ANNUAL REPORT

2018

ASC PTY LTD

Building and maintaining Australia's frontline naval defence capabilities.

www.asc.com.au

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21 September 2018

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

Dear Minister,

ASC Pty Ltd 2018 Annual Report

I am pleased to submit the 2018 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 statements for the Company for the year ended 30 June 2018 as well as reports on ASC's performance and progress.

Throughout this financial year the company continued its strong performance in the Collins Class Submarine and Air Warfare Destroyer (AWD) programs, which pleasingly led to both programs being removed from the Government's list of 'projects of concern'.

ASC achieved a profit after tax of $32.0 million.

During the year, ASC, together with its AWD Alliance partners, saw its first surface combatant, HMAS *Hobart*, commissioned into the Royal Australian Navy. The second AWD, future destroyer *Brisbane* completed sea trials and has subsequently been delivered to the Navy and the third AWD, future destroyer *Sydney* has been launched.

In 2017/18 ASC again exceeded the Royal Australian Navy maintenance performance targets for the Collins Class submarines and completed a full cycle docking in South Australia, a mid cycle docking in Western Australia along with several other shorter maintenance activities on operational submarines.

ASC welcomed the announcement in November 2017 that it would build the lead and second Offshore Patrol Vessels in South Australia and we continue to work closely with Luerssen of Germany on that program. The announcement in June 2018 that ASC Shipbuilding would build the nine Hunter Class Frigates as a subsidiary of BAE Systems was welcomed by our workforce and we continue to work closely with Government to structurally separate the ASC Pty Ltd Group.

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

Yours sincerely,

BRUCE CARTER
Chairman

COMPANY PROFILE

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

With more than 2,200 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 Royal Australian Navy. 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 Pty Ltd is a proprietary limited company registered under the Corporations Act 2001. ASC is wholly-owned by the Commonwealth, represented by the Minister for Finance (Shareholder Minister).

Initially established in 1985 at Osborne, South Australia, ASC was subsequently chosen in 1987 as the prime contractor for the design, manufacture and delivery of the fleet of six Collins Class submarines. 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 in mid-2012. This work is undertaken at the Government-owned submarine facility at Osborne, South Australia and at ASC West at Henderson, Western Australia.

ASC also provides submariner training services to the Navy at HMAS *Stirling* in Western Australia and is the largest industry provider of personnel into the Commonwealth's Future Submarine program office.

In 2005, ASC was named as shipbuilder for the Hobart Class Air Warfare Destroyer (AWD) Program as part of the AWD Alliance and since 2010, ASC and its AWD Alliance partners have been building and integrating the three AWDs at the Government's shipbuilding facility at Osborne, South Australia.

In 2017, ASC Shipbuilding was named as the South Australian shipbuilder for the lead and second Offshore Patrol Vessels (OPV) and in June 2018 ASC Shipbuilding was announced as the shipbuilder for the Hunter Class Frigates, and will become a subsidiary of BAE Systems.

Vision

To be an enduring and integral part of Australia's maritime strategy and national security.

Mission

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

Values and behaviours

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

	2017/18 $m	2016/17 $m
Revenue from rendering of services	755.5	798.5
Interest income	4.7	3.0
Other income and other revenue	4.9	9.6
Total revenue and other income	**765.1**	**811.1**
EBITDA	**50.6**	**54.0**
Depreciation and amortisation	(8.8)	(14.9)
EBIT	**41.8**	**39.1**
Interest expense	(0.8)	(0.3)
Tax expense	(13.7)	(12.6)
Operating profit before tax	45.7	41.8
Operating profit after tax	**32.0**	**29.2**
EBIT/total revenue and other income (%)	5.5%	4.8%
Shareholder's equity	130.6	113.8
Return on equity (%)	24.5%	25.7%
Dividend paid	16.0	19.7
Total assets	**541.8**	**578.4**

CHAIRMAN'S REPORT

BRUCE CARTER
Chairman

On behalf of the Board of ASC Pty Ltd, I am pleased to present the company's 2018 Annual Report.

Throughout the year ASC continued its strong operational performance.

Ultimately, this lead to the removal of the Collins Class submarine and AWD programs from the Government's list of 'projects of concern' and the company winning new work.

Whilst we sought to establish new partnerships and lines of revenue, ASC continued to work closely and collaboratively with our Customers, the Capability Acquisition and Sustainment Group of the Department of Defence and the Royal Australian Navy, and with our Submarine Enterprise and AWD Alliance partners. We remain committed to further strengthening those relationships, and growing new ones.

During the year, ASC successfully completed two major Collins Class submarine dockings – a Mid Cycle Docking (MCD) and a Full Cycle Docking (FCD) – while also delivering shorter maintenance activities and supporting Australia's operational submarines.

Significant milestones were also achieved in our shipbuilding business with the commissioning into service of the first destroyer HMAS *Hobart*, the second destroyer successfully completing sea trials and the launch of the third. ASC Shipbuilding was also named as shipbuilder for the OPV and Hunter Class Frigate programs.

At the centre of the year's results was again our people who displayed an unwavering commitment to safety, quality and innovation in pursuit of excellent operational performance.

ASC recorded profit after tax of $32.0 million (2016/17: $29.2 million) and annual revenue and other income of $765.1 million (2016/17: $811.1 million).

Submarine Business

In 2017/18, ASC again exceeded the Royal Australian Navy maintenance performance targets for the Collins Class submarines and completed the first year of 'Performance Period Three' of the In Service Support Contract. We continue to work closely with our Submarine Enterprise partners to achieve beyond benchmark performance.

During the year ASC completed the MCD of HMAS *Sheean*, the first submarine to complete a 12-month docking of this nature in Western Australia. I'm pleased to report the team at ASC West rose to the challenge of an accelerated timeframe and additional capability insertions, demonstrating their enhanced and growing capability.

The second full cycle docking of a Collins Class submarine following the Coles Review into submarine sustainment was completed in South Australia. HMAS *Collins*, the first of class, has now been returned to the control of the Royal Australian Navy and ASC will continue to support its return to service as it enters the next phase of its operational life.

In May 2018, ASC became the first Australian defence company to be awarded formal Asset Management certification for military assets and in June 2018 ASC signed a contract with the Royal Australian Navy for the continued provision of Collins Class submarine training services.

During the year ASC also continued its submarine capability development work, leveraging its operational performance on the Collins program to support capability retention within ASC and the strategic build-up of Australia's sovereign submarine industry to support the Future Submarine Program.

Shipbuilding Business

In 2017/18, ASC Shipbuilding continued its operational performance improvement, and together with our AWD Alliance partners celebrated several significant milestones on the AWD program.

In September 2017, HMAS *Hobart* was commissioned into service with the Royal Australian Navy and is now operational. Between November 2017 and April 2018 the second destroyer *Brisbane* successfully completed builder's and Category 5 sea trials and in May 2018 the third destroyer *Sydney* was launched.

As the AWD program has progressed, and the ships we build have come to life both in form and function, the strong sovereign shipbuilding capability built up with ASC over the last decade has become evident.

This important capability, resident in the ASC workforce, was recognised when in November 2017 ASC Shipbuilding was announced as the South Australian shipbuilder for the lead and second OPV, designed by Luerssen of Germany and the subsequent announcement in June 2018 that ASC Shipbuilding will build the nine Hunter Class Frigates, designed by BAE Systems.

Structural Separation of ASC

On 29 June 2018, the Federal Government announced that ASC Shipbuilding would become a subsidiary of BAE Systems for the Hunter Class Frigate build.

The ASC Board and Management are now working closely with the Departments of Finance and Defence to bring effect to that announcement through the structural separation of ASC Pty Ltd and ASC Shipbuilding Pty Ltd.

This arrangement will help maximise the future success of ASC and the Australian naval shipbuilding industry, with the residual ASC Group continuing to deliver Collins Class submarine sustainment, the AWD program and the anticipated OPV subcontract.

Conclusion

On behalf of the Board, I would like to congratulate all ASC staff on their commitment to safety, quality, innovation and continual improvement to ensure ASC is considered an integral part of Australia's naval submarine and shipbuilding strategy.

The people working at ASC are ordinary Australians doing extraordinary things, and together they make up Australia's sovereign industrial defence capability and I'm very proud of the work they do every day in support of Australia's national security.

Collectively, our people are a national strategic asset from which the workforce of the future can be grown and we remain committed to growing their capability, and that of the nation.

ASC will continue to explore all future work opportunities to ensure our people, their children and their grandchildren have rewarding careers for decades to come.

Bruce Carter
CHAIRMAN

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT

STUART WHILEY
Managing Director and Chief Executive Officer

In 2017/18, ASC's submarine business has strengthened and consolidated its position as Australia's sovereign submarine company, with capability extending across Collins Class sustainment, maintenance, upgrade and in-service support as well as bolstering the build-up of Australia's sovereign submarine industry to support the Future Submarine Program.

ASC is a true sovereign national asset, with expertise and experience earned over 30 years immersed in Australia's submarine sector, working with our Customers – the Department of Defence and the Royal Australian Navy.

Among the highlights of the year was the recognition by the Federal Government of the continued success of the Collins Class submarine sustainment program with its removal from the Government's 'projects of concern' list, the successful delivery of two major maintenance dockings and securing a contract to continue the provision of submarine training services to the Royal Australian Navy.

Collins Class Submarine Program

This financial year saw ASC complete the first year of Performance Period Three for the In Service Support Contract for Collins Class submarine sustainment, which commenced on 1 July 2017.

ASC again exceeded the Navy's maintenance performance targets, as it had in the previous Performance Period.

The FCD of HMAS *Collins* in South Australia, which commenced in mid-2016, was completed on 7 June 2018. It was ASC's second two year FCD, following the introduction of the 10+2 Usage-Upkeep cycle.

The FCD for HMAS *Waller* has now commenced in South Australia, with the submarine also to undergo upgrades.

Meanwhile at ASC West, in Henderson, Western Australia, ASC delivered a demanding 12-month Mid Cycle Docking (MCD) for HMAS *Sheean*, the first docking of this nature and duration in Western Australia, as well as a number of shorter maintenance cycles on Collins Class submarines.

ASC has now agreed in principle future performance targets with the Commonwealth that are expected to increase availability, reliability, cost performance and deliver improved outcomes.

ASC recognises that the key to our future success is continued high levels of performance on the Collins Class program and we remain committed to achieving beyond benchmark performance.

Attract, retain and grow our people

Our people are our most valuable asset and retaining critical personnel in Collins Class submarine maintenance is a high priority for the business and was actively managed throughout the year through professional development activities. Our apprentice and graduate programs continued to prove popular and our diversity and inclusion program, All Aboard, now in its third year, continued its endeavour to make ASC a workplace where people can be their best selves.

ASC again provided teaching and supervision support to the University of Adelaide's Masters of Marine Engineering program and supported several post graduate research projects from a range of institutions. Throughout the year ASC also mentored and hosted numerous school students to help foster their interest and motivation to continue or take up study in the science, technology, engineering and maths fields. We hope they will become the submarine workforce of the future.

ASC has also been working closely with the Commonwealth to assess future workforce supply and demand and develop training plans following the allocation of funding in the 2017 Mid-Year Economic Fiscal Outlook to support submarine capability development.

Now and in the future ASC expects to see increasing competition for its people from other naval programs, and by working collaboratively with our partners in the Submarine Enterprise we seek to establish a co-ordinated approach, across Government and industry, to manage the utilisation of submarine platform personnel in Australia in the future.

Leveraging Collins Sustainment

Through its submarine capability development function, ASC is seeking to leverage its performance on the Collins program to secure new lines of revenue in the submarine industry and allied markets.

Throughout the year ASC continued to support the Future Submarine program by providing approximately 30 expert submarine platform personnel to the Commonwealth's Future Submarine program office including several who were relocated to Cherbourg, France.

Engagement with Future Submarine designer Naval Group and combat system integrator Lockheed Martin and other suppliers continued and we look forward to formalised relationships under appropriate commercial arrangements in due course.

ASC worked closely with the Commonwealth on matters related to the Collins Class Life of Type Extension (LOTE) program during the year and will continue to do so.

Collaboration with our peers is an important aspect of our business, and in January 2018 we signed a collaboration agreement with international engineering consultancy BMT and we continue to explore other opportunities to meet the growing demand for ASC's submarine expertise.

Digital Transformation

During the year ASC commenced a study to assess the feasibility of undertaking a digital transformation program, which could involve system upgrades, process improvements and ultimately, better value for our customers and better ways of working for our people.

ASC engaged digital technology provider Accenture for the initial scoping phase of the program and the ASC Board will consider the business case in the next financial year.

The Future

ASC submarine business' four-pronged strategy of delivering beyond benchmark on the Collins program, attracting, retaining and growing our people, leveraging performance on Collins to open up new opportunities and digitally transforming our business will position us well for the future.

ASC is a valuable national asset which operates according to what is best for the nation.

As Managing Director and Chief Executive of the ASC Pty Ltd group I am very proud of our 2,200 strong submarine and shipbuilding workforce who are working across engineering, project management, production and support disciplines.

They have again performed admirably in the 2017/18 year and I sincerely thank them for their commitment to quality, safety, innovation and performance. Whilst they do not wear a navy uniform, they are an important part of Australia's naval defence and in coming years can look forward to rewarding and challenging roles across a range of programs.

Stuart Whiley
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

ASC SHIPBUILDING CHIEF EXECUTIVE OFFICER'S REPORT

JIM CUTHILL
Acting Chief Executive Officer,
ASC Shipbuilding

ASC Shipbuilding's position as Australia's proven builder of major warships was consolidated in the 2017/18 year with continued strong performance on the Hobart Class AWD program and being named as shipbuilder for the next two naval shipbuilding programs.

The proven capability and future potential of the ASC Shipbuilding business was recognised in June 2018 when the Federal Government awarded it the central role in the delivery of the Hunter Class Frigate program, in an arrangement that will see it become a subsidiary of BAE Systems, with the Federal Government retaining a sovereign share.

The Hunter Class Frigate decision followed the earlier decision, in October 2017, to award the OPV program to Luerssen of Germany, with ASC Shipbuilding to build the lead and second warship at the Osborne shipyard from late 2018.

The ASC Shipbuilding workforce has continued to perform admirably, meeting all milestones on the AWD program which now sees all three warships in the water, marking their ability to build highly capable vessels for the Royal Australian Navy.

Air Warfare Destroyer Project

Throughout the year ASC Shipbuilding maintained constructive relationships with its AWD project partners Raytheon Australia, Navantia and the Department of Defence, achieving major shipbuilding milestones while maintaining shipbuilding budget and schedule.

Pleasingly, the workforce continued to achieve improvements and implementation of lessons learnt while undergoing reductions in numbers to meet operational demands as the AWD program advanced.

The financial year saw the commissioning in September of the first in class AWD, HMAS *Hobart* into the Navy, marking the delivery of Australia's first AEGIS-equipped guided missile destroyer, the RAN's most capable surface combatant to date.

The second AWD, *Brisbane*, successfully completed Builder's Sea Trials in December 2017 and Category 5 Sea Trials in early 2018. The warship passed all trials with flying colours and was later accepted by the Commonwealth at a ceremony in July 2018.

The third and final AWD was launched and named, *Sydney*, in May 2018 and is being constructed by ASC Shipbuilding at approximately 60 percent improved productivity compared to the first destroyer. *Sydney* is due to be delivered to the Commonwealth in 2019.

Other Shipbuilding Activities

During the year ASC Shipbuilding, under subcontract to Teekay Shipping Australia, successfully completed a maintenance activity, to MV *Sycamore*, the Royal Australian Navy's Multi-role Aviation Training Vessel.

The short but intense activity carried out at the Osborne Naval Shipbuilding yard demonstrated the diverse range of shipbuilding and maintenance work our people can carry out.

Following the announcement in October 2017 that ASC Shipbuilding will build the lead and second OPV the company has been in negotiations with Luerssen ahead of the planned commencement of construction in late 2018. ASC Shipbuilding notes that while the ASC Pty Ltd Group will have responsibility for the delivery of the OPV program, the labour will be provided by ASC Shipbuilding.

The decision in June 2018 to name ASC Shipbuilding as the shipbuilder for the Hunter Class Frigate program, as a subsidiary of BAE Systems, is recognition of the sovereign shipbuilding capability built up within ASC over the last 10 years and lays the pathway towards a sovereign and sustainable naval shipbuilding industry characterised by continuous builds of warships.

With the benefit of BAE Systems' knowledge, skills and experience being passed through to ASC Shipbuilding over the course of the Hunter Class Frigate program, in addition to the capability built through delivering the AWD and OPV programs, ASC Shipbuilding will be well placed to be Australia's sovereign designer and builder of naval ships in the future.

Shipbuilding Labour Reductions

As the AWD Program continued to progress and the ships were either delivered to the Navy or entered advanced stages of production, ASC Shipbuilding was required to match its labour resources with operational demand in order to meet budget and schedule requirements.

Where possible, ASC Shipbuilding has worked closely with the Departments of Defence, Finance and project partners to secure redeployments and transfers to other parts of ASC's shipbuilding and submarine businesses and the wider industry to maximise the amount of shipbuilding capability that can be retained for future programs.

However, during the 2017/18 year 155 ASC Shipbuilding workers were required to leave the business.

Our people are an important part of our future, and whilst it is disappointing that we have had to farewell skilled employees, with the Hunter Class Frigate Program set to commence production in 2020, to be delivered by ASC Shipbuilding as a subsidiary of BAE Systems, we do hope that many former shipbuilding employees will have the opportunity to return to the company in due course.

The Future

The 2017/18 year was one of achievement and progress for ASC Shipbuilding, and in coming months as we transition to become a subsidiary of BAE Systems I expect more exciting achievements on the horizon.

We remain committed to delivering our obligations to the AWD and OPV programs and look forward to preparing for the Hunter Class Frigate build.

I'd personally like to thank those in the ASC Shipbuilding family, both past and present, for their commitment and resilience in a challenging but rewarding industry. Your products speak for themselves.

Jim Cuthill
ACTING CHIEF EXECUTIVE OFFICER
ASC SHIPBUILDING

COLLINS CLASS SUBMARINE PROGRAM

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

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

ASC completed the first year of Performance Period Three for the In Service Support Contract (ISSC) for Collins Class Submarine (CCSM) sustainment, which commenced on 1 July 2017, and introduced the beyond benchmark targets. In the 2017/18 financial year, ASC again exceeded the RAN's maintenance performance targets.

Collins Class Maintenance Progress

HMAS *Collins* is the second CCSM to undergo a two-year FCD at ASC North in Osborne South Australia. The FCD successfully completed on 7 June 2018.

HMAS *Collins'* FCD included significant capability upgrades to modernise the submarine in readiness for the next ten-year operating period. One of these was the first–of-class implementation of the new Communication Centre, which was also implemented in parallel on HMAS *Sheean* during its 12 month MCD competed in ASC's facility in Henderson, Western Australia.

Following on from the HMAS *Collins* FCD, the two year FCD on HMAS *Waller* commenced on 1 June 2018, and is the first two year FCD which will not have a rotable pool of key material to utilise.

A number of key initiatives were initiated during the planning phase of the HMAS *Waller* FCD activity to achieve schedule reductions such as the purchase of rotable components, workshop optimisation, multiple work fronts and other process improvements. The HMAS *Waller* FCD will also include capability upgrades, including the sonar upgrade project which was formally announced by the Hon Christopher Pyne MP, Minister for Defence Industry on 14 June 2018. HMAS *Waller* will be the first submarine to have the new sonar system installed and ASC, as the platform system integrator of the CCSM, will work closely with combat systems integrator Raytheon Australia and sonar systems designer Thales Australia to install and integrate the system into the platform.

This capability upgrade will ensure the CCSM will remain potent and agile today and well into the future.

ASC continues to support operational submarines and shorter term maintenance activities at ASC West.

Customer Focus

ASC continues 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 international performance benchmarks.

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 submarine industry capability.

The CCSM fleet will remain Australia's frontline 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 on the sustainment of the CCSM fleet, working with our partners to ensure it remains regionally superior and available for service at or beyond international benchmark levels.

To meet the challenge of becoming the parent nation for two classes of submarines, it is estimated Australia will have to double its 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 the CCSM capability is not adversely impacted. ASC will continue to use its capability wisely to successfully meet the challenges of operating a regionally superior CCSM fleet.

On 12 April 2018, ASC became the first Australian Maritime company to achieve Asset Management System accreditation against the ISO 55001:2014 standard, the basis of which will enable more efficient and effective management of the Assets (the six CCSMs) across their life. ASC is working closely with Enterprise to provide leadership to the Submarine Enterprise in the evolution of the CCSM Sustainment to an Asset Management framework.

Strategic Investment

The upgraded ASC West facility in Henderson, Western Australia, designed and constructed to increase the efficiency of maintenance activities through improved access to the submarines in the maintenance hall and on the hardstand, has proven to be a solid investment with post reviews demonstrating efficiencies have been delivered.

ASC is in discussions with CASG to initiate the land development and design and construction of a Commonwealth owned modern submarine enterprise support facility at Fleet Base West on Garden Island, Western Australia. This facility is expected to house various members of the Submarine Enterprise, including Commonwealth and industry, which will provide efficiency of work practices to support submarine maintenance from Fleet Base West on Garden Island. The expectation is that a new facility will be occupied in late 2020.

This investment reflects ASC's ongoing commitment to achieving and sustaining 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 include:

- An increase in Materiel Ready Days (to international benchmark levels and above);
- Increased focus on implementing submarine capability;
- Increased focus on implementing submarine reliability and addressing obsolescence issues (utilising a prioritised and agreed plan to measure performance against);
- Delivery of HMAS *Waller* FCD and HMAS *Rankin* MCD whilst conducting in service support activities and supporting operational submarines.

Business Improvement

ASC's business improvement capability continues to drive significant initiatives through the delivery of 17 discrete projects including:

- CCSM sustainment system modernisation program to improve efficiency and effectiveness across the CCSM program. This work is underpinned by the wider ASC digital business modernisation program which will advance and enhance the current business systems (people, processes and tools);
- Implementation of key initiatives to resolve 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;
- Radio Frequency Identification for improved material tracking; and
- Digital twin AVEVA Collins Class Virtual Reality experience to support technical reviews and decision making.

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

The Submarine Enterprise

The Submarine Enterprise Board (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.

ASC continues to work closely with the Submarine Enterprise to deliver outcomes for the sustainment of the CCSM fleet, contributing directly to the potent and agile submarine capability required by the Australian Government which includes:

- Ongoing upkeep, update and upgrade activities to ensure consistent delivery of materially capable submarines to the Fleet commander;
- Transition from an availability-based model to a deployed-based model to measure and report capability;
- Consistent efficiency and effectiveness improvements to move beyond benchmark;
- The development and implementation of LOTE plans;
- Supporting the growth of Australia's sovereign submarine capability.

Submarine Training School

ASC has been the provider of initial and advanced submarine training at the Submarine Training and Systems Centre since 1992. In June 2018, ASC was awarded the CCSM Training School five year performance based contract. The new contract expands the capability of the training school with the inclusion of Combat system training, previously conducted separately to the school. This addition provides a holistic approach to crew training and presents opportunities for future training.

During 2017/18, ASC:

- Met or exceeded all Submarine Training Services Contract's set Key Performance Indicators (KPIs) for the period;
- Delivered 257 training courses;
- Trained 100 new entry submariners and provided advanced training to 136 submariners; provided training to approximately 100 ASC engineers and trades people;
- Continued to develop and refine the 3D submarine virtual walkthrough, known as "Boat 7", to enhance initial and advanced submariner training; and
- Delivered a Virtual Reality Proof of Concept demonstrator to the Royal Australian Navy which has been accepted into the training program and further expanded.

ASC continues to invest in growing the capability and capacity of its dedicated training team through recruitment, training and engagement with the ASC maintenance workforce. With the new contract scope expanded to include combat systems training, the training team capability will be increased to include a Navigation trainer.

HOBART CLASS AIR WARFARE DESTROYER PROJECT

ASC Shipbuilding is the lead shipbuilder for the Hobart Class AWD program as part of the AWD Alliance.

Together with the Department of Defence, Raytheon Australia as the combat systems integrator and Navantia as the designer, ASC Shipbuilding is building Australia's most capable warships.

During the reporting period HMAS *Hobart* was successful delivered to the Royal Australian Navy and commissioned into service. The second ship, future destroyer *Brisbane* demonstrated exceptional performance during sea trials and the third ship, future destroyer *Sydney* was officially launched.

The continued achievement of schedule targets and the implementation of productivity improvements on each vessel demonstrate the capability of ASC Shipbuilding as Australia's most capable and competent builder of major warships.

Ship Progress

Ship 01 – HMAS *Hobart*

HMAS *Hobart* was delivered to the RAN and successfully commissioned into service on 23 September 2017.

This marked the delivery of one of Australia's most capable surface combatants.

The delivery and commissioning of the first vessel were very proud moments for the shipbuilding workforce, both present and past.

Ship 02 – Future destroyer, *Brisbane*

2017/18 highlights for Ship 02 included:

- Lighting off the main engines for the first time;
- Lighting off the gas turbines for the first time;
- Successfully completed Builder's Sea Trials; and
- Achievement of thirty-eight percent fewer construction hours compared to that of HMAS *Hobart*, demonstrating a significant productivity improvement.

Ship 02 *Brisbane* successfully completed Builder's Sea Trials in December 2017. Category 5 Sea Trials were conducted over a three week period in the first half of 2018, with the vessel performing to a high standard and in some cases exceeding expectations.

Thirty platform tests, 38 combat system tests and 120 other test activities were completed during the Category 5 trial period. This included testing the Cooperative Engagement Capability (CEC) with HMAS *Hobart.* This marks an important milestone for the AWD program and the Navy with Australia as the first international partner outside of the United States to gain access to this technology.

Future destroyer *Brisbane* has since been provisionally accepted by the Commonwealth (July 2018).

Ship 03 – Future destroyer, *Sydney*

2017/18 highlights for Ship 03 included:

- Completed Main Cable Pull;
- Achieved Shore Power through Switchboard; and
- Ship 03 Float Off occurred on 19 May 2018.

During the reporting period, construction activities continued at a rapid pace with Ship 03 meeting the targets set for achievement of key milestones.

Ship 03 entered the water at 81 percent complete and continues to yield the results of advanced outfitting improvement initiatives which were introduced to the build sequence as a result of lessons learnt on the first two ships

Ship 03 was officially launched in May 2018 and is due for delivery to the Commonwealth in 2019.

Parametric Productivity Improvement Initiatives

ASC Shipbuilding strives to deliver continuous performance improvements in all aspects of its business operations. A key focus area for ongoing improvements is within the production value stream where it is critical to success to ensure lean processes and maximum efficiency.

The shipbuilding operations group currently has initiatives underway across the electrical, piping, outfitting and accommodation trade groups. These improvement initiatives are focused on working within the trade areas to identify the barriers to success and generate workable plans and actions to deliver solutions which support the groups to meet or exceed their productivity targets.

This initiative utilises the existing skills and knowledge inherent in the trade workgroups and combines it with skilled process and optimization specialists to deliver innovative solutions to maximise productivity.

Process changes, improved access to tooling and equipment and the continual incorporation of lessons learnt are delivering improved outcomes across a number of the trade group metrics. The implementation of action plans will be ongoing throughout the next financial year.

AWD Production Readiness Program

ASC Shipbuilding utilises a number of key performance indicators to assess its performance on the AWD program. The AWD Production Readiness Program: *Safely on Time* Performance Metrics were developed to provide a whole of business measure of production readiness. These include Direct Labour Utilisation (Productivity), Work Readiness, Work Pack Fill Rate and Ship Plan of the Week. These metrics provide indications that work is ready for production to execute, materials are available, a detailed plan is set and that work is finished according to that plan.

Early 2018 results indicate that productivity in most trade areas continues to trend favourably.

- Work Readiness is showing positive trends in the performance metrics due to the implementation of trade based productivity improvements;
- Work Pack Fill Rate activities are delivering shipyard cleanliness whilst concerted effort continues to release material into the yard for remaining Ship 03 Operations; and
- Ship Plan of the Week adherence performance continues to deliver consistent performance levels well above target.

OTHER BUSINESS ACTIVITIES

The Government's Naval Shipbuilding Plan, Defence Export Strategy and Defence Industrial Capability Plan present significant opportunities for ASC.

ASC is well positioned to support the Commonwealth's plan for a sovereign, sustainable national shipbuilding sector.

Submarine

ASC's Submarine Capability Development function aims to leverage ASC's performance on the Collins Class program to secure new lines of revenue in the submarine industry and allied markets.

Opportunities are being pursued outside of the CCSM In-Service Support Contract and ASC's current Future Submarine Technical Organisation responsibilities by leveraging ASC's extensive submarine experience and international submarine network to support:

- The sustainment and development of Australia's sovereign submarine capability residing within ASC;
- The retention of ASC's skilled submarine workforce during a period of high demand from other defence programs; and
- The diversification of ASC's business interests in the Naval sector.

During the reporting period, ASC secured the following business outside its main submarine programs:

Standing offer panel

ASC has been accepted onto the Defence Support Services Panel which makes a range of ASC's expertise available to Defence outside of the Collins Class sustainment environment.

Submarine Training Services

In June 2018, ASC was awarded a new five year contract to deliver submariner training services at the Submarine Training and Systems Centre in Western Australia.

Collins Life of Type Extension

During the year ASC completed the scoping study for the Collins Class LOTE, as contracted by Government. Preparations for the next phase of LOTE planning is continuing.

Collaboration agreements

In January 2018, ASC and international engineering consultancy BMT signed a 12 month collaboration agreement to meet increasing demand for ASC's submarine platform expertise and experience. ASC continues to explore other collaboration agreements.

Shipbuilding

ASC Shipbuilding business development focus has been on securing opportunities to grow ASC Shipbuilding's capability and to retain existing capability as the AWD program nears completion. During the reporting period, ASC secured the following business outside its main shipbuilding program:

Offshore Patrol Vessel Program

In November 2017, Luerssen was announced as the successful tenderer for the OPV program with ASC to build the lead and second vessels in South Australia. ASC is continuing contract negotiations with Luerssen, with fabrication expected to start on this program in late 2018.

MV *Sycamore* maintenance

ASC Shipbuilding submitted a successful tender to Teekay Shipping Australia for maintenance and repairs to MV *Sycamore*, the Navy's Multi-role Aviation Training Vessel. MV *Sycamore* was docked for planned and emergent works for a period of 10 days during April at the Osborne Naval Shipyard. The docking period was successful and ASC Shipbuilding and Teekay continue to explore more opportunities to work together.

Standing offer panels

ASC Shipbuilding has been accepted on to the Australian Border Force Marine Technical Services panel and the Defence Support Services Panel.

Hunter Class Frigate Program

On 29 June 2018, the Federal Government announced that ASC Shipbuilding would become a subsidiary of BAE Systems for the Hunter Class Frigate build.

INFRASTRUCTURE DEVELOPMENT

ASC operates from three modern facilities; a submarine maintenance facility and shipyard located at Osborne, South Australia and submarine maintenance facilities at Henderson Garden Island, Western Australia.

ASC continues to have use and access of the Osborne naval shipyards in South Australia and the associated critical infrastructure owned by Australian Naval Infrastructure (ANI).

ASC North

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

Throughout the year work was undertaken to improve the facility to ensure it continues to effectively support the activities of the Submarine Enterprise.

A full upgrade and refurbishment of the bogie transfer and control system (used to lift and support submarines while they are being moved between the workshop and shiplift) have been completed. Thirty four bogies are connected together in two trains, and each bogie acts as a 140 tonne capacity hydraulic jack. During the refurbishment the main jacking cylinders were fully overhauled and the electrical and mechanical systems were checked and repaired as necessary. The load monitoring system was upgraded with a new control system, signal conditioning and touchscreen and now provides data logging and better visual representation of the system loading. This successful completion of the overhaul is expected to extend the life of the ASC North submarine transfer and control system for a further 20 years. Subsequently, the Centre for Marine Engineering re-certified ASC's submarine docking and transfer system.

Energy and cost savings have been achieved through the replacement of fluorescent lighting, with low cost LED lighting in many of ASC North's buildings along with a change to the company's energy tariff following a review.

Other important facility and infrastructure projects this year included:

- Continuation and completion of dredging works around the ASC North shiplift and wharf;
- Installation of additional fume extraction units in the main fabrication area of the workshop;
- Provision of evaporative air conditioning to the piping workshop;
- Upgrade of the wharf gangways and operating system
- Installation of additional data network cabling in support of security improvements; and
- Removal of dangerous trees to reduce the risk of injury from falling branches.

During the year work also commenced to upgrade the main motor and diesel generator workshops to deliver improved efficiencies during the HMAS *Waller* FCD. These works are expected to be completed in the next financial year.

ASC West

The ASC West facility, located at Henderson, Western Australia, undertakes shorter maintenance dockings and in service support.

Throughout the 2017/18 period, ASC West has built upon the significant facility upgrade achieved in the prior financial year which saw the construction of a maintenance support tower and sky bridge to deliver operational efficiencies.

Key facility and infrastructure projects this year included:

- Achieving compliance to the Department of Defence Manual of Fire Protection Engineering;
- Design, supply and installation of a custom built removable office container positioned on the Skybridge;
- Modernisation and introduction of a fleet management system on all forklifts;
- Fitout of a purpose built medical centre, featuring a treatment bay and consultation area; and
- Conversion and certification of existing western bridge crane to a single 10t hoist, enabling propeller movement to occur within the maintenance hall.

ASC South

The ASC South facility located at Osborne in South Australia is the site of construction of the three Hobart Class AWD and in the future is where the first two OPV and nine Hunter Class Frigates will be built.

With work on the AWD program nearing completion, and with all three AWDs now in the water, the footprint of ASC Shipbuilding within the ANI-owned Osborne South Shipyard has been reducing. As such, there is a focus on site remediation with clean-up, pack down and consolidation of site equipment and infrastructure which is no longer required for use on the AWD program.

Other important facility and infrastructure projects this year included:

- Initiation of a sell off program for equipment and scrap materials which are not required for current or future programs;
- Upgrades to the Shipbuilding IT platform and asset pool in preparation for a multi program environment; and
- Updated Security Card System Readers for improved site access control and monitoring.

The ASC Shipbuilding footprint is expected to increase again at the commencement of the OPV program, estimated to commence production in December 2018.

ASC continues to work closely with ANI to manage the commercial and operational arrangements required for the AWD program and expected OPV program requirements.

SAFETY PERFORMANCE

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

ASC maintains its commitment to continually improve 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 of all we do.

To aid continual improvement a variety of safety initiatives were deployed during the reporting period including, but not limited to:

- Health and wellness, mental health and resilience awareness training;
- Physical safety initiatives based on intelligence from data analytics;
- Introduction of an improved safety reporting tool set; and
- Improved safety feedback protocols.

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 2017/18:

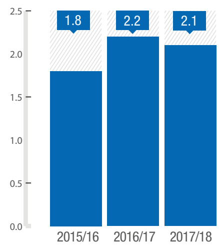
Deaths	0
Dangerous Incidents	11
Serious personal injury or illness	0
TOTAL	**11**

There were 11 dangerous incidents notified to Comcare, none resulting in serious personal injury or illness to ASC workers. This is an increase of two incidents compared with the prior reporting period. Trends associated with the dangerous incidents resulted in safety campaigns being implemented to prevent recurrence.

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 2017/18 (all site based workers, including contractors) representing a marginal decrease in frequency rate from the previous reporting period. There were two less lost time injuries incurred across the business when compared to the previous reporting period.

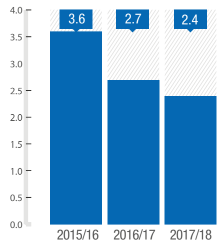


LTIFR = number of LTI's X 1,000,000 divided by hours worked per month.

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 2017/18 (all site based workers, includes contractors) representing an 11% reduction from the previous reporting period. There were six less medically treated injuries incurred across the business when compared to the previous reporting period.



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

Investigations

Comcare undertook to evaluate three of the 11 notifiable incidents, none of which resulted in any formal action or additional requirements being imposed upon the business.

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.

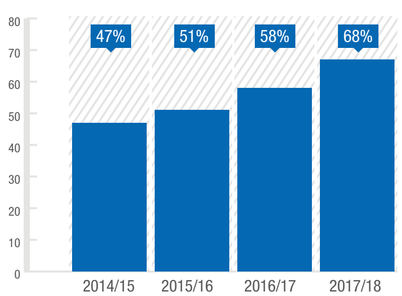
ASC's efforts remained on transitioning from an EMS focused primarily on compliance, to one with improved environmental performance and consideration of environmental impacts across the full lifecycle of operation.

Key areas of environmental performance include:

- Electricity consumption;
- Reduction of water consumption;
- Increase in the percentage of waste diverted from landfill and reduction in generated waste;
- Climate Change adaptation planning (including reduction of carbon emissions);
- Community engagement; and
- Sustainability integration.

ASC continues to achieve significant increases in waste diversion across all sites, with 68 percent of the generated waste material being diverted away from landfill. Waste management will continue to focus on diversion, but will also now look to opportunities to reduce and reuse materials on site.

ASC Corporate Waste Diversion



ASC continues to assess environmental risks for the business with major activities such as fuelling and defueling events being thoroughly reviewed with excellent adherence to process identified.

ASC's focus for the next reporting period will be on sustainability reporting and climate risk analysis and mitigation, and opportunity assessment.

Environmental Management System

ASC's EMS achieved certification to ISO14001:2015 highlighting the importance the company places on environmental performance relating to our internal and external impacts.

Work continues on the integration of sustainable principles into the program to ensure environmental and social considerations are incorporated into all aspects of ASC's operations. Highlights of the program this year have been a focus on removal and consolidation of bins in offices and staff engagement in environmental volunteering.

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 2017/18 financial year, there was one environmental incident that required official regulatory notification. However this event did not result in material or significant environmental harm to the local environment. This incident was subject to internal review and additional control actions were implemented.

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 its activities in South Australia and Western Australia for submarine and shipbuilding projects under the respective State and Commonwealth environmental regulatory bodies.

PEOPLE

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.

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 2,200 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. ASC Shipbuilding has taken steps to retain as much capability possible ahead of the OPV and Hunter Class Frigate programs, including through the temporary transfer of people to work on other programs, including Collins Class maintenance.

Professional Development

In 2017/18, ASC professional development activities included:

- Expansion of internal leadership program to incorporate middle management levels and build capability in human capital management;
- Continuation of Apprentice and Graduate programs;
- Implementation of Project Management, Business Acumen and Earned Value Management e-learning across the submarine business resulting in a 450 percent increase in the use of the Learning Management System;
- Further building of internal mentoring capability;
- Participation in Graduate Certificate in Marine Engineering for 18 students;
- Support of 20 staff for higher level qualifications through ASC Professional Development assistance; and
- Resilience programs.

Apprentices and Graduates

The 2017 ASC Apprentice Program was, again, highly competitive. The program received 972 applications, from which 13 positions were awarded, nine in South Australia and four in Western Australia, bringing the total number of apprentices employed to 65.

ASC has a completion rate of 92 percent this compared with the projected national completion rate of 44.4 percent[1].

ASC employed 13 engineers as part of its Graduate Program, six in South Australia and seven in Western Australia. Graduates are placed in permanent positions for two years and gain experience and exposure to the business by being rotated though various departments every three to six months. Graduates are also given the opportunity to go on rotation in Western Australia for three to four months with seven graduates taking part in the placement in 2017/18.

Government Support to Workforce Development

In 2017/18, ASC received $761,091 from the South Australian Government's Department of State Development. A further $143,184 has been invoiced but not yet received. These funds provide valuable support which has 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; and
- Resilience and leadership programs.

[1]Australian vocational education and training statistics, Completion and attrition rates for apprentices and trainees 2016, National Centre for Vocational Education Research, Total trade occupations

Workforce Planning

Workforce planning remains an active and continuous process in ASC's business planning cycle, and uses immediate, up-to-date intelligence 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; and
- Assist with the identification and management of people with the knowledge critical for effective and efficient business operations.

2017 has seen increased competition for talent in South Australia coming from competing Defence programs running in parallel. Activities underway from the current Submarine Business Unit Workforce Plan to address these challenges include:

- Managing and growing the future talent pipeline;
- Establishing and nurturing external capability partnerships;
- Enhancing ASC's brand positioning and employee value propositioning;
- Preparing capacity for additional work;
- Enhancing ASC's on-boarding processes;
- Introducing enhanced human resource/business systems;
- Reviewing industrial instruments;
- Transferring existing knowledge and technology; and
- Using existing workforce competency-based data to establish a baseline of Submarine business unit workforce capability.

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 AWD in service 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;
- 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; and
- Hosting AWD apprenticeship program.

Diversity and Inclusion

The All Aboard program, launched in June 2016, 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.

During 2017/18 the program has delivered the following initiatives:

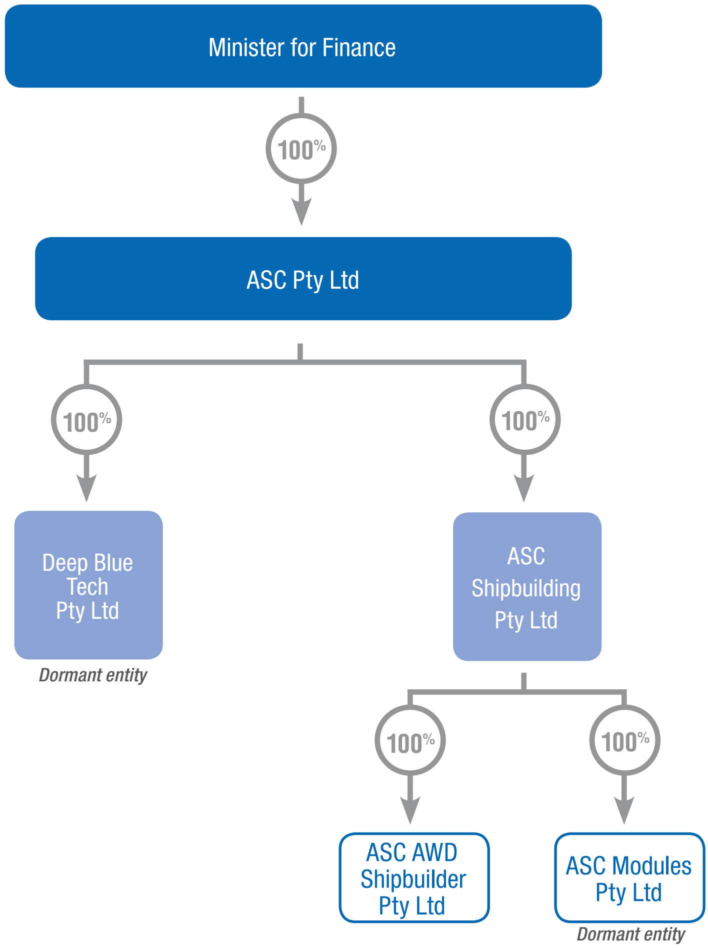
- "Fair Go 5 Toolkit" which is designed to provide managers with a practical guide to support them day-to-day, to create a diverse and inclusive workplace;
- The continued roll-out of the "Call it Out" program, which is focused on inclusive workplace behaviours. The majority of employees across all sites have participated in the program;
- Flexible working arrangements have been reviewed with guidelines developed and implemented;
- Leadership workshops have been held to increase understanding and awareness; and
- Roll-out of the "Thrive" program which provides:
  a) Support for all ASC employees who have carer responsibilities; and
  b) Support for employees and their managers to navigate the phases of pregnancy and work, parental leave, and return to work.

To assist in shaping further initiatives, and to ensure that the Program continues to deliver the appropriate outcomes, engagement with ASC employees continued with the All Aboard survey being conducted during April 2018.

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.

Directors

The Directors of ASC (other than the Managing Director) are appointed by the Minister for a term. As at 30 June 2018, the Board was comprised as follows:

BRUCE CARTER
Chairman

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

STUART WHILEY
Managing Director

Appointed: 12 Feb '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, AO
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 2017/18 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	5	5	-	-	4	4
Loretta Reynolds	12	10	5	4	3	3	-	-
Joycelyn Morton	12	12	5	5	3	3	-	-
Gary Gray, AO	12	12	-	-	-	-	4	4
Stuart Whiley (as of 12 February 2018)	5	5	-	-	-	-	-	-

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 2017/18 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; and
- A Code of Conduct.

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

Board

Under the Board Charter, the Board is responsible for:

- Overseeing the ASC Group, including control and accountability systems;
- Appointing and monitoring the performance of the Managing Director and the Company Secretary and, where appropriate, the removal of the Managing Director and Company Secretary;
- Approving other executive appointments, organisational changes and senior management remuneration policies and practices;
- Monitoring and reviewing senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- Providing strategic advice to management;
- Determining the strategy of the ASC Group and monitoring the performance of objectives;
- Approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures, as well as financial and other reporting;
- Approving budgets and other key performance indicators, and reviewing the Group's performance against them and monitoring the implementation of corrective action;
- Reviewing and ratifying systems of risk management, internal control and legal compliance to satisfy itself that appropriate compliance frameworks and controls are in place;
- Reviewing and overseeing the implementation of ASC's code of conduct for Directors and Executives;
- Appointing Board committees and approving the composition, and any charters, of Board committees;
- Monitoring and verifying compliance with legal and regulatory requirements, ethical standards and policies;
- Exercising due diligence to ensure that ASC complies with its work, health and safety obligations including by taking reasonable steps to:
    - Acquire and keep up-to-date knowledge of work health and safety matters;
    - Gain an understanding of the nature of ASC's operations and the hazards and risks within those operations;
    - Ensure appropriate resources are available and processes implemented to enable hazards to be identified and risks eliminated or minimised;
    - Ensure ASC has appropriate processes for receiving and considering information regarding incidents, hazards and risks, and responding in a timely way to that information;
    - Ensure the business implements processes for complying with work health and safety laws, regulations and codes of practice; and
    - Verify the provision, and use, of the resources and processes referred to above.

Audit Committee

The objectives of the Audit Committee are to help the Board achieve its objectives in relation to:

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

As at 30 June 2018, 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; and
- Succession planning.

As at 30 June 2018, 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; and
- Compliance strategies and functions are effective.

As at 30 June 2018, the committee consisted of Paul Rizzo (Chair), Bruce Carter, Rosalind Dubs, and Gary Gray.

Board Membership

During the year:

- Stuart Whiley was appointed as a Director of ASC Pty Ltd and was also appointed as Managing Director.

Code of Conduct

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

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

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; and
- Being responsive to ASC's changing needs, striving for continuous improvement and monitoring integrity in the performance of its activities.

Risk Management

ASC is committed to risk management as an integral part of its business. 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; and
- Implementing strategies to avoid, mitigate or minimise the consequence of risk.

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

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

Legal Compliance

ASC has established a legal compliance program. In 2017/18, the program covered:

- Defence exports;
- Work health and safety;
- Equal opportunity and bullying;
- Workers compensation;
- Intellectual property;
- Security;
- Corporate governance; and
- Controlled technology.

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

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.

A summary for Senior Executive remuneration for the financial year 2017/18 is included at Table 1.

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 has regard 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; and
- 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 remuneration of the ASC Pty Ltd CEO is in accordance with the relevant determination of the Remuneration Tribunal.

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; and
- Reward Senior Executives that have contributed to ASC's success during the performance period.

Table 1 – COMPENSATION OF KEY MANAGEMENT PERSONNEL FOR THE 2017/18 FINANCIAL YEAR

Remuneration for Senior Executives for FY 16/17 and FY 17/18 is shown in the table below

			Short-term benefits			Post-employment	Other long-term benefits	Termination benefits	Total Compensation
			Base Pay (1)	STI Accrual	Non-cash benefits	Employer Super	Long Services Leave Accrued (2)	(3)	
		Note	$	$	$	$	$	$	$
Key Management Personal									
ASC Pty Ltd									
S Whiley	**2018**		**601,569**	**95,967**	**0**	**25,000**	**14,437**	**0**	**736,973**
	2017		549,417	99,312	0	35,854	13,067	0	697,650
M Edwards	**2018**		**441,780**	**68,845**	**39,450**	**25,000**	**9,972**	**0**	**585,047**
	2017		420,798	71,796	29,800	35,000	9,776	0	567,170
P Gay	**2018**		**382,855**	**69,142**	**0**	**25,000**	**9,036**	**0**	**486,033**
	2017		335,861	68,672	0	30,293	9,036	0	443,862
C Hamilton	**2018**	**4**	**276,661**	**54,551**	**0**	**29,298**	**6,860**	**0**	**367,370**
W Hoad	**2018**		**286,984**	**50,131**	**12,565**	**24,811**	**7,166**	**0**	**381,657**
	2017		293,803	54,459	13,058	35,000	7,025	0	403,345
A Menadue	**2018**		**411,920**	**71,338**	**15,537**	**25,000**	**9,703**	**0**	**533,498**
	2017		332,715	63,791	20,990	30,000	7,817	0	455,313
Total	**2018**		**2,401,769**	**409,974**	**67,552**	**154,109**	**57,174**	**0**	**3,090,578**
	2017		1,932,595	358,030	63,847	166,147	46,721	0	2,567,340
ASC Shipbuilding									
J Cuthill	**2018**		**373,106**	**52,741**	**0**	**25,000**	**7,395**	**0**	**458,242**
	2017		307,810	59,160	0	35,000	7,250	0	409,220
M Lamarre	**2018**	**5**	**1,874,986**	**1,131,341**	**21,963**	**0**	**11,800**	**0**	**3,040,090**
	2017		1,568,330	503,388	19,147	0	23,600	0	2,114,465
Total	**2018**		**2,248,092**	**1,184,082**	**21,963**	**25,000**	**19,195**	**0**	**3,498,332**
	2017		1,876,140	562,548	19,147	35,000	30,850	0	2,523,685
Grand Total	**2018**		**4,649,861**	**1,594,056**	**89,515**	**179,109**	**76,369**	**0**	**6,588,910**
	2017		3,808,735	920,578	82,995	201,147	77,571	0	5,091,025

Notes:

1. Base pay includes annual leave accrued in 2017/2018 and allowances paid.
2. Long service leave relates to amounts accrued during the relevant period.
3. Termination benefits include payment of statutory benefits for long service leave and annual leave, which have previously been accrued.
4. C Hamilton was appointed as KMP on 4 August 2017.
5. M Lamarre retired on 17 December 2017. An accrual for tax equalisation payments to Mr Lamarre has been included in STI Accrual.

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, annual leave 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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
A.B.N. 64 008 605 034
(Incorporated in the Australian Capital Territory)

FINANCIAL REPORT

30 June 2018

CONTENTS

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

DIRECTORS' REPORT

For the year ended 30 June 2018

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 2018.

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
Joycelyn Cheryl Morton
Hon Gary Gray AO

Stuart Paul Whiley was appointed a director on 14 February 2018.

Principal activities

The principal activities of the Group during the course of the financial year ended 30 June 2018 are set out below. No significant change in the nature of these activities occurred during the year.

Collins Class Submarine related activities:

The major submarine related activities include maintenance, design development, engineering and upgrading of six submarines for the Royal Australian Navy (RAN). These activities were undertaken for the Collins Class Submarine under the In Service Support Contract (ISSC).

Hobart Class Air Warfare Destroyer (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 Commonwealth of Australia represented by the Capability Acquisition and Sustainment Group (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 $31,996,000 (2017: $29,177,000) after provision for income tax expense of $13,728,000 (2017: $12,646,000).

Review of operations

Collins Class Submarine related activities:

The Company is currently in the first year of performance period three of the ISSC.

Hobart Class Air Warfare Destroyer (AWD) related activities:

Ships one (Hobart) has been commissioned into service in the RAN and will exit its warranty phase in July 2018. Ship two (Brisbane) was provisionally accepted by the customer in July 2018. Ship three (Sydney) was launched in May 2018 and is completing it fitting out.

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 AASB 111 Construction Contracts as issued by the Australian Accounting Standards Board (AASB). The expected loss has been reviewed in the current period based on management's most recent forecast. A loss on this contract before tax of $35.4m 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; FY 2017/18: $2.2m profit).

Dividends - ASC Pty Ltd

The Directors declared an unfranked final dividend of $14.1m on 31 August 2018 for the year ended 30 June 2018.
Dividends paid during the financial year were as follows:

	2018	**2017**
	$'000	**$'000**
Final dividend for the year ended 30 June 2017 paid on 30 October 2017	**10,900**	9,600
Special dividend	**-**	3,500
Interim dividend for the year ended 30 June 2018 paid on 4 May 2018	**5,100**	6,600
	16,000	19,700

State of affairs

On 25 November 2017, the Government announced that 12 Offshore Patrol Vessels (OPVs) will be designed and built under prime contractor Luerssen. ASC Shipbuilding Pty Ltd (ASC Shipbuilding) is currently in the final stages of negotiations with Luerssen for the build of the first two OPVs and construction is expected to commence towards the end of 2018.

On 11 December 2017, the Government announced it will provide up to $29.4m over three years to support initiatives to retain and develop critical naval shipbuilding skills in the ASC Pty Ltd workforce. In support of this announcement ASC is currently working with Government to implement a submarine workforce development program that retains shipbuilding skills and bolsters submarine workforce capacity.

On 29 June 2018, ASC Shipbuilding was announced as the shipbuilder of Hunter Class Frigates and will become a subsidiary of BAE Systems for the duration of the Frigate build. The Commonwealth of Australia will retain a sovereign share in ASC Shipbuilding while BAE manages the program. At the end of the program the Commonwealth will resume complete ownership of ASC Shipbuilding, thereby ensuring the retention in Australia of intellectual property, a highly skilled workforce and the associated equipment.

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 14001:2015 Environment Management Systems (EMS), which forms part of ASC's corporate management system. All of the Group sites, comprised of the South Australian and Western Australian submarine facilities and the South Australian shipbuilding facility, have accreditation for AS/NS ISO 14001:2015 Environment Management Systems.

The Group has complied with all applicable environmental regulations and site specific environmental license requirements. There was one environmental incident in the reporting period requiring official regulatory notification. However, this event did not result in material or significant environmental harm to the local environment.

Events subsequent to the end of the reporting period

On 29 June 2018, the Commonwealth Government announced that the Future Frigates, named the Hunter class, would be designed by BAE Systems and built by ASC Shipbuilding at the Osborne Naval Shipyard. ASC Shipbuilding, currently wholly owned by ASC Pty Ltd, will become a subsidiary of BAE Systems during the build. This ensures BAE Systems is fully responsible and accountable for the delivery of the frigates and ensures the work will be carried out by Australian workers and create Australian jobs.

The Commonwealth of Australia will retain a sovereign share in ASC Shipbuilding while BAE manages the program. At the end of the program the Commonwealth will resume complete ownership of ASC Shipbuilding, thereby ensuring the retention in Australia of intellectual property, a highly skilled workforce and the associated equipment. By the conclusion of the frigate build, ASC Shipbuilding will be a strategic national asset capable of independently designing, developing and leading the construction of complex, large naval warships.

The Government announced that this does not affect the Offshore Patrol Vessels, Air Warfare Destroyers Programs, or the sustainment of the Collins Class submarines and will not preclude ASC Group from pursuing future shipbuilding opportunities.

As at the date of this financial report, the Shareholder Minister (the Minister for Finance) and the Board of ASC Pty Ltd had not yet approved the transfer of ownership of ASC Shipbuilding to BAE Systems and it is not yet possible to make a reliable estimate of the financial effect of this transaction.

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

Phase 2 of the separation of the ASC entities into individual Government entities will occur in the financial year 2018/19. These companies will support the key capabilities of shipbuilding and submarine maintenance. As announced by the Commonwealth Government on 29 June 2018, ASC Shipbuilding will become a subsidiary of BAE Systems during the build phase of the Future Frigates. ASC AWD Shipbuilder Pty Ltd will become a wholly owned subsidiary of the Company and a new company will be created for the construction of the Offshore Patrol Vessels.

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

Stuart Paul Whiley
Director

Adelaide
31 August 2018

Australian National Audit Office

ASC PTY LTD AND ITS CONTROLLED ENTIES

GENERAL PURPOSE FINANCIAL REPORT 2017–18

AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the general purpose financial report of ASC Pty Ltd and its controlled entities for the year ended 30 June 2018, 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.

This declaration is in respect of ASC Pty Ltd and the entities it controlled during the period.

Australian National Audit Office

Carla Jago
Group Executive Director
Delegate of the Auditor-General

Canberra

31 August 2018

DIRECTORS' DECLARATION

For the year ended 30 June 2018

The directors declare that, in the directors' opinion:

(a) the financial statements and notes set out on pages 36 to 75 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Australian Accounting Standards, the *Corporations Regulations 200*1 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 2018 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 as issued by the International Accounting Standards Board.

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

Bruce James Carter
Director

Stuart Paul Whiley
Director

Adelaide
31 August 2018

INDEPENDENT AUDITOR'S REPORT

To the members of ASC Pty Ltd

Opinion

In my opinion, the general purpose financial report of ASC Pty Ltd its subsidiaries (together the consolidated entity) for the year ended 30 June 2018 is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of consolidated entity's financial position as at 30 June 2018 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 2018 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 comprises the information included in the annual report for the year ended 30 June 2018, but does not include the financial report and my auditor's report thereon.

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19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

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 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, as applicable, 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 have 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

31 August 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	Consolidated Entity Jun-18 $'000	Consolidated Entity Jun-17 $'000
Revenue from continuing operations	4	765,052	811,151
Expenses			
Materials and subcontractors		(257,631)	(284,004)
Labour		(381,091)	(396,739)
Depreciation and amortisation expense	5	(8,814)	(14,865)
Operating lease	5	(32,328)	(19,366)
Impairment of assets	5	107	(399)
Other expenses		(38,426)	(53,526)
Finance costs	5	(1,145)	(429)
Profit before income tax		45,724	41,823
Income tax expense	6	(13,728)	(12,646)
Profit for the year		31,996	29,177
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gain on revaluation of land and buildings		-	4,055
Remeasurements of post-employment benefit obligation	8(f)(vi)	31	(1,986)
Income tax relating to these items		(9)	(493)
Other comprehensive income for the year, net of tax		22	1,576
Total comprehensive income for the year		32,018	30,753
Profit is attributable to:			
Owners of ASC Pty Ltd		31,996	29,177
Total comprehensive income for the year is attributable to:			
Owners of ASC Pty Ltd		32,018	30,753

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 2018

	Note	Consolidated Entity Jun-18 $'000	Consolidated Entity Jun-17 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	315,427	267,799
Trade and other receivables	7(b)	111,824	171,613
Inventories	8(b)	287	1,075
Other current assets	9	5,513	5,276
Unpaid share capital	8(d)	11,000	11,000
Total current assets		444,051	456,763
Non-current assets			
Net pension assets	8(f)(ii)	620	407
Property, plant and equipment	8(c)	45,646	58,428
Deferred tax assets	8(a)	17,058	17,832
Other non-current assets	10	2,805	3,049
Unpaid share capital	8(d)	31,668	41,936
Total non-current assets		97,797	121,652
Total assets		541,848	578,415
LIABILITIES			
Current liabilities			
Trade and other payables	7(c)	85,972	116,570
Net unearned contract billings	8(e)	158,661	151,265
Interest bearing liabilities	7(d)	90,770	120,480
Current tax liabilities		4,973	10,057
Provisions	8(g)	49,751	45,145
Total current liabilities		390,127	443,517
Non-current liabilities			
Non interest bearing liabilities	7(d)	3	3
Provisions	8(g)	21,167	21,094
Total non-current liabilities		21,170	21,097
Total liabilities		411,297	464,614
Net assets		**130,551**	**113,801**
EQUITY			
Share capital	11(a)	63,668	62,936
Retained earnings	11(b)	66,883	50,865
Total equity		130,551	113,801

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 2018

	Attributable to owners of ASC Pty Ltd			
	Share capital	Asset Revaluation Reserve	Retained Earnings	Total equity
	$'000	$'000	$'000	$'000
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**
Balance at 1 July 2017	62,936	-	50,865	113,801
Profit for the period	-	-	31,996	31,996
Remeasurement of post-employment benefit obligations	-	-	31	31
Income tax relating to these items	-	-	(9)	(9)
Total comprehensive income for the year	**-**	**-**	**32,018**	**32,018**
Transactions with owners in their capacity as owners:				
Dividend paid	-	-	(16,000)	(16,000)
Unwinding of the discount of share capital issue	732	-	-	732
	732	-	(16,000)	(15,268)
Balance at 30 June 2018	**63,668**	**-**	**66,883**	**130,551**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2018

	Notes	Consolidated Entity Jun-18 $'000	Consolidated Entity Jun-17 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		877,524	912,237
Payments to suppliers and employees (inclusive of goods and services tax)		(815,890)	(808,229)
Income taxes paid		(18,049)	(4,746)
Net cash inflow (outflow) from operating activities	20(a)	43,585	99,262
Cash flows from investing activities			
Interest received		4,781	2,956
Payments for property, plant and equipment	8(c)	(8,612)	(18,263)
Proceeds from sale of property, plant and equipment		12,903	2,166
Net cash (outflow) from investing activities		9,072	(13,141)
Cash flows from financing activities			
Dividends paid		(16,000)	(19,700)
Proceeds from issues of shares and other equity securities		**11,000**	-
Proceeds from borrowings	20(b)	32,763	304
Repayment of borrowings	**20(b)**	**(32,000)**	-
Interest paid		(802)	(277)
Net cash (outflow) from financing activities		(5,039)	(19,673)
Net increase (decrease) in cash and cash equivalents		47,618	66,448
Cash and cash equivalents at the beginning of the financial year		267,799	201,234
Effects of exchange rate changes on cash and cash equivalents		10	117
Cash and cash equivalents at end of year	7(a)	315,427	267,799

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

Contents of the notes to the consolidated financial statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended 30 June 2018 comprise of ASC Pty Ltd (the Company) and its subsidiaries (together referred to as the "Group" or the "consolidated entity"). The financial statements are presented in Australian dollars.

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. ASC 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 International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

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

- 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 2.

Going concern

The working capital for the Group has changed during the year to $53,924,000 (2017: $13,246,000). 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 $130,551,000 (June 2017: $113,801,000);
- $90,770,000 of the current liabilities are capable of but not expected to be called in full within twelve months after balance date;
- $12,000,000 overdraft facility not utilised at balance date; and
- $30,000,000 multi option 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 2017.

AASB 2016-1 Scope amendment to AASB 112

The AASB introduced minor amendments and clarification in relation to accounting for deferred tax on assets measured at fair value. These amendments are not significant for the Group.

AASB 2016-2 Scope amendment to AASB 107

The AASB introduced minor amendments and clarification in relation to disclosure of liabilities in the statement of cash flows. These amendments are not significant for the Group.

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 2018 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 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 Group has considered forward-looking assumptions and information regarding expected future conditions affecting historical customer default rates. Based on the assessment performed, the standard is not expected to have a material impact on the Group's results.

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 has completed its assessment of the impact of the new standard. A project team was established comprising appropriate revenue subject matter experts. An external advisory company was engaged to assist in the Group's analysis of its contracts through the five step model. Documentation of the analysis has been completed.

As a result of the assessment, it is concluded that there will be an immaterial change to the way the Group recognises revenue. The Group intends to adopt the standard using the cumulative effect approach.

The table below shows what would have been the impact of AASB 15 to ASC's revenue, profit, tax and dividend for the year ended 30 June 2018.

ASC Group Consolidated statement of comprehensive income	As reported Jun-18 $M	Impact of AASB 15	Adjusted Jun-18 $M
Revenue	765.1	0.9	766.0
Profit before tax	45.7	0.1	45.8
Tax expense	(13.7)	0.0	(13.7)
Profit after tax	32.0	0.1	32.1
Dividend @ 60%	19.3	0.1	19.2

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 has started assessing the impact of the new standard. Based on its initial assessment, there will be a significant increase in the Group's assets and liabilities at the date of initial application. This is mainly due to the high value of operating leases related to its Western Australian facility and the long term nature of these leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $127m (note 12).

The Group will establish a project team to review current lease agreements and review leases entered into during the transition period.

(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 18 . 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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

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.

Depreciation on 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:

- 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 12). 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 entitles 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Trade and other receivables (continued)

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 Commonwealth of Australia (CoA), for the purpose of funding the working capital requirement of the Collins Class submarine ISSC and the Hobart Class Air Warfare Destroyer project. The amounts advanced have certain contractual restrictions placed on their use. The funds maintained may only be applied to direct project expenditure incurred and claims for reimbursement from the CoA. This amount has been disclosed at note 7(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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 19 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 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 2017/18 financial years in line with AASB 111 *Construction Contracts*. As at 30 June 2018 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.

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 2018. 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 2018 is $620,000 (2017: $407,000). 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.

3 FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial risk management

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

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

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

Both committees report regularly to the board on their activities.

	Jun-18 $'000	Jun-17 $'000
Financial assets		
Cash and cash equivalents	315,427	267,799
Trade and other receivables	111,824	171,613
	427,251	439,412
Financial liabilities		
Trade and other payables	85,972	116,570
Interest bearing liabilities	90,770	120,480
Non interest bearing liabilities	3	3
	176,745	237,053

(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 Commonwealth of Australia with a Aaa credit rating from Moody'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 A3 from Moody'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 13 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 $6.7 million of financial securities issued by domestic and 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 foreign 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 (amounting to $0.5 million) is assessed as low.

3 FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

Recognised financial instruments

	Jun-18 $'000	Jun-17 $'000
Trade and other receivables		
Counterparties with external credit rating		
Aaa (Commonwealth of Australia)	103,009	157,492
A3	8,130	13,093
Baa2	33	20
Credit rating not determined	406	698
Total trade receivables	111,578	171,303
Aa3- rated cash at bank, short term deposits and interest receivable		
Cash and cash equivalents	315,427	267,799
Interest receivable	246	310
	315,673	268,109

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

A substantial proportion of the consolidated entity's operations are in relation to the through life support for six Collins Class submarines and the Hobart Class Air Warfare Destroyer (AWD) Program for the construction of the Navantia-designed AWDs.

The projects receive a substantial portion of their entire funding from the Commonwealth Government of Australia, who has a Moody'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 (2017: $12,000,000). Interest would be payable at the rate of Bank Bill Official Rate plus 100 basis points; and
- $30,000,000 multi option bank facility not utilised at balance date (2017: $30,000,000).

The Group received advance funding for the AWD project by the Commonwealth of Australia (CoA) under the Alliance Based Target Incentive Agreement (ABTIA). The ABTIA requires regular review of the advance amount which may be increased or decreased after consideration by the CoA as to the working capital requirements for the AWD project.

Maturities of financial liabilities

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

3 FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

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 contract-ual cash flows	Carrying amount (assets)/ liabilities
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2018							
Non-derivatives							
Non interest bearing	-	85,972	-	-	160	86,132	85,975
Variable rate (including bank overdraft)	-	90,770	-	-	-	90,770	90,770
Total non-derivatives	-	176,742	-	-	160	176,902	176,745
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

(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-18	Jun-17
	Currency	AUD '000	AUD '000
Financial assets			
Cash and cash equivalents	USD	10,948	9,473
	EUR	18,104	16,740
	GBP	780	863
	CAD	2,062	2,017
	JPY	148	140
	NOK	6	-
	Total	32,048	29,233
Trade and other receivables	USD	277	1,224
	EUR	587	1,154
	GBP	6	(102)
	Total	870	2,276
Financial liabilities			
Trade and other payables	USD	1,256	461
	EUR	455	692
	GBP	3	-
	NOK	6	-
	CAD	7	-
	Total	1,727	1,153

3 FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

	Currency	Consolidated Entity Jun-18 AUD '000	Consolidated Entity Jun-17 AUD '000
Interest-bearing liabilities	USD	9,969	9,579
	EUR	18,236	17,190
	GBP	801	763
	CAD	2,062	2,017
	JPY	148	140
	Total	31,216	29,689

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 2018		30 June 2017	
Financial assets	**$'000**	**Effective interest rate**	**$'000**	**Effective interest rate**
Cash and cash equivalents	315,427	1.34%	267,799	1.16%
Trade and other receivables	111,824	0.00%	171,613	0.00%
Total financial assets	427,251		439,412	
Financial liabilities				
Trade and other payables	85,972	0.00%	116,570	0.00%
Interest-bearing liabilities	90,770	0.79%	120,480	0.36%
Non interest-bearing liabilities	3	5.50%	3	5.50%
Total financial liabilities	176,745		237,053	

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 2018, 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 for 30 June 2018 has been performed on the same basis as 30 June 2017. 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.

3 FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

Summarised sensitivity analysis

		Interest Rate Risk			
		-0.75%		+0.75%	
30 June 2018	**Carrying Amount $'000**	**Profit $'000**	**Other Equity $'000**	**Profit $'000**	**Other Equity $'000**
Financial assets					
Cash and cash equivalents	$315,427	(2,366)	-	2,366	-
Trade and other receivables	$111,824	(2)	-	2	-
Financial liabilities		-		-	
Trade and other payables	($85,972)	(465)	-	465	-
Non interest-bearing liabilities	($90,770)	-	-	-	-
Interest-bearing liabilities	($3)	-	-	-	-
Total increase/(decrease)		(2,833)	-	(2,833)	-
At 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)	-	-	-	-
Interest bearing liabilities	($120,480)	($360)	-	$360	-
Non interest bearing liabilities	($3)	-	-	-	-
Total increase/(decrease)		($2,370)	-	$2,370	-

Capital risk management

The objectives of the Group in managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for the shareholder and benefits for other stakeholders and to sustain future development of the business. The Group monitors the return on capital.

There were no changes in the approach adopted by the Group in capital management during the year.

4 REVENUE FROM CONTINUING OPERATIONS

	Consolidated Entity Jun-18 $'000	Consolidated Entity Jun-17 $'000
Revenue from rendering of services		
Related parties	698,397	714,952
Other parties	57,069	83,578
	755,466	798,530
Other revenue		
Secondment income from		
Related parties	1,425	208
Other parties	719	486
	2,144	694
Interest income		
Other parties	4,717	3,014
	4,717	3,014
Other income		
Related parties	2,725	664
Other items	-	8,249
	2,725	8,913
Total revenue from continuing operations	**765,052**	**811,151**

5 OTHER INCOME AND EXPENSE ITEMS

Items included in profit before tax

	Jun-18 $'000	Jun-17 $'000
Depreciation		
Buildings	78	6,896
Plant and equipment	8,492	7,725
	8,570	14,621
Amortisation		
Contribution to Henderson CUF	244	244
Total depreciation and amortisation	8,814	14,865
Finance costs		
Bank charges	343	152
Interest expense	802	277
	1,145	429
Operating lease rental expense:		
Minimum lease payments	32,328	19,366
Employee related expenses		
Long service leave expense	4,315	4,971
Redundancy expense	467	465
Defined benefit superannuation expense	(182)	(165)
	4,600	5,271
(Release) recognition on AWD project	(2,205)	1,399

5 OTHER INCOME AND EXPENSE ITEMS (continued)

Items included in profit before tax (continued)	Consolidated Entity Jun-18 $'000	Consolidated Entity Jun-17 $'000
Impairment of assets	(107)	399
Bad debt expense	(1,588)	3,061

6 INCOME TAX EXPENSE

(a) Income tax expense

Recognised in the income statement

Current tax expense		
Current year	13,123	17,050
Adjustments for prior years	-	(60)
Total current tax expense	13,123	16,990
Deferred income tax		
Temporary differences arising during the year, net of reversal	605	(4,497)
Adjustment for prior years deferred tax	-	153
Total deferred tax expense/(benefit)	605	(4,344)
Income tax expense	13,728	12,646
Income tax expense is attributable to:		
Profit from continuing operations	13,728	12,646

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

Profit from continuing operations before income tax expense	45,724	41,823
Tax at the Australian tax rate of 30.0% (2017 - 30.0%)	13,717	12,547
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible expenses	11	99
Income tax expense	13,728	12,646

(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	9	493

7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Cash and cash equivalents

Current assets		
Cash at bank and in hand	183,287	133,651
Other cash and cash equivalents	132,140	134,148
	315,427	267,799

7 **FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

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

Included in cash in operating accounts are amounts advanced to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the consolidated entity, by the Commonwealth of Australia (CoA) for the purposes of funding the working capital 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 2018, the balance of restricted cash for AWD was $62 million (2017: $48 million).

(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-18	Jun-17
	$'000	$'000
Balances as above	315,427	267,799

(b) Trade and other receivables

	Jun-18	Jun-17
Current		
Trade receivables		
Trade receivables	112,677	173,881
Provision for doubtful debts	(1,374)	(2,961)
	111,303	170,920
Other receivables		
Other receivables	275	383
Interest receivable	246	310
	521	693
	111,824	171,613

Amounts recognised in profit or loss

The reversal of write-downs of receivables to net realisable value recognised during the year ended 30 June 2018 amounted to $1.6 million (2017: $3.1 million write down).

Accounts Receivable Ageing Profile

	Jun-18	Jun-17
Trade receivables		
Not past due	111,912	169,493
Past due 1-30 days	77	335
Past due 31-60 days	136	946
Past due 61-90 days	(308)	(479)
Past due 90+ days	7	1,318
	111,824	171,613

(c) Trade and other payables

	Jun-18	Jun-17
Current liabilities		
Trade payables	18,682	31,091
Other payables	67,290	85,479
	85,972	116,570

7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

(d) Borrowings

	Jun-18 $'000	Jun-17 $'000
Interest bearing liabilities		
Current - Unsecured		
Government advance	90,770	120,480

Government advance

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

ISSC advance

At 30 June 2018, the balance is nil (June 2017: $32.0 million). 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 Australian Naval Infrastructure 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 was repaid by June 2018 as an offset against an ISSC direct project cost invoice.

ABTIA advance

At 30 June 2018, the balance is $90.8 million (June 2017: $88.5 million). Advances paid by the Commonwealth are both in Australian and foreign currencies and are required to be separately maintained in a Commonwealth of Australia interest bearing account.

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

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

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

	Jun-18 $'000	Jun-17 $'000
Non-interest bearing liabilities		
Non current - unsecured		
Term loan	3	3
	3	3

Term loan

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

- 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 Pty Ltd has been discounted to its fair value of $3,000 in total for the year ended 30 June 2018 (2017: $2,900) under AASB 139 *Financial Instruments: Recognition and Measurement*.

8 NON-FINANCIAL ASSETS AND LIABILITIES

(a) Deferred tax balances

Net position as presented in the statement of financial position

	Jun-18 $'000	Jun-17 $'000
Net deferred tax liabilities		
Deferred tax assets	18,223	18,992
Deferred tax liabilities	(1,165)	(1,160)
	17,058	17,832

8 NON-FINANCIAL ASSETS AND LIABILITIES (continued)

(i) Deferred tax assets

	Jun-18	Jun-17
The balance comprises temporary differences attributable to:	**$'000**	**$'000**
Employee benefits	11,392	10,651
Property, plant and equipment	1,400	969
Project recognised profit	4,233	5,979
Sundry items	1,198	1,393
	18,223	18,992

Movements	Property, plant and equipment	Provisions for warranty	Employee benefits	Project recognised profit	Sundry items	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 July 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
(Charged)/credited						
- to profit or loss	431	-	741	(1,746)	(195)	(769)
At 30 June 2018	1,400	-	11,392	4,233	1,198	18,223

(ii) Deferred tax liabilities

	Jun-18	Jun-17
	$'000	$'000
The balance comprises temporary differences attributable to:		
Net pension assets	233	122
Sundry items	932	1,038
	1,165	1,160

Movements	Property, plant and equipment	Net pension assets	Sundry items	Project Recognised Project	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 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
Charged/(credited)					
- profit or loss	-	111	(106)	-	5
At 30 June 2018	-	233	932	-	1,165

8 NON-FINANCIAL ASSETS AND LIABILITIES (continued)

	Jun-18	Jun-17
(iii) Net deferred tax	$'000	$'000
The net balance comprises temporary differences attributable to:		
Employee benefits	11,392	10,651
Project recognised profit	4,233	5,979
Property, plant and equipment	1,400	969
Net pension asset	(233)	(122)
Sundry items	266	355
	17,058	17,832

(b) Inventories

	Jun-18	Jun-17
Current assets		
Raw materials and stores (at lower of cost or net realisable value)	287	1,075

Amounts recognised in profit or loss

Write-downs of inventories to net realisable value recognised during the year ended 30 June 2018 amounted to $0.5 million (2017: $0.6 million).

(c) Property, plant and equipment

	Jun-18	Jun-17
Plant and equipment		
Gross value	127,940	123,341
Accumulated depreciation	(87,295)	(80,503)
	40,645	42,838
Assets under construction		
Assets under construction	5,001	15,590
Total property, plant and equipment	45,646	58,428

	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Assets under construction $'000	Total $'000
Year ended 30 June 2018					
Opening net book amount	-	-	42,838	15,590	58,428
Additions	-	-	-	8,612	8,612
Transfers	-	-	6,301	(6,301)	-
Depreciation charge	-	-	(8,567)	-	(8,567)
Impairment loss	-	-	107	-	107
Disposals	-	-	(34)	(12,900)	(12,934)
Closing net book amount	-	-	40,645	5,001	45,646

8 NON-FINANCIAL ASSETS AND LIABILITIES (continued)

(c) Property, plant and equipment (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

(i) *Non-current assets pledged as security*

Refer to note 14 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 in March 2017 as part of the separation of the ASC entities, discounted to current day value. This is to be received over 5 years.

	Jun-18 $'000	Jun-17 $'000
Unpaid share capital		
Current	11,000	11,000
Non current	31,668	41,936
	42,668	52,936

(e) Net unearned contract billings

	Jun-18 $'000	Jun-17 $'000
Contract billings due and receivable	6,116,862	5,361,815
Contract works in progress	(5,804,803)	(5,073,384)
Profit recognised to date	(168,508)	(162,202)
Provision for loss	15,110	25,036
Net unearned contract billings	158,661	151,265

The balance of the net unearned contract billings is comprised of the cumulative billings and costs incurred to date in relation to the ISSC and AWD contracts, profit recognised to date on the ISSC contract and the remaining provision for loss recognised on the AWD contract.

(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. OneVue Super Member Administration Pty Ltd is the administrator of the fund.

8 **NON-FINANCIAL ASSETS AND LIABILITIES (continued)**

(f) **Employee benefit obligations (continued)**

(i) Superannuation plan (continued)

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 2018 was carried out by David O'Keefe, Fellow of the Institute of Actuaries of Australia, of ALEA Actuarial Consulting Pty Limited in June 2018.

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.

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 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

8 NON-FINANCIAL ASSETS AND LIABILITIES (continued)

(f) Employee benefit obligations (continued)

Statement of financial position amount (continued)

	Present value of obligation	Fair value of plan assets	Net amount
	$'000	**$'000**	**$'000**
1 July 2017	(6,198)	6,605	407
Current service cost	(103)	-	(103)
Interest expense/(income)	(170)	-	(170)
Expected return on plan assets	-	211	211
Total amount recognised in profit or loss	(273)	211	(62)
Remeasurements			
Experience (gains)/losses	36	(5)	31
Total amount recognised in other comprehensive income	36	(5)	31
Contributions:			
Employers	-	244	244
Payments from plan:			
Benefit payments	683	(683)	-
30 June 2018	(5,752)	6,372	620

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:

	2018	2017
	Australia	**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:

8 **NON-FINANCIAL ASSETS AND LIABILITIES (continued)**

(f) **Employee benefit obligations (continued)**

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

			Impact on defined benefit obligation			
	Change in assumption		Increase in assumption		Decrease in assumption	
	2018	2017	2018	2017	2018	2017
Discount rate	+ (-) 0.5%	+ (-) 0.5%	5,624,000	6,032,000	5,907,000	6,392,000
Future salary increase	+ (-) 0.5%	+ (-) 0.5%	5,905,000	6,390,000	5,624,000	6,033,000

Balance sheet amounts

The major categories of plan assets are as follows:

	30 June 2018				30 June 2017			
	Quoted	Un-quoted	Total	in %	Quoted	Un-quoted	Total	in %
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Equity instruments	2,695	-	2,695	42.3%	2,715	-	2,715	41.1%
Debt instruments	2,383	-	2,383	37.4%	2,490	-	2,490	37.7%
Property	261	-	261	4.1%	277	-	277	4.2%
Other securities	1,033	-	1,033	16.2%	1,123	-	1,123	17.0%
Total	6,372	-	6,372	100.0%	6,605	-	6,605	100.0%

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 underperform 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 percent growth and 50 percent defensive assets) in the fund assets was introduced in 2015. KMPG's modelling indicated an investment return of 6-7 percent 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 6 years (2017: 7 years). The expected maturity analysis of discounted defined benefit obligations is as follows:

8 **NON-FINANCIAL ASSETS AND LIABILITIES (continued)**

(f) **Employee benefit obligations (continued)**

(iv) Defined benefit liability employer contributions (continued)

	Less than a year $'000	Between 1 - 2 years $'000	Between 2 - 5 years $'000	Over 5 years $'000	Total $'000
30 June 2018					
Defined benefit obligation	-	4,735	537	721	5,993
30 June 2017					
Defined benefit obligation	-	3,827	1,908	639	6,374

(v) Amounts recognised in profit or loss

The amounts recognised in profit or loss are as follows:

	Jun-18 $'000	Jun-17 $'000
Current service cost	103	104
Interest cost	170	178
Expected return on plan assets	(211)	(203)
Total included in employee benefits expense	62	79
Actual return on plan assets	206	500
(vi) Amounts recognised in other comprehensive income		
Actuarial gain recognised in the year	31	(1,986)
Cumulative actuarial (losses) recognised in other comprehensive income	(3,079)	(3,110)

(g) Provisions

	June 2018			June 2017		
	Current	Non-current	Total	Current	Non-current	Total
Employee benefits	46,969	13,723	60,692	41,617	16,972	58,589
Terminations	136	-	136	-	-	-
Self insured workers compensation	2,646	7,444	10,090	3,528	4,122	7,650
	49,751	21,167	70,918	45,145	21,094	66,239

(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.

8 **NON-FINANCIAL ASSETS AND LIABILITIES (continued)**

(g) Provisions (continued)

Termination

The termination provision is calculated based on the identified positions which would be redundant as part of the reduction in workforce in the AWD program as it moves toward completion in the 2019/20 financial year. This provision is expected to be paid in the 2018/19 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
2018	**$'000**	**$'000**	**$'000**
Carrying amount at start of year	-	7,650	7,650
Provision made during the year	136	5,086	5,222
Provision used during the year	-	(2,646)	(2,646)
Carrying amount at end of year	136	10,090	10,226
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

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.

$47 million (2017: $41.6 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-18	Jun-17
	$'000	**$'000**
Current leave obligations expected to be settled after 12 months	36,698	31,483

(h) Recognised fair value measurements

(i) Fair value hierarchy

Disclosed fair values

The Group 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.

9 OTHER CURRENT ASSETS

	Jun-18	Jun-17
Current assets	**$'000**	**$'000**
Prepayments	5,513	5,276

10 OTHER NON-CURRENT ASSETS

	Jun-18	Jun-17
Non-current assets		
Contribution to the Henderson Common User Facility	2,805	3,049

ASC has made a $5 million contribution to the Henderson Common User Facility. This amount is expensed over the expected period of usage of the facility.

11 EQUITY

(a) Share capital

(i) Movements in ordinary share:

	Number of shares (thousands)	$'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
Opening balance 1 July 2017	65,000	62,936
Unwinding of discount on shares issued	-	732
Balance 30 June 2018	65,000	63,668

(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.

	Notes	Jun-18 $'000	Jun-17 $'000
(b) Retained earnings			
Balance 1 July		50,865	144,270
Net profit for the period		31,996	29,177
Items of other comprehensive income recognised directly in retained earnings			
Remeasurements of retirement benefit obligation, net of tax	8(f)	22	(1,390)
Dividends		(16,000)	(19,700)
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		66,883	50,865

11 EQUITY (continued)

(d) Dividends

	Jun-18	Jun-17
	$'000	$'000
Final dividend for the year ended 30 June 2017 of 109 cents (2016: 96 cents) per fully paid share paid on 30 October 2017	10,900	9,600
Special dividend	-	3,500
Interim dividend for the year ended 30 June 2018 of 51 cents (2017: 66 cents) per fully paid share paid on 4 May 2018	5,100	6,600
Total unfranked dividends	16,000	19,700

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

Dividend franking account		
Class C (30%) franking credits	166,212	148,163

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.

12 COMMITMENTS

(a) Capital expenditure commitments

	Jun-18	Jun-17
	$'000	$'000
Property, plant and equipment	810	765

(b) Non-cancellable operating leases

Non-cancellable future operating lease rentals not provided for in the financial statements and payable:		
Within one-year	15,644	14,096
Later than one-year but not later than five-years	44,605	42,462
Later than five-years	66,277	62,825
	126,526	119,383

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

Operating leases includes charges from Australian Naval Infrastructure Pty Ltd for the use of critical infrastructure assets. These amounts are expected to be paid until March 2019 but as the contract is cancellable at any time the amount is not included as a commitment above.

(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 Commonwealth of Australia. 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 Commonwealth of Australia. These future receivables are expected to exceed the maximum value of the commitments for expenditure.

13 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 (2017: $10.4m). 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 2018 and 30 June 2017 is immaterial.

13 CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

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

- to Australian Naval Infrastructure Pty Ltd in relation to ASC AWD Shipbuilder Pty Ltd's obligation to Australian Naval Infrastructure Pty Ltd in connection with the Common User Facility;
- 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; and
- to the Commonwealth of Australia in relation to ASC AWD Shipbuilder Pty Ltd's obligations to the Commonwealth of Australia in connection with the Hobart Class Air Warfare Destroyer program.

No losses are expected in relation to these guarantee arrangements

14 REGISTERED CHARGES

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

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

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

	Jun-18	Jun-17
	$'000	**$'000**
Current		
Trade receivables	28,499	40,429
Other receivables	13	13
Total current assets pledged as security	28,512	40,442
Non-current		
Plant and equipment	16,801	16,949
Total assets pledged as security	45,313	57,391

15 ECONOMIC DEPENDENCY

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

16 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.

17 RELATED PARTY TRANSACTIONS

(a) Key management personnel compensation

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

	Jun-18	Jun-17
	$	$
Short-term employee benefits	6,333,432	4,812,309
Post-employment benefits	179,109	201,147
Other long term benefits	76,368	77,572
	6,588,909	5,091,028

There were 8 key management personnel for the year (2017: 7).

(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 18(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
Joycelyn Cheryl Morton
Hon Gary Gray AO

Stuart Paul Whiley was appointed a director on 14 February 2018.

(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 Commonwealth of Australia and its related entities.

The Commonwealth of Australia 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 Commonwealth of Australia for various projects was $698,397,000 (2017: $714,952,000).

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.

17 RELATED PARTY TRANSACTIONS (continued)

(h) Balances with shareholders

	Jun-18 $'000	Jun-17 $'000
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:	145,677	210,429

(i) **Loans to/from the Commonwealth of Australia and its related parties**

	Jun-18	Jun-17
Deferred purchase obligation		
Beginning of the year	-	15,158,639
Fair value adjustment	-	(212)
Transferred to Australian Naval Infrastructure Pty Ltd	-	(15,158,427)
End of year	-	-

Government Advance

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**					

June 2018	AUD	USD	GBP	CAD	EUR	JPY
Beginning of the year	$90,790,687	$7,368,103	$451,286	$2,015,093	$11,569,081	$12,078,961
Advances received						
Advances repaid	($32,000,000)					
Interest charged	($1,322)					
Interest received	$764,118					
End of year (source currency)	$59,553,483	$7,368,103	$451,286	$2,015,093	$11,569,081	$12,078,961
End of year (AUD equivalent)	$59,553,483	$9,969,021	$801,005	$2,062,317	$18,236,257	$147,628
Total (AUD equivalent)	**$90,769,711**					

18 INTERESTS IN OTHER ENTITIES

(a) Material subsidiaries

The Company's principal subsidiaries at 30 June 2018 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
		2018 %	2017 %	
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.

19 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-18	Jun-17
Balance sheet	**$'000**	**$'000**
Current assets	272,441	288,115
Non-current assets	109,230	122,026
Current liabilities	202,014	250,810
Non-current liabilities	8,780	9,233
Shareholders' equity		
Issued capital	63,668	62,936
Retained earnings	107,207	87,161
Net assets / total equity	170,875	150,097
Profit or loss for the year	36,024	33,955
Other comprehensive income	22	(633)
Total comprehensive income	36,046	33,322

(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 $7,763,000 (2017: $7,802,000).

19 PARENT ENTITY FINANCIAL INFORMATION (continued)

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

In addition to the above, the parent entity has provided $2,634,000 bank guarantees (2017: $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 2018 and 30 June 2017 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 2018 or 30 June 2017. 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 2018, the parent entity had contractual commitments for the acquisition of property, plant and equipment totalling $809,849 (30 June 2017: $764,922). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

20 CASH FLOW INFORMATION

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

	Jun-18	Jun-17
	$'000	$'000
Profit for the year	31,996	29,177
Adjustment		
Depreciation and amortisation	8,814	14,865
Net foreign exchange differences	1,516	-
Pension costs	(182)	(165)
Income tax expense	13,728	12,646
Income tax paid	(18,049)	(4,746)
Impairment of plant and equipment	(107)	399
Interest received	(4,718)	(3,014)
Interest expense	802	277
Doubtful debt expense	(1,587)	1,237
(Profit)/loss on disposal of fixed assets	31	24
Change in operating assets and liabilities:		
(Increase)/decrease in trade debtors	29,136	11,222
(Increase)/decrease in inventories	789	1,137
(Decrease)/increase in trade creditors	(30,394)	23,529
(Decrease)/increase in other provisions	4,679	4,126
(Increase)/decrease in prepayments	(266)	(474)
(Increase)/decrease in net unearned contract billings	7,397	9,022
Net cash inflow (outflow) from operating activities	43,585	99,262

20 CASH FLOW INFORMATION (continued)

(b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Interest bearing liabilities	Non-interest bearing liabilities	Total
	$'000	$'000	$'000
Balance at 1 July 2016	88,770	15,165	103,935
Net financing cash flows[1]	277	-	277
Non-cash changes:			
Increase in amounts receivable for ISSC Advance	32,000	-	32,000
Effects of changes in exchange rates	(567)	-	(567)
Transfer of liability to ANI as part of structural separation	-	(15,162)	(15,162)
Other	-	-	-
Balance at 30 June 2017	120,480	3	120,483
Balance at 1 July 2017	120,480	3	120,483
Net financing cash flows[1]	763	-	763
Non-cash changes:			
Decrease in amounts receivable for ISSC Advance	(32,000)	-	(32,000)
Effects of changes in exchange rates	1,527	-	1,527
Other	-	-	-
Balance at 30 June 2018	90,770	3	90,773

[1.] Financing cash flows consist of the net amount of proceeds from borrowings and repayment of borrowings in the statement of cash flows.

21 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-18	Jun-17
	$	$
Audit and other assurance services		
Audit and review of financial statements	352,200	479,100
Total remuneration for audit and other assurance services	352,200	479,100
The Australian National Audit Office (ANAO) has contracted PricewaterhouseCoopers to provide audit services on the ANAO's behalf.		
(ii) Other services provided by the auditor (ANAO)		
Agreed upon procedures – remuneration report	16,700	16,700
(iii) Other services provided by PricewaterhouseCoopers		
Agreed upon procedures – remuneration report	-	15,335
Agreed upon procedures – tax compliance and consulting	87,438	-
	87,438	15,335

ACRONYMNS

AASB	Australian Accounting Standards Board
ABTIA	Alliance Based Target Incentive Agreement
ANAO	Australian National Audit Office
ANI	Australian Naval Infrastructure
AWD	Air Warfare Destroyer
BASC	Business Assurance and Security Committee
CASG	Capability Acquisition and Sustainment Group
CCSM	Collins Class Submarines
CoA	Commonwealth of Australia
CUF	Common User Facility
DMO	Defence Material Organisation
EMS	Environmental Management System
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
LTIFR	Lost Time Injury Frequency Rate
MCD	Mid-Cycle Docking
MRD	Material Ready Day
MST	Maintenance Support Tower
MTI	Medically Treated Injury
MTIFR	Medically Treated Injury Frequency Rate
PGPA	Public Governance, Performance and Accountability Act
RAN	Royal Australian Navy
SEB	Submarine Enterprise Board
STI	Short Term Incentive
TFR	Total Fixed Remuneration
UUC	Usage Upkeep Cycle

CORPORATE DIRECTORY

Directors
Bruce Carter
(Chairman)

Stuart Whiley
(Managing Director)

Rosalind Dubs
Gary Gray, AO
Joycelyn Morton
Paul Rizzo
Loretta Reynolds

Company Secretary
Wendy Hoad

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ANAO and PricewaterhouseCoopers
(as agent for ANAO)

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Westpac Banking Corporation

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