ANNUAL REPORT

2019

ASC PTY LTD

Building and maintaining Australia's frontline naval defence capabilities.

ASC

www.asc.com.au

TRANSMITTAL LETTER

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30 September 2019

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

Dear Minister,

ASC Pty Ltd 2019 Annual Report

I am pleased to submit the 2019 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 2019 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 (CCSM), Air Warfare Destroyer (AWD) and Offshore Patrol Vessel (OPV) programs.

ASC also achieved a profit after tax of $30.3 million.

During the year, ASC commenced two major CCSM dockings; a Full-Cycle Docking (FCD) in South Australia and a Mid-Cycle Docking (MCD) in Western Australia, while also delivering shorter maintenance activities in support of Australia's operational submarines. ASC again exceeded the Royal Australian Navy (RAN) maintenance performance targets for the CCSM program across the 2018/19 period.

ASC achieved significant milestones on its AWD and OPV shipbuilding programs during the 2018/19 financial year. Together with its Alliance partners, ASC saw the successful commissioning into service of its second destroyer HMAS *Brisbane*, with the RAN in October 2018. ASC also demonstrated strong performance on the Arafura Class OPV program over the financial period, celebrating Keel Laying of the lead vessel in May 2019, as well as the commencement of construction of the second vessel.

ASC's positive results and program performance is a testament to the continued strength of its workforce and their unwavering commitment to safety, quality and innovation in supporting ASC's role as part of Australia's national maritime and defence strategies.

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

Yours sincerely,

BRUCE CARTER
Chairman

COMPANY PROFILE

ASC is Australia's only established sovereign naval shipbuilding and submarine platform company.

With more than 1,300 employees at two facilities in South Australia and Western Australia, ASC has naval engineering, design, construction, maintenance and project management 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 (RAN).

ASC is committed to supporting the Australian Defence Force (ADF) by maintaining open lines of communication with its customer, understanding their expectations and priorities and striving to deliver the best possible results through an unwavering commitment to productivity and efficiency improvements.

ASC is a proprietary limited company registered under the *Corporations Act 2001.* 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 RAN's fleet of six Collins Class submarines (CCSM).

At the conclusion of the CCSM build program in 2003, ASC commenced a contract for the ongoing repair, maintenance and design upgrades of the submarines' through-life support and is now performing at above international benchmarks for submarine availability, as part of the Australian Submarine Enterprise, which includes its partners the RAN and the Capability Acquisition and Sustainment Group (CASG).

ASC undertakes this work at the Osborne submarine deep maintenance facility in South Australia and at ASC West, in Henderson, Western Australia. ASC also provides submariner training services to the RAN 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) Alliance and subsequently signed the Alliance Based Target Incentive Agreement (ABTIA) in 2007. 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. The first AWD, HMAS *Hobart*, was delivered in 2017, providing the RAN with its most advanced and complex warship.

The second AWD, HMAS *Brisbane* was commissioned into service in 2018 and the third, future destroyer Sydney, is due for its Provisional Acceptance in early 2020.

In 2017, ASC was named as the South Australian shipbuilder for the lead and second Arafura Class Offshore Patrol Vessels (OPV). ASC entered a contract with prime contractor and designer, Lürssen of Germany, for the construction of the vessels and achieved Keel Laying of the lead Arafura Class OPV, in May 2019.

In June 2018, ASC Shipbuilding was also announced as the shipbuilder of the Hunter Class Frigates, however following structural separation of ASC Shipbuilding from ASC in December 2018, ASC Shipbuilding became a subsidiary of BAE Systems Australia.

ASC retains responsibility for the delivery of the AWD and OPV Programs, utilising a contract workforce from ASC Shipbuilding.

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
- Leadership
- Results
- Safety
- Integrity
- Innovation

FINANCIAL HIGHLIGHTS

Two-year performance at a glance.

	2018/19 $m	2017/18 $m
Revenue from rendering of services	731.7	755.5
Interest income	3.6	4.7
Other income and other revenue	7.7	4.9
Total revenue and other income	**743.0**	**765.1**
EBITDA	**54.3**	**50.6**
Depreciation and amortisation	(14.3)	(8.8)
EBIT	**40.0**	**41.8**
Interest expense	(0.5)	(0.8)
Tax expense	(12.9)	(13.7)
Operating profit before tax	43.1	45.7
Operating profit after tax	**30.3**	**32.0**
EBIT/total revenue and other income (%)	5.4	5.5
Shareholder's equity	134.3	130.6
Return on equity (%)	22.5	24.5
Dividend paid	27.0	16.0
Total assets	432.4	539.4

CHAIRMAN’S REPORT

BRUCE CARTER
Chairman

On behalf of the Board of ASC Pty Ltd, I am pleased to present the company’s 2019 Annual Report.

Throughout the year, ASC continued its strong operational performance, again exceeding the RAN’s maintenance performance targets on the CCSM program, and successful delivery of its shipbuilding programs.

Whilst we sought to establish new partnerships and lines of revenue, ASC continued to work closely and collaboratively with our Customers, CASG, the Department of Defence (DoD) and the RAN, and with our Submarine Enterprise, AWD Alliance and OPV Program partners. ASC remains committed to further strengthening our existing relationships and growing new ones to strengthen our support of Australia’s national maritime and defence strategies.

During the year, ASC commenced two major CCSM dockings – a Mid-Cycle Docking (MCD) and a Full-Cycle Docking (FCD) – while also delivering shorter maintenance activities and supporting Australia’s operational submarines.

The 2018/19 financial year saw the completion of ASC’s structural separation, with ASC Shipbuilding transitioning to a subsidiary of BAE Systems Australia and ASC now engages an ASC Shipbuilding workforce under contract, to successfully deliver its shipbuilding programs.

Significant milestones were again achieved on ASC’s OPV and AWD shipbuilding programs. ASC celebrated the official Keel Laying ceremony of the lead Arafura Class OPV in May 2019, while the AWD program saw the commissioning of the second destroyer, HMAS *Brisbane*, into service with the RAN in October 2018 and the third and final destroyer, working towards its Provisional Acceptance in early 2020.

Notwithstanding ASC’s positive results and the Program achievement that our team made throughout the period, the strength of our people again displayed an unwavering commitment to safety, quality and innovation, in pursuit of excellent operational performance.

ASC recorded profit after tax of $30.3 million (2017/18: $32.0 million) and annual revenue and other income of $743.0 million (2017/18: $765.1 million).

Collins Class Submarine Program

In 2018/19, ASC again exceeded the RAN maintenance performance targets for the CCSM, completing the second year of Performance Period Three of the In-Service Support Contract (ISSC) and continuing to work closely with our Submarine Enterprise partners to achieve beyond benchmark performance.

At the close of the 2018/19 financial year, ASC is mid-way through its FCD of a CCSM, with HMAS *Waller*, and mid-way through the MCD of HMAS *Rankin* – the second submarine to undergo a 12-month docking of this nature in Western Australia, and I am pleased to report that the team continue to rise to the challenge of an accelerated timeframe and additional capability insertions.

ASC is consistently redesigning the limits of the CCSM fleet, integrating innovations and extending capability beyond the original CCSM design.

ASC's CCSM sustainment activities continue to overcome asset management challenges that create increased load on all CCSM platform systems, affecting both sustainment and operations. ASC's Asset Management strategy for delivering our Platform Systems Integration role has delivered assessment and ongoing management of impacts and changes to the submarine design such as a 46 percent increase in crew size from the original design, coupled with a fourfold increase in usage over the last decade.

Notwithstanding an ageing fleet, ASC's sustainment activities allow increased crewing and operational readiness; while performing at or above the Performance Benchmarks defined by the Coles Review.

Following further development of its supply chain capability, in September 2018 ASC became the first Australian defence organisation to achieve certification against global standards with Chartered Institute of Procurement and Supply (CIPS) Standard Certification.

In 2018/19 ASC worked with the RAN for the provision of CCSM training services, successfully delivering submarine training and ensuring our Submariners and Defence personnel are equipped with world-class submarine skills for the future.

ASC's submarine capability development work continued across the period, leveraging its operational performance on the CCSM program to support capability retention within ASC and the strategic build-up of Australia's sovereign submarine industry in support of the Future Submarine (FSM) program. In addition to leveraging its submarine design and shipbuilding capability and expertise, ASC is collaborating with a number of national and international maritime businesses, securing new lines of revenue to support Life of Type Extension (LoTE), FSM and other international programs and capability retention.

Offshore Patrol Vessel and Air Warfare Destroyer Shipbuilding Programs

In 2018/19, ASC's former shipbuilding business, ASC Shipbuilding, continued its operational performance improvement and together with its AWD Alliance partners, celebrated several significant milestones on the AWD program.

Both the lead and second AWDs, HMAS *Hobart* and HMAS *Brisbane* have been commissioned into service, with the third ship future destroyer *Sydney*, due for Provisional Acceptance in early 2020, which will include additional scope implemented to support the MH-60R Romeo helicopter, completed by ASC as the AWD shipbuilder.

Construction of the lead and second OPVs progressed well and in line with baselined targets. The lead OPV celebrated its official Keel Laying Ceremony in May 2019, with construction of the second vessel commencing in June 2019.

In conjunction with its beyond benchmark submarine sustainment, ASC's successful delivery of the Hobart Class AWDs and construction of the Arafura Class OPVs reinforces its role as a critical and trusted partner to Defence, in delivery of its current programs and in winning future work.

Structural Separation of ASC SHIPBUILDING

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

Structural separation was successfully completed in December 2018 and ASC Shipbuilding successfully transitioned to become a subsidiary of BAE Systems Australia.

ASC Shipbuilding is now working under contracts to ASC to successfully deliver its shipbuilding programs.

Full-Cycle Docking Transition

ASC remains agile in providing support to the DoD in their investigation into the ongoing sustainment and LoTE of the CCSM fleet, including the possibility of transition of CCSM FCDs and the Submarine Enterprise's evolving industrial base options.

Conclusion

On behalf of the Board, I would like to congratulate all ASC staff on their commitment to safety, quality, innovation and ongoing improvement to ensure ASC's position as a critical part of Australia's naval submarine and shipbuilding strategy.

ASC's workforce makes up Australia's sovereign industrial defence capability and their continued determination and resilience is a testament to ASC's position as an enduring part of Australia's national security.

Our workforce is the foundation upon which our ongoing success is built, and I am very proud of the work they do every day. As a business, ASC remains committed to attracting, retaining and growing our uniquely skilled people and their fundamental role as part of Australia's submarine and shipbuilding capability.

Bruce Carter
CHAIRMAN

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S REPORT

STUART WHILEY
Managing Director and Chief Executive Officer

In 2018/19 ASC's submarine business further strengthened and consolidated its position as Australia's only established sovereign submarine company.

With capability extending across CCSM sustainment, maintenance, upgrade and in-service support, ASC is achieving continuous improvements in program performance, capability and increased support of its experienced workforce; remaining Australia's leading provider of submarine platform expertise and services.

This financial year saw completion of ASC's structural separation and the transfer of ASC Shipbuilding as a subsidiary to BAE Systems Australia, separating the businesses to help maximise the future success of ASC and the Australian naval shipbuilding industry, with the residual ASC Group continuing to deliver CCSM sustainment and the AWD and OPV Programs.

Among the highlights of the year was the delivery of ASC's continued beyond benchmark performance, again exceeding the RAN's submarine maintenance targets, and in support of its program performance, ASC's Supply Chain achieved global accreditation, as the first Australian defence company to achieve certification against a global standard.

Collins Class Submarine Program

The 2018/19 financial year saw the completion of the second year of Performance Period Three for the ISSC for ASC's CCSM sustainment, which commenced on 1 July 2017.

As per the previous Performance Period, ASC again exceeded the Navy's maintenance performance targets across the 2018/19 reporting period, continuing its work on the FCD of HMAS *Waller*, which commenced in May 2018 at ASC North in South Australia. This is the third two-year FCD following introduction of the 10+2 Usage- Upkeep Cycle (UUC) and includes additional upgrades to ensure it remains regionally superior as ASC transitions to a two-class submarine fleet.

Meanwhile at ASC West, in Henderson Western Australia, ASC is mid-way through delivery of the MCD for HMAS *Rankin*, the second docking of this nature and duration in Western Australia, in addition to a number of shorter maintenance cycles on the CCSM fleet.

ASC is working with the Commonwealth on future performance targets to ensure the CCSM fleet's increased availability, reliability, cost performance and continued delivery of improved outcomes.

Shipbuilding Programs

With the commissioning into service of the second AWD, HMAS *Brisbane*, in October 2018, ASC continued to successfully deliver the Hobart Class AWD Program, in collaboration with its Alliance partners.

As a proven builder of major warships, ASC maintained strong performance as the shipbuilder for the AWD Program, meeting all scheduled milestones since the last quarter of 2015. Both the lead and second AWDs, HMAS *Hobart* and HMAS *Brisbane*, have been commissioned into service and the 2018/19 reporting period saw ASC complete a number of critical milestones to enable delivery of the third ship, for Provisional Acceptance in early 2020.

As the shipbuilder of the lead and second Arafura OPV, under contract to Prime contractor, Luerssen Australia, in 2018/19 ASC commenced the construction of both OPVs, with construction progressing well and in line with baselined targets. The period also saw the celebration of the formal Keel Laying milestone, in May 2019, for the lead vessel.

Attract, retain and grow our people

Our people are our most valuable asset and the foundation on which ASC's ongoing success is built.

As a company, our collective experience "know-how and know-why", is uniquely built from over 30 years immersion in the submarine and shipbuilding industry. ASC focused on the retention of its workforce and critical personnel in 2018/19, through professional development activities and a range of new, exciting and varied roles across new industry programs.

The business continued to place emphasis on fostering its culture of inclusion, attaining greater workforce diversity and increased engagement, and evaluation of its commitment to Corporate Social Responsibility (CSR), to enable actions that support all our employees in a workplace where they can be their best selves.

ASC's support of numerous visits from school and university students, allowed it to further nurture the development of science, technology, engineering and maths (STEM) skills across 2018/19, as well as help motivate, mentor and educate, what we hope to be the workforce of the future.

In 2018/19, ASC again provided academic support to the University of Adelaide's Master of Marine Engineering Program through lecturing and supervision; supporting several post graduate research projects from a range of institutions and the development of naval skills required for Australia's maritime future.

With increasing competition in Australia's defence industry, ASC works collaboratively with our partners in the Submarine Enterprise to establish a coordinated approach across Government and industry, to manage the utilisation of submarine platform personnel to ensure Australia is equipped for the future.

Leveraging Collins Class Submarine Sustainment

In 2018/19 ASC established its Maritime Services Group (MSG) to leverage ASC's performance on the CCSM program to secure new lines of revenue in the submarine industry and allied markets.

ASC is actively engaging with the Commonwealth Government and international project participants to maximise its involvement in future projects, including the FSM program.

In financial year 2018/19 ASC executed a Framework Agreement with FSM program prime contractor Naval Group, enabling the companies to work collaboratively in support of both of Australia's submarine programs.

In addition, leveraging its submarine, design, and shipbuilding capability and expertise, ASC is collaborating with a number of national and international maritime businesses to secure new lines of revenue.

The Future

As Australia's only established sovereign submarine capability, ASC is uniquely positioned to make best for nation decisions.

Sustained beyond benchmark delivery of the CCSM fleet and strengthened performance on both the Hobart Class AWD and Arafura Class OPV Programs, enables ASC's strong positioning to support the Commonwealth's plan for a sovereign, sustainable shipbuilding sector, and Australia's successful transition to a two-class submarine fleet.

ASC is supporting the Department of Defence in their investigation into the ongoing CCSM sustainment and the possibility of FCD transition to Western Australia.

Conclusion

As Managing Director and Chief Executive Officer of the ASC Pty Ltd group I am very proud of our 1,300 employees across both our South Australian and Western Australian facilities, providing naval engineering, design, construction, maintenance and project management skills unparalleled within Australia's defence industry.

Our collective experience is in high demand and ASC's future will see exciting and varied roles across our shipbuilding programs and multiple submarine programs, including CCSM and FSM programs, and the new and varied opportunities that ASC's MSG continue to deliver. ASC's ability to build capacity within the Australian submarine sector, and work with key partners of the FSM program, positions the business as a critical part of Australia's current and future, defence industry.

I sincerely thank the ASC workforce for their continued dedication and ability to consistently deliver on their commitment to quality, safety, innovation and performance – they remain an invaluable part of Australia's naval defence.

Stuart Whiley
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

COLLINS CLASS SUBMARINE PROGRAM

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

Together with the RAN, CASG within the DoD, and our industry partners, ASC has met and continues to exceed international performance benchmarks, and is focused on delivery of beyond benchmark performance in CCSM submarine availability.

In 2018/19 ASC completed the second year of Performance Period Three of the ISSC for CCSM sustainment, which commenced on 1 July 2017, and introduced the beyond benchmark targets. The financial year again saw ASC exceed the RAN's maintenance performance targets, delivering submarine availability at historically high levels.

ASC again provided increased submarine reliability and deployed boat support, including support of numerous international deployments.

Collins Class Submarine Maintenance Progress

HMAS *Waller* is the third CCSM to undergo a two-year FCD, which commenced on 1 June 2018 at ASC North in Osborne South Australia 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 implemented to achieve schedule reductions including; the purchase of rotable components, main motor initiatives, workshop optimisation, multiple work fronts and continued process improvements.

These initiatives proved effective in delivering expected outcomes to support the two-year FCD and generated efficiencies which included the reduction of both, the diesel engine refurbishment time by 40 percent and the main motor refurbishment time by 32 percent.

During the reporting period work commenced on installation of a new sonar system for HMAS *Waller*, the first of the Collins fleet to have the new system installed and ASC, as the platform system integrator of the CCSM, is working closely with combat systems integrator, Raytheon Australia and sonar systems designer, Thales Australia, for its installation and integration into the platform. This capability upgrade will ensure the CCSM remains potent and agile today, and well into the future.

HMAS *Rankin* is undergoing its 12-month MCD at ASC's facility in Henderson, Western Australia. This is the second MCD to be conducted at ASC West and ongoing development of skills and experience continue to increase capability in both long term maintenance and high end integration work. ASC West's operational tempo is at an all-time high with MCDs, Intermediate Dockings (ID) and Intermediate Maintenance Periods (IMP) all being conducted in Western Australia. As the home of international support coordination for the CCSM fleet, ASC West supports operational submarines with an increased focus on deployability and reliability of the fleet.

Customer Focus

ASC is committed to delivering improved outcomes for our customer around submarine availability, reliability and cost performance to ensure customer satisfaction. ASC works closely with key suppliers and the Submarine Enterprise to deliver these outcomes.

Consistently striving for improvement, ASC has strengthened the lessons-learned process to identify, assess and action lessons, ensuring issues do not reoccur. Across the reporting period improved analysis of root cause identification and analysis of issues raised was implemented, with clear accountabilities assigned to correct and prevent issues from reoccurring in future.

The Future

In the short term, ASC and CASG are working collaboratively on the future performance period, Performance Period Four of the ISSC, which is due to commence on 1 July 2020.

ASC's primary focus remains 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.

In the longer-term, the CCSM fleet will remain Australia's frontline submarine for the next 15-20 years, requiring maintenance and upgrade, with a number of CCSMs requiring LoTE into the 2040s.

ASC is working with CASG and the RAN to develop the requirements to support CCSM LoTE.

Throughout the reporting period, focus was on both the development of business cases and supplier engagements, as well as a business case to CASG to support Government approvals for LoTE.

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

With Australia transitioning to a two-class submarine fleet, it is estimated the nation will need to double its submarine industrial capacity. The challenge of meeting this estimated demand continues and as the nation's leading submarine capability, ASC, along with its partners in the Submarine Enterprise, is managing the competing demands for skilled and experienced personnel to ensure that CCSM capability is not adversely impacted.

Strategic Investment

A concept design for the construction of a Commonwealth owned Modern Submarine Enterprise Support Facility at Fleet Base West commenced during the 2018/19 reporting period. The facility is expected to house various members of the Submarine Enterprise, including Commonwealth and industry, to provide efficiency of work practices in supporting submarine maintenance from the Garden Island HMAS *Stirling* Naval base. The facility is expected to be occupied from late 2020.

In providing greater capacity for testing off-boat at ASC North, further strategic investment into enhancements to the Diesel Generator Test Facility in South Australia, were also undertaken during the reporting period.

Future Performance Targets

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

Agreed improvements included:

- An increase in Materiel Ready Days (MRD) (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); and
- Delivery of maintenance activities to schedule and budget, whilst conducting in service support activities and support of operational submarines.

Business Improvements

ASC's business improvement capability continued to drive significant initiatives in 2018/19 through the delivery of change projects including:

- Conduct of a requirements phase of the digital transformation program to improve efficiency and effectiveness across the business and CCSM program;
- Implementation of key initiatives to resolve critical path scheduling challenges for HMAS *Waller's* FCD and the partnership with relevant teams to optimise the maintenance of four major submarine systems enabling FCD success; and
- Radio Frequency Identification for improved material tracking.

In addition to the discrete improvement projects, the improvement team continued 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 Submarine Enterprise Performance Targets through collaboration and continuous improvement.

ASC works 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 included:

- 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; and
- Supporting the growth of Australia's sovereign submarine capability.

The Submarine Enterprise expanded in 2018/19 to include Attack Class FSM Industry Participants and through regular meetings, key decisions makers came together to form critical relationships, enabling understanding and resolution of key issues and improved outcomes within the Submarine Enterprise, ultimately delivering improved outcomes for the RAN.

Submarine Training School

ASC has been delivering initial and advanced submarine training at the Submarine Training and Systems Centre (STSC) since 1992. Training has not only been delivered to RAN personnel but has extended to other defence and industry personnel. A new five-year training service contract (with two, three-year extension options) commenced in July 2018. The new contract expanded coverage of training courses delivered into the Warfare Department and secured long term contracts with long term subcontractors.

During 2018/19, ASC:

- Exceeded all the Submarine Training Services Contract set KPIs for the period;
- Delivered 297 training courses;
- Trained 91 new entry Submariners and provided advanced training to 192 Submariners;
- Provided training to 124 CASG CCSM staff and SEA 1000 personnel;
- Continued to develop and refine the 3D submarine virtual walk-through to enhance initial and advanced Submariner training; and,
- Developed virtual reality training aids from proof of concept to a full virtual reality classroom to supplement simulation training with five Standard Operating Procedures and plans for seven more Standard Operating Procedures during FY19/20.

ASC is investing in the capability and capacity of its dedicated training team through recruitment, training and engagement with the ASC maintenance workforce. Moving into the warfare area has allowed increased potential for future growth.

Additionally, opportunities are anticipated with the increase in training requirements to support the Submariners workforce growth needed to support Australia's future two-class submarine fleet.

MARITIME SERVICES GROUP

Following structural separation of ASC in December 2018, MSG was created, amalgamating the activity and focus of the Submarine Capability Development Group and responsibility for the delivery of the AWD and OPV programs.

Leveraging ASC's submarine, design, shipbuilding capability and expertise, MSG pursues opportunities with national and international maritime businesses to:

- **Secure new lines of revenue;**
- **Support capability development within Australia's submarine industry; and**
- **Enable ASC's workforce to remain Australia's leading provider of submarine platform expertise and services.**

These opportunities will allow ASC to support its customer and remain regionally superior, while supporting the Commonwealth's plans for a sovereign sustainable shipbuilding sector, and a successful transition to a two-class submarine fleet.

2018/19 Partnerships and Agreements

ASC maintains its relationship with Naval Group and Lockheed Martin, along with its commitment to pursuing opportunities that will add value to the program, based on ASC's experience and expertise in building and sustaining submarines in the Australian environment.

ASC supports the Commonwealth's FSM program through the provision of technical personnel to the Future Submarine Technical Office (FSTO), as well as through its Framework Agreement with Naval Group, which enables both companies to work collaboratively in support of Australia's submarine programs.

Saab-Kockums A26 Program

In early 2019, ASC entered into an agreement with Saab Group to provide engineering services for the A26 submarine program. Following the successful completion of an initial pilot program, ASC's experienced submarine designers are now delivering specialist detailed design services into the Saab A26 Program, from the ASC North site in Osborne, South Australia.

Schneider Electric

In support of building Australian submarine capability, ASC entered into an agreement with Schneider Electric in March 2019 to further support the CCSM and FSM programs.

Schneider Electric is an established supplier to ASC of major power switching and circuit breaker equipment for the CCSM fleet. Collaboration with ASC boosts Australian industry capability to deliver effective long-term support to the CCSM platforms.

The collaboration will see graduate engineers from Schneider Electric and ASC spend time working in each company's submarine-related operations to foster understanding in support of submarine work in Australia and to further drive collaboration between the two companies.

Jeumont Electric

In November 2018, ASC entered into a long-term collaboration agreement with the French submarine motor manufacturer Jeumont Electric to explore synergies of initiatives in support of both the CCSM and FSM Programs.

Jeumont Electric is the supplier of the main motors for the CCSM fleet, as well as the preferred supplier of the new generation permanent magnet motors for the FSM program.

The collaboration agreement is enabling both parties to work together for the ongoing sustainment and upgrade of the CCSM fleet, as well as in preparation to support the design, build and test of the main motors for the FSM program.

ENDEL ENGIE

At Euronaval 2018, ASC announced its strengthened collaboration with ENDEL ENGIE, a French leader in industrial maintenance and established supplier of construction and assembly services to Naval Group's submarine programs in Cherbourg, France.

The collaboration brings together ASC's experience in the construction and maintenance of Australia's CCSM fleet, with ENDEL ENGIE's 20 years of established expertise in construction and the maintenance of frigates and submarines with Naval Group to provide additional submarine-building capacity in Australia to the FSM program.

Groupe FIVA

In October 2018, ASC signed a collaboration agreement with Group FIVA aimed at working towards the development of a joint submarine workforce in Australia with capability to satisfy the future demands for design services in Australia, in support of the FSM program.

The collaboration supports the combined synergies and capabilities resulting from the partnership of a long-term European partner of Naval Group, FIVA, and an experienced and reputable Australian submarine builder and maintainer, ASC.

Adelaide University Maritime Engineering Program

In supporting the attraction, retention and growth of Australia's future and current submarine workforce, ASC continues its work with the University of Adelaide and the Masters of Marine Engineering (MME) program.

The program is supported by the expertise and resources of ASC, to help post graduate students at the University prepare for a career building and sustaining Australia's current and future submarines.

Growing from 27 students in 2017, the 2019 academic program is being undertaken by 49 students, completing the Masters by course-work in submarine design (Naval Architecture and Maritime Engineering), sustainment, supply chain, project manager and related subjects, as part of the School of Mechanical Engineering.

Internationally recognised ASC instructors are subject matter experts with experience working on more than ten submarine classes from the UK, France, Spain, Sweden and Australia. Students include recent graduates, as well as those drawn from industry, Defence, and French exchange students from the French Grande Ecole d'Ingenieurs ENSTA Bretagne, which, last year, signed a collaboration agreement with the University of Adelaide.

SHIPBUILDING

ASC continued to strengthen its role as Australia's proven builder of major warships with the successful delivery of the Hobart Class AWD Program, in collaboration with its Alliance partners, as well as ASC's strong performance on the build of the lead and second Arafura Class OPVs, under contract with Prime, Luerssen Australia.

ASC has maintained strong performance as the shipbuilder for the AWD Program, meeting all scheduled milestones since the last quarter of 2015. Together with the Alliance partners, both the lead and second AWDs, HMAS Hobart and HMAS Brisbane, have been commissioned into service, with the third ship due for Provisional Acceptance in early 2020.

ASC's construction of the lead and second OPVs has progressed well and in line with baselined targets. The lead vessel has celebrated its formal Keel Laying ceremony, while construction has now commenced on the second vessel. Work on the program has benefitted from lessons learnt from the AWD Program.

Following the structural separation of ASC in December 2018, ASC Shipbulding became a subsidiary of BAE Systems Australia to deliver the Hunter Class Frigates. ASC Pty Ltd engages the ASC Shipbuilding workforce under contract, to successfully deliver ASC's shipbuilding programs.

Air Warfare Destroyer Program

ASC remains responsible for the delivery of the AWDs, as the lead shipbuilder for the Hobart Class Program. Since the company's separation in December 2018, ASC engages the ASC Shipbuilding workforce under contract, to successfully deliver the AWD program. During the reporting period, HMAS *Brisbane* was successfully commissioned into service (27 October 2018) and progress continues on the final AWD, future destroyer Sydney, to support its Provisional Acceptance in early 2020.

Ship 03 – Future destroyer Sydney

2018/19 highlights for Ship 03 included;

- **Main engine and gas turbine light off milestones complete;**
- **Introduction of a revised paint scheme; and**
- **Aviation Upgrade Program (AUP); Ship 03 upgrade commenced (increased ASC scope through implementation of MH-60R Romeo helicopter capability upgrades).**

Following its official launch in May 2018, entering the water at 81 percent complete, construction activities continued to progress rapidly, yielding 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.

Work in this period saw the achievement of a range of critical milestones and AUP upgrade work ahead of schedule, which has allowed for the planning of sea trial activities to be undertaken in Q3 2019, in preparation for Provisional Acceptance of Ship 03 in early 2020.

Offshore Patrol Vessel Program

As the shipbuilder of the lead and second OPVs, under contract to Prime contractor, Luerssen Australia, ASC commenced the build for both vessels during the 2018/19 financial year.

The lead vessel celebrated is official Keel Laying ceremony in May 2019, with the production of the second vessel commencing in June 2019.

OPV Lead vessel

- **2018/19 highlights for the lead Arafura Class OPV included;**
- **Commencement of construction;**
- **Keel laying; and**
- **Commencement of block consolidation.**

INFRASTRUCTURE DEVELOPMENT

ASC operates two modern facilities; ASC North, a submarine maintenance facility located at Osborne, South Australia and ASC West, submarine maintenance facilities at Henderson, Western Australia.

ASC has use and access of the Osborne naval shipyards in South Australia and the associated critical infrastructure owned by Australian Naval Infrastructure (ANI) for the delivery of its shipbuilding programs.

ASC North

FCD maintenance of the CCSM is undertaken at the ASC North facility located at Osborne, South Australia.

Throughout the 2018/19 reporting period work was undertaken to improve the facility to ensure its continued support of Submarine Enterprise activities.

Modifications to the Diesel Generator Testing Facility, allowing a second generator to be tested in the facility, were completed in November 2018. Additional mechanical, electrical and control infrastructure was also installed. The upgrade enabled the testing of HMAS *Waller's* generators to be completed over a significantly reduced time period and this resulted in substantial benefits to the FCD schedule.

Additional significant infrastructure projects undertaken across the 2018/19 financial year included:

- Replacement of a number of air conditioners operating on ozone depleting refrigerants;
- Installation of a removable wall and fast acting door to replace damaged roller doors in the main Hull Workshop;
- Installation of a new overhead crane in the electrical pressure testing room to improve safety and efficiency;
- Plumbing repairs to reduce water usage; and
- Refurbishment of toilet facilities in the Hull and Outfitting Workshops.

ASC West

The ASC West facility, located at Henderson, Western Australia, completes shorter maintenance dockings and in-service support of the CCSM fleet.

Throughout the 2018/19 reporting period, ASC West further built upon the significant facility upgrades that were achieved in recent years, seeing the construction of a Maintenance Support Tower (MST) and Sky Bridge to deliver operational efficiencies.

Key facility and infrastructure projects undertaken across 2018/19 included:

- A new 300sqm awning for the Warehouse to protect materials from the weather;
- Upgrade to the Fire Protection System and division of the site into three Fire Zones to allow for segregated evacuations and more accurate locations for alarms throughout the facility and submarines undergoing maintenance;
- Upgrades to site radios from analogue to digital to provide consistent and clear communication to all staff whilst on board the submarine, either docked or in the water, at Henderson or Garden Island; and
- Completion of a Concept Design report for the Submarine Support Facility for Fleet Base West at Garden Island as per a CoA tasking statement. The Concept Design will deliver base-build and two value management options to be built over a single year or three-year period.

ASC South

The ASC South facility located at Osborne in South Australia, is the site of construction of the three Hobart Class AWDs and the lead and second Arafura Class OPVs. ASC works closely with ANI to manage the commercial and operational arrangements required for the delivery of the AWD and OPV shipbuilding programs.

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 consistently 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 in all we do.

A variety of initiatives were deployed during the reporting period to ensure ongoing safety improvements. These included:

- **Recasting the five-year WHS Strategic Plan;**
- **Further investment in our Mental Health and Wellbeing Program;**
- **Initiation of a Psychosocial Risk and Human Factors Program;**
- **Broadening of our Verification of Competency Program, particularly for high risk activities; and**
- **Improving business leadership engagement for front-line safety.**

Notifiable Incidents

The Work Health Safety Act 2012 details the types of incidents notifiable to Comcare. Under Section 35 of the Act 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.

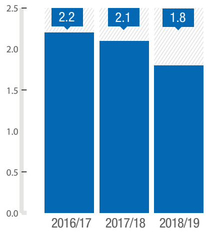
There were eight dangerous incidents notified to Comcare, none resulting in serious personal injury or illness to ASC workers. This represents a decrease of three incidents compared with the previous reporting period.

Trends associated with the dangerous incidents resulted in new safety campaigns being implemented to prevent recurrence.

Notifiable incidents in 2018/19

Deaths	0
Dangerous Incidents	8
Serious personal injury or illness	0
TOTAL	8

Lost Time Injuries

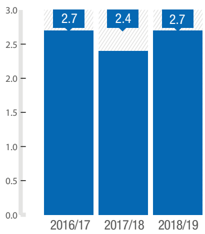


LTIFR = number of LTI's X 1,000,000 divided by hours worked per month.

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.

ASC achieved a total lost time injury frequency rate (LTIFR) of 1.8 for 2018/19 (all site-based workers, including contractors) representing a 14 percent decrease in frequency rate from the previous year. Five fewer LTIs occurred across the business when compared to the previous year.

Medically Treated Injuries



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

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 2.7 was recorded for 2018/19 (all site-based workers, including contractors) representing a 12.5 percent increase from the previous year. However, two fewer medically treated injuries occurred across the business when compared to the previous year. The frequency rate was negatively affected by the exposure hours (labour-hours) being worked across former shipbuilding business, ASC Shipbuilding.

Investigations

Comcare undertook an evaluation of four of the eight 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), to ensure environmental sustainability is integrated throughout all areas of ASC's business.

ASC's efforts throughout the reporting period remained focused on transitioning from an EMS based primarily on compliance, to one where environmental and social considerations are integrated into all aspects of business operation.

Key areas of environmental performance in 2018/19 included:

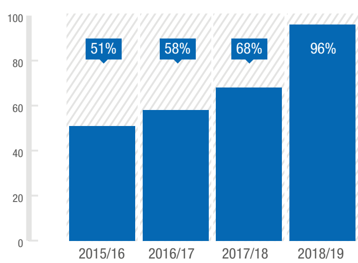
- **Electricity consumption;**
- **Reduction of water consumption;**
- **Reduction in generated waste;**
- **Climate Change adaptation planning (including reduction of carbon emissions);**
- **Stakeholder engagement; and**
- **Corporate Social Responsibility (CSR) integration and voluntary reporting.**

A focus has been placed on reducing consumption and the volume of waste generated by the business. Throughout the reporting period, ASC achieved significant increases in waste diversion across all sites.

Of the generated waste material, 96 percent was diverted from landfill by ensuring the correct waste streams were available across all sites and as a result of sending general waste material to be utilised as engineered fuel.

The general waste material from ASC's South Australian sites is sent to the Suez-ResourceCo facility at Wingfield to be sorted and the material with a calorific value is processed into a an engineered fuel. This is then used by local cement manufacturer, Adelaide Brighton Cement as a non-virgin fuel source in their kilns. This 'waste to energy' approach has an overall carbon reduction benefit for the State, due to the reduction of virgin fuels needed for the cement industry.

ASC Corporate Waste Diversion



ASC continued to assess environmental risks for the business with major activities, such as fuelling and defueling events, being thoroughly reviewed. This resulted in the identification of excellent adherence to process.

In the next reporting period, ASC will be focusing on sustainable reporting, climate risk analysis and mitigation, and opportunity assessment.

The implementations of a formal CSR Program will mature ASC's response to environmental risk and performance. ASC will conduct a Materiality Assessment in 2019 to determine the key issues relevant to the business and its stakeholders with regard to the sustainability of current programs, future business opportunities and the community.

ASC's Environmental Management System

ASC's Environmental Management System (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.

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 reporting period, there was one environmental incident at ASC Shipbuilding which required official notification to the South Australian Environment Protection Authority (SA EPA).

This event did not result in material or significant harm to the local environment. The incident was subject to internal review and further controls were put in place to assist in the prevention of future releases.

ASC continues to proactively manage environmental risks, with all environmental hazards and risks identified throughout 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 its best workforce, remains critical to continued improvement in performance and resulting success.

ASC's 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 1,300 permanent employees across two sites; ASC North at Osborne in South Australia, and ASC West at Henderson in Western Australia. ASC also has employees at the STSC at Garden Island in Western Australia.

Following structural separation in December 2018, ASC Shipbuilding became a subsidiary of BAE Systems Australia to deliver the Hunter Class Frigates. Separation of its business is responsible for the decrease in its employee numbers from 2400 to 1300 and now ASC Pty Ltd engages an ASC Shipbuilding workforce under contract, to successfully deliver ASC's shipbuilding programs.

Professional Development

In 2018/19, ASC professional development activities included:

- Inclusion of internal leadership program at ASC West;
- Continuation of Apprentice and Graduate Programs;
- Continuation of Project Management, Business Acumen and Earned Value Management e-learning across the submarine business, particularly for Control Account Managers;
- Participation in Graduate Certificate in Marine Engineering for 31 students including graduations for three ASC West engineers;
- Support of 11 staff for higher level qualifications through ASC Professional Development assistance; and
- Emotional intelligence training for Engineering and Delivery employees.

Apprentices and Graduates

The 2018/19 ASC Apprentice Program was again, highly competitive. The program received 1404 applications, from which 14 positions were awarded, six in South Australia and eight in Western Australia, bringing the total number of apprentices employed to 53.

ASC has a completion rate of 93 per cent, compared with the projected national completion rate of 54.5 percent[(1)].

ASC employed eight Engineers as part of its Graduate Program, five in South Australia and three 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. Five graduates from ASC North took advantage of the opportunity to go on rotation in Western Australia for three to four months during this period.

Government Support to Workforce Development

In 2018/19, ASC received $414,634 from the South Australian Government's Department of State Development. These funds provided valuable support which enabled ASC to further develop its former ASC Shipbuilding workforce capability through the following programs:

- Contract Management for Ship Construction, Repair and Design;
- Defence Industry Pathways Program;
- ERG Specialist Training;
- NACE Coating Inspection Program Levels; and
- Resilience and leadership programs.

Workforce Planning

Workforce planning remains an active and continuous process in ASC's business planning cycle. Immediate and up-to-date intelligence is used to model recruitment, retention and development measures synchronously and track the effectiveness of related turnover mitigations. This ensures ASC's continued ability to maintain the skills and experience required to sustain CCSM through to end-of-life.

Aligned to AS5620:2015, ASC's workforce planning model provides 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.

2018/19 has seen further competition for talent in South Australia, resulting from Defence programs running in parallel. Activities implemented to address these challenges included:

- Integrating effective talent acquisition and retention systems;
- Increasing and improving our levels of leadership capability;
- Enhancing, measuring and promoting the strength of ASC's Employee Value Proposition (EVP);
- Developing technical training systems to support emerging workforce capability requirements;
- Producing an international recruitment and capability plan to effectively mobilise international talent to support long lead times;
- Improving human resource metrics;
- Growing external capability partnerships;
- Conducting workforce impact analysis for potential business scenarios;
- Promoting diversity through talent management;
- Supporting the direct development of women in our workforce; and
- Supporting the Naval Shipbuilding College (NSC).

Activities completed under ASC's former Shipbuilding Business, ASC Shipbuilding via the Shipbuilding Workforce Plan included:

- Managing of the internal labour market movements;
- Managing of the resource reduction programs;
- Transferring of talent to other parts of ASC as part of labour reductions;
- Seconding to the AWD Program in service contacts;
- Maintaining connection with past talent through the ASC Alumni;
- Promoting diversity through talent management;
- Managing and growing the future talent with dedicated activities;
- Providing 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 of the AWD apprenticeship program.

Diversity and Inclusion

The ASC Diversity and Inclusion (D&I) Program, *All Aboard*, was launched in 2016 and continued to make a positive contribution to the culture and environment at ASC. In 2018/19 ASC's All Aboard Program focused on workplace behaviours, promoting flexible work opportunities and providing awareness and support for employees with carer responsibilities.

An Employee Opinion feedback survey was conducted in 2019 to gauge both overall engagement scores and to assess the progress and influence of the D&I program.

The survey results indicated:

- The majority of respondents are satisfied with their job and are proud to work for ASC with 82 percent understanding how they personally contribute to the achievement of ASC's goals;
- 67 percent of employees surveyed agreed that ASC treats employees fairly regardless of their age, family/marital status, gender, disability, race/colour, religion or sexual orientation; and
- 75 per cent of employees surveyed believe they can maintain a reasonable balance between their personal life and work life.

The D&I *All Aboard* Council, is comprised of representatives from both ASC North and West, with five new members joining during the reporting period.

Looking forward, the 2019/20 All Aboard Plan will focus on the following areas:

- Gender diversity;
- Diversity in the talent process; and
- Leadership in D&I engagement.

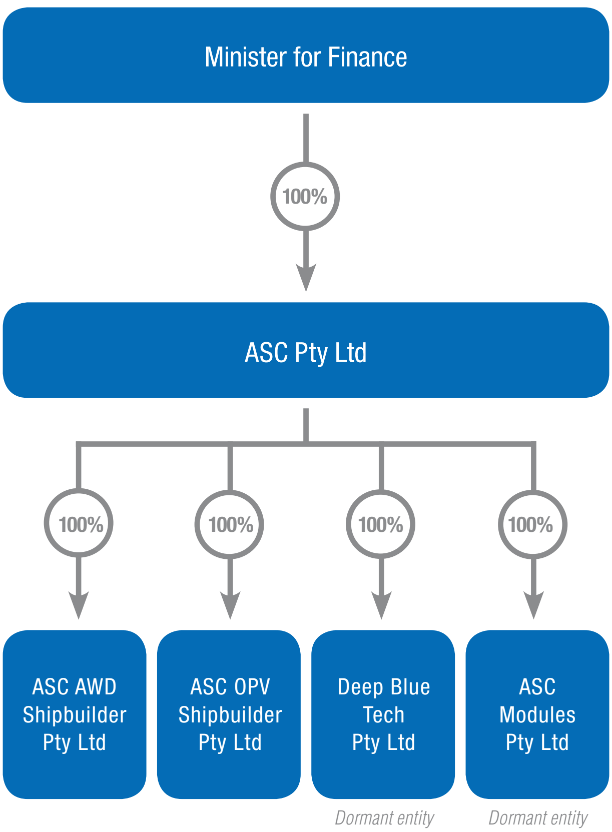
[1] Australian vocational education and training statistics, Completion and attrition rates for apprentices and trainees 2018, National Centre for Vocational Education Research, Total trade occupations.

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 (GBE) 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 2019, the Board was comprised as follows:

BRUCE CARTER
Chairman

Appointed: 1 Jan '10
To: 31 Dec '21

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 '22

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

GEOFF ROHRSHEIM
Non-Executive Director

Appointed: 15 Mar '19
To: 14 Mar '22

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 2018/19 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	10	10	-	-	5	5	4	4
Dr Rosalind Dubs	10	10	-	-	-	-	4	4
Paul Rizzo	10	9	5	4	-	-	4	4
Loretta Reynolds	10	10	5	4	5	5	-	-
Joycelyn Morton	10	10	5	5	5	5	-	-
Gary Gray	10	10	-	-	-	-	4	4
Geoff Rohrsheim	2	2					1	1
Stuart Whiley	10	10	-	-	-	-	-	-

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 2018/19 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; and
- Exercising due diligence to ensure that ASC complies with its work, health and safety obligations including by taking reasonable steps to:
  - Acquiring and keep up-to-date knowledge of work health and safety matters;
  - Gaining an understanding of the nature of ASC's operations and the hazards and risks within those operations;
  - Ensuring appropriate resources are available and processes implemented to enable hazards to be identified and risks eliminated or minimised;
  - Ensuring ASC has appropriate processes for receiving and considering information regarding incidents, hazards and risks, and responding in a timely way to that information;
  - Ensuring the business implements processes for complying with work health and safety laws, regulations and codes of practice; and
  - Verifing 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 2019, 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 2019, 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 2019, the Committee consisted of Paul Rizzo (Chair), Bruce Carter, Rosalind Dubs, Gary Gray and Geoff Rohrsheim.

Board Membership

During the year:

- Geoff Rohrsheim was appointed as a Non-Executive Director of ASC and was also appointed as a member of the Business Assurance & Security Committee.

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). PwC 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 2018/19, the program covered:

- Defence exports;
- Work health and safety;
- Employment;
- Environment;
- 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) are the Non-Executive Directors, the Managing Director and those Senior Executives whom hold authority and responsibility for planning, directing and controlling ASC's strategic direction.

ASC's KMP include KMP for both ASC Pty Ltd and its former shipbuilding business, ASC Shipbuilding Pty Ltd.

Fees for Non-Executive Directors are set by the relevant determination of the Remuneration Tribunal.

A summary for KMP remuneration for the financial year 2018/19 is included at Table 1.

ASC's approach to senior executive remuneration is below.

Senior Executive Remuneration Overview

ASC Pt 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.

The remuneration of the ASC Pty Ltd Managing Director is in accordance with the relevant determination of the Remuneration Tribunal and the role is currently classified as a Principal Executive Office Band E and includes an at-risk amount of up to 20 percent of total remuneration.

Setting Senior Executive Remuneration

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 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 – REMUMERATION OF KEY MANAGEMENT PERSONNEL FOR THE 2018/19 FINANCIAL YEAR Remuneration for Key Management Personnel for FY 17/18 and FY 18/19 is shown in the table below.

			Short-term benefits			Post-employment	Other long-term benefits		Termination benefits	Total Renumeration
			Base Salary (1)	Bonuses	Other Benefits & Allowances	Super-annuation contributions	Long Service Leave (2)	Other long term benefits	(3)	
		Note	$	$	$	$	$		$	$
Key Management Personal										
ASC Pty Ltd										
Stuart Whiley *Managing Director and Chief Executive Officer*	**2019**		**595,259**	**120,348**	**-**	**25,000**	**15,043**	**0**	**0**	**755,650**
	2018		601,569	95,967	-	25,000	14,437	0	0	736,973
Martin Edwards *General Manager Submarine Capability Development*	**2019**		**445,580**	**81,369**	**16,888**	**25,000**	**10,171**	**0**	**0**	**579,008**
	2018		441,780	68,845	39,450	25,000	9,972	0	0	585,047
Paul Gay *General Manager Collins Class Submarine Project*	**2019**		**387,082**	**73,733**	**-**	**25,000**	**9,217**	**0**	**0**	**495,031**
	2018		382,855	69,142	-	25,000	9,036	0	0	486,033
Christian Hamilton *General Manager Strategy*	**2019**		**287,223**	**51,499**	**-**	**31,462**	**6,995**	**0**	**0**	**377,179**
	2018		276,661	54,551	-	29,298	6,860	0	0	367,370
Wendy Hoad *General Counsel and Company Secretary*	**2019**	**4**	**312,939**	**58,472**	**12,144**	**25,000**	**7,309**	**0**	**0**	**415,864**
	2018		286,984	50,131	12,565	24,811	7,166	0	0	381,657
Ashley Menadue *Chief Financial Officer*	**2019**		**417,514**	**79,178**	**-**	**25,000**	**9,897**	**0**	**0**	**531,589**
	2018		411,920	71,338	15,537	25,000	9,703	0	0	533,498
Total	**2019**		**2,445,597**	**464,599**	29,032	156,461	58,631	0	0	3,154,320
	2018		2,401,769	409,974	67,552	154,109	57,174	0	0	3,090,578
ASC Shipbuilding										
James Cuthill *Acting Chief Executive Officer ASC Shipbuilding*	**2019**	**5**	**202,860**	**41,566**	**-**	**34,950**	**3,430**	**0**	**0**	**282,806**
	2018		373,106	52,741	-	25,000	7,395	0	0	458,242
Mark Lamarre *Chief Executive Officer ASC Shipbuilding Pty Ltd*	2018	6	1,874,986	1,131,341	21,963	-	11,800	0	0	3,040,090
Total	**2019**		**202,860**	**41,566**	**-**	**34,950**	**3,430**	**0**	**0**	**282,806**
	2018		2,248,091	1,184,082	21,963	25,000	19,195	0	0	3,498,332
Grand Total	**2019**		**2,648,457**	**506,165**	**29,032**	**191,411**	**62,062**	**0**	**0**	**3,437,127**
	2018		4,649,861	1,594,056	89,515	179,109	76,369	0	0	6,588,910

Notes:

1. Base salary includes annual leave accrued in the year 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. W Hoad ceased employment on 5 July 2019.
5. J Cuthill ceased to be a Senior Executive of the ASC Group on 13 December 2018 with the transfer of ASC Shipbuilding Pty Ltd to separate government ownership.
6. M Lamarre retired on 17 December 2017. An accrual for tax equalisation payments to Mr Lamarre has been included in Bonuses.

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 nonmonetary 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 expense 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.

NON-EXECUTIVE DIRECTOR FEES

All Non-Executive Directors of ASC Pty Ltd are appointed by the Minister for Finance. Fees for Non-Executive Directors are set through the determinations of the Commonwealth Remuneration Tribunal (the Tribunal). The Tribunal makes the Determination in accordance with subsections of the *Remuneration Tribunal Act 1973*.

The Tribunal sets annual Chair and Board Member fees (exclusive of superannuation contributions) for all activities undertaken by Non-Executive Directors on behalf of ASC Pty Ltd.

A summary for Non-Executive Directors remuneration for the financial year 2018/19 is included at Table 2.

Non-Executive Position		**From 1 July 2018** **$**	**From 1 July 2017** **$**
Chairman 1		163,020	159,820
Member		76,090	74,590
Chair:	Audit Committee	16,000	15,680
Member:	Audit Committee	8,000	7,840
Chair:	Business Assurance and Security Committee	15,360	15,050
Member:	Business Assurance and Security Committee	7,680	7,530

1. The Chairman is not remunerated further for committee memberships

Table 2 – REMUMERATION OF NON-EXECUTIVE DIRECTORS FOR THE 2018/19 FINANCIAL YEAR Remuneration for Non-Executive Directors for FY 17/18 and FY 18/19 is shown in the table below

			Short-term benefits			Post Employment Benefits	Long-term benefits		Termination Benefits	Total Renumeration
		Note	Base Salary $	Bonuses $	Other benefits and allowances (1)	Super-annuation contributions $	Long Service Leave $	Other long term benefits		
Non-Executive Directors										
ASC Pty Ltd										
Bruce Carter	**2019**		**0**	**0**	**163,020**	**15,487**	**0**	**0**	**0**	**178,507**
Chairman	2018		0	0	159,820	15,183	0	0	0	175,003
Rosalind Dubs	**2019**	**2**	**0**	**0**	**83,770**	**7,958**	**0**	**0**	**0**	**91,728**
Director	2018		0	0	82,120	7,801	0	0	0	89,921
Gary Gray	**2019**	**3**	**0**	**0**	**83,770**	**7,958**	**0**	**0**	**0**	**91,728**
Director	2018		0	0	82,120	7,801	0	0	0	89,921
Joycelyn Morton	**2019**	**4**	**0**	**0**	**92,090**	**8,749**	**0**	**0**	**0**	**100,839**
Director	2018		0	0	90,270	8,576	0	0	0	98,846
Loretta Reynolds	**2019**	**5**	**0**	**0**	**84,090**	**7,989**	**0**	**0**	**0**	**92,079**
Director	2018		0	0	82,430	7,831	0	0	0	90,261
Paul Rizzo	**2019**	**6**	**0**	**0**	**99,450**	**9,448**	**0**	**0**	**0**	**108,898**
Director	2018		0	0	97,480	9,261	0	0	0	106,741
Geoffrey Rohrsheim	**2019**	**7**	**0**	**0**	**24,787**	**2,355**	**0**	**0**	**0**	**27,142**
Director	2018		0	0	0	0	0	0	0	0
Total	**2019**		**0**	**0**	**630,977**	**59,943**	**0**	**0**	**0**	**690,920**
	2018		0	0	594,240	56,453	0	0	0	650,693

Notes:

1. Director fees have been classified as other benefits and allowances.
2. R Dubs is a member of the Business Assurance and Security Committee.
3. G Gray is a member of the Business Assurance and Security Committee.
4. J Morton is the Chair of the Audit Committee.
5. L Reynolds is a member of the Audit Committee.
6. P Rizzo is the Chair of the Business Assurance and Security Committee and a member of the Audit Committee.
7. G Rohrsheim was appointed as a Director on 15 March 2019 and is a member of the Business Assurance and Security Committee.

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

FINANCIAL REPORT

30 June 2019

CONTENTS

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

Your directors present their report on the consolidated entity (referred to hereafter as the "Group" or the "consolidated entity") consisting of ASC Ply Ltd (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2019.

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

Geoffrey Roland Rohrsheim was appointed a director on 15 March 2019.

Principal activities

The principal activities of the Group during the course of the financial year ended 30 June 2019 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 CoA 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.

Offshore Patrol Vessel (OPV) related activities:

ASC is a subcontractor to Luerssen Australia for the construction of the first two of 12 Arafura Class OPVs in South Australia.

Consolidated result

The consolidated profit of the Group for the financial year attributable to the shareholders of ASC Pty ltd was $30,272,000 (2018: $31,996,000) after provision for income tax expense of $12,857,000 (2018 : $13,728,000).

Review of operations

Collins Class Submarine related activities:

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

Hobart Class Air Warfare Destroyer (AWD) related activities:

Ship two (HMAS Brisbane) has been provisionally accepted by the customer in July 2018 and will exit its warranty period in July 2019. Ship three achieved Combat Systems light off in September 2018. It is expected to enter its Builders Sea Trials in July 2019 in preparation for its delivery in December 2019.

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 the former Australian Accounting Standard AASB 111 *Construction Contracts* and from 1 July 2019 AASB 15 *Revenue from Contracts with Customers*, 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 $24.5m has been recognised to date.

Review of operations (continued)

Offshore Patrol Vessel (OPV) related activities:
ASC executed a contract with Luerssen Australia on 14 November 2018 under which ASC is subcontracted to construct the first two of 12 Arafura Class OPVs in South Australia. ASC has commenced production activities.

Dividends - ASC Pty Ltd
The Directors declared an unfranked final dividend of $5.8m on 30 August 2019 for the year ended 30 June 2019.

Dividends paid during the financial year were as follows:

	2019	2018
	$'000	$'000
Final dividend for the year ended 30 June 2018 paid on 30 October 2018	**14,100**	10,900
Interim dividend for the year ended 30 June 2019 paid on 29 April 2019	**12,400**	5,100
Special dividend	**500**	-
	27,000	16,000

On 13 December 2018, ASC Ply Ltd transferred the ownership of ASC Shipbuilding Pty Ltd to the CoA by way of an in-specie dividend. The net assets of ASC Shipbuilding on transfer were $98,000, which was the value attributed to the dividend. On 27 June 2019, an additional payment of $416,000 was made as a separation adjustment.

State of affairs
A new company, ASC OPV Shipbuilder Pty Ltd, was established on 10 August 2018. This company executed a contract with Luerssen Australia on 14 November 2018 under which ASC OPV is subcontracted to construct the first two of 12 Arafura Class OPVs in South Australia.

On 13 December 2018, ASC Ply Ltd transferred the ownership of ASC Shipbuilding Pty Ltd to the Commonwealth by way of an in specie dividend. This followed the Commonwealth announcement in June 2018 that "the Future Frigates would be designed by BAE Systems and built by ASC Shipbuilding at the Osborne Naval Shipyard. To ensure that BAE Systems is fully responsible and accountable for the delivery of the Future Frigates, ASC Shipbuilding will become a subsidiary of BAE Systems."

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/NZS ISO 14001:2016 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/NZS ISO 14001:2016 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.

Review of operations (continued)

Events subsequent to the end of the reporting period

There are no other matters that have arisen between the end of the financial year and the date of this report, including any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the economic entity, the results of those operations, or the state of affairs of the Group, in subsequent financial periods.

Likely developments

The AWD program will be delivered in the 2019/20 financial year. Construction activities for the OPV's will increase significantly, with the start of consolidation of the first OPV and start of production and keel laying for the second OPV.

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 33.

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
25 September 2019

ASC PTY LTD AND ITS CONTROLLED ENTITIES

FINANCIAL REPORT 2018–19

AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the financial report of ASC Pty Ltd and its controlled entities for the year ended 30 June 2019, 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

CRJago

Carla Jago
Group Executive Director

Delegate of the Auditor-General

Canberra

25 September 2019

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Phone (02) 6203 7300 Fax (02) 6203 7777

The directors declare that, in the directors' opinion:

a the financial statements and notes set out on pages 38 to 92 are in accordance with the *Corporations Act 2001*, including:

i complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

ii giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 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
25 September 2019

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the members of ASC Pty Ltd

Opinion

In my opinion, the general purpose financial report of ASC Pty Ltd and its subsidiaries (together the consolidated entity) for the year ended 30 June 2019 is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 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 2019 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 auditor independence requirements of 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* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. 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 2019, but does not include the financial report and my auditor's report thereon.

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

In connection with my audit of the financial report, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with

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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 the Company 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 ability of the consolidated entity to continue as a going concern, disclosing, as applicable, matters related to going concern 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
25 September 2019

ASC PTY LTD
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2019

	Notes	**June 2019 $'000**	June 2018 $'000
Revenue from continuing operations	6	743,010	765,052
Expenses			
Materials and subcontractors		**(289,398)**	(257,631)
Labour		**(317,162)**	(381,091)
Depreciation and amortisation expense	7	**(14,296)**	(8,814)
Operating lease	7	**(33,321)**	(32,328)
Revaluation of assets	7	**-**	107
Other expenses		**(44,853)**	(38,426)
Finance costs	7	**(851)**	(1,145)
Profit before income tax		**43,129**	45,724
Income tax expense	8	**(12,857)**	(13,728)
Profit for the year		**30,272**	31,996
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligation	10 (g) (vi)	**(249)**	31
Income tax relating to these items		**75**	(9)
Other comprehensive income for the year, net of tax		**(174)**	22
Total comprehensive income for the year		**30,098**	32,018
Profit is attributable to:			
Owners of ASC Pty Ltd		**30,272**	31,996
Total comprehensive income for the year is attributable to:			
Owners of ASC Pty Ltd		**30,098**	32,018

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

ASC PTY LTD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 30 June 2019

	Notes	**June 2019 $'000**	June 2018 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9 (a)	**204,105**	315,427
Trade and other receivables	9 (b)	**130,251**	111,824
Contract assets	10 (e)	**9,836**	-
Unpaid share capital	10 (d)	**11,000**	11,000
Inventories	10 (b)	**112**	287
Other current assets	11	**3,859**	5,513
Total current assets		**359,163**	444,051
Non-current assets			
Net pension assets	10 (g) (ii)	**760**	620
Property, plant and equipment	10 (c)	**33,404**	43,172
Deferred tax assets	10 (a)	**14,811**	17,058
Unpaid share capital	10 (d)	**21,671**	31,668
Other non-current assets	12	**2,561**	2,805
Total non-current assets		**73,207**	95,323
Total assets		**432,370**	539,374
LIABILITIES			
Current liabilities			
Trade and other payables	9(c)	**87,691**	85,972
Contract liabilities	10(e)	**100,350**	156,187
Interest bearing liabilities	9(d)	**65,788**	90,770
Current tax liabilities		**1,393**	4,973
Provisions	10(h)	**36,257**	49,751
Total current liabilities		**291,479**	387,653
Non-current liabilities			
Non interest bearing liabilities	9(d)	**3**	3
Provisions	10(h)	**6,600**	21,167
Total non-current liabilities		**6,603**	21,170
Total liabilities		**298,082**	408,823
Net assets		**134,288**	130,551
EQUITY			
Share capital	13 (a)	**64,671**	63,668
Retained earnings	13 (b)	**69,617**	66,883
Total equity		**134,288**	130,551

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

ASC PTY LTD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2019

	Attributable to owners of ASC Pty Ltd		
	Share Capital $'000	**Retained earnings $'000**	**Total Equity $'000**
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
Balance at 1 July 2018	63,668	66,883	130,551
Opening balance adjustment due to application of AASB 15	-	150	150
Restated total equity at 1 July 2018	**63,668**	**67,033**	**130,701**
Profit for the period	-	30,272	30,272
Remeasurement of post-employment benefit obligations	-	(249)	(249)
Income tax relating to these items	-	75	75
Total comprehensive income for the year	-	30,098	30,098
Transactions with owners in their capacity as owners:			
Dividend paid	-	(27,000)	(27,000)
In specie dividend / separation adjustment	-	(514)	(514)
Unwinding of the discount of share capital issue	1,003	-	1,003
	1,003	(27,514)	(26,511)
Balance at 30 June 2019	**64,671**	**69,617**	**134,288**

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

ASC PTY LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2019

	Notes	June 19 $'000	June 18 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**846,482**	877,524
Payments to suppliers and employees (inclusive of goods and services tax)		**(876,253)**	(817,093)
Income taxes paid		**(14,284)**	(18,049)
Net cash (outflow) inflow from operating activities	22 (a)	**(44,055)**	42,382
Cash flows from investing activities			
Interest received		**3,779**	4,781
Payments for property, plant and equipment	10(c)	**(4,325)**	(7,409)
Proceeds from sale of property, plant and equipment		**329**	12,903
ASC Shipbuilding cash transferred at separation		**(25,523)**	-
Net cash (outflow) inflow from investing activities		**(25,740)**	10,275
Cash flows from financing activities			
Dividends paid		**(27,000)**	(16,000)
Proceeds from issues of shares and other equity securities		**11,000**	11,000
Proceeds from borrowings	22 (b)	**64,546**	32,763
Repayment of borrowings	22 (b)	**(90,851)**	(32,000)
Interest paid		**(546)**	(802)
Net cash (outflow) from financing activities		**(42,851)**	(5,039)
Net (decrease) increase in cash and cash equivalents		**(112,646)**	47,618
Cash and cash equivalents at the beginning of the financial year		**315,427**	267,799
Effects of exchange rate changes on cash and cash equivalents		**1,324**	10
Cash and cash equivalents at end of year	9(a)	**204,105**	315,427

The above Consolidated Statement of Comprehensive Income 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 2019 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 4.

Going concern

The working capital for the Group has changed during the year to $67,684,000 (2018: $56,398,000).
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 $134,288,000 (June 2018: $130,551,000);
- $47,000,000 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 2018. The Group's accounting policies have been amended following adoption of the revised standards (note 2).

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a Basis of preparation (continued)

AASB 9 Financial Instruments
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. This standard has not had a material impact on the Group's results.

AASB 15 Revenue from Contracts with Customers
This standard replaces AASB 118 Revenue which covers contracts for goods and services and AASB 111 Construction Contracts which covers construction contracts. It is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Group is now adopting a five step process for the recognition of revenue. In accordance with the transitional provisions in AASB 15, the Group has adopted the new rules utilising the modified retrospective approach.

There is no material change to the way the Group recognises revenue. However, accounting for some minor contracts are impacted and this has given rise to an opening equity adjustment of $150,000. In addition to this, contract assets and liabilities were recorded within “Net unearned contract billings” on the balance sheet in the prior year.

Had the standard been applied in the prior year, the balances as at 30 June 2018 would have been as follows:

Balance Sheet (extract)	30 June 2018 $'000	Impact of AASB 15 $'000	July 1 2018 Revised $'000
Contract asset	**0**	3,980	3,980
Contract liabilities (Net unearned contract billings)	**156,187**	3,830	160,017
Retained earnings	**66,883**	150	67,033

As the Group has adopted the standard retrospectively with the cumulative effect, the table below shows the amount by which each financial statement line item is affected in the current reporting period by the application of the standard as compared to AASB 111 and AASB 118 and an explanation of the reasons for significant changes.

	For the year ended 30 June 2019			
Income Statement (extract)	**AASB 15 $'000**	**Change $'000**	**AASB 111 / 118 $'000**	**CHANGES ARE DUE TO**
Revenue	743,010	(1,217)	741,793	Different revenue and profit methodology; a) AASB 15: based on percentage of completion b) AASB 111 / 118 based on cost incurred and overall contract percentage
Profit Before Tax	43,129	(473)	42,656	
Income Tax	(12,857)	142	(12,715)	
Profit after Tax	30,272	(331)	29,941	

	As at 30 June 2019		
Balance Sheet (extract)	**AASB 15 $'000**	**Change $'000**	**AASB 111 / 118 $'000**
Contract Assets	9,836	-	-
Contract Liabilities (net unearned contract billings)	100,350	473	90,987
Current Tax Payable	1,393	(142)	1,251
Retained Earnings	69,617	(331)	69,286

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 2019 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 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 performed a preliminary assessment the impact of the new standard. Based on the preliminary assessment, there will be a significant increase in the Group's assets and liabilities at the date of initial application (see table below). This is mainly due to the high value of operating leases related to its Osborne and Western Australian facilities and the long term nature of these leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $113.7m (note 14).

Balance Sheet (extract)	As reported 30 June 2019 $'000	Impact of AASB 16 $'000	Adjusted 30 June 2019 $'000
Right of use Asset	0	83,495	83,495
Total Assets	432,370	-	515,865
Lease Liability	0	83,495	83,495
Total Liability	298,082	-	381,577

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 20. 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c Revenue recognition

Revenue is recognised when control of a good or service transfers to the customer and is measured as the amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services.

Revenue is recognised depending on the type of contract as described below.

Target Cost Estimate Contract

Revenue is traded on the cost as it is incurred while profit is based on a performance score against the contract and pain/gain formula based on cost. As the contract progresses and the profit estimates are refined, so is the value of the profit to be traded. If the outcome of the pain/gain calculation cannot be reliably estimated until late in the contract, no pain/gain is recognised until it is capable of reliable estimation.

Cost Reimbursable Contract

If costs are reimbursed progressively as it is incurred with no exposure to risk, revenue and profit is traded on the cost as it is incurred.

Fixed price contract

Revenue is recognised progressively as costs are incurred using the proportion of actual cost incurred over total contract cost as the measure of performance.

Survey and Quote Contract

If the value of work performed is provided progressively to the customer, revenue and profit is to be recognised on the cost as it is incurred. If the customer is obliged to make payment on completion and delivery, revenue recognition will be deferred until the end of the contract.

Services contract

The extent of services to be provided under a contract is assessed to determine the number of deliverables and the period over which the deliverables are completed. The cost of delivery is determined for each deliverable with revenue and profit being recognised progressively over the period in which the deliverables are satisfied.

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 Contract balances

The timing of revenue recognition, billings and cash collections result in billed accounts receivable, unbilled receivables (contract assets) and customer deposits and advances (contract liabilities) on the statement of financial position.

Contract Assets

Billing occurs subsequent to revenue recognition, resulting in contract assets. Amounts are billed as work in progress in accordance with agreed-upon contractual terms at periodic intervals or upon achievement of contractual milestones.

Contract Liabilities

Advances received, progress billings received in advance of the performance of contract activities and labour over recoveries are recognised as contract liabilities.

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 rate 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 14). 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h Taxation (continued)

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 tosses 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.

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i Employee benefits (continued)

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. Refer to note (o) for impairment of financial assets.

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 for all staff in South Australia. 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 measures the expected credit losses of its financial assets from the moment of its acquisition and throughout the life of the financial asset. Expected credit losses are a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the entity expects to receive discounted at the original effective interest rate. The amount of impairment loss is recognised in profit or loss within other expenses. If, in a subsequent period, the amount of the expected credit loss decreases and the decrease can be related objectively to an event occurring after the expected credit loss was recognised, the reversal of the previously recognised expected credit 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 Ply 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 9(a).

q Recognition and de-recognition of financial assets

Financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q Recognition and de-recognition of financial assets (continued)

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, less any expected credit losses, 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.

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*.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 21 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 Ply Ltd.

w Contributed equity

Ordinary shares are classified as equity.

2 CHANGES IN ACCOUNTING POLICIES

As explained in note 1(a)(ii) above, the Group has adopted a number of new accounting standards this year that have resulted in changes in accounting policies.

(1) AASB 9 Financial Instruments

Accounting policy on impairment of financial assets

Previous policy
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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

Revised policy
The Group measures the expected credit losses of its financial assets from the moment of its acquisition and throughout the life of the financial asset. Expected credit losses are a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the entity expects to receive discounted at the original effective interest rate.

If, in a subsequent period, the amount of the expected credit loss decreases and the decrease can be related objectively to an event occurring after the expected credit loss was recognised, the reversal of the previously recognised expected credit loss is recognised in profit or loss.

Accounting policy on recognition and de-recognition of financial assets

Previous policy
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.

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.

Revised policy
Financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. 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.

At initial recognition, the Group measures a financial asset at its fair value, less any expected credit losses, 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.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(2) AASB 15 Revenue from Contracts with Customers

Accounting policy on revenue recognition

Previous policy

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.

Revised policy

Revenue is recognised when control of a good or service transfers to the customer and is measured as the amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services.

Revenue is recognised depending on the type of contract as described below.

Target Cost Estimate contract
Revenue is traded on the cost as it is incurred while profit is based on a performance score against the contract and pain/gain formula based on cost. As the contract progresses and the profit estimates are refined, so is the value of the profit to be traded. If the outcome of the pain/gain calculation cannot be reliably estimated until late in the contract, no pain/gain is recognised until it is capable of reliable estimation.

Cost reimbursable contract
If costs are reimbursed progressively as it is incurred with no exposure to risk, revenue and profit is traded on the cost as it is incurred.

Fixed price contract
Revenue is recognised progressively as costs are incurred using the proportion of actual cost incurred over total contract cost as the measure of performance.

Survey and Quote contract
If the value of work performed is provided progressively to the customer, revenue and profit is to be recognised on the cost as it is incurred. If the customer is obliged to make payment on completion and delivery, revenue recognition will be deferred until the end of the contract.

Services contract
The extent of services to be provided under a contract is assessed to determine the number of deliverables and the period over which the deliverables are completed. The cost of delivery is determined for each deliverable with revenue and profit being recognised progressively over the period in which the deliverables are satisfied.

2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(2) AASB 15 Revenue from Contracts with Customers (continued)

Accounting policy on contract balance

Previous policy

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.

Revised policy

The timing of revenue recognition, billings and cash collections result in billed accounts receivable, unbilled receivables (contract assets) and customer deposits and advances (contract liabilities) on the statement of financial position.

Contract assets
Billing occurs subsequent to revenue recognition, resulting in contract assets. Amounts are billed as work in progress in accordance with agreed-upon contractual terms at periodic intervals or upon achievement of contractual milestones.

Contract liabilities
Advances received, progress billings received in advance of the performance of contract activities and labour over recoveries are recognised as contract liabilities.

3 SIGNIFICANT CHANGE IN THE CURRENT REPORTING PERIOD

On 13 December 2018, ASC Pty Ltd transferred the ownership of ASC Shipbuilding Pty Ltd to the Commonwealth. This followed the Commonwealth announcement in June 2018 that “the Future Frigates would be designed by BAE Systems and built by ASC Shipbuilding at the Osborne Naval Shipyard. To ensure that BAE Systems is fully responsible and accountable for the delivery of the Future Frigates, ASC Shipbuilding will become a subsidiary of BAE Systems.”

The key steps for the transfer are described below:

	DESCRIPTION	IMPACT
1	**Transfer of plant & equipment from ASC Shipbuilding to the ASC Group**	**$17.8m of plant & equipment transferred to ASC AWD Shipbuilder Pty Ltd**
2	**Payment to Return to Work SA in respect of previously self-insured workers compensation liabilities**	**$5.6m payment to Return to Work SA**
3	**Transfer of ASC Shipbuilding employees to be retained within the ASC Group**	**$0.9m of employee entitlements transferred to ASC Pty Ltd**
4	**Transfer ownership of ASC AWD Shipbuilder Pty Ltd and ASC Modules Pty Ltd to ASC Group at carrying value**	**Not material**
5	**Settling of inter-company positions between ASC Shipbuilding and ASC Group companies**	**$32.8m of loans settled at separation date**
6	**Payment of a pre-completion indemnity amount to ASC Shipbuilding in respect of indemnified liabilities under the separation deal**	**$13.9m cash payment from ASC Pty Ltd**
7	**Transfer of ASC Shipbuilding direct to Commonwealth ownership through an in-specie dividend**	**Declared in-specie dividend being the net assets of ASC Shipbuilding on transfer, with a subsequent separation adjustment process**

3 SIGNIFICANT CHANGE IN THE CURRENT REPORTING PERIOD (CONTINUED)

The table below summarises the balance sheet items of ASC Shipbuilding, inclusive of the separation adjustment, that was separated from the ASC Group.

ASC SHIPBUILDING PTY LTD
BALANCE SHEET

	Step	$'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	5,6	25,523
Other current assets		462
TOTAL CURRENT ASSETS		25,985
NON CURRENT ASSETS		
Inter-company	1,2,3,4,5	-
Other non current assets	1,2,3	98
TOTAL NON CURRENT ASSETS		98
TOTAL ASSETS		26,083
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables		5,139
Inter-company	1,2,3,4,5	-
Provisions	2,3	16,662
TOTAL CURRENT LIABILITIES		21,801
NON CURRENT LIABILITIES		
Provisions	2,3	4,184
TOTAL NON CURRENT LIABILITIES		4,184
TOTAL LIABILITIES		25,985
NET ASSETS		98
EQUITY		
Contributed equity	6	21,429
Retained earnings		(21,331)
TOTAL EQUITY		98

4 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 and profit recognition
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.

The majority of the Group's contracts have a single performance obligation as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts. For contracts with multiple performance obligations, the Group allocates the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract.

The Group has an Estimate at Completion (EAC) process in which management reviews the progress and execution of our performance obligations. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion and the related program schedule, identified risks and opportunities and the related changes in estimates of revenues and costs. The risks and opportunities include management's judgment about the ability and cost to achieve the schedule, technical requirements and other contract requirements.

Due to the nature of the work required to be performed on many of our performance obligations, the estimation of total revenue and costs at completion is complex, subject to variables and requires significant judgment. It is common for some of our long term contracts to contain performance fees, incentive fees or other provisions that can either increase or decrease the transaction price. These variable amounts are generally awarded upon achievement of certain performance metrics, program milestones or cost targets and can be based upon customer discretion. We estimate transaction price to the extent it is probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. Our estimate of variable consideration and determination to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (historical, current and forecasted) that is reasonably available to us.

Contract modifications are routine in the performance of the Group's contracts. Contracts are sometimes modified to account for changes in contract specifications or requirements. In most instances, contract modifications are for goods or services that are not distinct and are accounted for as part of the existing contract.

The Group recognises revenue predominantly over time as the Group performs because of the continuous transfer of control to the customer, using costs incurred to date relative to total estimates costs at completion (EAC) to measure progress towards satisfying our performance obligations. Incurred costs represent work performed which corresponds with and best depicts the transfer of control to the customer. Contract costs include labour, material and subcontractor costs and overhead.

AWD Program
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. The estimated loss was recognised in the 2013/14, 2014/15, 2016/17 and 2017/18 financial years in line with AASB 111 *Construction Contracts*. As at 30 June 2019, the expected loss has been reviewed in the current period based on management's most recent forecast and new accounting standard AASB 15 *Revenue from Contracts with Customers.*

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (continued)

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 change, 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 2019. 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 2019 is $760,000 (2018: $620,000). 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.

5 FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial risk management

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

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

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

Both committees report regularly to the board on their activities.

5 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

Financial risk management (continued)

	June 2019 $'000	June 2018 $'000
Financial assets		
Cash and cash equivalents	**204,105**	315,427
Trade and other receivable	**130,251**	111,824
	334,356	427,251
Financial liabilities		
Trade and other payables	**87,691**	85,972
Interest bearing liabilities	**65,788**	90,770
Non interest bearing liabilities	**3**	3
	153,482	176,745

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 15 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 $3.6 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.

5 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

a Credit risk (continued

Recognised financial instruments

	June 2019 $'000	June 2018 $'000
Trade receivables		
Counterparties with external credit rating		
Aaa (Commonwealth of Australia)	**127,145**	103,009
A3	**2,683**	8,130
Baa2	**19**	33
Credit rating not determined	**309**	406
Total trade receivables	**130,156**	111,578
Aa3- rated cash at bank, short term deposits and interest receivable		
Cash and cash equivalents	**204,105**	315,427
Interest receivable	**95**	246
	204,200	315,673

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.

5 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

b Liquidity risk (continued)

The Group maintains the following lines of credit:

- $47,000,000 overdraft facility not utilised at balance date (2018: $12,000,000). Interest would be payable at the rate of Bank Bill Official Rate plus 100 basis points; an
- $30,000,000 multi option bank facility not utilised at balance date (2018: $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.

Contractual maturities of financial liabilities At 30 June 2019	< 6 months $'000	6– 12 months $'000	1– 2 years $'000	2– 5 years $'000	Over 5 years $'000	Total con. cash flows $'000	Carrying amount (assets) / liabilities $'000
Non-derivatives							
Non interest bearing	-	**87,691**	-	-	**160**	**87,851**	**87,694**
Variable rate (including bank overdraft)	-	**65,788**	-	-	-	**65,788**	**65,788**
Total non-derivatives	-	**153,479**	-	-	**160**	**153,639**	**153,482**
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

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.

5 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

c Market risk (continued)

	Currency	Consolidated Entity June 2019 AUD $'000	Consolidated Entity June 2018 AUD $'000
Financial assets			
Cash and cash equivalents	USD	2,493	10,948
	EUR	2,680	18,104
	GBP	417	780
	CAD	234	2,062
	JPY	-	148
	NOK	-	6
	Total	5,824	32,048
Trade and other receivables	USD	164	277
	EUR	1,474	587
	GBP	11	6
	Total	1,649	870
Financial liabilities			
Trade and other payables	USD	4	1,256
	EUR	283	455
	GBP	3	3
	CAD	-	6
	NOK	-	7
	Total	290	1,727
Interest bearing liabilities	USD	1,944	9,969
	EUR	4,080	18,236
	GBP	441	801
	CAD	234	2,062
	JPY	-	148
	Total	6,699	31,216

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.

5 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

c Market risk (continued)

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:

	June 2019		June 2018	
Financial assets	$'000	Effective Interest Rate %	$'000	Effective Interest Rate %
Cash and cash equivalents	**204,105**	**1.33 %**	315,427	1.34 %
Trade and other receivables	**130,251**	**0.00 %**	111,824	0.00 %
Total **Financial assets**	**334,356**		427,251	
Financial liabilities				
Trade and other payables	**87,691**	**0.00 %**	85,972	0.00 %
Interest-bearing liabilities	**65,788**	**0.87 %**	90,770	0.79 %
Non interest-bearing liabilities	**3**	**5.50 %**	3	5.50 %
Total **Financial liabilities**	**153,482**		176,745	

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 2019, 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 2019 has been performed on the same basis as 30 June 2018. The main interest rate risk arises from cash receivables and loans and other receivables with variable interest rates.

Movements in interest rates result in higher/lower interest income from cash and cash equivalents.

Summarised sensitivity analysis

		Interest rate risk			
		-0.75%		+0.75%	
At 30 June 2019	**Carrying amount $'000**	**Profit $'000**	**Other equity $'000**	**Profit $'000**	**Other equity $'000**
Financial assets					
Cash and cash equivalents	204,105	**(1,531)**	**-**	**1,531**	-
Trade and other receivables	130,251	**(1)**	**-**	**1**	-
Financial liabilities					
Trade and other payables	(87,691)	**-**	**-**	**-**	-
Interest bearing liabilities	(65,788)	**-**	**-**	**-**	-
Total increase / (decrease)		**(1,532)**		**1,532**	-

5 FINANCIAL AND CAPITAL RISK MANAGEMENT (CONTINUED)

c Market risk (continued)

		Interest rate risk			
		-0.75%		+0.75%	
At 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)	**-**	**-**	**-**	-
Interest bearing liabilities	(90,770)	**(465)**	**-**	**465**	-
Non-interest bearing liabilities	(3)	**-**	**-**	**-**	-
Total increase / (decrease)		**(2,833)**	**-**	**2,833**	-

Capital risk management

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

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

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

	June 2019 $'000	June 2018 $'000
Revenue from rendering of services by contract type		
Target cost estimate contract	**305,671**	325,865
Cost reimbursable contract	**228,089**	271,426
Fixed price contract	**35,794**	2,681
Survey and quote contract	**27,407**	22,183
Services contract	**134,707**	133,311
	731,668	755,466
Interest income		
Other parties	**3,629**	4,717
Other income		
Related parties	**7,713**	4,869
	743,010	765,052

	June 2019 $'000	June 2018 $'000
Revenue from rendering of services by timing of revenue recognition		
Over time	**616,779**	638,852
At a point in time	**114,889**	116,614
	731,668	755,466

6 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

	June 2019 $'000	June 2018 $'000
Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period.		
Target cost estimate contract	315	-
Cost reimbursable contract	879	-
	1,194	-

7 OTHER INCOME AND EXPENSE ITEMS

Items included in profit before tax

	June 2019 $'000	June 2018 $'000
Depreciation		
Buildings	166	78
Plant and equipment	13,886	8,492
	14,052	8,570
Amortisation		
Contribution to Henderson Common User Facility	244	244
Total depreciation and amortisation	14,296	8,814
Finance costs		
Bank charges	305	343
Interest expense	546	802
	851	1,145
Operating lease rental expense		
Minimum lease payments	33,321	32,328
Employee related expenses		
Long service leave expense	2,456	4,315
Redundancy expense	945	467
Defined benefit superannuation expense	(389)	(182)
Wages and salaries	176,941	302,989
	179,953	307,589
(Release) recognition on AWD project	(11,567)	(2,205)
Revaluation of assets	-	(107)
Bad debt expense (reversal)	877	(1,588)

8 INCOME TAX EXPENSE

a Income tax expense

	June 2019 $'000	June 2018 $'000
Recognised in the income statement		
Current tax expense		
Current year	**10,724**	13,123
Adjustments for prior years	**(91)**	-
Total current tax expense	**10,633**	13,123
Deferred income tax		
Temporary differences arising during the year, net of reversal	**2,224**	605
Total deferred tax expense / (benefit)	**2,224**	**605**
Income tax expense	**12,857**	13,728
Income tax expense is attributable to:		
Profit from continuing operations	**12,857**	13,728

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

	June 2019 $'000	June 2018 $'000
Profit from continuing operations before income tax expense	**43,129**	45,724
Tax at the Australian tax rate of 30.0% (2018 - 30.0%)	**12,939**	13,717
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Research and development tax incentive	**(91)**	-
Non deductible expenses	**9**	11
Income tax expense	**12,857**	13,728

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.

	June 2019 $'000	June 2018 $'000
Net deferred tax	**(75)**	9

9 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

a Cash and cash equivalents

	June 2019 $'000	June 2018 $'000
Current assets		
Cash at bank and on hand	**125,578**	183,287
Other cash and cash equivalents	**78,527**	132,140
	204,105	315,427

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

Included in cash in operating accounts are amounts advanced to the Company and to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the consolidated entity, by the Commonwealth of Australia (CoA) for the purposes of funding the working capital requirements of the ISSC and AWD projects respectively. The amounts advanced have certain contractual restrictions placed on the use of these funds. The funds maintained may only be applied to direct project expenditure incurred and claims for reimbursement from the CoA. The amount that exceeds the value of the direct project expenditure incurred and unbilled as at balance date is defined as restricted cash. At 30 June 2019, the balance of restricted cash was nil (2018: $62 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:

	June 2019 $'000	June 2018 $'000
Balances as above	**204,105**	315,427

b Trade and other receivables

	June 2019 $'000	June 2018 $'000
Current		
Trade receivables		
Trade receivables	**132,084**	112,677
Provision for doubtful debts	**(2,251)**	(1,374)
	129,833	111,303
Other receivables		
Other receivables	**323**	275
Interest receivable	**95**	246
	418	521
	130,251	111,824

9 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

b Trade and other receivables (continued)

Amounts recognised in profit or loss

The write-downs of receivables to net realisable value recognised during the year ended 30 June 2019 amounted to $0.9 million (2018: $1.6 million reversal of write down).

	June 2019 $'000	June 2018 $'000
Accounts Receivable Ageing Profile		
Trade receivables		
Not past due	**129,037**	111,912
Past due 1-30 days	**-**	77
Past due 31-60 days	**1,126**	136
Past due 61-90 days	**-**	(308)
Past due 90+ days	**88**	7
	130,251	111,824

c Trade and other payables

	June 2019 $'000	June 2018 $'000
Current liabilities		
Trade payables	**14,858**	18,682
Other payables	**72,833**	67,290
	87,691	85,972

d Borrowings

Interest Bearing Liabilities

	June 2019 $'000	June 2018 $'000
Current		
Unsecured Government advance	**65,788**	90,770

Government advance

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

ISSC advance

At 30 June 2019, the balance is $32 million (June 2018: nil). The advance paid by the CoA is in Australian dollars.

The advance is part of the ASC North Tripartite agreement between CASG, 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.

9 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

d Borrowings (continued)

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

ABTIA advance
At 30 June 2019, the balance is $33.8 million (June 2018: $90.8 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.

Non interest bearing liabilities	**June 2019 $'000**	June 2018 $'000
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 $3,200 in total for the year ended 30 June 2019 (2018: $3,000) under AASB 139 *Financial Instruments: Recognition and Measurement*.

10 NON-FINANCIAL ASSETS AND LIABILITIES

a Deferred tax balances

Net position as presented in the statement of financial position

	June 2019 $'000	June 2018 $'000
Net deferred tax		
Deferred tax asset	**15,951**	18,223
Deferred tax liability	**(1,140)**	(1,165)
	14,811	17,058

(i) Deferred tax assets

	June 2019 $'000	June 2018 $'000
The balance comprises temporary differences attributable to:		
Employee benefits	**11,953**	11,392
Property, plant and equipment	**1,267**	1,400
Project recognised profit	**1,601**	4,233
Sundry items	**1,130**	1,198
	15,951	18,223

Movements	**Property plant & equipment $'000**	**Employee Benefits $'000**	**Project recognised profit $'000**	**Sundry items $'000**	**Total $'000**
At 1 July 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
(Charged)/credited - to profit or loss	(133)	**561**	**(2,632)**	**(68)**	(2,272)
At 30 June 2019	1,267	**11,953**	**1,601**	**1,130**	15,951

(ii) Deferred tax liabilities

	June 2019 $'000	June 2018 $'000
The balance comprises temporary differences attributable to:		
Net pension assets	**228**	233
Sundry items	**912**	932
	1,140	1,165

10 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

a Deferred tax balances (continued)

	Net pension asset $'000	Sundry items $'000	Total $'000
Movements			
At 1 July 2017	122	1,038	1,160
(Charged)/credited - to profit or loss	111	(106)	5
At 30 June 2018	233	932	1,165
(Charged)/credited - to profit or loss	(5)	(20)	(25)
At 30 June 2019	**228**	**912**	**1,140**

(iii) Net Deferred tax

	June 2019 $'000	June 2018 $'000
The net balance comprises temporary differences attributable to:		
Employee benefits	**11,953**	11,392
Project recognised profit	**1,601**	4,233
Property, plant and equipment	**1,267**	1,400
Net pension asset	**(228)**	(233)
Sundry items	**218**	266
	14,811	17,058

b Inventories

	June 2019 $'000	June 2018 $'000
Current assets		
Raw materials and stores (at lower of cost or net realisable value)	**112**	287

Amounts recognised in profit or loss

Reversal of write-downs of inventories to net realisable value recognised during the year ended 30 June 2019 amounted to $0.6 million (2018: $0.5 million write down).

10 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

c Property, plant and equipment

	June 2019 $'000	June 2018 $'000
Plant and equipment		
Gross value	**133,471**	127,530
Accumulated depreciation	**(101,730)**	(87,295)
	31,741	40,235
Asset under construction	**1,663**	2,937
Assets under construction	**1,663**	2,937
Total property, plant and equipment	**33,404**	43,172

	Plant & equipment $'000	Assets under construction $'000	Total $'000
Year ended 30 June 2019			
Opening net book amount	40,235	2,937	43,172
Additions	-	4,325	4,325
Transfers	5,958	(5,599)	359
Depreciation charge	(14,052)	-	(14,052)
Disposals	(400)	-	(400)
Closing net book amount	31,741	1,663	33,404

	Plant & equipment $'000	Assets under construction $'000	Total $'000
Year ended 30 June 2018			
Opening net book amount	42,838	14,730	57,568
Additions	-	7,408	7,408
Transfers	5,891	(6,301)	(410)
Depreciation charge	(8,567)	-	(8,567)
Impairment loss	107	-	107
Disposals	(34)	(12,900)	(12,934)
Closing net book amount	40,235	2,937	43,172

(i) Non-current assets pledged as security

Refer to note 16 for information on non-current assets pledged as security by the Group.

10 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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.

	June 2019 $'000	June 2018 $'000
Unpaid share capital		
Current	**11,000**	11,000
Non current	**21,671**	31,668
	32,671	42,668

e Contract assets and liabilities

The Group has recognised the following assets and liabilities related to contract with customers

	June 2019 $'000	June 2018 $'000
Contract assets		
Collins Class Submarines	**8,718**	-
Maritime Services Group	**1,118**	-
	9,836	-

The balance of contract assets represents amounts to be billed subsequent to revenue recognition. These amounts are billed as work in progress in accordance with agreed upon contractual terms at periodic intervals or upon achievement of contractual milestones.

	June 2019 $'000	June 2018 $'000
Contract liabilities		
Collins Class Submarines	**51,932**	41,815
Maritime Services Group	**48,418**	114,372
	100,350	156,187

The balance of contract liabilities represent advances received, progress billings received in advance of the performance of contract activities and labour over recoveries.

10 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

f Unsatisfied long term contracts

The following table shows unsatisfied performance obligations resulting from the following contracts

	June 2019 **$'000**	June 2018 $'000
Aggregate amount of transaction price that are partially or fully unsatisfied as at 30 June.		
Collins Class Submarines	**519,481**	-
Maritime Services Group	**198,219**	-
	717,700	-

Management expects that 76% of the transaction price allocated to the unsatisfied contracts as at 30 June 2019 will be recognised as revenue during the next reporting period with the remaining 24% will be recognised beyond that.

g 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.

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 2019 was carried out by David O'Keefe, Fellow of the Institute of Actuaries of Australia, of ALEA Actuarial Consulting Pty Limited in June 2019.

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.

10 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

g Employee benefit obligations (continued)

Statement of financial position amount

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

	Present value of obligation $'000	Fair value of plan assets $'000	Net amount $'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**
1 July 2018	**(5,752)**	**6,372**	**620**
Current service cost	(130)	-	(130)
Interest expense/(income)	(119)	-	(119)
Expected return on plan assets	-	200	200
Total amount recognised in profit or loss	(249)	200	(49)
Remeasurements			
(Gain)/loss from change in financial assumptions	(336)	-	(336)
Experience (gains)/losses	(28)	115	87
Total amount recognised in other comprehensive income	(364)	115	(249)
Contributions:			
Employers	-	438	438
Payments from plan:			
Benefit payments	1,024	(1,024)	-
30 June 2019	**(5,341)**	**6,101**	**760**

Contributions by the Company and its controlled entities to the defined benefits plan are based on 11% of all defined members' salaries for the year ended 30 June 2019. Actuarial assessments are made at no more than three yearly intervals. The last such full assessment was made as at 22 November 2018 and the next triennial review will be on 1 July 2021.

10 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

g Employee benefit obligations (continued)

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:

	2019 Australia %	2018 Australia %
Discount rate	**2.1 %**	3.3 %
Salary growth rate	**4.0 %**	4.0 %

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

	Change in assumption		Impact on defined benefit obligation: Increase in assumption		Decrease in assumption	
	2019	2018	**2019**	2018	**2019**	2018
Discount rate	**+ (-) 0.5**	+ (-) 0.5	**5,182,000**	5,624,000	**5,514,000**	**5,907,000**
Future salary increase	**+ (-) 0.5**	+ (-) 0.5	**5,509,000**	5,905,000	**5,185,000**	**5,624,000**

Balance sheet amounts
The major categories of plan assets are as follows:

	30 June 2019				30 June 2018			
	Quoted $'000	**Unquoted $'000**	**Total $'000**	**In %**	Quoted $'000	Unquoted $'000	Total $'000	**In %**
Equity instruments	**2,654**	-	**2,654**	**43.5**	2,695	-	2,695	42.3
Debt instruments	**2,196**	**-**	**2,196**	**36.0**	2,383	-	2,383	37.4
Property	**390**	-	**390**	**6.4**	261	-	261	4.1
Other securities	**861**	-	**861**	**14.1**	1,033	-	1,033	16.2
Total	**6,101**	-	**6,101**	**100.0**	6,372	-	6,372	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:

10 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

g Employee benefit obligations (continued)

Asset volatility	The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets under perform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long term while providing volatility and risk in the long term. To reduce the volatility within the investment strategy supporting the defined benefit assets, a 50/50 asset allocation (50% growth and 50% defensive assets) in the fund assets was introduced in 2015. KMPG's modelling indicated an investment return of 6-7% 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 (2018: 6 years). The expected maturity analysis of discounted defined benefit obligations is as follows:

	< 1 year $'000	**1– 2 years $'000**	**2– 5 years $'000**	**Over 5 years $'000**	**Total $'000**
30 June 2019					
Defined benefit obligation	-	4,028	470	**626**	**5,124**
30 June 2018					
Defined benefit obligation	-	4,735	**537**	**721**	**5,993**

(v) Amounts recognised in profit or loss

The amounts recognised in profit or loss are as follows:

	June 2019 $'000	June 2018 $'000
Current service cost	**130**	103
Interest cost	**119**	170
Expected return on plan assets	**(200)**	(211)
Total included in employee benefits expense	**49**	62
Actual return on plan assets	**315**	206
(vi) Amounts recognised in other comprehensive income		
Actuarial (loss)/gain recognised in the year	**(249)**	31
Cumulative actuarial (losses) recognised in other comprehensive income	**(3,328)**	(3,079)

10 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

h Provisions

	June 2019			June 2018		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Employee benefits	**34,581**	4,846	**39,427**	46,969	13,723	60,692
Terminations	-	-	-	136	-	136
Self insured workers compensation	**1,676**	1,754	**3,430**	2,646	7,444	10,090
Total	**36,257**	6,600	**42,857**	49,751	21,167	70,918

(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.

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.

The workers compensation provision of ASC Shipbuilding was transferred to Return to Work SA upon separation of ASC Shipbuilding from the ASC Group.

(ii) Movements in provisions

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

	Termination $'000	Self insured workers comp. $'000	Total $'000
2019			
Carrying amount at start of year	**136**	10,090	10,226
Provision made during the year	**-**	898	898
Provision used during the year	**(136)**	(1,992)	(2,128)
Liability transfer to Return to Work SA	**-**	(5,566)	(5,566)
Carrying amount at end of year	**-**	3,430	3,430
2018			
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

10 NON-FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

h Provisions (continued)

The current portion for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

$34.6 million (2018: $47.0 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.

	June 2019 $'000	June 2018 $'000
Current leave obligations expected to be settled after 12 months	**25,348**	36,698

i 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.

11 OTHER CURRENT ASSETS

	June 2019 $'000	June 2018 $'000
Current assets		
Prepayments	**3,859**	5,513

12 OTHER NON-CURRENT ASSETS

	June 2019 $'000	June 2018 $'000
h Non-current assets		
Contribution to the Henderson Common User Facility	**2,561**	2,805

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.

13 EQUITY

a Share capital

(i) Movements in ordinary shares:

Details	Number of shares (thousands)	$'000
Opening balance 1 July 2017	65,000	62,936
Unwinding of discount on shares issued	-	732
Balance 30 June 2018	65,000	63,668
Opening balance 1 July 2018	65,000	63,668
Discount on shares issued	-	1,003
Balance 30 June 2019	65,000	64,671

(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.

b Retained earnings

Movements in retained earnings were as follows:

	Notes	June 2019 $'000	June 2018 $'000
Balance 1 July		**66,883**	50,865
Opening balance adjustment due to application of AASB 15		**150**	-
Net profit for the period		**30,272**	31,996
Items of other comprehensive income recognised directly in retained earnings			
Remeasurements of retirement benefit obligation, net of tax	10(g)	**(174)**	22
In specie dividend / separation adjustment		**(514)**	-
Dividends		**(27,000)**	(16,000)
Balance 30 June		**69,617**	66,883

13 EQUITY

c Dividends

	June 2019 $'000	June 2018 $'000
Final dividend for the year ended 30 June 2018 of 141 cents (2017: 109 cents) per fully paid share paid on 30 October 2018	**14,100**	10,900
Special dividend	**500**	-
Interim dividend for the year ended 30 June 2019 of 124 cents (2018: 51 cents) per fully paid share paid on 29 April 2019	**12,400**	5,100
Total unfranked dividends	**27,000**	16,000

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

Dividend franking account

	June 2019 $'000	June 2018 $'000
Class C (30%) franking credits	**180,426**	166,212

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; and
- 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.

14 COMMITMENTS

a Capital expenditure commitments

	June 2019 $'000	June 2018 $'000
Property, plant and equipment	**864**	810

14 COMMITMENTS (CONTINUED)

b Non-cancellable operating leases

	June 2019 $'000	June 2018 $'000
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:		
Within one year	**14,605**	15,644
Later than one year but not later than five years	**39,213**	44,605
Later than five years	**59,865**	66,277
	113,683	126,526

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

Operating leases includes charges from Australian Naval Infrastructure Pty Ltd (ANI) for the use of critical infrastructure assets at the ASC North site at the Osborne Naval Shipyard. The contractual arrangement with ANI is for an indeterminate period and no amounts with respect to charges from ANI have been included in operating lease commitments above.

ASC occupies the ASC South site at the Osborne Naval Shipyard under a Facilities Management Agreement which expires in December 2019. Operating lease commitments with respect to the Facilities Management Agreement are included in the note 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.

15 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, a bank guarantee in favour of the Department of Defence for the purpose of a performance security deed for the Training School contract, a bank guarantee in favour of Luerssen Australia Pty Ltd for the mobilisation of the construction of the Offshore Patrol Vessels, a bank guarantee in favour of Westim Pty Ltd for the warehouse lease and a bank guarantee in favour of Defence Projects Pty Ltd for the AWD Systems Centre lease. The total value of the bank guarantees arranged by the consolidated entity is $9.2m (2018: $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 2019 and 30 June 2018 is immaterial.

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.

16 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.

	June 2019 $'000	June 2018 $'000
Current		
Trade receivables	**39,511**	28,499
Other receivables	**289**	13
Total current assets pledged as security	**39,800**	28,512
Non-current		
Plant and equipment	**16,207**	16,801
Total assets pledged as security	**56,007**	45,313

17 ECONOMIC DEPENDENCY

The normal trading activities of the consolidated entity mainly 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.

18 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.

19 RELATED PARTY TRANSACTIONS

a Key management personnel compensation

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

	June 2019 $'000	June 2018 $'000
Short-term employee benefits	**3,814,631**	6,927,672
Post-employment benefits	**251,353**	235,562
Other long term benefits	**62,062**	76,369
	4,128,046	7,239,603

19 RELATED PARTY TRANSACTIONS (CONTINUED)

a Key management personnel compensation (continued)

There were 14 key management personnel for the year (2018: 14). Prior year's compensation was restated to include the compensation of directors.

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 20(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

Geoffrey Roland Rohrsheim was appointed a director on 15 March 2019.

i 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 $683,947,000 (2018: $698,397,000).

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.

19 RELATED PARTY TRANSACTIONS (CONTINUED)

h Balances with shareholders

	June 2019 $'000	June 2018 $'000
The aggregate amounts payable to the shareholders in relation to these transactions are:	**-**	-
The aggregate amounts receivable to the shareholders in relation to these transactions are:	**159,815**	145,677

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

Government Advance

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**					

JUNE 2019	AUD	USD	GBP	CAD	EUR	JPY
Beginning of the year	59,553,483	7,368,103	451,286	2,015,093	11,569,081	12,078,961
Advances received	64,000,000					
Advances repaid	(65,003,739)	(6,004,955)	(207,191)	(1,800,000)	(9,051,311)	(12,078,961)
Interest charged	(6,693)					
Interest received	546,253					
End of year (source currency)	59,089,304	1,363,148	244,095	215,093	2,517,770	
End of year (AUD equivalent)	59,089,304	1,943,745	441,002	234,124	4,080,004	
Total (AUD equivalent)	**65,788,179**					

20 INTERESTS IN OTHER ENTITIES

a Material subsidiaries

The Company's principal subsidiaries at 30 June 2019 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 2019 %	Ownership interest held by the group 2018 %	Principal activities
ASC AWD Shipbuilder Pty Ltd	Australia	**100.0**	100.0	Part of the alliance executing the AWD program
ASC OPV Shipbuilder Pty Ltd	Australia	**100.0**	-	Construction of the two Offshore Patrol Vessels
ASC Shipbuilding Pty Limited	Australia	**-**	100.0	Employs labour for the AWD and OPV Programs
ASC Modules Pty Ltd	Australia	**100.0**	100.0	Dormant
Deep Blue Tech Pty Ltd	Australia	**100.0**	100.0	Dormant

All subsidiaries have reporting dates of 30 June.

ASC Shipbuilding Pty Limited was separated from the ASC Group on 13 December 2018 and ASC OPV Shipbuilder Pty Ltd was established on 10 August 2018.

21 PARENT ENTITY FINANCIAL INFORMATION

a Summary financial information

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

	June 2019 $'000	June 2018 $'000
Balance sheet		
Current assets	**228,305**	272,440
Non-current assets	**88,104**	109,230
Current liabilities	**159,905**	202,014
Non-current liabilities	**6,603**	8,780
Shareholders' equity		
Issued capital	**64,671**	63,668
Retained earnings	**85,230**	107,207
Net assets / total equity	**149,901**	170,875

21 PARENT ENTITY FINANCIAL INFORMATION (CONTINUED)

a Summary financial information (continued)

Profit or loss for the year	**19,892**	36,024
Other comprehensive income	**(174)**	22
Total comprehensive income	**19,718**	36,046

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, a bank guarantee in favour of the Department of Defence for the purpose of a performance security deed for the Training School contract, a bank guarantee in favour of Luerssen Australia Pty Ltd for the mobilisation of the construction of the Offshore Patrol Vessels and a bank guarantee in favour of Westim Pty Ltd for the warehouse lease. The total value of the bank guarantee arranged by the parent company is $6,568,000 (2018: $7,763,000).

In addition to the above, the parent entity has provided $2,634,000 bank guarantees (2018: $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 2019 and 30 June 2018 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 OPV Shipbuilder Pty Ltd
- 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 2019 or 30 June 2018.
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 2019, the parent entity had contractual commitments for the acquisition of property, plant and equipment totalling $864,337 (30 June 2018: $809,849). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

22 CASH FLOW INFORMATION

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

	Jun 2019 $'000	June 2018 $'000
Profit for the year	**30,272**	31,996
Adjustment for		
Depreciation and amortisation	**14,296**	8,814
Net foreign exchange differences	**-**	1,516
Pension costs	**(389)**	(182)
Income tax expense	**12,857**	13,728
Income tax paid	**(14,283)**	(18,049)
Revaluation of plant and equipment	**-**	(107)
Interest received	**(3,629)**	(4,718)
Interest expense	**546**	802
Doubtful debt expense	**877**	(1,587)
(Profit)/loss on disposal of fixed assets	**72**	31
Change in operating assets and liabilities:		
(Increase)/decrease in trade debtors	**(19,907)**	29,136
(Increase)/decrease in inventories	**175**	789
(Decrease)/increase in trade creditors	**6,665**	(30,394)
(Decrease)/increase in other provisions	**(7,216)**	4,679
(Increase)/decrease in prepayments	**1,665**	(266)
(Decrease)/increase in contract liabilities	**(56,515)**	6,194
(Increase)/decrease in contract assets	**(9,541)**	-
Net cash inflow (outflow) from operating activities	**(44,055)**	42,382

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
Balance 1 July 2017	120,480	3	120,483
Net financing cash flows [1]	(31,237)	-	(31,237)
Non-cash changes			
Effect of changes in exchange rates	1,527	-	1,527
Other	-	-	-
Balance 20 June 2018	90,770	3	90,773
Balance 1 July 2018	90,770	3	90,773
Net financing cash flows	(26,305)	-	(26,305)
Non-cash changes			
Effect of changes in exchange rates	1,323	-	1,323
Other	-	-	-
Balance 20 June 2019	65,788	3	65,791

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

23 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	**2019**	2018
	$	$
Audit and other assurance services		
Audit and review of financial statements	**446,093**	352,200
Total remuneration for audit and other assurance services	**446,093**	352,200

The Australian National Audit Office (ANAO) has contracted PwC to provide audit related services on the ANAO's behalf.

(ii) Other services provided by the auditor (ANAO)	**June 2019**	June 2018
	$	$
Agreed upon procedures - remuneration report	**17,067**	16,700

(iii) Other services provided by PwC	**June 2019**	June 2018
	$	$
Agreed upon procedures - tax compliance and consulting services to expatriate employees	**106,992**	87,438

ACRONYMNS

AASB	Australian Accounting Standards Board
ABTIA	Alliance Based Target Incentive Agreement
ADF	Australian Defence Force
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
CIPS	Charted Institute of Procurement and Supply
CUF	Common User Facility
DoF	Department of Finance
DoD	Department of Defence
DMO	Defence Material Organisation
EMS	Environmental Management System
FCD	Full-Cycle Docking
FSM	Future Submarine
FSTO	Future Submarines Technical Office
GoSA	Government of South Australia
GST	Goods and Services Tax
IASB	International Accounting Standards Board
ID	Intermediate Dockings
IFRS	International Financial Reporting Standards
IMP	Intermediate Maintenance Period
ISSC	In Service Support Contract
KMP	Key Management Personnel
LTIFR	Lost Time Injury Frequency Rate
LoTE	Life of Type Extension
LTI	Lost Time Injury
MCD	Mid-Cycle Docking
MRD	Material Ready Day
MSG	Maritime Service Group
MST	Maintenance Support Tower
MTI	Medically Treated Injury
MTIFR	Medically Treated Injury Frequency Rate
OPV	Offshore Patrol Vessel
PGPA	Public Governance, Performance and Accountability Act
RAN	Royal Australian Navy
SEB	Submarine Enterprise Board
STEM	Science Technology Engineering Mathematics
STI	Short Term Incentive
STSC	Submarine training and Systems Centre
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
Geoff Rohrsheim

Company Secretary
Ashley Menadue

Auditors
ANAO and PricewaterhouseCoopers
(as agent for ANAO)

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Westpac Banking Corporation

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