarine capability through the provision of design, engineering, maintenance and supply chain services.

Together with the RAN and CASG within the Department of Defence, ASC has met and exceeded international performance benchmarks, and is focused on delivery of beyond benchmark performance in submarine availability.

For the past three-years ASC's maintenance submarine performance has exceeded the targets set for it by the Enterprise. In the 2016/17 financial year, ASC again exceeded the RAN's maintenance performance target, as it had in the previous two financial years.

This year ASC achieved an average of 106 per cent of its targeted Material Ready Days (MRD) and the highest possible operational KPI result, under the ISSC. On 1 July 2017, a new five-year Performance Period for the ISSC for Collins Class submarine (CCSM) sustainment, commenced, agreed upon by both the Commonwealth and ASC.

Collins Class Maintenance Progress

HMAS *Collins* is the second CCSM to undergo a two-year FCD. The FCD commenced in June 2016 following the successful completion of the first two-year FCD on HMAS *Farncomb* and was approximately 60 per cent complete at end of June 2017.

HMAS *Collins* FCD includes a significant amount of capability upgrade implementations to modernise the submarine in readiness for the next ten-year operating period. Included in this is the first-of-class implementation of the new Communication Centre, which is also being implemented in parallel on HMAS *Sheean* during its 12 month MCD.

The 12 month MCD on HMAS *Sheean*, which commenced in December 2016, is the first MCD under the 10+2 UUC. The MCD duration was increased from six to 12 months to enable capability upgrades to be undertaken that were previously only conducted at FCD.

In addition, the package of capability upgrades has been increased from the target 40,000 hours to approximately 70,000 hours. This is all part of the increased Submarine Enterprise focus of ensuring CCSM remain regionally superior well into the future.

Customer Focus

The CCSM program has now completed the first three-year performance period of the ISSC. Under this arrangement the CCSM program has delivered the required outcomes to the Customer, The Capability Acquisition Sustainment Group, under the revised contract that simplified and insensitized required outcomes.

In collaboration with the Customer, ASC entered into the next Performance Period of the ISSC, and will continue to strive to deliver improved outcomes around availability, reliability and cost performance. ASC, with its Submarine Enterprise partners, is committed to moving CCSM performance beyond benchmark levels.

Key Submarine Enterprise decision makers are either co-located or meet regularly, which further enhances critical relationships, assists issue resolution and improves outcomes within the Submarine Enterprise, and ultimately delivers improved outcomes for the submarines.

The Future

ASC is Australia's only sovereign submarine industrial capability and has the skills and capabilities to support the necessary growth of the nation's overall capability.

The Collins Class fleet will remain Australia's front line submarine for the next 15-20 years, requiring maintenance and upgrade, and a number of Collins boats will need to have their service life extended into the 2040s.

ASC's primary focus will remain the sustainment of the Collins Class fleet, working with our partners to ensure it remains regionally superior and available for service at international benchmark levels.

For Australia to meet the challenge of becoming the parent nation for two classes of submarines, it is estimated we will have to double our submarine industrial capacity.

With the nation's leading submarine capability, ASC, along with its partners in the Submarine Enterprise, will manage the competing demands for skilled and experienced personnel so that Collins Class capability is not adversely impacted. ASC will continue to use its capability wisely to successfully meet the challenges of operating a regionally superior Collins Class fleet, and design, build and sustain the Future Submarines.

Strategic Investment

Upgrade to the Western Australian ASC facility was achieved on time, meeting scheduled submarine movements, and on budget with practical completion on 5 July 2017.

The upgraded facility has been designed and constructed to increase the efficiency of maintenance activities, through improved access to the submarines in the maintenance hall and on the hardstand. This has proven to be a timely investment given the customer's drive to increase submarine equipment modification/replacement during intermediate and mid-cycle docking in Western Australia. The addition of further office space, better workshops and a canteen have strengthened staff morale, support to Submarine Enterprise partners and on-site maintenance capability.

This investment reflects ASC's business and commitment to beyond international benchmark performance.

Future Performance Targets

As part of the ISSC, ASC aligned performance targets with its Submarine Enterprise partners to increase availability, reliability, cost performance and deliver agreed outcomes.

Agreed improvements resulted in:

- An increase in MRD (to international benchmark levels and above);
- Increased focus on implementing submarine capability and reliability;
- Delivery of HMAS *Collins* from FCD and HMAS *Sheean* from MCD whilst conducting ISS activities and supporting operational submarines - representing the shift of the entire CCSM fleet to the improved UUC (two-year FCD, one-year MCD, six month Intermediate Docking).

Business Improvement

ASC Business Improvement capability continues to drive significant initiatives including:

- Design and build major upgrades to the ASC West Henderson facility as part of 10+2 UUC Phase 2 works. The upgrades achieved practical completion on 5 July 2017 and have delivered; improved worker tool time; enterprise team member's co-location adjacent to the submarine; improved flow of material and personnel on and off the submarine; and optimised common working areas;
- Understanding critical path scheduling challenges for HMAS *Waller* FCD and partnering with relevant teams to optimise the maintenance for four major submarine systems enabling FCD success;
- Working in partnership with Engineering to streamline the main design process and implement a universal change development roadmap;
- Optimisation and growth for mid to short term docking events;
- The delivery of over 33 other discrete improvement projects, including full completion and close-out of the 10+2 UUC Phase 2 transformation program.

In addition to the discrete improvement projects, the improvement team have focused on building a culture of continuous improvement across CCSM.

The Submarine Enterprise

The Transformation Program Board was established to oversee the Collins Class Transformation Program and has been re-established as the Submarine Enterprise Board (SEB). The SEB is the senior committee for governance and management of the Submarine Program, optimising wherever possible, the conditions for achieving Enterprise Performance Targets through collaboration and continuous improvement.

During the 2016/17 financial year, ASC, in conjunction with enterprise partners:

- Achieved benchmark MRD and exceeded the agreed target MRDs in aggregate for the RAN;
- Reduced maintenance overruns to better than benchmarked standards;
- Collaboratively managed days lost to defects through focused investigations and continued operational period support and material demand satisfaction;
- Commenced the first 12 month MCD at ASC West as part of the new 10+2 maintenance regime (HMAS *Sheean*);
- Substantially completed the Maintenance Support Tower (MST) to support docked maintenance at ASC West;
- Successfully negotiated the next five-year performance period under the ISSC.

Submarine Training School

ASC has been the provider of initial and advanced submarine training at the Submarine Training and Systems Centre since 1992. In 2017, ASC completed the fourth year of the current five-year performance based contract and has recently been invited by the Commonwealth to participate in a single supplier limited approach for the contract retender.

During 2016/17, ASC:

- Delivered 373 training courses;
- Trained 89 new entry submariners and provided advanced training for 154 submariners;
- Provided collective training to enable certification of operational submarine crews;
- Provided training to ASC North and ASC West staff as well as to the Submarine Enterprise;
- Introduced Part Task Trainers into the training environment to support repatriation of the workload from the platform training simulator;
- Enable staff to attend and man a booth at SIMTECT 2016 to demonstrate the innovative products produced by the Training Technology team;
- Continued to develop and refine the 3D submarine virtual walkthrough, adding in avatars and Watch and Station Bill activities to enhance initial and advanced submariner training;
- Upgraded hardware and software for the Platform Training Simulator and Weapons Handling and Discharge Training equipment;
- Completed a Virtual Reality Proof of Concept project for Diving Station Console procedures to support further repatriation of the training workload from the Platform Simulator.

ASC continued to invest in growing the capability and capacity of its dedicated training team through recruitment, training and engagement with the maintenance workforce at ASC West in order to deliver continuously improving training to benefit the entire Submarine Enterprise.

HOBART CLASS AIR WARFARE DESTROYER PROJECT

ASC Shipbuilding's first future destroyer, *Hobart*, was provisionally accepted by the customer, Ship 02 *Brisbane* was successfully launched and Ship 03, *Sydney*, continues to rapidly progress towards the completion of hull integration.

The continued achievement of productivity improvements ship-on-ship and all cost and scheduled milestones since 2015 is confirming ASC's Shipbuilding position as Australia's proven builder of major warships.

Ship Progress

Ship 01 – Future Destroyer *Hobart*

2016/17 highlights for Ship 01 included:

- Gas Turbine Light Off;
- IPMS Light Off;
- Builder's Sea Trials, Sea Acceptance Trials;
- Ship 01 Provisional Acceptance to the customers.

Following the success of platform and combat system light off activities, Ship 01 *Hobart* successfully completed Shipbuilder's Sea Trials, and Sea Acceptance Trials. The success of trials followed completion of a demanding schedule during Sea Acceptance Trials, including more than 20 platform acceptance tests over 20 days at sea, as well as a range of combat system tests.

In June 2017, ASC celebrated a historic milestone with acceptance by our customer of our first warship, Ship 01 *Hobart*, among the most complex war-fighting vessels yet devised.

Ship 02 – Future Destroyer *Brisbane*

2016/17 highlights for Ship 02 included:

- Commencement of Integrated Platform Management System Light Off;
- Ship 02 Float Off and Naming Ceremony
- Main Generator Light Off;
- Combat System Light Off.

Ship 02 *Brisbane* successfully achieved Float Off in December 2016, achieving the milestone at 85 per cent completion - a far more advanced rate of completion compared to Ship 01 at 75 per cent.

The construction of Ship 02 continued to benefit from lessons learned on Ship 01, reaching efficiency gains of 40 per cent and a reduction in production labour costs of over 1.9 million hours for ASC Shipbuilding's scope of work.

At year's end the focus on Ship 02 was on continued activation of ship platform and combat systems in readiness for its Builders and Sea Acceptance trials.

Ship 03 – Future Destroyer *Sydney*

2016/17 highlights for Ship 03 included:

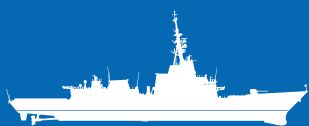
- Completion of the Mast Lift;
- Stern release.

Ship 03 continued to build on the lessons learned on the preceding ships gaining significant efficiency gains from early implementation and higher levels of completion in the pre-outfit phases.

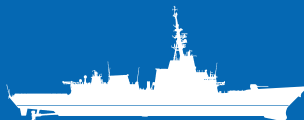
Erection of the Mast on Ship 03 further demonstrated ASC's commitment to continuous improvement, translating to great productivity, with the shipbuilding team achieving a further improvement of 15 per cent compared to Ship 02, after an already optimised Ship 2 mast-outfitting strategy was utilised.

Hull integration is progressing at a rapid rate, benefitting from lessons learned on Ship 01 and 02. At year's end the focus on Ship 03 remained on the completion of the ship's hull integration, which is expected to be completed by August 2017.

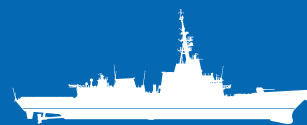
ASC continues to achieve productivity improvements ship-on-ship of greater than 40 per cent - with continued high performance as the shipbuilder within the AWD Alliance, assisted by program partner Navantia. ASC is on a trajectory to achieve international benchmark shipyard productivity with the delivery of Ship 03.



AWD Ship 1



AWD Ship 2



AWD Ship 3

60%

PRODUCTIVITY IMPROVEMENT

All AWD Shipbuilding milestones met since 2015

Benchmarked by Booz Allen Hamilton

Booz Allen Hamilton
Benchmark
= 1.93m hours
ASC Shipbuilding
Ship 3 = 1.8m hours

Direct labour benchmarks for a comparable build suggest Ship 3 is on a journey to close the gap to globally competitive Aegis-like production. June 2016 Ship by Ship analysis, Booz Allen analysis

AWD Continuous Performance Improvement Program

The Continuous Performance Improvement (CPI) Program is measured by its ability to provide financial benefit to the AWD Project. In FY 2016/17 the primary measure of the CPI program has shifted from dollar savings to overall effect on program risk. Savings are validated by the project Sponsor and Champion during the project closure process and require Director sign-off before being entered into the project tracking and management system.

The CPI Program includes dedicated team members in the AWD Program Management Office, plus embedded resources in the production, planning, supply chain and quality functions.

In FY 2016/17 the CPI Program delivered savings of \$39 million from June 2016 to the close of the financial year.

AWD Production Readiness Program

The Production Readiness Program was established to leverage the success of ASC's 'Safely on Time' program that was instrumental within the Collins Class submarine business.

Productivity improvements are measured against established metrics, and continue to be delivered through production-wide and trade-specific projects, including:

- A dedicated focus on schedule management with the implementation of an integrated team approach spanning across Ship and Trade management, has led to a dramatic improvement in Ship Plan Adherence over the year;
- An estimated 119,500 hours saved through an evolution in the schedule, sequence and resource management during Ship 03's consolidation process, providing a 64 per cent schedule improvement on Ship 02;
- Process reviews leading to an increase in cable testing pass rates by 15 per cent on Ship 02 and 9 per cent on Ship 01 as well as a 60 minute reduction in document processes per pipe segment;

- The establishment of a Rapid Response service and On Board Material Slump store eliminated over 20,000 reasons for tradespeople to leave Ship 01 at the wharf, and the service continues to deliver the same efficiency gains for Ship 02.

Production Readiness Measures	June 2014	June 2015	June 2016	June 2017*
Labour Utilisation/ Productivity	25%	60%	70%	**109%
Work Readiness	48%	91%	92.5%	91.5%
Ship Plan of the Week	7%	84%	83%	96.5%
Work Pack Fill Rate	75%	90%	84%	91%

* June 2017 figures are reflective of Ship 02 and Ship 03 performance, Ship 01 has been excluded following Provisional Acceptance.

** In August 2016, the ASC Board approved for the Labour Utilisation measure to be replaced with a Productivity measure.

ASC continues to drive improvements in the key metrics of work readiness, productivity, schedule adherence and material management in accordance with its Five Point Plan, which remains on target to achieve world's best practice performance.

INFRASTRUCTURE DEVELOPMENT

ASC utilises three modern facilities which are located at ASC North and ASC South in South Australia, and ASC West in Western Australia.

Since the establishment of ANI in March 2017 ASC has continued to have full access and use of the Osborne shipyards in Adelaide and associated critical infrastructure now owned by ANI.

ASC North

The ASC North facility located at Osborne in South Australia is responsible for the FCD maintenance of the CCSM.

Further improvements to this facility were made along with regular and major maintenance activities to ensure the facility continues to effectively support the Submarine Enterprise.

Access to submarines during maintenance activities was further improved via upgrades to the MST. The MST Extension included the addition of access platforms and workshop space, along with additional material staging and preparation areas. The project also included removable platforms to ensure movement of the submarine, when required, was not restricted in any way. These upgrades facilitated the reduction in time taken to carry out FCD tasks around the front of the boat.

Additional projects relating to FCDs included:

- Dredging work at the ASC North Shiplift and Wharf, with significant cost savings achieved following coordination of the project with similar activities at Defence SA and ASC South;
- Implementation of a Lockdown process; this included installation of a lockdown system and company-wide workforce training in implementation of the system – improving to personnel safety on-site during an armed-intruder attack;
- Refurbishment of the submarine transfer system bogies to ensure reliability and extension of their operational life.

Other facility upgrade activities at ASC North included;

- Installation of a dual outlet fire hydrant in the north east corner of the site in close proximity to the Diesel Generator Test Facility;
- Installation of a new grinding bay and fume extraction for the sheet metal workshop;
- Movement of the main site Security Office to improve the effectiveness and efficiency of the Security team's operations, also allowing additional storage capacity of classified items;
- The Workshop Optimisation Project saw the Maintenance and Production teams collaborate to undertake significant electrical and pneumatic installation works in fabrication, metal loss, hatchery and the diesel workshop;
- Early stages planning for the creation of a solar farm to assist ASC in reducing the impact of increasing electricity prices.

ASC West

The ASC West Henderson facility underwent a significant facility upgrade this financial year in order to increase the efficiency of maintenance activities, through improved access to the submarines in the maintenance hall and on the hardstand.

The design of the upgrade was based around lessons learnt from the MST build at ASC North, including significant research into how best to organise and support the workforce in Western Australia.

The upgrade was completed over three stages to minimise disruption to ongoing submarine maintenance activities.

The first stage of the upgrade included the restructuring of office level two to include a canteen, and the building of a new MST in the maintenance hall. The second stage of the upgrade included building a fabrication workshop on the ground floor and installation of a fire sprinkler system to office level one and ground floor workshop. The third and final stage of the upgrade included connecting the hardstand towers with two levels of submarine access and the establishment of a sky bridge to connect the hardstand towers to the maintenance hall.

Practical Completion of the upgrade was achieved by ASC on 5 July 2017 with an official opening at the new facility by Finance Minister the Hon Senator Mathias Cormann and Defence Industry Minister the Hon Christopher Pyne MP on 31 July 2017.

ASC South

The ASC South facility hosts the construction of the three Hobart Class AWDs. In 2016/17 work was undertaken to support the construction and testing of the consolidated ships on the dry berth and alongside the wharf, including:

- Upgrade of site security access control system;
- Installation of data loggers for all Building Gantry Cranes for accurate recording of work performed, thereby enabling the maximum asset life of the cranes to be achieved and optimal maintenance, asset life and safety outcomes to be realised;
- Installation of data loggers for three Tadano and Manitowoc mobile cranes enabling optimised maintenance outcomes and asset life to be achieved;
- Closure of two Tool Cribs in Building 02 and 15;
- Procurement of a portable rotary milling machine to allow in-house machining of cylindrical type machinery foundations such as forward and aft illuminators and Gun;
- Additional Leica AT401 Laser tracking CMM to enable greater capacity for Accuracy Control Department;
- Successful trial and subsequent procurement of several battery powered portable welders (ARC and TIG) to facilitate wharf side ship building work;
- Initial sales of surplus shipyard equipment, scaffolding and machinery;
- Major refurbishment of Pipe Shop dip tank jib crane.

SAFETY PERFORMANCE

Health and safety continue to be at the forefront of what ASC do.

ASC is committed to ensuring its work, health and safety priorities lead to continuous improvement of its performance.

ASC maintains its commitment to the continuous improvement of its health and safety performance through the delivery of its health and safety strategy and the desire to achieve a generative safety culture, where health and safety is a fundamental component in all that we do.

To aid continuous improvement, a variety of safety initiatives were deployed during the 2016/17 financial year including, but not limited to:

- Delivery of a revised Fitness for Work, Drug and Alcohol program, including workforce education and a random testing regime;
- Delivery of a revised Health and Wellbeing program focused on psychological health and fatigue management;
- Completion of a company wide safety culture assessment;
- Introduction of a Mental Health First Aid program;
- Completion of a WHS Legal Compliance review.

Notifiable Incidents

The Work Health Safety Act 2012 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 in 2016/17:

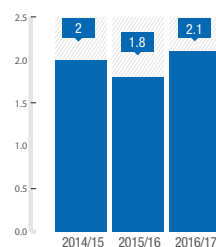
Deaths	0
Dangerous Incidents	9
Serious personal injury or illness	0
TOTAL	9

There were nine dangerous incidents notified to Comcare, with none resulting in serious personal injury or illness to ASC workers. This represents a 50 per cent reduction on incidents reported in the previous year.

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.

The company achieved a total lost time injury frequency rate (LTIFR) of 2.1 for 2016/17 (all site based workers, includes contractors) representing a marginal increase in frequency rate from the previous reporting period, nominally affected by a minor increase (x2) in lost time injuries, and a reduction in overall exposure hours (hours worked).

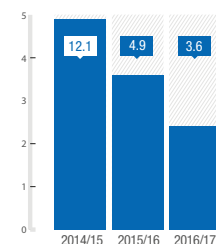


LTIFR = number of LTI's X 1,000,000 divided by hours worked per month.

Medically Treated Injuries

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

Across ASC, a medically treated injury frequency rate (MTIFR) of 2.4 was recorded for 2016/17 (all site based workers, includes contractors) representing a 33 per cent reduction from the previous reporting period.



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

Investigations

Comcare did not commence investigations into any of the nine notifiable incidents.

ENVIRONMENTAL PERFORMANCE

ASC is committed to the protection of the natural environment and is working to mature its Environmental Management System (EMS), in which environmental sustainability is integrated throughout all areas of the business.

Improving Environmental Performance

ASC's efforts remained on transitioning from an EMS focused primarily on compliance, to one with improved environmental performance.

Key areas of environmental performance include:

- Energy – security, cost and source;
- Reduction of water consumption;
- Increase in the percentage of waste diverted from landfill;
- Climate Change adaptation planning (including reduction of carbon emissions);
- Sustainability integration.

ASC achieved significant increases in waste diversion during the 2016/17 period, with more than half of the generated waste material being diverted away from landfill.

Key environment and sustainability risks for the business were evaluated, with energy supply (cost, security, carbon emissions) being identified as a significant risk for the business. As such ASC continues to actively investigate opportunities to reduce costs and carbon emissions, and to improve the security of supply.

Environmental Management System

ASC has reinvigorated its focus on the integration and highlight of sustainable practices throughout the business, highlighted by the formation of a dedicated Sustainability Committee, which oversees the development of a formal Sustainability program.

The EMS has continued to achieve certification to ISO14001:2004, and is undergoing a range of improvements to assist ASC in achieving certification to the updated ISO14001:2015 version of the standard.

The key focuses of these improvements include:

- Integration of environmental considerations into broader business processes;
- Consideration of the whole-of-life costs and impacts of products and services;
- Integration of sustainable business principles.

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 2016/17 financial year, there were no environmental incidents that required official regulatory notification. ASC continues to proactively manage environmental risks with all environmental hazards and risks identified through the period being controlled and/or mitigated by site based teams.

Environmental Licences

ASC maintains environmental licences for our activities in South Australia and Western Australia, for the Submarine and AWD projects, under the respective State and Commonwealth environmental regulatory bodies.

WORKFORCE AND TRAINING

ASC's highly skilled workforce is the foundation upon which its ongoing success is built. The organisation recognises that attracting, retaining and developing the best workforce, remains critical to continued improvement in performance and resulting success.

Introduction

ASC's continued strong performance on its submarine maintenance and shipbuilding programs was supported by its ongoing investment in a range of workforce development activities.

ASC's total workforce is approximately 2400 permanent employees across three sites; ASC North and South, within South Australia, and ASC West in Western Australia. ASC also has employees at the Submarine Training and Systems Centre in Western Australia.

The reduction of our workforce from the previous year is largely as a result of roll-offs associated with the AWD program, however reductions to date have predominantly involved contractors, with limited permanent employee losses.

Professional Development

In 2016/17 ASC professional development activities included:

- Continuation of ASC's internal mentoring program;
- Delivery of leadership programs aligned to the ASC leadership framework for supervisors and middle and senior management;
- Apprentice and graduate development programs;
- Implementation of leadership forums;
- Development and implementation of an extensive suite of project management e-learning resources tailored to ASC's unique and specific environment;
- Upgraded features and additional resources for professional development on the ASC learning management system.

Apprentices and Graduates

During 2016/17 ASC's Apprentice Program was once again highly competitive. The program received 815 applications, from which 13 positions were awarded, nine in South Australia and four in Western Australia, bringing the total number of apprentices employed to 76.

ASC has a completion rate of apprentices of 91.6 per cent, compared to 87 per cent in the previous year. This compares with a national completion rate of 56.3 per cent (NCVER 2016, *Australian vocational education and training statistics: completion and attrition rates for apprentices and trainees 2015*, NCVER, Adelaide).

ASC employed 13 engineers in its graduate program, 12 in South Australia and one in Western Australia. Graduates are placed in permanent positions for two-years and rotated through various departments every three to six months. Graduates have the opportunity to go on a three to four month placement in Western Australia or South Australian, with six graduates taking part in the placement in 2016/17.

Government Support to Workforce Development

In 2016/17 ASC received \$560,000 from the South Australian Government's Department of State Development. This valuable support enabled ASC to further develop its shipbuilding capability through the following programs:

- Contract Management for Ship Construction, Repair and Design;
- Defence Industry Pathways Program;
- ERG Specialist Training;
- Hydraulics Level 1 and 2;
- NACE Coating Inspection Program Levels.

Workforce Planning

Workforce planning is an active and continuous process in ASC's business planning cycle used to identify workforce implications, current and future, of business strategic objectives. Aligned to AS5620:2015, implementation of ASC's workforce planning model has provided managers with a strategic basis for making human resource decisions, allowing them to:

- Respond quickly and more strategically to change;
- Improve efficiency, effectiveness and productivity of their teams;
- Facilitate strategic staffing and planning for future workforce requirements;
- Strengthen capability to support the achievement of business outputs now and into the future;
- Better understand workforce profiles;
- Assist with the identification and management of people with the knowledge critical for effective and efficient business operations.

Activities completed from the current Submarine Industry Workforce Plan 2016-2020 have included:

- Managing the internal labour market;
- Preparing for international assignments to Cherbourg, France;
- Maintaining connection with past, present and future talent;
- Optimising a diverse and inclusive ASC;
- Managing and growing the future talent pipeline;
- Introducing enhanced human resource/business systems;
- Increasing participation in ASC's Graduate Program;
- Supporting the establishment of a Naval Shipbuilding College;
- Strengthening commercial and project related capability;
- Developing leaders and their teams;
- Hosting the CCSM apprenticeship program.

Activities completed from the current Shipbuilding Workforce Plan have included:

- Managing the internal labour market movements;
- Managing the resource reduction programs;
- Transfer of talent to other parts of ASC as part of labour reductions;
- Secondments to Sydney as part of AWD support contacts;
- Maintaining connection with past talent through the ASC Alumni;
- Promoting diversity through talent management;
- Supporting the direct development of women in our workforce;
- Managing and growing the future talent with dedicated people day activities;
- Provision of a transition centre to support exiting employees;
- Increasing participation in ASC's Graduate Program;
- Supporting the establishment of a Naval Shipbuilding College;
- Strengthening commercial and project related capability;
- Developing leaders and their teams;
- Providing for psychological wellbeing with resilience development programs;
- Providing for cultural awareness to support our industry partners;
- Hosting AWD apprenticeship program.

ASC will continue to enhance its workforce planning and development strategies in order to ensure those workers with the required skills and experience are sourced and the existing mission essential core capability is protected from increased competition.

Diversity and Inclusion

ASC has taken a strategic approach to achieving greater diversity and inclusion across its business, working with its employees to determine and implement a way forward. In June 2016, ASC officially launched its diversity and inclusion program, All Aboard, after an intensive engagement process with a cross-section of ASC employees.

Recognising the many benefits of workforce diversity and inclusion, the All Aboard program has continued to evolved across the 2016/17 financial year.

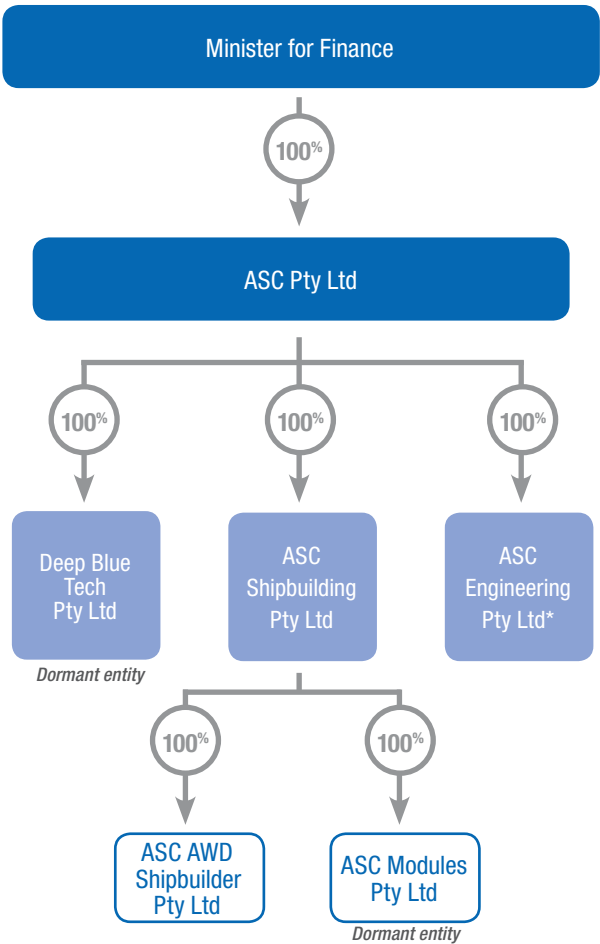
The program continues to roll-out across the business via a range of initiatives including; Inclusive Leadership Training, ASC's Call it Out program – fostering a physically and psychologically safe workplace – and Flexible Working.

The All Aboard program continues to work towards its long-term goal and vision in seeking to foster a culture of inclusion and achieving greater diversity, to improve our ability to achieve our business goals and be considered as an 'employer of choice'.

CORPORATE GOVERNANCE

ASC is a proprietary company limited by shares registered under the Corporations Act 2001 and is subject to the Public, Governance Performance and Accountability Act 2013. All the shares issued in the capital of ASC are owned by the Minister for Finance.

The ASC Group is structured as follows*:



On 11 June 2004, ASC was proclaimed as a Government Business Enterprise under the then Commonwealth Authorities and Companies Act 1997.

*On 26 March 2017 the ownership of ASC Engineering Pty Ltd was transferred to the Commonwealth and became ANI Pty Ltd.

Directors

The Directors of ASC (other than the Managing Director) are appointed by the Minister for a term. As at 30 June 2017, the Board was comprised as follows:



BRUCE CARTER
Chairman

Appointed: 1 Jan '10
To: 31 Dec '18



DR ROSALIND DUBS
Non-Executive Director

Appointed: 1 May '13
To: 31 Dec '19



PAUL RIZZO
Non-Executive Director

Appointed: 13 Dec '13
To: 12 Dec '19



LORETTA REYNOLDS
Non-Executive Director

Appointed: 9 Feb '16
To: 8 Feb '19



JOYCELYN MORTON
Non-Executive Director

Appointed: 1 Jan '17
To: 31 Dec '19



GARY GRAY
Non-Executive Director

Appointed: 1 Jan '17
To: 31 Dec '19

The remuneration of the directors is determined by the Remuneration Tribunal under the *Remuneration Tribunal Act 1973*.

Attendance

Attendance at Board and committee meetings during 2016/17 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
Bruce Carter	12	12	-	-	3	3	4	4
Dr Rosalind Dubs	12	12	-	-	-	-	4	4
Paul Rizzo	12	12	6	6	-	-	4	4
Peter Iancov	12	12	-	-	2	0	4	4
Loretta Reynolds	12	12	6	6	3	3	-	-
Joycelyn Morton	5	5	3	3	2	2	-	-
Gary Gray	5	5	-	-	-	-	2	2
Jeremy Schultz	5	5	-	-	-	-	2	2

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 2016/17 year.

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;
- 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;
- 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;
- 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 and performance reporting;
- Risk oversight and management;
- 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;
- Maintain an effective external and internal audit function, in compliance with all applicable laws.

As at 30 June 2017, the committee consisted of Joycelyn Morton (Chair), Paul Rizzo and Loretta Reynolds.

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;
- Succession planning.

As at 30 June 2017, the committee consisted of Loretta Reynolds (Chair), Bruce Carter and Joycelyn Morton.

Business Assurance and Security Committee

The objectives of the Business Assurance and Security Committee (BASC) are to satisfy itself that:

- Adequate systems are in place for the effective identification and assessment of all areas of potential material business risks other than those arising from financial reporting and accountability (being risks considered by the Audit Committee);
- Adequate policies, processes and procedures have been designed and implemented;
- Appropriate action is undertaken to bring the identified material risks within the Group's risk tolerance levels;
- A culture of compliance is being promoted;
- Compliance strategies and functions are effective.

As at 30 June 2017, the committee consisted of Paul Rizzo (Chair), Bruce Carter, Rosalind Dubs, and Gary Gray.

Board Membership

During the year:

- Peter Iancov retired as a Non-Executive Director of ASC and from the committees on which he served;
- Paul Rizzo retired as Chair of the Audit Committee but continued as a member of that Committee;
- Bruce Carter retired as Chair of the HR and Remuneration Committee but continued as a member of that Committee;
- Loretta Reynolds was appointed Chair of the HR and Remuneration Committee;
- Joycelyn Morton was appointed as a Non-Executive Director, Chair of the Audit Committee and a member of the HR and Remuneration Committee;
- Gary Gray was appointed as a Non-Executive Director and a member of the Business Assurance and Security Committee;
- Jeremy Schultz was appointed as a Non-Executive Director and a member of the Business Assurance and Security Committee and subsequently retired as a Non-Executive Director of ASC and from the BASC.

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;
- Guide directors and ASC personnel as to the practices considered necessary to maintain confidence in the ASC Group's integrity.

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 Internal Audit Manager is responsible to the Audit Committee for contributing to the achievement of ASC's goals and objectives by:

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

Risk Management

ASC is committed to risk management as an integral part of its business. Both the Audit Committee (financial risk) and BASC (operational risk) are responsible for monitoring ASC's risk management performance. ASC risk management involves:

- Identifying corporate risk;
- Assessing the likelihood of their occurrence;
- Estimating the likely consequence of risks should they occur;
- 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.

Legal Compliance

ASC has established a legal compliance program. In 2016/17, the program covered:

- Defence exports;
- Work health and safety;
- Equal opportunity and bullying;
- Environment;
- Intellectual property;
- Security;
- Corporate governance.

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

KEY MANAGEMENT PERSONNEL REMUNERATION

ASC's key management personnel (KMP) include those Senior Executives whom hold authority and responsibility for planning, directing and controlling ASC's strategic direction. ASC KMP include KMP for both ASC Pty Ltd and its subsidiary ASC Shipbuilding Pty Limited.

The remuneration of ASC Pty Ltd CEO is in accordance with the relevant determination of the Remuneration Tribunal.

A summary for Senior Executive remuneration for the financial year 2016/17 is included at Table 1. Please note: all components are based on a cash basis excluding bonus payments based on accruals.

ASC's approach to senior executive remuneration is below.

Senior Executive Remuneration Overview

ASC Pty Ltd's Senior Executive remuneration structure has been developed to ensure that its Senior Executives are remunerated commensurate with the market and incentivised to deliver against the corporate objectives. ASC's Senior Executive remuneration is structured with a total fixed remuneration (TFR) amount together with a short term incentive (STI) payment should the required company performance and individual objectives be achieved.

Setting Senior Executive Remuneration

As a Government Business Enterprise, ASC adheres to the Australian Public Service Commission Workplace Bargaining Policy 2015.

ASC Senior Executive remuneration packages are developed so as to ensure as much as is possible that the total remuneration amount is competitive when compared to similar organisations.

ASC Senior Executive TFR consists of salaries and wages, allowances and other non-monetary benefits, annual leave and superannuation. When establishing an appropriate TFR for an ASC Senior Executive the following elements are considered:

- Market data;
- Risk and complexity of the role;
- The Executive's experience and skills;
- Performance;
- Internal relativity within the Senior Executive.

Benchmarking and review of Senior Executive remuneration

ASC Senior Executive roles are independently benchmarked annually against reference market data gathered from market research and augmented with survey data.

The ASC Board's Human Resource and Remuneration Committee reviews Senior Executive remuneration packages annually to ensure they are reflective of company and individual performance and market conditions, as well as any relevant Remuneration Tribunal determinations. The ASC Board is responsible for the approval of Senior Executive remuneration packages and the award of annual individual STI's following recommendations from the Human Resource and Remuneration Committee.

Linking company and individual performance to STI payments

To ensure that ASC's strategic objectives are achieved each Senior Executive remuneration package contains a portion of 'at risk' remuneration paid as an STI payment. The STI program is a core element of ASC's Senior Executive remuneration package as it is tied directly to the successful completion of both company and individually assigned objectives which are directly aligned to ASC's strategy and are set out in relevant Board approved Game Plans. The STI allows ASC to:

- Incentivise the delivery of corporate objectives aligned to ASC's strategy.
- Reward Senior Executives that have contributed to ASC's success during the performance period.

Table 1 – COMPENSATION OF KEY MANAGEMENT PERSONNEL FOR THE 2016/17 FINANCIAL YEAR

Remuneration for Senior Executives for FY 2016/17 and FY 2015/16 is shown in the table below

		Short-term benefits			Post-employment	Other long-term benefits	Termination benefits	Total Compensation
		Base Pay (1)	STI Accrual	Annual Leave Accrual (2)	Non-cash benefits	Employer Super	Long Services Leave Accrued (3)	(4)
Note		\$	\$	\$	\$	\$	\$	\$
Key Management Personal								
ASC Pty Ltd								
S Whiley	2017	536,023	99,312	13,394	-	35,854	13,067	- 697,650
	2016	479,857	88,535	18,728	4,800	35,000	11,067	- 637,987
M Edwards	2017	417,790	71,796	3,008	29,800	35,000	9,776	- 567,170
	2016	408,638	72,842	(2,906)	31,760	35,000	9,585	- 554,919
P Gay	2017	334,834	68,672	1,027	-	30,293	9,036	- 443,862
	2016	314,506	58,544	2,994	17,270	30,000	7,703	- 431,017
W Hoad	2017	290,561	54,459	3,242	13,058	35,000	7,025	- 403,345
	2016	263,770	53,392	9,327	13,493	33,918	7,025	- 380,925
A Menadue	2017	335,121	63,791	(2,405)	20,989	30,000	7,817	- 455,313
	2016	308,869	62,540	5,867	20,990	30,000	7,817	- 436,083
<hr/>								
Total	2017	1,914,329	358,030	18,266	63,847	166,147	46,721	- 2,567,340
	2016	1,775,640	335,853	34,010	88,313	163,918	43,197	- 2,440,931
<hr/>								
ASC Shipbuilding								
M Lamarre	2017	1,553,860	503,388	14,470	19,147	-	23,600	- 2,114,465
	2016	2,010,543	516,053	(12,760)	113,560	-	23,600	- 2,650,996
J Cuthill	2017	5 302,233	59,160	5,577	-	35,000	7,250	- 409,220
	2016	-	-	-	-	-	-	-
<hr/>								
Total	2017	1,856,093	562,548	20,047	19,147	35,000	30,850	- 2,523,685
	2016	2,010,543	516,053	(12,760)	113,560	-	23,600	- 2,650,996
<hr/>								
Grand Total	2017	6 3,770,422	920,578	38,313	82,994	201,147	77,571	- 5,091,025
	2016	3,786,183	851,906	21,250	201,873	163,918	66,797	- 5,091,927

Notes:

1. Base pay includes annual leave taken and allowances paid.
2. Annual leave accrued in 2016/17 financial year less annual leave taken.
3. Long service leave relates to amounts accrued during the relevant period.
4. Termination benefits include payment of statutory benefits for long service leave and annual leave, which have previously been accrued.
5. Mr Cuthill was appointed as KMP on 19 June 2016.
6. Remuneration totals on table 1 are different to the remuneration values in note 18(a) in the financial report due to rounding.

RECOGNITION AND MEASUREMENT

Short-term benefits

Short-term employee benefits include salaries and wages (inclusive of salary sacrificed items and any applicable fringe benefits tax), allowances and other non-monetary benefits (including any applicable fringe benefits tax). A liability is also recognised for short-term incentives incurred during the financial year.

Post-employment benefits

Superannuation contributions (including superannuation guarantee contributions) paid into superannuation plans nominated by employees are recognised as an expenses as they become payable.

Other long-term benefits

The long service leave benefit represents amounts accrued during the financial year with respect to an employee. The group's liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by the employees up to the end of the reporting period.

Termination benefits

Benefits are payable when employment is terminated and an expense is incurred based on an agreed formal plan to terminate current employees without the probability of withdrawal. Other payments in relation to termination such as annual leave and long service leave are also included, even where the cost of these has been accrued in previous years.

Total Compensation

Total compensation includes total fixed compensation plus short-term and long-term incentives, long service leave and termination benefits.

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FINANCIAL REPORT

30 June 2017

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

For the year ended 30 June 2017

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 2017.

Directors

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

Bruce James Carter
Dr Rosalind Vivienne Dubs
Paul John Rizzo
Loretta Anne Reynolds

In January 2017 three new board members were appointed to the ASC Board, namely Joycelyn Cheryl Morton, Jeremy Schultz and the Hon Gary Gray AO, to provide continued expertise and direction to the Board. Following the establishment of Australian Naval Infrastructure Pty Ltd (ANI), two Board members, Mr Schultz and Mr Lancov, were asked to take up positions as Board members of ANI, following which they resigned from the Board of ASC.

Principal activities

The principal activities of the Group during the course of the financial year ended 30 June 2017 are set out below. No significant change in the nature of these activities occurred during the year.

CCSM related activities:

The major submarine related activities include maintenance, design development, engineering and upgrading of six submarines for the RAN. These activities were undertaken for the CCSM under the ISSC.

Hobart Class AWD related activities:

ASC is the main shipbuilder for the construction of the three AWDs for the Commonwealth of Australia (CoA). ASC is part of the Alliance Based Target Incentive Agreement (ABTIA) with other members of the AWD Alliance, the CoA represented by the CASG and Raytheon Australia. The ABTIA commits the alliance members to work as an integrated team to deliver the RAN's next generation warships.

Consolidated result

The consolidated profit of the Group for the financial year attributable to the shareholders of ASC Pty Ltd was \$29,177,000 (2016: \$26,628,000) after provision for income tax expense of \$12,646,000 (2016: income tax expense \$11,426,000).

Review of operations

CCSM related activities:

The Company was in the third and final year of performance period two of the ISSC. It has entered into performance period three of the ISSC in FY 2017/18.

Hobart Class AWD related activities:

The builder's sea trials for ship one (*Hobart*) were successfully completed in September 2016 and provisional acceptance was made in June 2017. Ship two (*Brisbane*) was launched in December 2016 and Combat System Light Off was achieved in April 2017. The consolidation phase for ship three (*Sydney*) is ongoing.

In previous years, a decision was made by the directors that it was probable that the forecast of the cost to complete the three AWDs would exceed contract revenues. As such, an expected loss was recognised in line with Australian Accounting Standards Board (AASB) 111 *Construction Contracts* as issued by the AASB. The expected loss has been reviewed in the current period based on management's most recent forecast. A loss before tax of \$37.6m has been recognised to date (FY 2013/14, \$34.1m loss; FY 2014/15: \$4.7m loss; FY 2015/16: \$2.6m profit; FY 2016/17: \$1.4m loss).

Dividends - ASC Pty Ltd

The Directors declared an unfranked final dividend of \$10.9m on 7 September 2017 for the year ended 30 June 2017.

Dividends paid during the financial year were as follows:

	2017	2016
	\$'000	\$'000
Final dividend for the year ended 30 June 2016 paid on 28 October 2016	9,600	9,700
Special dividend paid on 8 December 2016	3,500	-
Interim dividend for the year ended 30 June 2017 paid on 29 May 2017	6,600	6,400
	19,700	16,100

ASC PTY LTD AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

For the year ended 30 June 2017

State of affairs

In October 2016, the Minister for Finance (the Honourable Senator Mathias Cormann), the Minister for Defence Industry (the Honourable Christopher Pyne) and the Minister for Defence (the Honourable Senator Marise Payne) announced the separation of ASC into three individual Government owned entities. These companies will support the key capabilities of shipbuilding, submarine maintenance and infrastructure.

On 15 March 2017, the Minister for Finance approved the restructure of the ASC Group ("Legacy ASC") into two separate Government owned entities, ASC Pty Ltd ("Residual ASC") and ANI Pty Ltd (formerly known as ASC Engineering Pty Ltd). The Board of ASC approved the restructure on 22 March 2017, with an effective date of separation of 26 March 2017.

ANI is an infrastructure company and Residual ASC will continue to operate the Collins Class Submarines and AWD businesses. The key financial steps involved in the separation and the balance sheet impact are discussed in the note 2.

Environmental regulation

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

The Group is committed to achieving a high standard of environmental performance consistent with the requirements of AS/NZ ISO 14001: EMS, which forms part of ASC's corporate management system. 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/NS ISO 14001: EMS.

The Group has complied with all applicable environmental regulations and site specific environmental license 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

ASC Shipbuilding Pty Ltd, a subsidiary of the Company, submitted tenders for the Offshore Patrol Vessel 12 ship build opportunity to two of the three competing European designer primes. If either prime is successful, ASC Shipbuilding Pty Ltd will enter into an incorporated joint venture to build the vessels in South Australia and Western Australia in accordance with Government directives in the tender. The joint venture would be with Forgacs Marine and Defence Pty Ltd, a wholly owned subsidiary of Cimvec Construction and Engineering Pty Ltd, a construction and engineering services company based in Henderson, Western Australia. The tenders are under assessment by the CASG with the winning bid scheduled to be announced in the second quarter of the 2017/18 financial year.

Directors' benefit

Since the end of the previous financial year, no director of the Group 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 Group, its controlled entities or a related body corporate with the director or with a firm of which the director is a member, or with an entity in which the director has a substantial interest.

Indemnification and insurance of directors and officers

(a) Indemnification

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

(b) Insurance premiums

Since the end of the previous financial year the Group, 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 Group 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 Group, which are not indemnified by the Group 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

The Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

Rounding of amounts

The consolidated entity is of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investment Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with the Instrument unless otherwise stated.

Signed in accordance with a resolution of directors.



Bruce James Carter

Director



Joycelyn Cheryl Morton

Director

Adelaide

7 September 2017



ASC PTY LTD AND ITS CONTROLLED ENTITIES

FINANCIAL REPORT 2016–17

AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the financial report of ASC Pty Ltd and its controlled entities for the year ended 30 June 2017, to the best of my knowledge and belief, there have been:

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

Australian National Audit Office

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

Carla Jago
Group Executive Director

Delegate of the Auditor-General

Canberra

7 September 2017

ASC PTY LTD AND ITS CONTROLLED ENTITIES

DIRECTORS' DECLARATION

For the year ended 30 June 2017

The directors' declare that, in the directors' opinion:

- (a) the financial statements and notes set out on pages 36 to 81 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with AASB, the *Corporations 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 2017 and of its performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the Group 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 (IFRS) as issued by the International Accounting Standards Board (IASB).

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



Bruce James Carter
Director



Joycelyn Cheryl Morton
Director

Adelaide
7 September 2017



INDEPENDENT AUDITOR'S REPORT

To the members of ASC Pty Ltd

Opinion

In my opinion, the financial report of ASC Pty Ltd and its subsidiaries (together the consolidated entity) for the year ended 30 June 2017 is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

The financial report of the consolidated entity, which I have audited, comprises the following statements as at 30 June 2017 and for the year then ended:

- Consolidated Statement of Comprehensive Income;
- Consolidated Statement of Financial Position;
- Consolidated Statement of Changes in Equity;
- Consolidated Statement of Cash Flows;
- Notes to the consolidated financial statements, comprising a Summary of Significant Accounting Policies and other explanatory information; and
- Directors' Declaration.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the consolidated entity in accordance with the *Corporations Act 2001* and the relevant ethical requirements for financial report audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code.

I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ASC Pty Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is the director's report for the year ended 30 June 2017 but does not include the financial report and my auditor's report thereon.

My opinion on the financial report does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial report, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Directors' Responsibility for the Financial Report

The directors of 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 the

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directors determine 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 preparing the financial report, the directors are responsible for assessing the consolidated entity's ability to continue as a going concern, disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the directors either intend to liquidate the consolidated entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objective is to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 consolidated entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the consolidated entity audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Australian National Audit Office



Carla Jago

Group Executive Director

Delegate of the Auditor-General

Canberra

7 September 2017

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2017

	Note	Consolidated Entity	
		Jun-17 \$'000	Jun-16 \$'000
Revenue from continuing operations	5	811,151	800,852
Expenses			
Materials and subcontractors		(284,004)	(246,206)
Labour		(396,739)	(410,151)
Depreciation and amortisation expense	6	(14,865)	(19,348)
Operating lease	6	(15,928)	(15,153)
Impairment of assets	6	(399)	(449)
Other expenses		(56,964)	(71,143)
Finance costs	6	(429)	(348)
Profit before income tax		41,823	38,054
Income tax expense	7	(12,646)	(11,426)
Profit for the year		29,177	26,628
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Gain on revaluation of land and buildings	12(b)	4,055	5,653
Remeasurements of post-employment benefit obligation	9(f)(vi)	(1,986)	340
Income tax relating to these items		(493)	(1,798)
Other comprehensive income for the year, net of tax		1,576	4,195
Total comprehensive income for the year		30,753	30,823
Profit is attributable to:			
Owners of ASC Pty Ltd		29,177	26,628
Total comprehensive income for the year is attributable to:			
Owners of ASC Pty Ltd		30,753	30,823

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 30 June 2017

		Consolidated Entity		
		Note	Jun-17 \$'000	Jun-16 \$'000
ASSETS				
Current assets				
Cash and cash equivalents	8(a)		267,799	201,234
Trade and other receivables	8(b)		171,613	152,087
Inventories	9(b)		1,075	2,213
Current tax receivables			-	2,036
Other current assets	10		5,276	4,794
Unpaid share capital	9(d)		11,000	-
Total current assets			456,763	362,364
Non-current assets				
Net pension assets	9(f)(ii)		407	2,228
Property, plant and equipment	9(c)		58,428	334,696
Deferred tax assets	9(a)		17,832	-
Other non-current assets	11		3,049	3,293
Unpaid share capital	9(d)		41,936	-
Total non-current assets			121,652	340,217
Total assets			578,415	702,581
LIABILITIES				
Current liabilities				
Trade and other payables	8(c)		116,570	92,555
Net unearned contract billings	9(e)		151,265	142,046
Interest bearing liabilities	8(d)		120,480	88,770
Current tax liabilities			10,057	-
Provisions	9(g)		45,145	41,985
Total current liabilities			443,517	365,356
Non-current liabilities				
Non interest bearing liabilities	8(d)		3	15,165
Deferred tax liabilities	9(a)		-	21,887
Provisions	9(g)		21,094	20,129
Total non-current liabilities			21,097	57,181
Total liabilities			464,614	422,537
Net assets			113,801	280,044
EQUITY				
Share capital	12(a)		62,936	10,000
Asset revaluation reserve	12(b)		-	125,774
Retained earnings	12(c)		50,865	144,270
Total equity			113,801	280,044

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2017

	Attributable to owners of ASC Pty Ltd			
	Share capital	Asset Revaluation Reserve	Retained Earnings	Total equity
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015	10,000	121,817	133,504	265,321
Profit for the period	-	-	26,628	26,628
Revaluation of land and buildings	-	5,653	-	5,653
Remeasurement of post-employment benefit obligations	-	-	340	340
Income tax relating to these items	-	(1,696)	(102)	(1,798)
Total comprehensive income for the year	-	3,957	26,866	30,823
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(16,100)	(16,100)
Balance at 30 June 2016	10,000	125,774	144,270	280,044
Balance at 1 July 2016	10,000	125,774	144,270	280,044
Profit for the period	-	-	29,177	29,177
Revaluation of land and buildings	-	4,055	-	4,055
Remeasurement of post-employment benefit obligations	-	-	(1,986)	(1,986)
Revaluation balance adjustment	-	(424)	424	-
Income tax relating to these items	-	(1,089)	596	(493)
Total comprehensive income for the year	-	2,542	28,211	30,753
Transactions with owners in their capacity as owners:				
Shares issued to shareholder, net of discount of issue	52,936	-	-	52,936
Dividend paid	-	-	(19,700)	(19,700)
In specie dividend	-	-	(246,318)	(246,318)
Realised to retained earnings	-	(101,910)	101,910	-
Transferred to Australian Naval Infrastructure Pty Ltd	-	(26,406)	42,193	15,787
Elimination of capitalised interest on building owned by ASC Engineering Pty Ltd	-	-	299	299
	52,936	(128,316)	(121,616)	(196,996)
Balance at 30 June 2017	62,936	-	50,865	113,801

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2017

	Notes	Consolidated Entity	
		Jun-17 \$'000	Jun-16 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		912,237	856,673
Payments to suppliers and employees (inclusive of goods and services tax)		(808,229)	(850,504)
Income taxes paid		(4,746)	(12,556)
Net cash inflow (outflow) from operating activities	21(a)	99,262	(6,387)
Cash flows from investing activities			
Interest received		2,956	3,537
Payments for property, plant and equipment	9(c)	(18,263)	(13,584)
Proceeds from sale of property, plant and equipment		2,166	244
Net cash (outflow) from investing activities		(13,141)	(9,803)
Cash flows from financing activities			
Dividends paid		(19,700)	(16,100)
Proceeds from borrowings		304	249
Interest paid		(277)	(249)
Net cash (outflow) from financing activities		(19,673)	(16,100)
Net increase (decrease) in cash and cash equivalents		66,448	(32,290)
Cash and cash equivalents at the beginning of the financial year		201,234	233,699
Effects of exchange rate changes on cash and cash equivalents		117	(175)
Cash and cash equivalents at end of year	8(a)	267,799	201,234

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2017

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1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended 30 June 2017 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 AASB and interpretations issued by the AASB and the Corporations Act 2001. ASC is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with IFRS as issued by the IASB.

Historical cost convention

These financial statements have been prepared under the 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 obligations - plan assets measured at fair value.

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.

Going concern

The working capital for the Group has improved during the year to \$13,246,000 (2016 negative working capital of \$2,992,000). The financial statements are prepared on a going concern basis due to the following reasons:

- Contracts for 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 \$113,801,000 (June 2016: \$280,044,000);
- \$88,480,000 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;
- \$30,000,000 multi option facility not used at balance date.

Rounding of amounts

The consolidated entity is of a kind referred to in Instrument 2016/191, issued by ASIC, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off to the nearest thousand dollars in accordance with the Instrument unless otherwise stated.

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

(ii) Revised standards and interpretations applied

The Group has applied the following revised standards and interpretations for the first time in the financial year commencing 1 July 2016.

AASB 2015-1 Annual Improvements 2012-2014

The AASB introduced minor amendments and clarification to a range of standards as a result of the annual improvements cycle undertaken by the IASB. These amendments are not significant for the Group.

AASB 2015-2 - Disclosure Initiative

This standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's disclosure initiative project. The amendments are on the disclosure of only material information and the presentation of information in the notes.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of preparation (continued)

(iii) Impact of standards issued but not yet applied

Certain new accounting standards, interpretations and amendments have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 2016-1 Scope amendment to AASB 112 (effective for the 30 June 2018 financial year)

The AASB introduced minor amendments and clarification in relation to accounting for deferred tax on assets measured at fair value. The impact of these amendments is not expected to be significant for the Group.

AASB 2016-2 Scope amendment to AASB107 (effective for the 30 June 2018 financial year)

The AASB introduced minor amendments and clarification in relation to disclosure of liabilities in the statement of cash flows. The impact of these amendments is not expected to be significant for the Group.

AASB 9 Financial Instruments (effective for the 30 June 2019 financial year)

AASB 9 addresses the classification, measurement and derecognition of financial assets that are designated at fair value through profit and loss and the change in the fair value of the financial liabilities that is not due to the change in the Group's own credit risk. The standard is not expected to have a material impact on the Group's result.

AASB 15 Revenue from Contracts with Customers (effective for the 30 June 2019 financial year)

This standard will replace AASB 118 Revenue which covers contracts for goods and services and AASB 111 Construction Contracts which covers construction contracts. 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 the contract with customers
2. Determine the separate performance obligations
3. Determine the transaction price of the contract
4. Allocate the transaction price to each of the separate performance obligations
5. Recognise revenue as each performance obligation is satisfied

Extensive disclosures will be required to provide greater insight into both the 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 judgements and changes in those judgements that management made to determine revenue that is recorded. The Group is still evaluating the impact of the new standard.

AASB 16 Leases (effective for the 30 June 2020 financial year)

This standard will replace AASB 117 Leases. The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying assets are of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased assets and a lease liability representing its obligation to make lease payments. The Group is still evaluating the impact of the new standard.

(b) Principles of consolidation

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 19. They are deconsolidated 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 Business Combinations.

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.

(c) 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.

(d) Net unearned contract billings

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.

(e) 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency continued

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.

(f) 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. Revaluations by external independent valuers are undertaken annually to ensure that the carrying amount does not differ materially from the fair value at the end of the reporting period. Any accumulated depreciation and impairment at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

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

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

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

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

- Freehold 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(o).

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.

(g) 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 (note 13). 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.

(h) 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 Group 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.

(i) 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Employee benefits (continued)

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 corporate 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.

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 statement of financial position 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 corporate 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 statement of financial position.

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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment

Financial assets

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

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

Non financial assets

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

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

(p) Cash and cash equivalents

Cash and cash equivalents include:

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

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

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 CoA, for the purpose of funding the working capital requirement of the Collins Class submarine ISSC and the Hobart Class AWD 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 8(a).

(q) 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(o).

Subsequent measurement

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

(r) Interest and non interest bearing liabilities

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.

(s) 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.

(t) 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.

(u) 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 associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(v) Parent entity financial information

The financial information for the parent entity, ASC Pty Ltd, disclosed in note 20 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.

(w) Contributed equity

Ordinary shares are classified as equity.

2 SIGNIFICANT CHANGE IN THE CURRENT REPORTING PERIOD

On the 26th of March 2017, ASC owned critical infrastructure assets were transferred to ANI. The key financial steps involved in the separation were as follows:

Step	Description	Impact
1	The transfer of assets and liabilities of Legacy ASC between the two entities (Residual ASC and ANI) such that ANI owns the critical infrastructure (principally land and buildings) and Residual ASC owns any non-critical infrastructure (the majority of plant and equipment).	<p>The total amount of assets transferred to ANI is \$282m.</p> <p>Also transferred to ANI are the associated deferred tax balances on the revaluation of the land and buildings and the PO2 hall deferred purchase obligation of \$15m.</p> <p>ASC Pty Ltd's asset revaluation reserve of \$102m has been realised (to Retained Earnings) as a result of the transfer of revalued land and buildings.</p>
2	Intercompany loans from Legacy ASC to ANI are converted to equity and Legacy ASC then transfers its ownership shares of ANI to the Minister by way of an in-specie dividend.	\$247m of loans converted to equity.
3	Residual ASC issues new unpaid share capital to the Minister, to be received over five-years	\$55m unpaid share capital, discounted to current day value (\$53m).
4	Residual ASC increases the provision for loss on the AWD program to reflect future charges from ANI that will not be recoverable from its customer.	\$1.8m of costs, mainly the capital charge from ANI.

2 SIGNIFICANT CHANGE IN THE CURRENT REPORTING PERIOD (continued)

The table below summarises the balance sheet impact of the separation of ANI from the ASC Group, effective 26 March 2017.

Balance Sheet as at March 2017	Step	Pre Legacy ASC \$M	Post Residual ASC \$M	Inc (Dec) \$M	Post ANI \$M
ASSETS					
Current assets					
Unpaid share capital	3	0.0	11.0	11.0	0.0
All other current assets		365.6	365.6	0.0	0.0
Total current assets		365.6	376.6	11.0	0.0
Non current assets					
Property, plant and equipment	1	335.5	53.7	(281.8)	281.8
Unpaid share capital	3	0.0	41.9	41.9	0.0
Deferred tax assets (net)	1	0.0	16.6	16.6	0.0
All other non current assets		3.1	3.1	0.0	0.0
Total non current assets		338.6	115.3	(223.3)	281.8
Total Assets		704.2	491.9	(212.3)	281.8
LIABILITIES					
Current liabilities					
Net unearned contract billings	4	150.9	152.7	1.8	0.0
All other current liabilities		225.7	225.7	0.0	0.0
Total current liabilities		376.6	378.4	1.8	0.0
Non current liabilities					
Non interest bearing liabilities	1	15.2	0.0	(15.2)	15.2
Deferred tax liabilities (net)	1	19.5	0.0	(19.5)	36.1
Other non current liabilities		10.6	10.6	0.0	0.0
Total non current liabilities		45.3	10.6	(34.7)	51.3
Total Liabilities		421.9	389.0	(32.9)	51.3
Net Assets		282.3	102.9	(179.4)	230.5
EQUITY					
Contributed equity	3	10.0	62.9	52.9	246.7
Asset revaluation reserve	1	128.3	0.0	(128.3)	26.6
Retained earnings	1,2	144.0	40.0	(104.0)	(42.8)
Total Equity		282.3	102.9	(179.4)	230.5

The steps in the table above are described in detail on page 50.

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.

Forecasts of costs to complete the construction of the three AWDs are undertaken quarterly as part of the contractual requirements of ABTIA. As at June 2014, management's forecasts of costs to complete the three AWDs indicated that it was probable that total costs related to the contract will exceed total contract revenues which would cause ASC to incur a loss pursuant to ABTIA. An estimated loss was recognised in the 2013/14 to 2016/17 financial years in line with AASB 111 Construction Contracts. As at 30 June 2017 the expected loss has been reviewed based on management's most recent forecast.

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, compensation for design changes, lengthening of the expected construction schedule 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.

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. Fair values were determined on 25 March 2017 prior to the separation of ASC Engineering Pty Ltd from the ASC Group. Based on the independent professionally qualified valuer's assessment, the fair value of land and building for the Group as at 25 March 2017 is \$273,688,000 (30 June 2016: \$275,185,000). All of the land and buildings of the ASC Group were subsequently transferred to the Australian Naval Infrastructure Pty Ltd (previously ASC Engineering Pty Ltd) on 25 March 2017. 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 2017. 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 as at 30 June 2017 is \$407,000 (2016: \$2,228,000). 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 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.

	Jun-17 \$'000	Jun-16 \$'000
Financial assets		
Cash and cash equivalents	267,799	201,234
Trade and other receivables	171,613	152,087
	439,412	353,321
Financial liabilities		
Trade and other payables	116,570	92,555
Interest bearing liabilities	120,480	88,770
Non interest bearing liabilities	3	15,165
	237,053	196,490

(a) Credit risk

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

Trade and other receivables

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

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 14 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 \$31 million of financial securities issued by foreign banks in favour of ASC, in respect of mobilisation payments made by ASC to overseas suppliers. Downgrades in the Standard & Poor's credit ratings of several of these banks in 2012 has resulted in 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.

4 FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

Recognised financial instruments

	Jun-17 \$'000	Jun-16 \$'000
Trade and other receivables		
<i>Counterparties with external credit rating (Standard & Poor's)</i>		
AAA [CoA]	157,492	120,425
A	-	30,683
BBB+	-	20
Credit rating not determined	13,811	707
Total trade receivables	171,303	151,835
AA- rated cash at bank, short term deposits and interest receivable		
Cash and cash equivalents	267,799	201,234
Interest receivable	310	252
	268,109	201,486

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

A substantial proportion of the consolidated entity's operations are in relation to the through life support for six CCSM and the Hobart Class AWD Program for the construction of the Navantia-designed AWDs.

The projects receive a substantial portion of their entire funding from the Commonwealth Government of Australia, who has a Standard & Poor's credit rating of AAA. Therefore the consolidated entity has immaterial 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 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 (2016: \$12,000,000). Interest would be payable at the rate of Bank Bill Official Rate plus 100 basis points;
- \$30,000,000 multi option bank facility not utilised at balance date (2016: \$30,000,000).

The Group received advance funding for the AWD project by the CoA under the ABTIA. The ABTIA requires regular review of the advance amount which may be increased or decreased after consideration by the CoA as to the working capital requirements for the AWD project.

Maturities of financial liabilities

The tables following analyse the consolidated entity's financial liabilities into relevant maturity groups 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.

Contractual maturities of financial liabilities	Less than 6 months	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 30 June 2017							
Non-derivatives							
Non interest bearing	-	116,570	-	-	160	116,730	116,573
Variable rate (including bank overdraft)	-	120,480	-	-	-	120,480	120,480
Total non-derivatives	-	237,050	-	-	160	237,210	237,053
At 30 June 2016							
Non-derivatives							
Non interest bearing	-	92,555	-	21,957	360	114,872	107,720
Variable rate (including bank overdraft)	-	88,770	-	-	-	88,770	88,770
Total non-derivatives	-	181,325	-	21,957	360	203,642	196,490

(c) Market risk

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

Foreign exchange risk

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

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

		Consolidated Entity	
		Jun-17	Jun-16
	Currency	AUD '000	AUD '000
Financial assets			
Cash and cash equivalents	USD	9,473	8,308
	EUR	16,740	16,300
	GBP	863	888
	CAD	2,017	2,092
	JPY	140	158
	Total	29,233	27,746
Trade and other receivables	USD	1,224	2,448
	EUR	1,154	794
	GBP	(102)	(88)
	CAD	-	-
	Total	2,276	3,154
Financial liabilities			
Trade and other payables	USD	461	700
	EUR	692	(49)
	NOK	-	-
	Total	1,153	651

4 FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

	Currency	Consolidated Entity	
		Jun-17 AUD '000	Jun-16 AUD '000
Net unearned contract billing	USD	-	-
	EUR	-	-
	GBP	-	-
	NOK	-	-
	Total	-	-
Interest-bearing liabilities	USD	9,579	9,922
	EUR	17,190	17,270
	GBP	763	813
	CAD	2,017	2,092
	JPY	140	158
	Total	29,689	30,255

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:

	30 June 2017		30 June 2016	
	\$'000	Effective interest rate	\$'000	Effective interest rate
Financial assets				
Cash and cash equivalents	267,799	1.16%	201,234	1.57%
Trade and other receivables	171,613	0.00%	152,087	0.00%
Total financial assets	439,412		353,321	
Financial liabilities				
Trade and other payables	116,570	0.00%	92,555	0.00%
Interest-bearing liabilities	120,480	0.36%	88,770	0.46%
Non interest-bearing liabilities	3	5.50%	15,165	1.80%
Total financial liabilities	237,053		196,490	

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

At 30 June 2017, 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 2016. 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.

Summarised sensitivity analysis

		Interest Rate Risk			
		-0.75%		+0.75%	
	Carrying Amount \$'000	Profit \$'000	Other Equity \$'000	Profit \$'000	Other Equity \$'000
30 June 2017					
Financial assets					
Cash and cash equivalents	\$267,799	(2,008)	-	2,008	-
Trade and other receivables	\$171,613	(2)	-	2	-
Financial liabilities					
Trade and other payables	(\$116,570)	-	-	-	-
Non interest-bearing liabilities	(\$120,480)	(360)	-	360	-
Interest-bearing liabilities	(\$3)	-	-	-	-
Total increase/(decrease)		(2,370)	-	2,370	-
At 30 June 2016					
Financial assets					
Cash and cash equivalents	\$201,234	(\$1,509)	-	\$1,509	-
Trade and other receivables	\$152,087	(\$2)	-	\$2	-
Financial liabilities					
Trade and other payables	(\$92,555)	-	-	-	-
Interest bearing liabilities	(\$88,770)	(\$74)	-	\$74	-
Non interest bearing liabilities	(\$15,165)	-	-	-	-
Total increase/(decrease)		(\$1,585)	-	\$1,585	-

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.

5 REVENUE FROM CONTINUING OPERATIONS

Consolidated Entity

	Jun-17	Jun-16
	\$'000	\$'000
Revenue from rendering of services		
Related parties	675,299	615,999
Other parties	123,231	181,033
	798,530	797,032
Other revenue		
Secondment income from		
Related parties	208	(31)
Other parties	486	335
	694	304
Interest income		
Other parties	3,014	3,516
	3,014	3,516
Other income		
Related parties	664	-
Other items	8,249	-
	8,913	-
Total revenue from continuing operations	811,151	800,852

6 OTHER INCOME AND EXPENSE ITEMS

Items included in profit before tax

Depreciation

Buildings	6,896	11,046
Plant and equipment	7,725	8,058
	14,621	19,104

Amortisation

Contribution to Henderson CUF	244	244
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Total depreciation and amortisation

	14,865	19,348
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Finance costs

Bank charges	152	234
Interest expense	277	114
	429	348

Operating lease rental expense:

Minimum lease payments	15,928	15,153
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Employee related expenses

Long service leave expense	4,971	4,399
Redundancy expense	465	2,981
Defined benefit superannuation expense	(165)	78
	5,271	7,458

(Release) recognition on AWD project

	1,399	(2,610)
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6 OTHER INCOME AND EXPENSE ITEMS (Continued)**Items included in profit before tax (Continued)****Consolidated Entity****Jun-17****\$'000****Jun-16****\$'000**

Impairment of assets

399

449

Bad debt expense

3,061

1,898

7 INCOME TAX EXPENSE**(a) Income tax expense****Recognised in the income statement***Current tax expense*

Current year

17,050

8,404

Adjustments for prior years

(60)

(1,627)

Total current tax expense

16,990

6,777

Deferred income tax

Temporary differences arising during the year, net of reversal

(4,497)

3,022

Adjustment for prior years deferred tax

153

1,627

Total deferred tax expense/(benefit)

(4,344)

4,649

Income tax expense

12,646

11,426

Income tax expense is attributable to:

Profit from continuing operations

12,646

11,426

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax expense

41,823

38,054

Tax at the Australian tax rate of 30.0% (2016 - 30.0%)

12,547

11,417

Tax effect of amounts which are not deductible (taxable)

in calculating taxable income:

Non deductible expenses

99

9

Income tax expense

12,646

11,426

(c) 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

493

1,798

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES**(a) Cash and cash equivalents****Current assets**

Cash at bank and in hand

133,651

70,983

Other cash and cash equivalents

134,148

130,251

267,799

201,234

8 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

The consolidated entity's exposure to interest rate risk is discussed in note 4.

Included in cash in operating accounts are amounts advanced to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the consolidated entity, by the CoA for the purposes of funding the working capital requirements of the AWD project. The amounts advanced have certain contractual restrictions placed on the use of these funds. The funds maintained may only be applied to direct project expenditure incurred and claims for reimbursement from the CoA. The amount that exceeds the value of the direct project expenditure incurred and unbilled as at balance date is defined as restricted cash. At 30 June 2017, the balance of restricted cash for AWD was \$48 million (2016: nil).

(i) Reconciliation to statement of cash flows

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

	Jun-17 \$'000	Jun-16 \$'000
Balances as above	267,799	201,234
(b) Trade and other receivables		
Current		
Trade receivables		
Trade receivables	173,881	153,245
Provision for doubtful debts	(2,961)	(1,898)
	170,920	151,347
Other receivables		
Other receivables	383	488
Interest receivable	310	252
	693	740
	171,613	152,087

Amounts recognised in profit or loss

Write-downs of receivables to net realisable value recognised during the year ended 30 June 2017 amounted to \$2.8 million (2016: \$1.9 million).

Accounts Receivable Ageing Profile

Trade receivables		
Not past due	169,493	150,805
Past due 1-30 days	335	214
Past due 31-60 days	946	16
Past due 61-90 days	(479)	123
Past due 90+ days	1,318	2,087
	171,613	153,245

(c) Trade and other payables

Current liabilities

Trade payables	31,091	22,125
Other payables	85,479	70,430
	116,570	92,555

(d) **Borrowings**

Interest bearing liabilities

Current - Unsecured

Government advance

Jun-17 \$'000	Jun-16 \$'000
120,480	88,770

Government advance

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

ISSC advance

At 30 June 2017, the balance is \$32 million (June 2016: nil). The advance paid by the CoA is in Australian dollars.

The advance is part of the ASC North Tripartite agreement between the CoA, the Company and ASC Engineering Pty Ltd (now known as ANI Pty Ltd). It can only be used for the reimbursement of payment to the Company for direct project costs incurred for the ISSC activities.

The interest income from this advance funding will be deducted against the reimbursement claim of direct project costs.

The advance will be repaid by June 2018 as an offset against an ISSC direct project cost invoice.

ABTIA advance

At 30 June 2017, the balance is \$88 million (June 2016: \$89 million). Advances paid by the Commonwealth are both in Australian and foreign currencies and are required to be separately maintained in a CoA interest bearing account.

Funds advances can only be used for the reimbursement of payment to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the consolidated entity, for direct project costs incurred for the AWD project.

All interest and expenses that accumulate in the separate bank accounts, in relation to funds advanced, accrues to the benefit of the CoA. This advance is repayable on demand when certain criteria have been met or if the ABTIA is terminated.

ABTIA requires regular review of the advance amount which may be increased or decreased after consideration by the CoA as to the working capital requirements for the AWD project.

Non-interest bearing liabilities

Non current - unsecured

Term loan

Deferred purchase obligation

3	6
-	15,159
3	15,165

Term loan

The term loan consists of the interest free 99 year loans to ASC Pty Ltd and ASC Engineering Pty Limited from the Department of Manufacturing Industry, Small Business and Regional Development (SA), for expenditure on capital items and to assist with site development costs.

- ASC Engineering Pty Limited (\$200,000): repayable in the year 2094 or at the option of the Company at any time prior to the year 2094.
- 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.

The term loan to ASC Engineering Pty Limited has been transferred to Australian Naval Infrastructure Pty Ltd, which is not part of the Group as at 30 June 2017. The term loan to ASC Pty Ltd has been discounted to its fair value of \$2,900 in total for the year ended 30 June 2017 (2016: \$5,800 for the two term loans) under AASB 139 *Financial Instruments: Recognition and Measurement*.

Deferred Purchase Obligation

As part of the AWD program, ASC AWD Shipbuilder Pty Ltd and ASC Engineering Pty Limited, subsidiaries of the Company, entered into an agreement with the CoA where the CoA makes a contribution to build a production facility required for the construction of the AWDs.

Under this arrangement, ASC AWD Shipbuilder Pty Ltd 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.

This obligation has been transferred to Australian Naval Infrastructure Pty Ltd as owner of the critical infrastructure of the AWD shipyard, which is not part of the Group as at 30 June 2017.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
For the year ended 30 June 2017

9 NON-FINANCIAL ASSETS AND LIABILITIES

(a) Deferred tax balances

Net position as presented in the statement of financial position

Jun-17 \$'000	Jun-16 \$'000
Net deferred tax liabilities	
Deferred tax assets	29,887
Deferred tax liabilities	(51,774)
17,832	(21,887)
10,651	10,103
969	11,487
5,979	8,120
1,393	177
18,992	29,887

(i) Deferred tax assets

The balance comprises temporary differences attributable to:

Employee benefits
Property, plant and equipment
Project recognised profit
Sundry items

Movements	Property, plant and equipment \$'000	Provisions for warranty \$'000	Employee benefits \$'000	Project recognised profit \$'000	Sundry items \$'000	Total \$'000
At 1 July 2015	11,222	-	9,583	9,920	987	31,712
(Charged)/credited						
- to profit or loss	265	-	520	(1,800)	(810)	(1,825)
At 30 June 2016	11,487	-	10,103	8,120	177	29,887
(Charged)/credited						
- to profit or loss	(10,518)	-	548	(2,141)	1,216	(10,895)
At 30 June 2017	969	-	10,651	5,979	1,393	18,992

(ii) Deferred tax liabilities

The balance comprises temporary differences attributable to:

Property, plant and equipment
Project recognised profit
Other
Net pension assets
Sundry items

Jun-17 \$'000	Jun-16 \$'000
-	45,644
-	4,175
122	668
1,038	1,287
1,160	51,774

Movements	Property, plant and equipment	Net pension assets	Sundry items	Project Recognised Project	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2015	45,308	590	800	-	46,698
Charged/(credited)					
- profit or loss	336	78	487	4,175	5,076
At 30 June 2016	45,644	668	1,287	4,175	51,774
Charged/(credited)					
- profit or loss	(45,644)	(546)	(249)	(4,175)	(50,614)
At 30 June 2017	-	122	1,038	-	1,160

(iii) *Net deferred tax*

The net balance comprises temporary differences attributable to:

	Jun-17	Jun-16
	\$'000	\$'000
Employee benefits	10,651	10,103
Project recognised profit	5,979	3,945
Property, plant and equipment	969	(34,157)
Net pension asset	(122)	(668)
Sundry items	355	(1,110)
	17,832	(21,887)

(b) Inventories

Current assets

Raw materials and stores (at lower of cost or net realisable value)	1,075	2,213
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Amounts recognised in profit or loss

Write-downs of inventories to net realisable value recognised during the year ended 30 June 2017 amounted to \$0.6 million (2016: \$0.7 million).

(c) Property, plant and equipment

Freehold land	-	31,500
Freehold buildings	-	243,685
Plant and equipment		
Gross value	123,341	112,963
Accumulated depreciation	(80,503)	(62,642)
	42,838	50,321
Assets under construction		
Assets under construction	15,590	9,190
Total property, plant and equipment	58,428	334,696

9 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

	Freehold land \$'000	Freehold buildings \$'000	Plant and equipment \$'000	Assets under construction \$'000	Total \$'000
Year ended 30 June 2017					
Opening net book amount	31,500	243,685	50,321	9,190	334,696
Revaluation surplus	-	4,357	(302)	-	4,055
Additions	-	548	20,581	18,456	39,585
Transfers	-	1,135	10,565	(11,700)	-
Depreciation charge	-	(6,895)	(7,726)	-	(14,621)
Impairment loss	-	-	(399)	-	(399)
Disposals	(19,000)	(143,010)	(5,936)	(163)	(168,109)
Separation of ASC Engineering Pty Ltd	(12,500)	(99,820)	(24,266)	(193)	(136,779)
Closing net book amount	-	-	42,838	15,590	58,428
Year ended 30 June 2016					
Opening net book amount	30,084	248,578	54,150	2,282	335,094
Revaluation surplus	1,416	4,239	-	-	5,655
Additions	-	422	844	12,318	13,584
Assets included in a disposal group classified as held for sale and other disposals	-	-	(84)	-	(84)
Transfers	-	1,492	3,918	(5,410)	-
Depreciation charge	-	(11,046)	(8,058)	-	(19,104)
Impairment loss	-	-	(449)	-	(449)
Closing net book amount	31,500	243,685	50,321	9,190	334,696

(i) *Valuations of land and buildings*

An independent valuation of all land and buildings of the consolidated entity was carried out by Griffin Valuation Advisory as at 25 March 2017. The valuation was conducted earlier than 30 June 2017 due to the separation of ASC Engineering Pty Ltd (now known as ANI Pty Ltd) from the Group.

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.

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

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	Jun-17 \$'000	Jun-16 \$'000
Freehold land		
Cost	-	2,299
Buildings		
Cost	-	272,936
Accumulated depreciation	-	(128,336)
Net book amount	-	144,600

(iii) *Non current assets pledged as security*

Refer to note 15 for information on non current assets pledged as security by the Group.

(d) **Unpaid share capital**

The Company issued \$55m in share capital to the shareholder on March 2017 as part of the separation of the ASC entities, discounted to current day value. This is to be received over five-years.

	Jun-17 \$'000	Jun-16 \$'000
Unpaid share capital		
Current	11,000	-
Non current	41,936	-
	52,936	-
(e) Net unearned contract billings		
Contract billings due and receivable	5,298,472	4,662,135
Contract works in progress	(5,010,041)	(4,368,538)
Profit recognised to date	(162,202)	(161,700)
Provision for loss	25,036	10,149
Net unearned contract billings	151,265	142,046

(f) **Employee benefit obligations**

(i) *Superannuation plan*

The consolidated entity contributes to the ASC Superannuation Fund (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 Fund are entitled to benefits on retirement, disability or death.

The trustee of the fund is Equity Trustees Limited. KPMG Superannuation Services Pty Limited is the administrator of the fund.

The investment policies and strategies of the trustee of the 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 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 instruments. For the defined benefit category of memberships, members are provided with a benefit upon their salary, years of service and accrual rate.

(ii) *Defined benefit pension plans*

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 2017 was carried out by David O'Keefe, Fellow of the Institute of Actuaries of Australia, of ALEA Actuarial Consulting Pty Limited in June 2017.

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.

9 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Statement of financial position amount

The amounts recognised in the statement of financial position and the movements in the net defined benefit obligation over the year as follows:

	Present value of obligation	Fair value of plan assets	Net amount
	\$'000	\$'000	\$'000
1 July 2015	(7,219)	9,185	1,966
Current service cost	(147)	-	(147)
Interest expense/(income)	(263)	-	(263)
Expected return on plan assets	-	312	312
Total amount recognised in profit or loss	(410)	312	(98)
Remeasurements			
(Gain)/loss from change in financial assumptions	(178)	-	(178)
Experience (gains)/losses	302	216	518
Total amount recognised in other comprehensive income	124	216	340
Contributions:			
Employers	-	20	20
Payments from plan:			
Benefit payments	1,558	(1,558)	-
30 June 2016	(5,947)	8,175	2,228
1 July 2016	(5,947)	8,175	2,228
Current service cost	(104)	-	(104)
Interest expense/(income)	(178)	-	(178)
Expected return on plan assets	-	203	203
Total amount recognised in profit or loss	(282)	203	(79)
Remeasurements			
Experience (gains)/losses	33	298	331
Total amount recognised in other comprehensive income	33	298	331
Contributions:			
Employers	-	244	244
Payments from plan:			
Benefit payments	345	(345)	-
Adjustment due to recalculation of defined benefit assets and liabilities	(347)	(1,970)	(2,317)
30 June 2017	(6,198)	6,605	407

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 2016.

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. The 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 performance (as detailed in the sections below), the actuary recommended in the actuarial review as at 30 June 2016 that a contribution needs to be made by the Company and its controlled entities 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.

(iii) *Post-employment benefits (pension and medical)*

Significant estimate: actuarial assumptions and sensitivity

The significant actuarial assumptions were as follows:

	2017 Australia	2016 Australia
Discount rate	3.3%	3.3%
Salary growth rate	4.0%	4.0%

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

	Impact on defined benefit obligation					
	Change in assumption		Increase in assumption		Decrease in assumption	
	2017	2016	2017	2016	2017	2016
Discount rate	+ (-) 0.5%	+ (-) 0.5%	6,032,000	5,731,000	6,392,000	6,189,000
Future salary increase	+ (-) 0.5%	+ (-) 0.5%	6,390,000	6,187,000	6,033,000	5,731,000

Balance sheet amounts

The major categories of plan assets are as follows:

	30 June 2017				30 June 2016			
	Quoted	Un-quoted	Total	in %	Quoted	Un-quoted	Total	in %
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Equity instruments	2,715	-	2,715	41.1%	3,196	-	3,196	39.1%
Debt instruments	2,490	-	2,490	37.7%	3,319	-	3,319	40.6%
Property	277	-	277	4.2%	327	-	327	4.0%
Other securities	1,123	-	1,123	17.0%	1,333	-	1,333	16.3%
Total	6,605	-	6,605	100.0%	8,175	-	8,175	100.0%

9 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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 corporate 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 corporate 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, a 50/50 asset allocation (50 per cent growth and 50 per cent defensive assets) in the fund assets was introduced in 2015. KMPG's modelling indicated an investment return of 6-7 per cent could be targeted using a 50/50 portfolio.
Changes in bond yields	A decrease in corporate 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' defined 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.

(iv) Defined benefit liability employer contributions

The weighted average duration of the defined benefit obligation is seven years (2016: eight years). The expected maturity analysis of discounted defined benefit obligations is as follows:

	Less than a year	Between 1 - 2 years	Between 2 - 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2017					
Defined benefit obligation	-	3,827	1,908	639	6,374
30 June 2016					
Defined benefit obligation	-	247	2,809	3,827	6,883

(v) Amounts recognised in profit or loss

The amounts recognised in profit or loss are as follows:

	Jun-17 \$'000	Jun-16 \$'000
Current service cost	104	147
Interest cost	178	263
Expected return on plan assets	(203)	(312)
Total included in employee benefits expense	79	98
Actual return on plan assets	500	528
<i>(vi) Amounts recognised in other comprehensive income</i>		
Actuarial gain recognised in the year	(1,986)	340
Cumulative actuarial (losses) recognised in other comprehensive income	(3,110)	(1,124)

(g) Provisions

	Notes	June 2017			June 2016		
		Current	Non-current	Total	Current	Non-current	Total
Employee benefits	9(g)(i)	41,617	16,972	58,589	38,579	16,835	55,414
Self insured workers compensation		3,528	4,122	7,650	3,406	3,294	6,700
		45,145	21,094	66,239	41,985	20,129	62,114

(i) Information about individual provisions and significant estimates

Employee benefits, 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 probability that the Group could have to pay out the provision within the next 12 months.

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 2017/18 financial year.

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.

(ii) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Termination	Self insured workers compensation	Total
	\$'000	\$'000	\$'000
2017			
Carrying amount at start of year	-	6,700	6,700
Provision made during the year	-	4,478	4,478
Provision used during the year	-	(3,528)	(3,528)
Carrying amount at end of year	-	7,650	7,650
2016			
Carrying amount at start of year	586	4,940	5,526
Provision made during the year	-	5,166	5,166
Provision used during the year	(586)	(3,406)	(3,992)
Carrying amount at end of year	-	6,700	6,700

9 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(g) Provisions (continued)

The current portion 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.

\$41.6 million (2016: \$38.6 million) is presented as current, since the Group does not have an unconditional right to defer settlement for those amounts.

However, based on past experience, the Group does not expect all employees to take the full amount of current accrued leave or require payment within the next 12 months.

	Jun-17	Jun-16
	\$'000	\$'000
Current leave obligations expected to be settled after 12 months	31,483	25,481

(h) Recognised fair value measurements

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

- Land and buildings.

(i) 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);
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following tables presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2017 and 2016.

Recurring fair value measurements

	Notes	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000
30 June 2017					
Non-financial assets					
Buildings	9(c)	-	-	-	-
Freehold land	9(c)	-	-	-	-
Total non-financial assets		-	-	-	-
30 June 2016					
Non-financial assets					
Buildings	9(c)	-	-	243,685	243,685
Freehold land	9(c)	-	31,500	-	31,500
Total non-financial assets		-	31,500	243,685	275,185

Disclosed fair values

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

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

(ii) Valuation techniques used to determine level 2 and level 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 inputs are adjusted for depreciation which is an unobservable input.

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

The following table presents the changes in level 3 items for the periods ended 30 June 2017 and 30 June 2016 for recurring fair value measurements:

	Buildings
	\$'000
Opening balance 1 July 2015	248,578
Transfer from capital work in progress	1,492
Additions	422
Revaluation increment	3,493
Depreciation and impairment	(10,300)
Closing balance 30 June 2016	243,685
Opening balance 1 July 2016	243,685
Transfer from capital work in progress	1,135
Additions	548
Disposals	(143,010)
Revaluation increment	4,357
Depreciation and impairment	(6,886)
Separation of ASC Engineering Pty Ltd	(99,829)
Closing balance 30 June 2017	-

(iv) Valuation inputs and relationships to fair value

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

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Description	Fair value at		Unobservable inputs	Range of inputs (probability - weighted average)		Relationship of unobservable inputs to fair value
	30 June 2017	30 June 2016		2017	2016	
	\$'000	\$'000				
Buildings	-	243,685	Depreciation rates	-	7.10%	The higher the depreciation rate, the lower the fair value.

(v) *Valuation processes*

The Group engages external, independent and qualified valuers to determine the fair value of the land and buildings at the end of every financial year. As at 25 March 2017, the fair values of the land and buildings prior to the separation of ASC Engineering Pty Ltd have been determined by Griffin Valuation Advisory.

10 OTHER CURRENT ASSETS

Current assets

Prepayments

Jun-17	Jun-16
\$'000	\$'000
5,276	4,794

11 OTHER NON-CURRENT ASSETS

Non-current assets

Contribution to the Henderson CUF

3,049	3,293
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ASC has made a \$5 million contribution to the Henderson CUF. This amount is expensed over the expected period of usage of the facility.

12 EQUITY

(a) Share capital

(i) *Movements in ordinary share:*

	Number of shares (thousands)	\$'000
Opening balance 1 July 2015	10,000	10,000
Balance 30 June 2016	10,000	10,000
Opening balance 1 July 2016	10,000	10,000
Shares issued to shareholder	55,000	55,000
Discount on shares issued	-	(2,064)
Balance 30 June 2017	65,000	62,936

(ii) *Ordinary shares*

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.

12 EQUITY (CONTINUED)

(b) Asset revaluation reserve

		Asset revaluation reserve \$'000
Balance at 1 July 2015		121,817
Revaluation - gross		5,653
Deferred tax		(1,696)
Other comprehensive income		3,957
At 30 June 2016		125,774
Balance at 1 July 2016		125,774
Revaluation - gross	9(c)	4,055
Reserve balance adjustment		(424)
Deferred tax	9(a)	(1,089)
Other comprehensive income		2,542
Transactions with owners in their capacity as owners		
Realised to retained earnings		(101,910)
Transferred to Australian Naval Infrastructure Pty Ltd		(26,406)
At 30 June 2017		-

(i) Nature and purpose of other reserves

Revaluation surplus - property, plant and equipment

The property, plant and equipment revaluation surplus is used to record increments and decrements on the revaluation of land and buildings.

	Notes	Jun-17 \$'000	Jun-16 \$'000
Revaluation surplus			
Land		-	20,441
Building		-	105,333
		-	125,774
(c) Retained earnings			
Movements in retained earnings were as follows:			
Balance 1 July		144,270	133,504
Net profit for the period		29,177	26,628
Items of other comprehensive income recognised directly in retained earnings			
Remeasurements of retirement benefit obligation, net of tax	9(f)	(1,390)	238
Dividends		(19,700)	(16,100)
Revaluation balance adjustment		424	-
In specie dividend		(246,318)	-
Asset revaluation realised		101,910	-
Transferred to Australian Naval Infrastructure Pty Ltd		42,193	-
Elimination of capitalised interest on building owned by ASC Engineering Pty Ltd		299	-
Balance 30 June		50,865	144,270

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(d) Dividends

Final dividend for the year ended 30 June 2016 of 96 cents (2015: 97 cents) per fully paid share paid on 28 October 2016
Special dividend paid on 8 December 2016
Interim dividend for the year ended 30 June 2017 of 66 cents (2016: 64 cents) per fully paid share paid on 26 March 2017
Total unfranked dividends

Jun-17	Jun-16
\$'000	\$'000
9,600	9,700
3,500	-
6,600	6,400
19,700	16,100

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

In specie dividend to shareholder

The \$246.3m in specie dividend to shareholder is made up of the following:

- \$10m investment in ASC Engineering Pty Ltd
- \$236.3m intercompany loan account with ASC Engineering Pty Ltd

Dividend franking account

Class C (30%) franking credits

148,163	143,417
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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.

13 COMMITMENTS

(a) Capital expenditure commitments

Property, plant and equipment

Jun-17	Jun-16
\$'000	\$'000
765	2,128
14,096	14,999
42,462	44,625
62,825	66,350
119,383	125,974

(b) Non-cancellable operating leases

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

Within one-year

Later than one-year but not later than five-years

Later than five-years

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

(c) Other commitments

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

14 Contingent liabilities and contingent assets

The consolidated entity has arranged for the issuance of a bank guarantee in favour of Return to Work Corporation of South Australia for the purpose of self insurance under the Return to Work Regulations 2015. 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 \$10.4m (2016: \$9.1m). No liability has been recognised by the consolidated entity in relation to these guarantees as the fair value of the guarantees as at 30 June 2017 and 30 June 2016 is immaterial.

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

- To the State Government of South Australia (GoSA) in relation to ASC AWD Shipbuilder Pty Ltd's obligation to the State GoSA in connection with the CUF 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 agreements;
- To the CoA in relation to ASC AWD Shipbuilder Pty Ltd's obligations to the CoA in connection with the Hobart Class AWD program.

No losses are expected in relation to these guarantee arrangements

15 Registered charges

The CoA holds a fixed charge over the moveable manufacturing plant and equipment owned by the Company in relation with the submarine build contract.

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

The above charges are held against default of the contracts. There are currently no amounts owing to the CoA in relation to these charges.

	Jun-17	Jun-16
	\$'000	\$'000
Current		
Trade receivables	40,429	98,527
Other receivables	13	33
Total current assets pledged as security	40,442	98,560
Non-current		
Buildings	-	142,984
Land	-	19,000
Plant and equipment	16,949	20,025
Total non-current assets pledged as security	16,949	182,009
Total assets pledged as security	57,391	280,569

16 Economic dependency

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

17 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.

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18 Related party transactions

(a) Key management personnel compensation

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

	Jun-17	Jun-16
	\$	\$
Short-term employee benefits	4,812,309	4,861,212
Post-employment benefits	201,147	163,918
Other long term benefits	77,572	66,797
	5,091,028	5,091,927

There were 7 key management personnel for the year (2016: 6).

(b) Loans to key management personnel

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

(c) Other key management personnel transactions with the consolidated entity

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

(d) Subsidiaries

Interests in subsidiaries are set out in note 19(a).

(e) Directors

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

Bruce James Carter
Dr Rosalind Vivienne Dubs
Paul John Rizzo
Loretta Anne Reynolds

In January 2017 three new board members were appointed to the ASC Board, namely Joycelyn Cheryl Morton, Jeremy Schultz and the Hon Gary Gray AO, to provide continued expertise and direction to the Board. Following the establishment of Australian Naval Infrastructure Pty Ltd (ANI), two Board members, Mr Schultz and Mr Lancov, were asked to take up positions as Board members of ANI, following which they resigned from the Board of ASC.

(f) 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 CoA and its related entities.

The CoA is the ultimate parent entity.

(g) Transactions with other related parties

During the year, the amounts received or receivable by the consolidated entity from the CoA for various projects was \$675,299,000 (2016: \$615,999,000).

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

(h) 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:

Trade receivables

(i) Loans to/from the CoA and its related parties

Deferred purchase obligation

Beginning of the year

Fair value adjustment

Transferred to Australian Naval Infrastructure Pty Ltd

End of year

Jun-17 \$'000	Jun-16 \$'000
-	-
157,492	120,421
15,158,639	14,500,590
(212)	658,049
(15,158,427)	-
-	15,158,639

Government Advance

June 2016	AUD	USD	GBP	CAD	EUR	JPY
Beginning of the year	\$58,265,180	\$7,368,103	\$451,286	\$2,015,093	\$11,569,081	\$12,078,961
Advances received						
Advances repaid						
Interest charged	(\$1,322)					
Interest received	\$250,181					
End of year (source currency)	\$58,514,039	\$7,368,103	\$451,286	\$2,015,093	\$11,569,081	\$12,078,961
End of year (AUD equivalent)	\$58,514,039	\$9,922,035	\$813,274	\$2,092,078	\$17,269,863	\$158,454
Total (AUD equivalent)	\$88,769,743					

June 2017	AUD	USD	GBP	CAD	EUR	JPY
Beginning of the year	\$58,514,039	\$7,368,103	\$451,286	\$2,015,093	\$11,569,081	\$12,078,961
Advances received	\$32,000,000					
Advances repaid						
Interest charged	(\$1,352)					
Interest received	\$278,000					
End of year (source currency)	\$90,790,687	\$7,368,103	\$451,286	\$2,015,093	\$11,569,081	\$12,078,961
End of year (AUD equivalent)	\$90,790,687	\$9,578,918	\$763,210	\$2,017,107	\$17,190,314	\$140,192
Total (AUD equivalent)	\$120,480,428					

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - continued
For the year ended 30 June 2017

19 INTERESTS IN OTHER ENTITIES

(a) Material subsidiaries

The Company's principal subsidiaries at 30 June 2017 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 interests held equals the voting rights held by the Company. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business/ country of incorporation	Ownership interest held by the group		Principal activities
		2017 %	2016 %	
ASC Engineering Pty Limited	Australia	-	100.0	Holds property, plant and equipment to be utilised for the AWD program
ASC Shipbuilding Pty Limited	Australia	100.0	100.0	Employs labour for the AWD Program
ASC Modules Pty Ltd	Australia	100.0	100.0	Dormant
ASC AWD Shipbuilder Pty Ltd	Australia	100.0	100.0	Part of the alliance executing the AWD program
Deep Blue Tech Pty Ltd	Australia	100.0	100.0	Dormant

All subsidiaries have reporting dates of 30 June.

ASC Engineering Pty Limited was separated from the ASC Group as at 26 March 2017.

20 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	Jun-17	Jun-16
	\$'000	\$'000
Balance sheet		
Current assets	288,115	203,432
Non-current assets	122,026	352,824
Current liabilities	250,810	196,653
Non-current liabilities	9,233	29,341
<i>Shareholders' equity</i>		
Issued capital	62,936	10,000
Reserves		
Revaluation surplus - property, plant and equipment	-	101,153
Retained earnings	87,161	219,109
Net assets / total equity	150,097	330,262
Profit or loss for the year	33,955	29,581
Other comprehensive income	(633)	5,510
Total comprehensive income	33,322	35,091

(b) Guarantees entered into by the parent entity

The Company has arranged the issuance of a bank guarantee in favour of Return to Work Corporation of South Australia for the purpose of self insurance under the Return to Work Regulations 2015 and a bank guarantee in favour of the Department of Defence for the purpose of a performance security deed for the Training School contract. The total value of the bank guarantee arranged by the parent company is \$7,802,000 (2016: \$6,438,000).

In addition to the above, the parent entity has provided \$2,634,000 bank guarantees (2016: \$2,634,000) assumed by its subsidiary.

No liability has been recognised in relation to these financial guarantees in accordance with the policy set with notes 1(u), as the fair values of these guarantees as at 30 June 2017 and 30 June 2016 are immaterial.

(c) Financial support by the parent entity

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

- ASC Shipbuilding Pty Limited;
- ASC AWD Shipbuilder Pty Ltd.

(d) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2017 or 30 June 2016. 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 2017, the parent entity had contractual commitments for the acquisition of property, plant and equipment totalling \$764,922 (30 June 2016: \$2,127,560). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

21 CASH FLOW INFORMATION

(a) Reconciliation of profit after income tax to net cash inflow from operating activities

	Jun-17	Jun-16
	\$'000	\$'000
Profit for the year	29,177	26,628
Adjustment for		
Depreciation and amortisation	14,865	18,728
Fair value adjustment on all financial instruments	-	658
Pension costs	(165)	78
Income tax expense	12,646	11,425
Income tax paid	(4,746)	(12,556)
Impairment of plant and equipment	399	449
Interest received	(3,014)	(3,516)
Interest expense	277	249
Doubtful debt expense	1,237	1,898
(Profit)/loss on disposal of fixed assets	24	30
Change in operating assets and liabilities:		
(Increase)/decrease in trade debtors	11,222	(51,595)
(Increase)/decrease in inventories	1,137	1,256
(Decrease)/increase in trade creditors	23,529	(7,979)
(Decrease)/increase in other provisions	4,126	1,525
(Increase)/decrease in prepayments	(474)	140
(Increase)/decrease in net unearned contract billings	9,022	6,195
Net cash inflow (outflow) from operating activities	99,262	(6,387)

22 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and other services:

(i) *Audit and other assurance services*

	Jun-17	Jun-16
	\$	\$
<i>Audit and other assurance services</i>		
Audit and review of financial statements	479,100	356,000
Total remuneration for audit and other assurance services	479,100	356,000

PricewaterhouseCoopers (PwC) has been contracted by the ANAO to provide audit related services on the ANAO's behalf.

(ii) *Other services provided by the auditor (ANAO)*

Agreed upon procedures - remuneration report	16,700	-
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(iii) *Other services provided by PwC*

Agreed upon procedures - remuneration report	15,335	-
ISSC 2014/15 reconciliation process	-	6,120
Legal services - termination of employee agreement	-	12,920
	15,335	19,040

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ACRONYMNS

AASB	Australian Accounting Standards Board	LTIFR	Lost Time Injury Frequency Rate
ABTIA	Alliance Based Target Incentive Agreement	MCD	Mid-Cycle Docking
ANAO	Australian National Audit Office	MRD	Material Ready Day
ANI	Australian Naval Infrastructure	MST	Maintenance Support Tower
AWD	Air Warfare Destroyer	MTI	Medically Treated Injury
BASC	Business Assurance and Security Committee	MTIFR	Medically Treated Injury Frequency Rate
CASG	Capability Acquisition and Sustainment Group	PGPA	Public Governance, Performance and Accountability Act
CCSM	Collins Class Submarines	RAN	Royal Australian Navy
CoA	Commonwealth of Australia	SEB	Submarine Enterprise Board
CUF	Common User Facility	STI	Short Term Incentive
DMO	Defence Material Organisation	TFR	Total Fixed Remuneration
EMS	Environmental Management System	UUC	Usage Upkeep Cycle
FCD	Full-Cycle Docking		
GoSA	Government of South Australia		
GST	Goods and Services Tax		
IASB	International Accounting Standards Board		
IFRS	International Financial Reporting Standards		
ISSC	In Service Support Contract		
KMP	Key Management Personnel		
LOTE	Life of Type Extension		
LTI	Lost Time Injury		

CORPORATE DIRECTORY

Directors

Bruce Carter
(Chairman)

Rosalind Dubs
Gary Gray
Joycelyn Morton
Paul Rizzo
Loretta Reynolds

Company Secretary

Wendy Hoad

Auditors

ANAO and PricewaterhouseCoopers
(as agent for ANAO)

Bankers

Westpac Banking Corporation

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