

TAX TRANSPARENCY

2016

2017

REPORT



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As part of the 2016/17 Budget, the Commonwealth Government released and endorsed the Board of Taxation's Voluntary Tax Transparency Code ("the Code"). The Code is a set of principles and minimum standards to guide medium and large businesses on public disclosure of tax information.

On 28 June 2017 ASC Pty Ltd ("ASC") wrote to the Board of Taxation notifying them of our intention to voluntarily adopt the Code for the financial year ended 30 June 2017. ASC's voluntary adoption of the Code reflects best practice and support's the Government's efforts to improve transparency of the corporate sector's compliance with Australia's tax laws.

The Code recommends disclosures to be provided by large businesses (Part A and Part B) and medium business (Part A). ASC is a "large business" as defined by the Code, with a turnover of over \$500 million.

In order to enable a timely disclosure, ASC has elected to provide the recommended minimum standard disclosures and some of the optional disclosures required by Parts A and B of the Code.

ASC intends to provide all of the optional disclosures in its 2017/18 Tax Transparency Report.

Overview of business operations

ASC exists to serve Australia's frontline naval defence capabilities. With more than 2,500 employees across our three facilities in South Australia and Western Australia, ASC has evolved into Australia's largest specialised defence shipbuilding organisation, with naval design and engineering resources unparalleled within Australia's defence industry.

ASC is committed to supporting the Australian Defence Force by maintaining open lines of communication with our customer, understanding our customer's expectations and priorities, implementing productivity and efficiency improvements, and striving to deliver the best results for defence.

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

In March 2017 the Minister of Finance approved the restructure of ASC Group into two separate Government owned Entities, ASC Pty Ltd and Australian Naval Infrastructure Pty Ltd (ANI) (formerly known as ASC Engineering Pty Ltd).

ASC owned critical infrastructure assets were transferred to ANI. Also transferred to ANI were the associated deferred net tax liabilities of \$36.1m which relate to the revaluation of the land and buildings.

Given the significance of the deconsolidation, ASC engaged an external advisor to assist with the restructure and to ensure the taxation implications of the transaction were accurately reflected in the financial accounts.

ASC and its wholly-owned Australian subsidiaries at 30 June 2017 formed part of an income tax consolidation group under the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the company prepares a consolidated taxation return with the Australian Taxation Office (ATO).

Tax Strategy

Strongly held corporate values are an important element of the strategic framework that underpins ASC. It is these values of Service, Safety, Leadership, Integrity, Results and Innovation that ensures we continue to keep open and honest communication with our stakeholders and the public.

ASC is committed to conducting its tax affairs in line with these corporate values through its tax principles:

- Not to intentionally breach tax laws, tax filing, and tax payment obligations in all jurisdictions.
- Pay tax in all jurisdictions of operation as required by legislation.
- Achieve a high standard of integrity as a responsible taxpayer and good corporate citizen.
- Maintain open, honest, and cooperative relationships with all tax authorities.
- Not tolerating any practices that rely on secrecy or concealment of any information from any tax authorities.
- Committing to embed risk management principles and practices into its organisational culture and processes.
- Focussing on what's good for ASC and its stakeholders not only for today, but for the future.

Approach to risk management and governance arrangements

The Board of ASC are responsible for corporate governance which is monitored against performance at each Board meeting. The Board is committed to risk management as an integral part of ASC's business and has established an Audit Committee to ensure that financial compliance is effective. Tax risks are managed by the Board and the Audit Committee as part of this overall corporate governance and risk management framework.

ASC seeks to comply with and observe all applicable rules and regulations of all the jurisdictions it operates in and to maintain open, honest, and cooperative relationships with all tax authorities

Attitude towards tax planning

Tax decisions will be made at all times in a manner which is consistent with ASC's overall strategy.

ASC will apply due professional care and judgement when considering tax planning or initiatives. Transactions will only be undertaken which relate to the commercial needs of the company. Due consideration is given to ASC's reputation, brand and corporate social responsibilities when considering tax planning or initiatives. Where there is uncertainty as to the application or interpretation of tax law, appropriate written advice evidencing the facts, risks and conclusions may be taken from external advisers to support the decision-making process.

Accepted level of risk in relation to taxation

The Board adopts a conservative approach when considering different tax options in order to mitigate any potential taxation risks.

ASC has a tax governance and risk management system in place which manages tax risk in line with the enterprise wide risk management framework. Tax risks are identified, assessed and managed in accordance with Board defined thresholds/risk appetite.

ASC complies with and observes all applicable rules and regulations of all the jurisdictions it operates in.

Approach to engagement with the Australian Taxation Office (ATO)

ASC maintains a professional and transparent relationship with the Australian Taxation Office (ATO). It is this relationship that has allowed ASC to continue to successfully undertake the ATO annual assurance review without any issues arising.

International related party dealings summary

ASC has no dealings with international related parties.

Australian tax contribution summary

Australian corporate income tax paid

The following table reconciles the income tax expense account as reported in the profit and loss to the income tax payable disclosed in the balance sheet.

| | June 2017 \$'000 | June 2016 \$'000 |
|--|---------------------------------|---------------------------------|
| Income taxes payable at the beginning of financial year | (2,036) | 4,197 |
| Less: Income tax paid during the year as per cash flow | (4,746) | (12,556) |
| Prior Year Adjustments | (151) | (454) |
| Income Taxes payable for current financial year | 16,990 | 6,777 |
| Total tax payable/(refundable) as reported in the balance sheet | 10,057 | (2,036) |

The net Income Tax Paid during the financial year includes:

- monthly Pay As You Go (PAYG) instalments paid in accordance with legislation to the ATO for the 2016/17 financial year of \$6,993,000 (\$10,590,000 in 2016);

partly offset by:

- a refund of PAYG instalments paid to the ATO in previous years of \$2,186,000 relating to the lodgement of the final 2015/16 income tax return (\$1,966,000 payable in 2015); and
- a refund of \$61,000 relating to non-refundable tax offsets of \$244,000 from Research and Development activities in the 2015/16 year . ASC did not undertake any Research and Development activities in the 2014/15 financial year.

The total tax payable amount includes the final PAYG instalment for June 2017 which is not paid until the 2017/18 financial year as prescribed under taxation legislation, as well as the final balance payable on lodgement of the 2016/17 income tax return.

Reconciliation of accounting profit to income tax expense

The consolidated accounting profit of ASC for the 2017 financial year attributable to the shareholders was \$29,177,000 (2016: \$26,628,000) after provision for income tax expense of \$12,646,000 (2016: \$11,426,000). This is reconciled to profit before tax in the table below:

| | June 2017 \$'000 | June 2016 \$'000 |
|---|---------------------------------|---------------------------------|
| Profit from continuing operations before income tax expense | 41,823 | 38,054 |
| Income Tax calculated at 30% | 12,547 | 11,417 |
| Tax effect of non-temporary adjustments | 99 | 9 |
| Income Tax Expense | 12,646 | 11,426 |
| Represented by: | | |
| Current Tax Expense | 16,990 | 6,777 |
| Deferred Income Tax Expense | (4,344) | 4,649 |
| Income Tax Expense | 12,646 | 11,426 |

Material temporary and non-temporary differences

Temporary differences

ASC's material temporary differences mainly relate to:

- employee benefits;
- project recognised profit; and
- property, plant and equipment.

Non-temporary differences

ASC's only material non-temporary differences relate to:

- non-deductible entertainment expenses; and
- tax offsets from Research and Development activities.

Effective company tax rate

The effective corporate tax rate of ASC has been calculated by dividing the income tax expense by profit before tax, as set out in the table below:

| | June 2017 \$'000 | June 2016 \$'000 |
|---|------------------------|------------------------|
| Profit from continuing operations before income tax expense | 41,823 | 38,054 |
| Income Tax Expense as reported in the Profit and Loss | 12,646 | 11,426 |
| Effective Corporate Tax Rate | 30.24% | 30.03% |

ASC's 2017 Australian Effective corporate tax rate is 30.24%. The effective tax rate of ASC is higher than the corporate tax rate of 30% due to:

- Tax adjustments arising from non-deductible expenses;

partly offset by:

- Benefits arising from the inclusion of the Research & Development tax offset.

