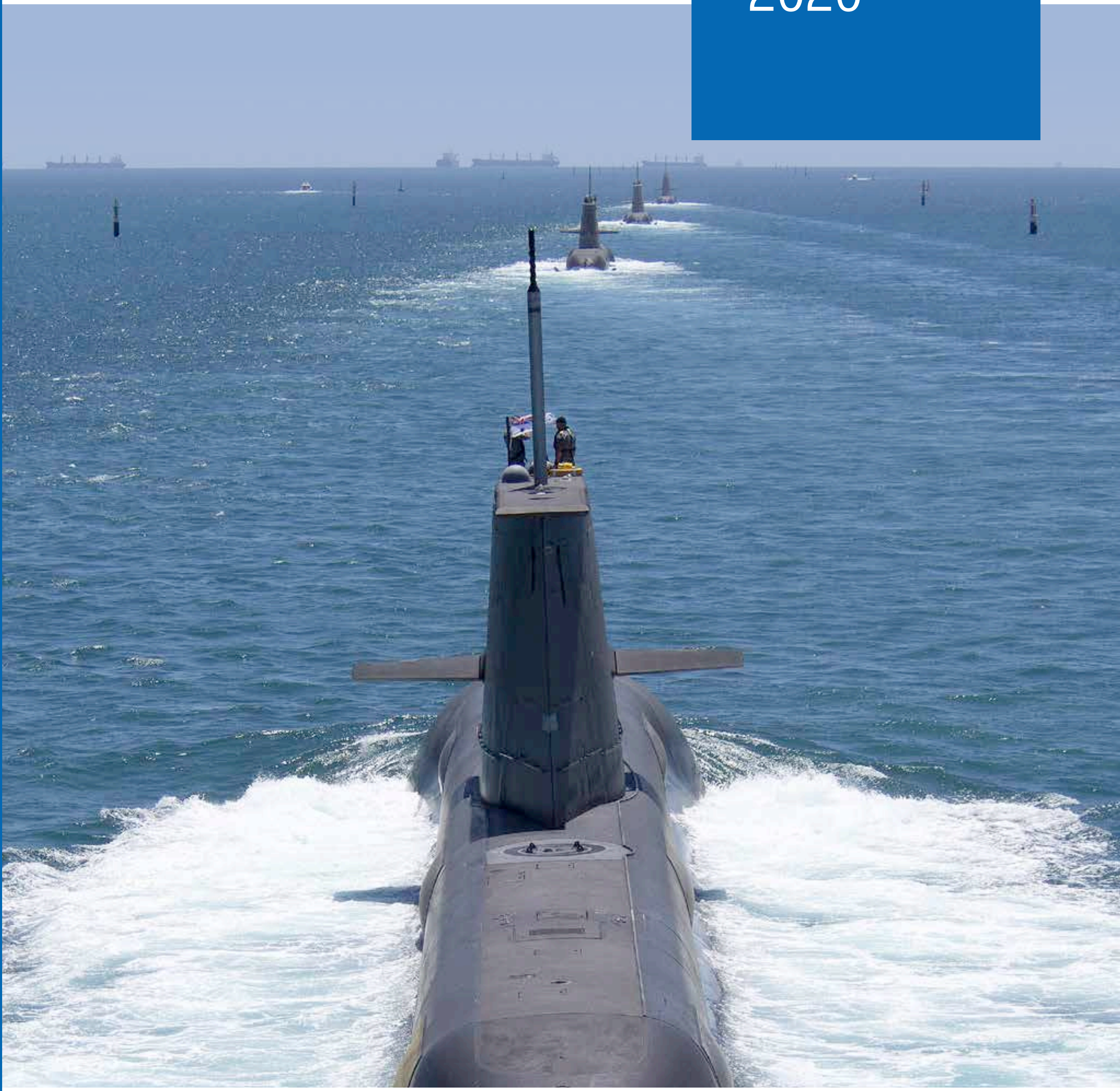
# Annual Report
2020



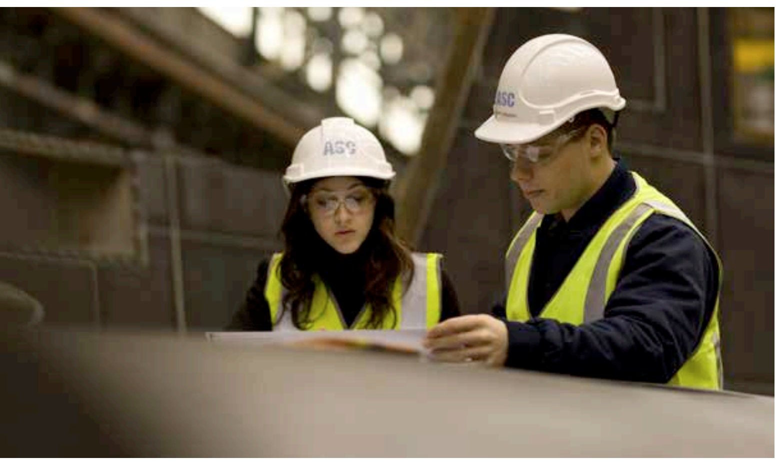
# Contents

## The Company



## Review of Operations





## Governance and Financials

# Transmittal Letter

ASC Pty Ltd
ABN 64 008 605 034
GPO Box 2472, Adelaide
South Australia 5001
ASC North
694 Mersey Road North, Osborne
South Australia 5017
T + 61 8 8348 7000
F + 61 8 8348 7001
ASC South
640 Mersey Road North, Osborne
South Australia 5017
T + 61 8 7423 4000
F + 61 8 7423 4090
www.asc.com.au

30 September 2020

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

Dear Minister,

**ASC Pty Ltd 2020 Annual Report**

I am pleased to submit the 2020 Annual Report of ASC Pty Ltd, which has been prepared in accordance with the *Public Governance Performance and Accountability Act 2013* and approved by the Board of ASC.

The 2020 Annual Report includes the financial statements for the company for the year ending 30 June 2020 and reports upon ASC's performance and progress.

This financial year, ASC continued to exceed its international benchmark performance for the Collins Class submarine (CCSM) program, ensuring submarine availability for the Royal Australian Navy (RAN).

ASC completed the two-year Full Cycle Docking (FCD) of HMAS *Waller* and commenced the FCD of HMAS *Dechaineux* at ASC North in South Australia. In Western Australia, ASC West completed the 12-month Mid Cycle Docking of HMAS *Rankin* and the 6-month Intermediate Docking of HMAS *Sheean*.

The delivery of the third and final Air Warfare Destroyer (AWD) HMAS *Sydney* to the RAN in early 2020, demonstrated that Australia has the shipbuilding capability to supply world-leading platforms at increasing productive levels. The handover of HMAS *Sydney* marked the end of the AWD program.

The Offshore Patrol Vessel (OPV) program continues to progress, with the two half-ship mega blocks of the first vessel, *Arafura*, joined during the largest block manoeuvre ever completed at the Osborne Naval Shipyard. Construction of the second OPV, *Eyre* commenced with the significant keel laying ceremony in April 2020.

ASC also achieved a profit after tax of $22.6 million.

We remain steadfast in managing the risks of the global COVID-19 pandemic to ensure the continued health and safety of our employees, while consistently delivering on our project milestones. Our ability to continue the CCSM sustainment program in these extraordinary times is a further illustration of the resilience and dedication of the ASC workforce.

I am grateful of your endorsement of ASC's 2020 Annual Report and its tabling in Parliament.

Yours sincerely,

BRUCE CARTER
Chairman

# Company Profile

*ASC has proudly served the frontline of Australia's naval defence capability for 35 years.*

Over the last 35 years, ASC has proudly served the frontline of Australia's naval defence capability as the nation's only sovereign-owned submarine and naval shipbuilding company.

ASC Pty Ltd is a proprietary limited company registered under the *Corporations Act 2001*. ASC is owned by the Australian Government and represented by the Minister for Finance, (Senator the Hon. Mathias Cormann).

Established in 1985 at Osborne, South Australia (SA), ASC was chosen in 1987 as the prime contractor for the design, manufacture and delivery of Australia's first locally designed and manufactured submarine.

ASC has provided training services to the Royal Australian Navy (RAN) through the Submarine Training and Systems Centre at HMAS *Stirling* in Western Australia (WA) since 1992.

At the conclusion of the six Collins Class submarine (CCSM) build program in 2003, ASC was awarded the contract for through-life support, maintenance and design upgrades of the submarines.

In 2004, ASC changed its name and corporate identity from 'Australian Submarine Corporation' to ASC Pty Ltd, to better reflect its shipbuilding endeavours and its future business. In 2005, following a competitive tender, the Australian Government selected ASC as the shipbuilder for the Hobart Class Air Warfare Destroyer (AWD) Program as part of the AWD Alliance.

The first AWD, HMAS *Hobart*, was delivered in 2017, providing the RAN with its most advanced and complex warship.

The second, HMAS *Brisbane*, was delivered in 2018 and the third, HMAS *Sydney*, in March 2020.

HMAS *Sydney* is fitted with additional modifications to accommodate the MH-60R Romeo helicopter and 'close-in' weapons systems, making it Australia's most lethal warship.

The delivery of the third AWD in 2020 marked the end of yet another successful Australian shipbuilding program.

In 2017, ASC Shipbuilding was awarded the role of SA Shipbuilder for the Arafura Class Offshore Patrol Vessels (OPVs). ASC entered into a contract with prime contractor and designer, Luerssen Australia, for the construction of the first two vessels, *Arafura* and *Eyre*.

In June 2018, ASC Shipbuilding was announced as the shipbuilder for the Hunter Class Frigates following a competitive tender process. The structural separation of ASC Shipbuilding from ASC Pty Ltd occurred in December 2018, with ASC Shipbuilding becoming a subsidiary of BAE Systems Australia.

In the same year, ASC became the first Australian defence company to achieve asset management certification under global standard ISO 55001, which represents international best practice for the management of complex physical assets.

ASC's 1,300-strong workforce is based across two states, at ASC North in Osborne, SA and at ASC West, in Henderson and Garden Island, in WA. More recently, up to 30 ASC submarine platform experts were seconded to the Australian Government's Future Submarine Technical Office (FSTO).


## 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.

- Safety
- Service
- Leadership
- Integrity
- Results
- Innovation

# Financial Highlights

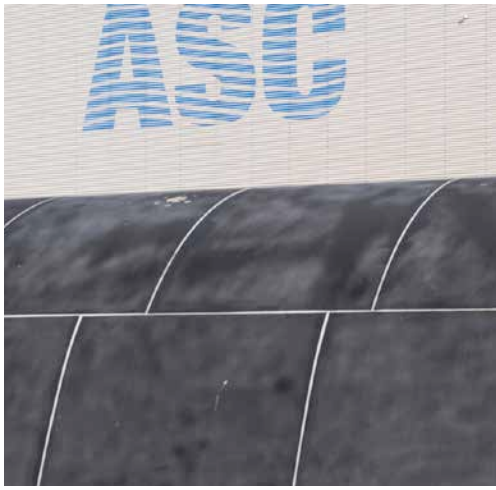
Two-year performance at a glance.

Table 1 ASC Financial Highlights

| | 2019/20 $m | 2018/19 $m |
|---|---|---|
| Revenue from rendering of services | 670.1 | 731.7 |
| Interest income | 1.8 | 3.6 |
| Other income and other revenue | 4.1 | 7.7 |
| Total revenue and other income | 675.9 | 743.0 |
| | | |
| EBITDA | 63.0 | 54.3 |
| Depreciation and amortisation | (27.0) | (14.3) |
| EBIT | 36.0 | 40.0 |
| Interest expense | (5.5) | (0.5) |
| Tax expense | (9.7) | (12.9) |
| Operating profit before tax | 32.2 | 43.1 |
| Operating profit after tax | 22.6 | 30.3 |
| | | |
| EBIT/total revenue and other income (%) | 5.3% | 5.4% |
| Shareholder's equity | 146.3 | 134.3 |
| Return on equity (%) | 15.4% | 22.5% |
| Dividend paid | 10.6 | 27.0 |
| **Total assets** | **532.1** | **432.4** |

# Chairman's Report

*ASC's performance has continued to exceed international benchmarks in submarine availability and reliability.*




*Bruce Carter, Chairman*

On behalf of the Board of ASC Pty Ltd, I am pleased to present the company's 2020 Annual Report.

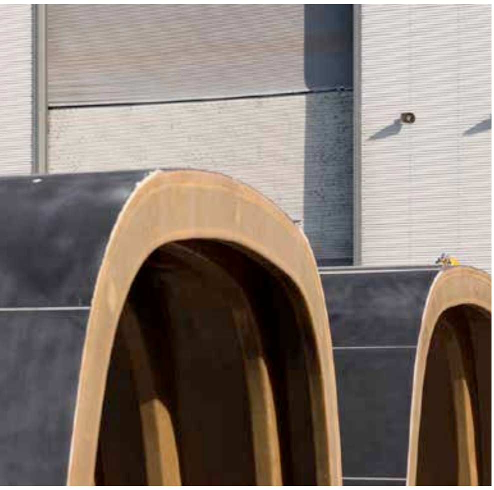
This year ASC's CCSM performance has continued to exceed international benchmarks in submarine availability and reliability.

In a proud milestone for the AWD Alliance, the third and final AWD, HMAS *Sydney*, was delivered by the Alliance Partners to the RAN in early 2020, marking the end of the three-ship build. This program demonstrated that sovereign Australian shipbuilding can deliver world-leading warship platforms at increasing productivity levels.

The three AWDs are the RAN's most complex and potent warships and will be critical for force protection and naval power projection in the Indo-Pacific for decades to come.

The OPV Program continues to meet project milestones, with ASC subcontracted to Luerssen Australia to deliver the first two ships, *Arafura* and *Eyre*, by 2022.

The resilience of the ASC workforce was demonstrated in early 2020, with the emergence of the COVID-19 global pandemic.



Like many Australian businesses, ASC will continue to manage the impact of COVID-19 and take actions to reduce the risk of disruption to submarine availability.

The appropriate policies and procedures have been instituted in our corporate and shipyard environments to ensure workers are protected from this risk and able to carry out their roles effectively. This is reflected in ASC's uninterrupted schedule for the CCSM and OPV Programs during the period.

In 2019/20, ASC recorded an after tax profit of $22.6 million, compared to $30.3 million in 2018/19 and annual revenue and other income of $675.9 million, compared to $743.0 million in 2018/19.

ASC's unique capabilities largely reside in the skills and experience of its people and on behalf of the ASC Board, I would like to acknowledge and congratulate the men and women who make up ASC's 1,300-strong workforce across SA and WA.

The achievements and milestones reached over this period have delivered an outstanding service to our customer, the Australian Government. I am immensely proud of their continued dedication throughout a challenging year.

ASC's strategic objective to 'attract, retain and grow' Australia's best and brightest people will continue to strengthen our position as an employer of choice within Australia's naval shipbuilding industry. It remains the foundation of our enduring success

Bruce Carter
CHAIRMAN

# Managing Director and Chief Executive Officer's Report

*The 'can do' attitude of our workforce allowed ASC to continue to deliver our submarine and shipbuilding programs during the COVID-19 pandemic.*

*Stuart Whiley, Managing Director and Chief Executive Officer*

ASC achieved significant milestones during the 2019/20 financial year as the company continued its integral role in delivering Australia's naval capability and our nation's security.

This year, ASC continued to meet the RAN's requirements for submarine availability and reliability, exceeding international benchmarks and delivering value for money and reduced cost of ownership to the Australian Government.

ASC commenced negotiations with the Capability Acquisition and Sustainment Group (CASG) in early 2020, to continue CCSM maintenance for Performance Period Four (PP4), from 2020/24.

In February 2020, I attended the handover ceremony of HMAS *Sydney*, which marked ASC's completion of the AWD Program through the AWD Alliance.

This incredible milestone in our history is as significant as the delivery of the sixth and final CCSM in 2003.

The COVID-19 pandemic changed the way we worked, to ensure the safety of our employees while maintaining our focus on project milestones and service delivery to our customer.

ASC stepped up to support our 1,800 Australian supply chain partners in uncertain economic times by reducing the duration of our payment cycles. It is pleasing to observe that our sovereign supply chain remains intact and our schedule uninterrupted, ensuring submarine availability to the RAN.

## Collins Class Submarine Program

In 2019/20 ASC continued to deliver world's-best submarine sustainment and capability support to the RAN, including a number of international deployments.

HMAS *Waller's* Full Cycle Docking (FCD) was successfully completed on schedule at ASC's deep maintenance facilities at Osborne in SA. HMAS *Dechaineux* commenced its FCD on 1 June 2020 and is due for completion in mid-2022.

During this period, HMAS *Rankin* underwent a 12 month Mid Cycle Docking (MCD) and HMAS *Sheean* a six month Intermediate Docking (ID) at ASC's facilities in Henderson, WA.

ASC's Submarine Training and Systems Centre exceeded all key performance indicators, providing over 200 training courses to new and existing submariners and CASG personnel.

## Shipbuilding programs

The AWD Alliance partners delivered the third and final AWD, HMAS *Sydney*, to the RAN in February 2020, following HMAS *Brisbane* (2018) and HMAS *Hobart* (2017). This marks the end of another successful Australian shipbuilding program. ASC has been the lead platform shipbuilder in the program since its inception in 2005. More than 1,700 shipbuilding employees worked for ASC on the build, as well as hundreds of contractors.

ASC continues as the lead shipbuilder of the first two OPVs subcontracted to Luerssen Australia, the designer and prime contractor for the construction of 12 OPVs.

The first two vessels have met all major milestones to date, with the second vessel, *Eyre*, reaching its keel laying milestone in April 2020, following on from *Arafura*, in May 2019.

Two Arafura half-ship grand blocks were successfully moved onto the Common User Facility (CUF) in April 2020 using the Self-Propelled Modular Transporter, the largest transfer conducted at the Osborne Naval Shipyard to date.

## Attract, retain and grow our people

ASC continues to provide unique and exciting opportunities for our people.

In late 2019, ASC conducted a remuneration review of our staff employed under common law contracts.

We have improved the links between performance and reward to retain high performers in our workforce.

In addition, ASC introduced an updated parental leave program and this, along with our flexible working arrangements, has enhanced our 'employer of choice' status.

In early 2020 ASC welcomed 13 new apprentices to its workforce, bringing the total number to 54 across the nation. Our engineering graduate program continued to attract high calibre university graduates to participate in our well regarded two-year program.

With increasing workforce demand, ASC recognises its people are its most valuable asset, equipped with the unique skills and experience to support submarine sustainment opportunities into the 2030s and beyond.

## Future opportunities

The establishment of the Maritime Services Group (MSG) in 2018/19, positioned ASC to secure new sources of revenue by leveraging its 35 years of experience designing and sustaining Australia's submarine fleet. As a result, ASC is now the largest supplier of technical expertise to the FSTO.

To harness future opportunities, ASC engages with domestic and international partners to maximise its involvement in future projects.

In 2019, ASC and Naval Group Australia, the designer-builder of the Attack Class submarine (ACSM), signed a training initiative under a framework agreement.

In the first placement of its kind, ASC integrated Naval Group Australia apprentices into its existing four-year, fabrication apprenticeship program.

ASC continues to work closely with the Department of Defence (DoD) to extend the operational life of the Collins Class fleet through the Life of Type Extension program (LOTE).

In support of the Australian Government's future decision regarding CCSM FCD location, ASC continued to plan flexibly to accommodate undertaking this activity in Osborne or Henderson.

## Conclusion

Like many Australian businesses, ASC will remember 2019/20 for the unforeseen impact of COVID-19. ASC was able to respond rapidly to the pandemic and avoid delays to the CCSM program. I am extremely proud of our workforce, who adapted and changed the way they operated efficiently, with minimal disruption.

This 'can do' attitude allowed ASC to continue to deliver what remained a critical strategic requirement of Government – maintaining Australia's submarine capability and continuing progress on our shipbuilding programs.

ASC has an exciting future and will continue to support the Australian Government's ambition to build a strong, sustainable and innovative naval shipbuilding industry. I thank ASC's staff who have proven their absolute dedication and commitment to safety, innovation, performance and adaptability, making ASC a truly great Australian defence company.

Stuart Whiley
MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER

# Collins Class Submarine Program

*ASC exceeded the RAN's maintenance performance targets, delivering submarine availability at historically high levels.*

As a trusted partner within Australia's Submarine Enterprise, ASC supports the nation's submarine capability by delivering platform system integration services, design, engineering, maintenance, supply chain services, training and submarine lifecycle support. Together with the RAN, CASG, and industry partners, ASC continues to exceed world's best performance benchmarks for submarine availability and efficiency.

In 2019/20, ASC completed the third and final year of its In-Service Support Contract (ISSC) for CCSM Performance Period Three (PP3) which commenced on 1 July 2017. During 2019/20, ASC exceeded the RAN's maintenance performance targets, delivering submarine availability at historically high levels with increased submarine reliability and deployed submarine support, including crucial support to a number of international deployments.

## Collins Class Submarine Maintenance

ASC completed its third, two-year FCD at ASC North in Osborne, SA, when HMAS *Waller* was handed back to the RAN in May 2020. This FCD included initiatives which generated efficiencies including the reduction of diesel engine refurbishment time by 40 percent and main motor refurbishment time by 32 percent.

HMAS *Waller* was the first of the Collins fleet to receive a sonar system upgrade, ensuring the CCSM remains a dominant and potent class of submarine into the future.

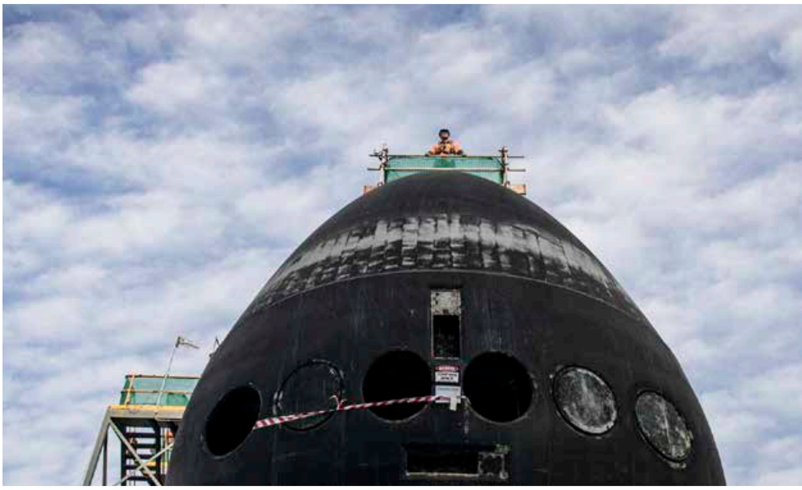
In June 2020, HMAS *Dechaineux* became the fourth CCSM to commence a two-year FCD at ASC North. This FCD will build upon the efficiencies introduced during the FCD on HMAS *Waller*.

HMAS *Rankin* completed its 12-month MCD in December 2019, the second completed at ASC West.

The ongoing development of the required skills within ASC's workforce increased our capability in both long term maintenance and integration activities during the MCD.

HMAS *Collins* and *Farncomb* undertook three month Intermediate Maintenance Periods (IMP) from July to October 2019 and HMAS *Sheean* completed a six month ID in June 2020.

ASC West's operational tempo remained at an all-time high with MCDs, IDs, IMPs all being conducted at Henderson, along with five, three week Supported Maintenance Periods and 11 short notice operational support international deployments throughout the year. As the home of international support coordination for the CCSM fleet, ASC West carried out five international deployments, including, concurrent deployment of three operational submarines.



## The Impact of COVID-19

Ensuring Australia maintained a potent submarine capability remained a critical strategic requirement of Government during the COVID-19 pandemic. Submarine sustainment work continued at ASC's sites under new routines and protocols, aligned with the relevant state and federal government policies for COVID-19 management.

Changes to ASC's operations included variations to site and submarine access and density, scheduling practices, work pack processes, meeting protocols, training, and the cessation of non-essential travel. ASC's workforce demonstrated its adaptability and commitment to ensure the delivery of major projects to our customer and remained on schedule during the reporting period.

## Customer Focus

ASC is committed to delivering improved submarine reliability and cost performance outcomes for our primary customer, the Australian Government.

Consistently striving for improvement, ASC has strengthened the lessons-learned process to identify, assess and action changes through improved analysis of root cause identification and issues raised. ASC continued to work closely with our key supplier partners and the Submarine Enterprise to deliver these outcomes in 2019/20.

## The Future

ASC's vision is to be an enduring and integral part of Australia's maritime strategy and national security. ASC's primary focus remains on the sustainment of the CCSM fleet, working with our Enterprise Partners to ensure its regional superiority and availability.

ASC and CASG are working collaboratively towards agreeing upon the future performance period, PP4 ISSC, which will apply from 2020 to 2024.

The CCSM fleet will remain Australia's frontline submarine until the mid-2030s, requiring maintenance and upgrade, and eventually LOTE. ASC is developing the requirements in consultation with the RAN and CASG, to support CCSM LOTE as the RAN transitions towards a multi-class fleet.

ASC is Australia's only established sovereign submarine industrial capability.

Australia requires a doubling of its industrial capacity as it transitions to a two-class submarine fleet. The challenge of meeting this demand continues and ASC, along with its partners in the Submarine Enterprise, is managing competing mandates for skilled and experienced workers to ensure that CCSM availability is not adversely impacted.

# **Collins Class Submarine Program** continued

## Performance Targets

During the reporting period, ASC aligned performance targets with its Submarine Enterprise partners to increase availability, reliability and manage cost. The agreed improvements include:

- Increased Materiel Ready Days to international benchmark levels.
- Increased focus on implementing submarine capability.
- Increased focus on implementing submarine reliability and addressing obsolescence issues.
- Delivery of maintenance activities to schedule and budget, whilst conducting in service support activities and support of operational submarines.

## Business Improvements

With the CCSM expected to be operational for the next 15 to 20 years, it is essential ASC's systems and processes continue to be upgraded to ensure it continues to deliver benchmark performance for the life of the class. In order to achieve this, ASC has embarked on a feasibility study for a Digital Transformation Program (DTP) to 'future proof' the CCSM sustainment support system.

The delivery of a 'requirements phase' of the DTP included the resolution of critical path scheduling challenges for maintenance activities, a partnership with relevant teams to optimise the maintenance of major submarine systems, and radio frequency identification for improved materiel tracking.

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

## The Submarine Enterprise

The Submarine Enterprise Board is the management and governance body for the Submarine Program. Its mandate is to optimise the conditions for achieving Submarine Enterprise performance targets, through collaboration and continuous improvement.

During 2019/20 ASC worked within the Submarine Enterprise to deliver the Australian Government's capability requirements including:

- Ongoing upkeep, update and upgrade activities to ensure consistent delivery of 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 performance.

- The development and implementation of LOTE plans.
- Ongoing support for the growth of Australia's sovereign submarine capability.

## Submarine Training and Systems Centre

ASC has delivered training at the Submarine Training and Systems Centre at HMAS *Stirling* Garden Island naval base since 1992.

The current five year training service contract commenced in July 2018. This contract expanded ASC's delivery of courses into the Warfare Department and also increased the number of Training Developers.

During 2019/20 ASC:

- Exceeded all contractual key performance indicators for the period.
- Delivered 246 training courses.
- Trained 106 new entry submariners and provided advanced training to 162 submariners.
- Supported operational submarines with training and certification.
- Provided training to CASG, CCSM staff and ACSM personnel.
- Provided specialised training to ASC staff in SA and WA.
- Further developed the virtual reality suite of training aids to supplement the training of standard operating procedures away from the motion simulator.

ASC continues to invest in growing the capability and capacity of its dedicated training team through recruitment, training and engagement with the Submarine Enterprise.

In 2019/20 COVID-19 requirements increased the use of virtual reality, computer aided instruction and 'Boat 7' (virtual submarine) capabilities to continue training while maintaining physical distancing.

The dedication and flexibility of the team ensured ASC delivered all required training courses and assisted the RAN in finding innovative and flexible training delivery solutions.

# Maritime Services Group

*The MSG pursued opportunities with national and international maritime businesses, leveraging ASC's submarine design and shipbuilding capability and expertise.*

The MSG was established following structural separation of ASC in December 2018. The MSG focusses on future business opportunities, as well as the delivery of the first two vessels in the OPV Program, and finalisation of ASC's responsibilities as the shipbuilder on the AWD Program.

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

- secure new lines of revenue for ASC,
- 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 activities support the Australian Government's plans for a sovereign, sustainable shipbuilding sector, and a successful transition to a two-class submarine fleet.

## Partnerships and Agreements

ASC has continued to add value to the ACSM program, based on its experience and expertise in building and sustaining submarines in the Australian environment.

ASC supported the Australian Government's ACSM program through its provision of technical personnel to the FSTO, and its framework agreement with the designer-builder, Naval Group. This arrangement permits the

companies to work collaboratively to support both the CCSM and ACSM programs.

Internationally, ASC has established agreements with a number of Canadian entities to offer services into programs including the Victoria Class Submarine Program.

## Naval Group

In 2019, ASC and Naval Group signed their first training initiative under a collaboration framework agreement.

As a result, ASC has successfully integrated Naval Group Australia apprentices into its existing, highly competitive, four-year fabrication apprenticeship program working on the CCSM Program. The Naval Group Apprentice Program commenced in January 2020 with three apprentices starting their careers at ASC North.

A collaborative Engineering Graduate Program is scheduled to commence in September 2020 at ASC North, with four Naval Group Australia graduates being offered the opportunity to gain experience, training and development on the CCSM prior to applying these new skills on the ACSM program.

## 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 delivered specialist detailed design services from the ASC North site in Osborne.

## Schneider Electric

ASC entered into an agreement with Schneider Electric in March 2019 to further support the CCSM and ACSM programs.

Schneider Electric is an established ASC supplier of major power switching and circuit breaker equipment for the CCSM fleet. Schneider's collaboration with ASC increases Australian industry capability and delivers effective, long term support to the CCSM.

The collaboration has resulted in an exchange program where Schneider Electric and ASC graduate engineers spend time working in each company's submarine-related operations to foster further understanding of Australian submarine engineering and drive cooperation between the companies.

## Jeumont Electric

In November 2018, ASC entered into a long-term collaboration agreement with the French submarine motor manufacturer Jeumont Electric to explore initiatives to support both the CCSM and ACSM Programs. Jeumont Electric is the supplier of CCSM main motors, as well as the preferred supplier of the new generation permanent magnet motors for the ACSM program. The collaboration agreement underpins the sustainment and upgrade of the CSSM fleet and supports the design, build and test of the main motors for the ACSM program.

The partnership progressed in October 2019, when a Heads of Agreement was signed and a steering committee established to identify joint business opportunities across Australia's CCSM and ACSM submarine programs, as well as Australia's marine generator and rotating electrical machinery market. ASC and Jeumont Electric are also exploring a range of commercial arrangements for future work.

## Endel Engie

ASC has strengthened its relationship 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.

Bringing together ASC's experience in the construction and maintenance of Australia's CCSM fleet, with Endel Engie's 20 years of expertise in construction and the maintenance of frigates and submarines for Naval Group, will provide additional submarine-building capacity in Australia to the ACSM program.

## Groupe FIVA

ASC signed a collaboration agreement with Groupe FIVA, a long term partner of Naval Group, in 2018. The agreement supports the development of a joint submarine workforce in Australia with the capability to satisfy future demands for naval design services.

In 2019/20, ASC and FIVA worked in collaboration to respond to market requests for information regarding the capability and capacity of engineering resources to support major programs.

## Adelaide University Maritime Engineering Program

To support 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 program. ASC assists post- graduate students to prepare for a career building and sustaining Australia's current and future submarines. The 2020 academic program is being undertaken by 23 students, completing the Masters by course-work in submarine design (naval architecture and maritime engineering), sustainment, supply chain, project management and related subjects, through the School of Mechanical Engineering.

Internationally recognised ASC instructors are subject matter experts with experience working on more than 10 submarine classes from the United Kingdom, France, Spain, Sweden and Australia. Students include recent graduates, and experienced engineers from the defence industry and exchange students from the French engineering school Grande Ecole d'Ingenieurs ENSTA Bretagne, which has signed a collaboration agreement with the University of Adelaide.

## BMT Canada

A secondee program commenced in August 2019 with BMT Canada, with two ASC employees working in BMT's Ottawa office. Plans are in place for a similar number of BMT employees to be seconded to ASC in 2020 in a reciprocal arrangement, contingent on COVID-19 border and travel restrictions.

## Minor contracts

ASC has successfully won and delivered a number of minor contracts, including support for the Minehunter System Program Office, and for engineering services and personnel exchange with Penske Australia in partnership with Sauer Compressors.

# Shipbuilding

*The AWD program has demonstrated that sovereign Australian shipbuilding can deliver world-leading warship platforms at increasing productivity levels.*

In 2019/20 ASC continued its role as Australia's proven builder of major warships with the finalisation of the Hobart Class AWD Program and its continuing progress on the Arafura Class OPVs, under contract with prime contractor, Luerssen Australia.

ASC has maintained a strong performance as the shipbuilder for the AWD Program, meeting all scheduled milestones since the last quarter of 2015. Together with the Alliance partners, all ships have been commissioned into service, with HMAS *Sydney* handed over during 2019/20.

The AWD program has demonstrated that sovereign Australian shipbuilding can deliver world-leading warship platforms at increasing productivity levels.

ASC's construction of the lead and second OPVs continues to progress, with all contracted milestones achieved in 2019/20. All ship blocks of *Arafura*, have been consolidated and construction commenced on the second vessel, *Eyre* after its keel laying in April 2020.

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

## Air Warfare Destroyer Program

As the lead shipbuilder for the Hobart Class Destroyer Program, ASC has successfully concluded its scope at the Osborne Naval Shipyard.

In 2019, HMAS *Sydney* achieved a number of major program milestones to an exceptional standard. This resulted in the ship being provisionally accepted by the Australian Government in February 2020 and commissioned into service in May 2020.

2019/20 highlights for HMAS *Sydney* included:

- Completing builder's sea trials.
- The successful completion of Category 5 sea trials.
- Implementation of the Aviation Upgrade Program capability through MH-60R Seahawk helicopter capability upgrades.
- Introduction of a revised paint scheme; and
- Upgrading of the habitation spaces on-board the vessel.

ASC will continue to support the RAN by managing outstanding delivery certificate scope and its warranty obligations whilst the Hobart Class Destroyers remain in service.

## Offshore Patrol Vessel Program

As the shipbuilder of the lead and second OPVs, under contract to prime contractor, Luerssen Australia, ASC has continued to execute its contracted scope of work.

Major achievements during 2019/20, included:

**SHIP 1 - *ARAFURA***

- Installation of the propulsion diesel engines.
- Consolidation of the two half ships on the CUF.
- Conclusion of block construction scope and ship consolidation activities.
- Commencement of propulsion activities.
- Commencement of blast and paint on-board the vessel.

**SHIP 2 - *EYRE***

- Keel laying.
- Commenced consolidation of major hull blocks.
- Commencement of equipment load out.

# Infrastructure Development

*ASC's modern submarine construction and maintenance facilities are unrivalled in Australia.*


ASC's modern submarine construction and maintenance facilities are unrivalled in Australia. ASC operates two submarine sustainment facilities at Osborne, SA and Henderson, WA. ASC utilises Australian Government owned infrastructure for delivery of its shipbuilding programs through Australian National Infrastructure (ANI).

## ASC North

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

Work was undertaken throughout 2019/20 to improve and upgrade the facility, including:

- An upgrade to the site's ship lift, a new lubrication system commissioned, and major repairs to the concrete support structure.
- Construction of a covered storage area at the water workshop, to allow weatherproof storage of components.
- A major upgrade to the ventilation and fume extraction systems in the non-destructive testing and general laboratory area.
- Minor office upgrades.

## ASC West

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

Throughout 2019/20, ASC West continued significant facility upgrades including:

- Installation of new fire safety measures including a new water service gantry in the maintenance hall and new flooring in the switch rooms.
- Replacement of seawater pumps and valves located on the CUF.
- Upgrade to the cooking facilities in the catering area.
- Installation of a weather shelter over the entrance area.

## ASC South

The ASC South facility located at Osborne, was the site of construction of the three Hobart Class AWDs, which concluded in early 2020. ASC vacated the shipyard in April 2020, handing over the main administration building to ASC Shipbuilding (BAE Systems).

The facility remains the construction site of the first and second Arafura Class OPVs. ASC works with ANI to manage the commercial and operational arrangements required for the delivery of its remaining obligations for the AWD program and continued construction of the OPVs.

# Safety Performance

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


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

It is dedicated to achieving a generative safety culture, where health and safety is a fundamental component in all we do. A variety of initiatives were deployed during 2019/20:

- Ongoing investment in our Mental Health and Wellbeing Program.
- Further investment and development of our Psychosocial Risk and Human Factors Program.
- Introduction of technology-based solutions to improve injury performance for musculoskeletal injuries.
- Introduction of a platform equipment protection regime to reduce "strike against" injuries.
- Introduction of a technology-based alert system for end users of products that contain Schedule 14 chemicals (*Work Health and Safety Regulations 2012*).
- Introduction of controls to reduce the risk of COVID-19, including site pre-entry temperature testing, hand and respiratory hygiene protocols, on-site personnel density reduction, social distancing, travel restrictions, training and meeting restrictions.

## 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 five dangerous incidents notified to COMCARE during 2019/20, with none resulting in serious personal injury or illness to ASC workers, three less than experienced in 2018/19.

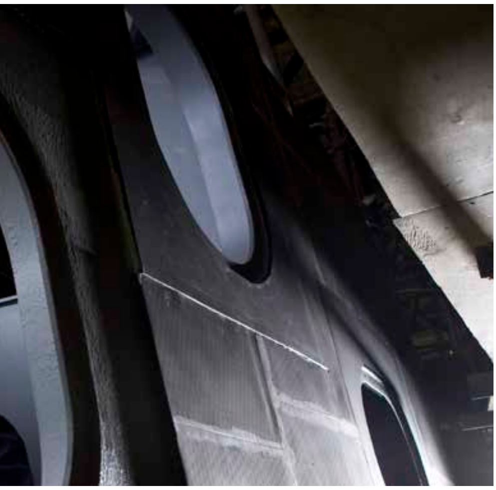
The trend of dangerous incidents resulted in new safety campaigns which are being implemented to prevent recurrence (see Table 2).

COMCARE undertook evaluations of two of the five notifiable incidents. No formal action or additional requirements were imposed upon ASC as a result.

## Lost Time Injuries

A Lost Time Injury (LTI) is recorded when a worker is unable to present for the next scheduled workplace attendance as a result of a work related injury.

ASC achieved a total Lost Time Injury Frequency Rate (LTIFR) of 3.7 for 2019/20 (all site-based workers, including contractors), see Figure 1.



## Medically Treated Injuries

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

The medically treated injury frequency rate (MTIFR) for ASC was 4.2 in 2019/20 (all site-based workers, including contractors), see Figure 2.

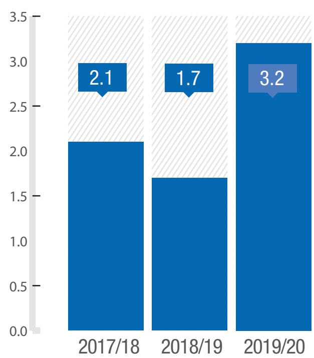
## Investigations

As a result of its 2019/20 injury performance, ASC is focussing on key trend areas related to injuries and exhibited behaviours to improve baseline requirements such as housekeeping, which is essential for sound safety performance. This will be complemented by a suite of performance improvement objectives.

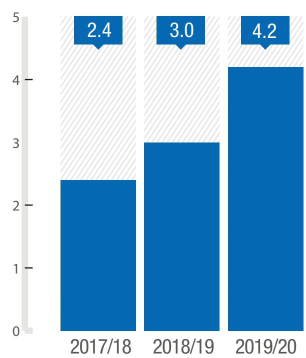
Table 2 Notifiable incidents in 2019/20

| | |
|---|---|
| Deaths | 0 |
| Dangerous Incidents | 5 |
| Serious personal injury or illness | 0 |
| TOTAL | 5 |

Figures 1 & 2 ASC LTIFR and MTIFR comparisons




ASC Lost Time Injury Frequency Rate comparison




ASC Medically Treated Injury Frequency comparison.

LTIFR = number of LTIs x 1,000,000 divided by hours worked per month, expressed as a 12 month rolling average.

MTIFR = number of MTIs x 1,000,000 divided by hours worked per month, expressed as a 12 month rolling average.

# Environmental Performance

*ASC is committed to protecting the natural environment through ensuring environmental sustainability is integrated throughout all areas of its business.*

ASC is committed to protecting the natural environment through maturing its Environmental Management System (EMS) and ensuring sustainability is integrated throughout all areas of ASC's business.

ASC's efforts throughout 2019/20 remained focused on transitioning from a primarily compliance based EMS, to one where environmental and social considerations are considered 'business as usual'.

Key areas of environmental performance in 2019/20 included:

- Electricity consumption and emissions tracking.
- Reduction of water use.
- Reduction in generated waste.
- Climate Change Risk and Opportunity assessment.
- Sustainable procurement.
- Corporate Social Responsibility (CSR) integration.

In 2019/20, ASC maintained high levels of waste diversion across all sites. As a result, 95 percent of waste material generated was diverted from landfill by ensuring the correct waste streams. This general waste material will be utilised as engineered fuel, see Figure 3.

ASC continued to assess environmental risks from major activities with fueling and defueling events thoroughly reviewed. These reviews demonstrated excellent adherence to process.

A climate risk and opportunity assessment was undertaken to support the business to plan for the impacts of climate change, and to investigate opportunities for a transition to a lower carbon economy.

ASC's CSR strategy and statement of commitment were finalised and published on its website. The strategy incorporates the findings of ASC's first Materiality Assessment and details how ASC will ensure CSR is integrated into the business.

## ASC's Environmental Management System

ASC's EMS achieved continued certification to ISO14001:2015, highlighting the importance placed on environmental performance.

Focus continues on the integration of sustainability principles 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 federal and state legislation. ASC recognises its obligation to comply with the relevant *Environmental Protection and Conservation Acts*. Accordingly, ASC actively records, investigates and reports any breaches to the respective regulator.

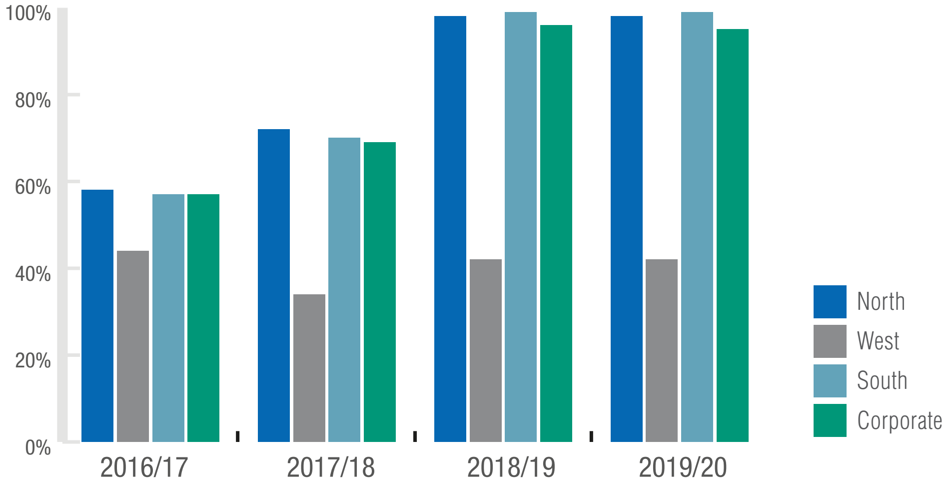
There were no environmental incidents in 2019/20 which required reporting to the regulator.

ASC continues to proactively manage environmental risks, with all environmental hazards and risks identified throughout the period controlled and/or mitigated by site-based teams.

## Environmental Licences

ASC maintains environmental licences for its activities in SA and WA for submarine and shipbuilding projects under the respective state and federal environmental regulatory bodies.

Figure 3 ASC Annual Total Waste Diversion



# People and Culture

*ASC recognises it's people are critical to its vision of remaining an enduring and integral part of Australia's maritime strategy.*

ASC recognises attracting, retaining and developing the right people is critical to it's vision of remaining an enduring part of Australia's maritime strategy and national security. ASC's workforce numbers remained steady in 2019/20, with 1,345 employees across our sites in SA and WA.

In 2019/20 ASC's Human Resources function was rebranded to 'People and Culture' and made significant changes to its service delivery model which provides a more strategic focus through the Business Partner operating model. The new model includes specialist functions to the team:

- Organisational development and remuneration;
- Employee engagement and communication;
- Diversity and inclusion (D&I);
- Change management;
- Workforce planning, development and recruitment;
- Learning and development and data analytics; and
- People and culture operations.

The Workplace Health Safety and Environment team was incorporated into People and Culture to recognise the importance of employees in our safety journey.

**KEY ACHIEVEMENTS**

Key achievements in 2019/20 included:

- Moving to electronic payslips to reduce processing time and environmental waste.
- Successful negotiation of a variation to the ASC Pty Ltd 2017/21 Enterprise Agreement.
- Implementation of ASC's COVID-19 related policies, resulting in the transition of approximately 700 employees to working from home arrangements.
- Increasing the proportion of female employees from 12 percent in 2018/19 to almost 16 percent in 2019/20.


## Remuneration Strategy

Competitive remuneration acknowledges the value and contribution of our employees. It is a key component of ASC's strategic objective to 'attract, retain and grow' it's workforce.

To ensure ASC's approach to remuneration and benefits remained competitive and in line with market practice, a comprehensive benchmarking activity was undertaken against comparative sectors and the general market.

The results informed ASC's Remuneration Strategy and ensured:

- Alignment to the external market;
- Competitive remuneration to attract, retain and reward employees;
- Remuneration practices are fair transparent and equitable;
- Alignment to ASC's values and to drive behaviour;
- Linkage between performance and reward; and
- Gender pay equity.

# People and Culture *- continued*


## Employee Engagement

To gain further insights from ASC's Employee Opinion Survey conducted in April 2019, focus groups were held for employees to provide feedback on the four key areas of focus:

- Remuneration and benefits;
- Communication and leadership;
- Culture and recognition; and
- Simplification.

The focus groups were hosted by 14 executive and senior level leaders and included over 100 hours of discussion with more than 200 employees.

As a result, ASC's Executive Team and senior leadership group added two additional areas of focus:

- Talent management, learning and development and career paths; and
- Safety.

A Corporate Action Plan was launched focussed on delivering improvements across these key areas.

### KEY ACHIEVEMENTS

Key initiatives and achievements arising from the Corporate Action Plan include:

- Employee (non-enterprise agreement) Remuneration Review completed and new remuneration framework implemented in late 2019.
- Improved Parental Leave scheme introduced in late 2019.
- Provision of Additional Leave as part of the new remuneration framework, which aligns with industry and community expectations.
- A range of improvements to onsite amenities, facilities and work environment.
- All employee groups now have access to the same benefits, including novated leases for motor vehicles.
- New performance management and talent management systems for launch in 2021.
- Improved employee communication channels.

## Diversity and Inclusion

The ASC D&I Program was established in 2016 with the creation of the 'All Aboard' D&I Council. In 2019/20, ASC's 'All Aboard' Program focussed on championing an inclusive parental leave policy, the development of ASC's first Reconciliation Action Plan, and increasing diversity in senior roles.

In late 2019, ASC became a market leader when a new parental leave scheme was introduced for primary and secondary carers. Leave increased from 12 weeks paid leave to 24 weeks for primary carers and from one day to 12 days paid leave for secondary carers.

## Reconciliation Action Plan

A working group was formed in September 2019 under the leadership of ASC's D&I Council to develop a 'Reflect Reconciliation Action Plan'. ASC's vision for reconciliation is to provide opportunities for better outcomes for Aboriginal and Torres Strait Islander people and businesses, while building strong and lasting relationships with the Indigenous communities in which we work.

## Training and Skills Development

An online version of ASC's 'Call it Out' anti-bullying, harassment and discrimination training program is under development for implementation in late 2020, and will be included in ASC's induction program.

## Awareness

ASC became a member of the Diversity Council of Australia in February 2020 to increase ASC's awareness and understanding of best practice D&I initiatives.

## Apprentice and Graduate Programs

In 2020 ASC's Apprentice Program attracted a large number of applicants, resulting in 13 new apprentice positions in electrical, mechanical and fabrication streams, six in SA and seven in WA.

ASC employed eight engineers as part of its Graduate Program, four in SA and four in WA. Graduates are placed in permanent positions for two years and gain experience and exposure to the business through a rotation every three to six months across various departments. Two graduates from ASC North took the opportunity to work in WA during this period.

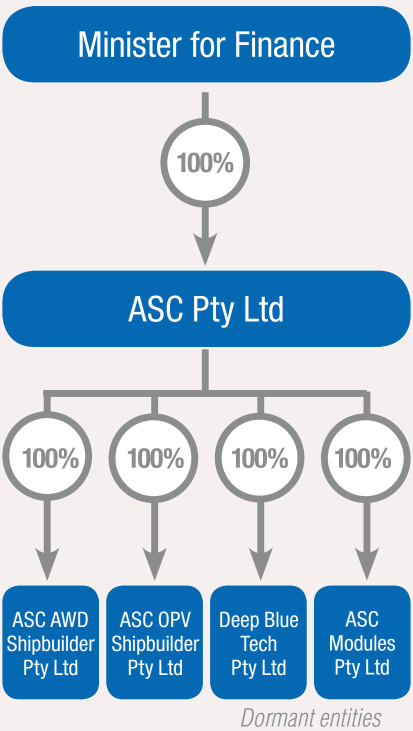
Table 3 ASC Employee numbers by gender, location and employment status.

| | Male | | | Female | | | |
|---|---|---|---|---|---|---|---|
| | Full-time | Part-time | Total | Full-time | Part-time | Total | Total |
| NSW | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Qld | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SA | 727 | 19 | 746 | 110 | 32 | 142 | 888 |
| Tas | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Vic | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| WA | 371 | 6 | 377 | 62 | 12 | 74 | 451 |
| ACT | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NT | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| External Territories | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overseas | 5 | 0 | 5 | 1 | 0 | 1 | 6 |
| **Total** | **1103** | **25** | **1128** | **173** | **44** | **217** | **1345** |

# 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. Refer to Figure 4 for Group Structure.

*Figure 4 ASC Group Structure*




On 11 June 2004, ASC was proclaimed as a GBE under the then *Commonwealth Authorities and Companies Act 1997*. ASC remains a GBE pursuant to section 5(2)(a) of the *Public Governance, Performance and Accountability Rule 2014*. ASC is a Commonwealth company.

## Directors

The Directors of ASC (except the Managing Director) are appointed by the Minister for Finance for a term. As at 30 June 2020, the Board was comprised as follows:

**BRUCE CARTER**

*Chairman*

Appointed: 1/1/2010

To: 31/12/2021

Bruce is a long-serving Director and Chair of ASC, joining the board in 2010 and overseeing its successful transformation to a high performing submarine sustainment company following the Coles Review in 2012.

Bruce was appointed ASC Chair in October 2012 and reappointed to the role in 2018.

Bruce is currently a Director of Bank of Queensland Ltd, Aventus Property Ltd, SkyCity Entertainment Ltd and One Rail Australia.

He is a former partner of Ferrier Hodgson and Ernst and Young.

**DR ROSALIND DUBS**

*Non-Executive Director*

| | |
|---|---|
| Appointed: | 01/05/2013 |
| To: | 31/12/2022 |

Ros is currently a Director of Astronomy Australia Ltd, ANU Enterprise Pty Ltd and the Taronga Conservation Society and former Chair of the Space Industry Innovation Council.

Other former positions include: Director of Aristocrat Leisure Ltd, Director of Structural Monitoring Systems Plc, Deputy Vice-Chancellor University of Technology Sydney, Senior Executive roles with Thales SA in Germany, France and Australia and with Airservices Australia.

**PAUL RIZZO**

*Non-Executive Director*

| | |
|---|---|
| Appointed: | 13/12/2013 |
| To: | 12/12/2022 |

Paul has extensive experience as a Senior Executive, working for 50 years in general management, finance, telecommunications, banking and defence.

Paul wrote the Defence-commissioned Plan to Reform Support Ship Repair and Management Practices, or Rizzo Report, in 2011, which influenced the improvement of RAN engineering and warship maintenance arrangements.

He has also worked as a Chief Executive Officer, Director and Advisor.

**LORETTA REYNOLDS**

*Non-Executive Director*

| | |
|---|---|
| Appointed: | 09/02/2016 |
| To: | 08/02/2022 |

Loretta has extensive legal experience through her role as Chair and Corporate Partner of national corporate law firm Thomson Geer. Offering more than 20 years' experience in the legal sector, she specialises in projects, mergers and acquisitions and complex transactional work.

Loretta is currently a Non-Executive Director of the Royal Flying Doctor Service Central Operations and Director of the Royal Flying Doctor Service Federation Board.

**JOYCELYN MORTON**

*Non-Executive Director*

Appointed: 01/01/2017

To: 31/12/2022

Joycelyn has an extensive business and accounting background and has held senior executive and board roles across several industries in the corporate and government sectors.

Joycelyn is currently a Non-Executive Director of Snowy Hydro Limited, Argo Investments Limited, Argo Global Listed Infrastructure Limited and Beach Energy Limited.

In 2003 Joycelyn was awarded Life Membership to CPA Australia for her outstanding services to the profession.

**GEOFF ROHRSHEIM**

*Non-Executive Director*

Appointed: 15/03/2019

To: 14/03/2022

Geoff has successfully established several innovative businesses in the IT sector and has significant experience as a Company Director.

After completing his studies in engineering at the Australian Defence Force Academy, Geoff served in the Royal Australian Air Force as an Engineering Officer.

In 2017, Geoff was awarded the Pearcey Foundation's SA Entrepreneur Award, for leadership in business and innovation.

Geoff is currently a Non-Executive Director of Seeley International, the Australian Cyber Collaboration Centre and Hatch Creations. He is also a member of the Australia Post Stakeholder Council and the SA Premier's Economic Advisory Council.

**STUART WHILEY**

*Managing Director*

Appointed: 12/02/2018

To: 02/01/2021

Stuart was appointed Managing Director and Chief Executive Officer of ASC Pty Ltd in February 2018 after holding the position of Interim Chief Executive Officer from July 2014, following a career with the company that spans more than 30 years.

Stuart has significant experience within ASC, having spent years in various submarine programs, projects, schedule and systems engineering roles within the business. In 2005 he was appointed General Manager, CCSM, responsible for the Collins Class support activities in both SA and WA.

Prior to emigrating to Australia from the UK in 1988, Stuart held a number of engineering roles at BAE, Admiralty Research Establishment and Dowtys working in a Naval/Weapons environment.

## ASC Board and Committee Attendance 2019/20

Table 4 ASC Board and Committee Meeting Attendance 2019/20

| Director | Board | | Audit Committee | | Human Resources and Remuneration Committee | | Business Assurance and Security Committee | |
|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| Bruce Carter | 14 | 14 | - | - | 5 | 5 | 4 | 4 |
| Dr Rosalind Dubs | 14 | 14 | - | - | - | - | 4 | 4 |
| Paul Rizzo | 14 | 14 | 5 | 5 | - | - | 4 | 4 |
| Loretta Reynolds | 14 | 14 | 5 | 5 | 5 | 5 | - | - |
| Joycelyn Morton | 14 | 14 | 5 | 5 | 5 | 5 | - | - |
| Gary Gray AO* | 14 | 7 | - | - | - | - | 4 | 3 |
| Geoff Rohrsheim | 14 | 14 | | | | | 4 | 4 |
| Stuart Whiley | 14 | 14 | - | - | - | - | - | - |

* Gary Gray resigned as Non-Executive Director with effect 11 March 2020. He attended seven meetings during his tenure in 2019/20 representing full attendance.

## Australian National Audit Office Reports

On 4 July 2019, The Australian National Audit Office (ANAO) released 'Cyber Resilience of Government Business Enterprises and Corporate Commonwealth Entities'. The report considered ASC's Cyber Resilience and found that it had a fit for purpose cyber security risk management framework which met the requirements of its respective frameworks by implementing the specified information and communications technology (ICT) controls that support desktop computers, ICT servers and systems and has implemented controls in line with the requirements of the Information Security Manual, including the Top Four and other mitigation strategies in the Essential Eight with high levels of cyber resistance.

The ANAO also provided an Independent Auditor's Report contained in ASC's 2020 Annual Report.

## Ministerial Directions

In accordance with its Constitution, ASC is subject to direction by it's Minister. No directions were given to ASC by the Minister during the 2019/20 financial period.

## 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.

# Corporate Governance *continued*

## ASC Board Charter

Under the ASC Board Charter, the Board is responsible for:

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

## Audit Committee

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

- Financial and performance reporting.
- Risk oversight and management.
- Annual budgeting and forward forecasts.
- The application of accounting policies.
- Internal control.
- Maintaining and improving 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.
- Maintaining an effective external and internal audit function, in compliance with all applicable laws.

As at 30 June 2020, the Committee consisted of Joycelyn Morton (Chair), Paul Rizzo and Loretta Reynolds.

More information regarding the audit committee can be found at: www.asc.com.au/about-us/corporate-governance.

## Human Resources and Remuneration Committee

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

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

As at 30 June 2020, 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 to manage identified material risks.
- Appropriate action is undertaken to bring the identified material risks within the Group's risk tolerance levels.


- A culture of compliance is being promoted.
- Compliance strategies and functions are effective.

As at 30 June 2020, the Committee consisted of Paul Rizzo (Chair), Bruce Carter, Rosalind Dubs and Geoff Rohrsheim.

## Board Membership

During the 2019/20 reporting period, Gary Gray AO resigned as a Non-Executive Director of ASC with effect 11 March 2020.

## Transactions with other related Australian Government Entities

In performing its contracts, ASC has transacted on normal commercial terms and conditions with the following related entities.

Table 5 Transactions with other related Australian Government Entities

| | Aggregate value $ | Number of transactions |
|---|---|---|
| ANAO | 341,215 | 8 |
| Comcare | 200,735 | 3 |
| DoD | 16,162,947 | 31 |
| Medicare | 18,935 | 8 |
| Australian Naval Infrastructure Pty Ltd | 22,711,024 | 116 |
| | 39,434,856 | 166 |

# Corporate Governance *continued*

## Code of Conduct

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

- Articulate the high standards of honesty, 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 the shareholder and other stakeholders.
- Guide directors and ASC personnel as to the practices considered necessary to maintain confidence in the ASC Group's integrity.

## Auditor

ASC's external auditor is the ANAO. PricewaterhouseCoopers has been appointed as ANAO's agent for the purposes of ASC's audit. The Audit Committee is charged with responsibility for internal financial audit. The Group Internal Audit Manager is responsible to the Audit Committee for contributing to the achievement of ASC's goals and objectives by:

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

## Risk Management

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

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

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

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

## Legal Compliance

ASC has established a Legal Compliance Program. In 2019/20, the program covered:

- Defence exports;
- Work health and safety;
- Employment;
- Environment;
- Intellectual property;
- Security;
- Corporate governance; and
- Controlled technology.

The BASC is responsible for approving and monitoring the program.

# Key Management Personnel Remuneration

ASC's key management personnel (KMP) are the Non-Executive Directors, the Managing Director and those Senior Executives who hold authority and responsibility for planning, directing and controlling ASC's strategic direction. ASC's KMP include personnel from ASC Pty Ltd and its former subsidiary ASC Shipbuilding Pty Ltd.

Fees for Non-Executive Directors are set by the relevant determination of the Remuneration Tribunal (see Table 6). A summary for KMP remuneration for the financial year 2019/20 is included at Table 8.

ASC's approach to Senior Executive remuneration is at Table 7.

## Senior Executive Remuneration Overview

ASC Pty Ltd's Senior Executive remuneration structure has been developed to ensure that its Senior Executives are remunerated commensurate with the market and incentivised to deliver against its 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 to ensure 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. The following elements are considered when establishing an appropriate TFR:

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

## Benchmarking and Review of Senior Executive Remuneration

ASC Senior Executive roles are independently benchmarked against reference market data gathered from market research and augmented with survey data. The most recent benchmarking exercise was conducted in November 2019.

As a result of the benchmarking activity, a new incentive program was introduced which resulted in changes to the application of the STI scheme. Of note was the inclusion of a deferred component which is payable 12 months after it is earned.

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 STIs following recommendations from the Human Resource and Remuneration Committee.

## Linking Performance to STI Payments

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

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

## 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. Board member fees are not payable to the Chair.

Table 6 Fees for Non-Executive Directors for the financial year 2019/20 and financial year 2018/19.

| Non-Executive position | From 1 July 2019 | From 1 July 2018 |
|---|---|---|
| Chair | $166,290 | $163,020 |
| Member | $77,620 | $76,090 |
| Chair – Audit Committee | $16,320 | $16,000 |
| Member – Audit Committee | $8,160 | $8,000 |
| Chair – Business Assurance and Security Committee | $15,670 | $15,360 |
| Member – Business Assurance and Security Committee | $7,840 | $7,680 |

# Key Management Personnel Remuneration 2019/20

Table 7 Remuneration of KMP for the 2018/19 and 2019/20 financial year.

| | | | **Short-term benefits** | | | **Post-employment** | **Other long-term benefits** | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Note | Base Salary (1)<br>$ | Bonuses (3)<br>$ | Other Benefits and Allowances<br>$ | Super-annuation contributions (2)<br>$ | Long Service Leave (4)<br>$ | Other long term benefits (5)<br>$ | Termination benefits (6)<br>$ | **Total Renumeration**<br>$ |
| **KMP** | | | | | | | | | | |
| **ASC Pty Ltd** | | | | | | | | | | |
| Stuart Whiley<br>Managing Director and Chief Executive Officer | **2019/20** | | **648,286** | **129,515** | **0** | **25,000** | **16,000** | **0** | **0** | **818,801** |
| | 2018/19 | | 579,614 | 135,993 | 0 | 25,000 | 15,043 | 0 | 0 | 755,650 |
| Martin Edwards<br>Executive Manager MSG | **2019/20** | | **447,463** | **74,764** | **13,087** | **46,307** | **10,668** | **74,764** | **0** | **667,053** |
| | 2018/19 | | 435,002 | 91,947 | 16,888 | 25,000 | 10,171 | 0 | 0 | 579,008 |
| Paul Gay<br>Executive Manager CCSM Group | **2019/20** | | **409,995** | **74,884** | **0** | **25,000** | **9,769** | **74,884** | **0** | **594,532** |
| | 2018/19 | | 380,077 | 80,738 | 0 | 25,000 | 9,217 | 0 | 0 | 495,032 |
| Christian Hamilton<br>Executive Manager Strategy and Communications | **2019/20** | | **301,298** | **52,086** | **0** | **27,567** | **7,207** | **52,086** | **0** | **440,244** |
| | 2018/19 | | 287,223 | 51,499 | 0 | 31,462 | 6,995 | 0 | 0 | 377,179 |
| Wendy Hoad<br>General Counsel | **2019/20** | **7** | **5,930** | **0** | **0** | **731** | **100** | **0** | **0** | **6,761** |
| | 2018/19 | | 305,338 | 66,073 | 12,144 | 25,000 | 7,309 | 0 | 0 | 415,864 |
| Ashley Menadue<br>Chief Financial Officer | **2019/20** | | **440,887** | **82,712** | **0** | **30,886** | **10,491** | **82,712** | **0** | **647,688** |
| | 2018/19 | | 409,992 | 86,700 | 0 | 25,000 | 9,897 | 0 | 0 | 531,589 |
| Total | **2019/20** | | **2,253,859** | **413,961** | **13,087** | **155,491** | **54,235** | **284,446** | **0** | **3,175,079** |
| | 2018/19 | | 2,397,246 | 512,950 | 29,032 | 156,462 | 58,632 | 0 | 0 | 3,154,322 |
| **ASC Shipbuilding** | | | | | | | | | | |
| Jim Cuthill<br>Acting Chief Executive Officer ASC Shipbuilding | 2018/19 | 8 | 198,911 | 45,515 | 0 | 34,950 | 3,430 | 0 | 0 | 282,806 |
| Total | 2018/19 | | 198,911 | 45,515 | 0 | 34,950 | 3,430 | 0 | 0 | 282,806 |
| Grand Total | **2019/20** | | **2,253,859** | **413,961** | **13,087** | **155,491** | **54,235** | **284,446** | **0** | **3,175,079** |
| | 2018/19 | | 2,596,157 | 558,465 | 29,032 | 191,412 | 62,062 | 0 | 0 | 3,437,128 |

Notes:

1. Base salary includes annual leave accrued in the year and allowances paid.
2. ASC's policy is to pay superannuation at 9.5% on all applicable ordinary time earnings (e.g. salary, bonuses, allowances). Where the superannuation concessional cap (currently $25,000) would be exceeded, Senior Executives may request that the superannuation be converted to a cash payment. Where this has occurred the cash payment is included in base salary, bonuses or other long term benefits as applicable.
3. Amounts totalling $48,351 relating to superannuation on bonuses taken as cash due to concessional caps being exceeded have been reclassified from base salary to bonuses in the 2019 prior year $comparatives to align with the current year and provide greater transparency.
4. Long service leave relates to amounts accrued during the relevant period.
5. Other long term benefits includes deferred component of incentive scheme which is payable 12 months after it is earned.
6. Termination benefits exclude payment of statutory benefits for long service leave and annual leave, which have previously been accrued.
7. Wendy Hoad ceased employment on 5 July 2019.
8. 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.

# Key Management Personnel Remuneration 2019/20

Remuneration for Non-Executive Directors for FY 2018/19 and FY 2019/20 is shown in the table below

Table 8 Remuneration of Non-Executive Directors for the 2018/19 and 2019/20 financial year.

| | | | | | | Post Employment Benefits | Long-term benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Short-term benefits | | | | | | |
| | | | Base Salary | Bonuses | Other benefits and allowances (1) | Super-annuation contributions | Long Service Leave | Termination Benefits | **Total Renumeration** |
| | | Note | $ | $ | $ | $ | $ | $ | $ |
| **NON-EXECUTIVE DIRECTORS** | | | | | | | | | |
| **ASC Pty Ltd** | | | | | | | | | |
| Bruce Carter Chairman | **2019/20** | | **0** | **0** | **166,290** | **15,798** | **0** | **0** | **182,088** |
| | 2018/19 | | 0 | 0 | 163,020 | 15,487 | 0 | 0 | 178,507 |
| Rosalind Dubs Director | **2019/20** | **2** | **0** | **0** | **85,460** | **8,119** | **0** | **0** | **93,579** |
| | 2018/19 | | 0 | 0 | 83,770 | 7,958 | 0 | 0 | 91,728 |
| Gary Gray AO Director | **2019/20** | **3** | **0** | **0** | **59,471** | **5,650** | **0** | **0** | **65,121** |
| | 2018/19 | | 0 | 0 | 83,770 | 7,958 | 0 | 0 | 91,728 |
| Joycelyn Morton Director | **2019/20** | **4** | **0** | **0** | **93,940** | **8,924** | **0** | **0** | **102,864** |
| | 2018/19 | | 0 | 0 | 92,090 | 8,749 | 0 | 0 | 100,839 |
| Loretta Reynolds Director | **2019/20** | **5** | **0** | **0** | **85,780** | **8,149** | **0** | **0** | **93,929** |
| | 2018/19 | | 0 | 0 | 84,090 | 7,989 | 0 | 0 | 92,079 |
| Paul Rizzo Director | **2019/20** | **6** | **0** | **0** | **101,450** | **9,638** | **0** | **0** | **111,088** |
| | 2018/19 | | 0 | 0 | 99,450 | 9,448 | 0 | 0 | 108,898 |
| Geoffrey Rohrsheim Director | **2019/20** | **7** | **0** | **0** | **85,460** | **8,119** | **0** | **0** | **93,579** |
| | 2018/19 | | 0 | 0 | 24,787 | 2,355 | 0 | 0 | 27,142 |
| **Total** | **2019/20** | | **0** | **0** | **677,851** | **64,397** | **0** | **0** | **742,248** |
| | 2018/19 | | 0 | 0 | 630,977 | 59,943 | 0 | 0 | 690,920 |

Notes:

1. Director fees have been classified as Other benefits and allowances.
2. Rosalind Dubs is a member of the BASC.
3. Gary Gray was a member of the BASC. Gary Gray ceased to be a Non-Executive Director on 11 March 2020.
4. Joycelyn Morton is the Chair of the Audit Committee.
5. Loretta Reynolds is a member of the Audit Committee.
6. Paul Rizzo is the Chair of the BASC and a member of the Audit Committee.
7. Geoffrey Rohrsheim is a member of the BASC.

# Financial Report

30 June 2020



This financial report covers ASC Pty Ltd and its controlled entities.

The financial report is presented in Australian currency.

# Directors' Report

For the year ended 30 June 2020

Your directors present their report on the consolidated entity (referred to hereafter as the "Group" or the "consolidated entity") consisting of ASC Pty Ltd (the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2020.

## 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
Stuart Paul Whiley
Geoffrey Roland Rohrsheim

The Hon Gary Gray AO was a director from the beginning of the financial year until his resignation on 11 March 2020.

## Principal activities

The principal activities of the Group during the course of the financial year ended 30 June 2020 are set out below. No significant change in the nature of these activities occurred during the year.

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

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

*OPV related activities:*
ASC is a subcontractor to Luerssen Australia for the construction in SA of the first two of 12 Arafura Class OPVs in SA.

## Consolidated result

The consolidated profit of the Group for the financial year attributable to the shareholder of ASC Pty Ltd was $22,557,000 (2019: $30,272,000) after provision for income tax expense of $9,683,000 (2019: $12,857,000).

## Review of operations

*CCSM related activities:*
The Company completed the third and final year of PP3 of the ISSC and is currently in negotiations with CASG for entry into PP4 commencing financial year 2020/21.

*Hobart Class AWD related activities:*
Production has been completed for delivery of Ship 3 (*Sydney*) in December 2019. ASC, together with the Alliance, continues to close out obligations relating to the current scope of deliverables, primarily the warranty and delivery certificate scopes.

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 Standards Board (AASB) 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 $21.1m has been recognised to date.

*OPV related activities:*
Production on the first OPV continues, with the engine room capping completed in September 2019 and half ship consolidation completed in April 2020. Production on the second OPV commenced on June 2019, with ASC achieving contractual keel laying in November 2019 and first block join completed in April 2020.

As at 30 June 2020, the program is approximately 44.1% complete. Due to the terms and conditions within the contract, management has assessed that the program is loss making.

In accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and AASB 15 *Revenue from Contracts with Customers*, a loss provision of $10.7m has been recognised in the year ended 30 June 2020. This reflects management's assessment of the costs required to fulfil the remaining obligations under the contract less any expected Contract Change Proposal received from the customer.

**Dividends - ASC Pty Ltd**

The Directors declared an unfranked final dividend of $3.2m on 27 August 2020 for the year ended 30 June 2020.

Dividends paid during the financial year were as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$'000** | $'000 |
| Final dividend for the year ended 30 June 2019 paid on 29 October 2019 | **5,800** | 14,100 |
| Interim dividend for the year ended 30 June 2020 paid on 29 April 2020 | **4,000** | 12,400 |
| Special dividend | **800** | 500 |
| | **10,600** | 27,000 |

**State of affairs**

The resilience of the workforce was demonstrated in early 2020, with the emergence of the COVID-19 global pandemic. The health and well-being of employees was of utmost importance and a leadership team was established to ensure business continuity. The appropriate policies and procedures were implemented in corporate and shipyard environments to mitigate the potential risk and enable employees to carry out their roles effectively.

The pandemic has had a significant global economic impact, however the procedures implemented by the Group have ensured an uninterrupted schedule for the CCSM and OPV Programs during the period. Although certain costs have increased, COVID-19 has not had a significant impact on the supply chain nor the Group's principal activities for the year ended 30 June 2020.

The Group will continue to monitor the impact of COVID-19 and proactively manage to reduce the risk of disruption to submarine availability.

**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 SA and WA.

The Group is committed to achieving a high standard of environmental performance consistent with the requirements of AS/NZS ISO 14001:2016 EMS, which forms part of ASC's corporate management system. All of the Group sites, comprised of the SA and WA submarine facilities and the SA shipbuilding facility, have accreditation for AS/NZS ISO 14001:2016 EMS.

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

**Events subsequent to the end of the reporting period**

On 22 July 2020, the Australian Taxation Office (ATO) issued Taxation Determination TD 2020/6 (TD 2020/6) which outlines the ATO's views regarding the application of certain aspects of the demerger relief provisions in Division 125 of the *Income Tax Assessment Act 1997 (Cth)*. TD 2020/6 applies both retrospectively and prospectively and, as a consequence, there is now some uncertainty as to whether demerger relief applied to certain restructures of the ASC Group undertaken by its Shareholder. ASC is currently assessing whether TD 2020/6 could have any impact in this regard.

# Directors' Report *- continued*

For the year ended 30 June 2020

### 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 37.

### 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
27 August 2020

## ASC PTY LTD AND ITS CONTROLLED ENTITIES

## FINANCIAL REPORT 2019–20

## 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 2020, 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

Scott Sharp
Executive Director

Delegate of the Auditor-General

Canberra

27 August 2020

GPO Box 707 CANBERRA ACT 2601
38 Sydney Avenue FORREST ACT 2603
Phone (02) 6203 7300 Fax (02) 6203 7777

## Directors' Declaration

For the year ended 30 June 2020

The directors declare that, in the directors' opinion:

(a) the financial statements and notes set out on pages 44 to 94 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 2020 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
27 August 2020

INDEPENDENT AUDITOR'S REPORT

To the members of ASC Pty Ltd

## Opinion

In my opinion, the general-purpose financial report of ASC Pty Ltd (the Company) and its controlled entities (together the Group) for the year ended 30 June 2020 is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 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 as at 30 June 2020 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 Group 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 (including Independence Standards)* (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 believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is the director's report for the year ended 30 June 2020 but does not include the financial statements 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.

GPO Box 707 CANBERRA ACT 2601
38 Sydney Avenue FORREST ACT 2603
Phone (02) 6203 7300 Fax (02) 6203 7777

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

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

### Directors' responsibility for the financial report

The directors of 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 Company and the Group 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 this 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 Group'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 consolidate 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, 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

Scott Sharp
Executive Director
Delegate of the Auditor General

Canberra
27 August 2020

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

| | Notes | June 2020 $'000 | June 2019 $'000 |
|---|---|---|---|
| **Revenue** | 4(a) | **675,881** | 743,010 |
| **Expenses** | | | |
| Materials and subcontractors | | **(245,443)** | (289,398) |
| Labour | | **(298,425)** | (317,162) |
| Depreciation and amortisation expense | 5 | **(11,592)** | (14,296) |
| Depreciation right of use assets | 5 | **(15,387)** | - |
| Lease expense | 5 | **(7,024)** | (33,321) |
| Other expenses | | **(59,793)** | (44,853) |
| Finance costs | 5 | **(5,977)** | (851) |
| **Profit before income tax** | | **32,240** | 43,129 |
| Income tax expense | 6(a) | **(9,683)** | (12,857) |
| **Profit for the year** | | **22,557** | 30,272 |
| **Other comprehensive income** | | | |
| ***Items that will not be reclassified to profit or loss*** | | | |
| Remeasurements of post-employment benefit obligation | 8(d)(vi) | **(513)** | (249) |
| Income tax relating to these items | | **154** | 75 |
| **Other comprehensive income for the year, net of tax** | | **(359)** | (174) |
| **Total comprehensive income for the year** | | **22,198** | 30,098 |
| Profit is attributable to: | | | |
| Owners of ASC Pty Ltd | | **22,557** | 30,272 |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of ASC Pty Ltd | | **22,198** | 30,098 |

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

## Consolidated Statement Of Financial Position

For the year ended 30 June 2020

| | Notes | June 2020 $'000 | June 2019 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7(a) | **219,183** | 204,105 |
| Trade and other receivables | 7(b) | **74,240** | 130,251 |
| Contract assets | 4(b) | **19,502** | 9,836 |
| Unpaid share capital | 8(c) | **11,000** | 11,000 |
| Inventories | | **41** | 112 |
| Other current assets | | **6,406** | 3,859 |
| **Total current assets** | | **330,372** | 359,163 |
| **Non-current assets** | | | |
| Net pension assets | 8(d)(ii) | **332** | 760 |
| Property, plant and equipment | 8(a) | **26,352** | 33,404 |
| Right-of-use assets | 8(b) | **137,465** | - |
| Deferred tax assets | 6(d) | **24,321** | 14,811 |
| Unpaid share capital | 8(c) | **10,971** | 21,671 |
| Other non-current assets | 9 | **2,317** | 2,561 |
| **Total non-current assets** | | **201,758** | 73,207 |
| **Total assets** | | **532,130** | 432,370 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **46,148** | 87,691 |
| Contract liabilities | 4(b) | **65,475** | 100,350 |
| Interest bearing liabilities | 7(c) | **65,954** | 65,788 |
| Lease liabilities | 7(c) | **13,547** | - |
| Current tax liabilities | | **14,602** | 1,393 |
| Provisions | 8(e) | **47,291** | 36,257 |
| **Total current liabilities** | | **253,017** | 291,479 |
| **Non-current liabilities** | | | |
| Non interest bearing liabilities | 7(c) | **134** | 3 |
| Lease liabilities | 7(c) | **126,302** | - |
| Provisions | 8(e) | **6,421** | 6,600 |
| **Total non-current liabilities** | | **132,857** | 6,603 |
| **Total liabilities** | | **385,874** | 298,082 |
| **Net assets** | | **146,256** | 134,288 |
| | | | |
| **EQUITY** | | | |
| Share capital | 10(a) | **64,971** | 64,671 |
| Retained earnings | 10(b) | **81,285** | 69,617 |
| **Total equity** | | **146,256** | 134,288 |

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.*

# Consolidated Statement Of Changes In Equity

For the year ended 30 June 2020

| | Attributable to owners of ASC Pty Ltd | | |
|---|---|---|---|
| | Share capital $'000 | Retained earnings $'000 | Total equity $'000 |
| **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** |
| | | | |
| **Balance at 1 July 2019** | 64,671 | 69,617 | 134,288 |
| **Restated total equity at 1 July 2019** | **64,671** | **69,617** | **134,288** |
| Profit for the period | - | 22,557 | 22,557 |
| Remeasurement of defined benefit obligations | - | (513) | (513) |
| Income tax relating to these items | - | 154 | 154 |
| **Total comprehensive income for the year** | **-** | **22,198** | **22,198** |
| **Transactions with owners in their capacity as owners:** | | | |
| Dividend paid | - | (10,600) | (10,600) |
| In specie dividend / separation adjustment | - | 70 | 70 |
| Unwinding of the discount of share capital issue | 300 | - | 300 |
| | 300 | (10,530) | (10,230) |
| **Balance at 30 June 2020** | **64,971** | **81,285** | **146,256** |

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

# Consolidated Statement Of Cash Flows

For the year ended 30 June 2020

| | Notes | June 2020 $'000 | June 2019 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **771,924** | 846,482 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | **(730,610)** | (876,253) |
| Income taxes paid | | **(5,831)** | (14,284) |
| **Net cash inflow (outflow) from operating activities** | 19(a) | **35,483** | (44,055) |
| | | | |
| **Cash flows from investing activities** | | | |
| Interest received | | **1,762** | 3,779 |
| Payments for property, plant and equipment | 8(a) | **(4,953)** | (4,325) |
| Proceeds from sale of property, plant and equipment | | **730** | 329 |
| ASC Shipbuilding cash transferred at separation | | **-** | (25,523) |
| **Net cash (outflow) from investing activities** | | **(2,461)** | (25,740) |
| | | | |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(10,600)** | (27,000) |
| Proceeds from issues of shares and other equity securities | | **11,000** | 11,000 |
| Proceeds from borrowings | 19(b) | **36,092** | 64,546 |
| Repayment of borrowings | 19(b) | **(36,000)** | (90,851) |
| Principal element of lease payments | 19(b) | **(13,003)** | - |
| Interest paid | | **(5,507)** | (546) |
| **Net cash (outflow) from financing activities** | | **(18,018)** | (42,851) |
| | | | |
| **Net increase (decrease) in cash and cash equivalents** | | **15,004** | (112,646) |
| Cash and cash equivalents at the beginning of the financial year | | **204,105** | 315,427 |
| Effects of exchange rate changes on cash and cash equivalents | | **74** | 1,324 |
| **Cash and cash equivalents at end of year** | 7(a) | **219,183** | 204,105 |

*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.*

This page was left blank intentionally

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

Contents of the notes to the consolidated financial statements

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended 30 June 2020 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 AASB and the *Corporations Act 2001*. ASC is a for-profit entity for the purpose of preparing the financial statements.

*(i) Compliance with International Financial Reporting Standards*

The consolidated financial statements of the Group also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Historical cost convention*

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

- Financial assets and liabilities (including derivative instruments) - measured at fair value
- Retirement benefit obligations - plan assets measured at fair value

*Critical accounting estimates and judgements*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

*Going concern*

The working capital for the Group has changed during the year to $77,355,000 (2019: $67,684,000). The financial statements are prepared on a going concern basis due to the following reasons:

- The Group has received a $32m working capital advance from the customer on its largest contract (the ISSC) to assist with matching the timing of the receipts of billings with the timing of the payments for the operating expenditure;
- Net assets of $146,256,000 (June 2019: $134,288,000);
- The Group is profitable;
- $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 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.

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

*(ii) Revised standards and interpretations applied*

A number of new or amended standards became applicable for the current reporting period. The Group had to change its accounting policies and make retrospective adjustments as a result of adopting AASB 16 *Leases*. The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 1(a)(iii) below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

*(iii) Change in accounting policy*

*AASB 16 Leases*

This standard replaces AASB 117 *Leases*. The adoption of this new standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the initial date of application.

The Group has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. On transition, for leases previously accounted for as an operating lease with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the practical expedient to not recognise the right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term.

On transition to the new standard, the weighted average incremental borrowing rate applied to lease liabilities recognised under the new standard was 3.75%.

The Group has elected not to include direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application, being 1 July 2019. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review of the right-of-use assets at the date of initial application, the Group has relied on its assessment of whether leases were onerous applying AASB 137 *Provisions, Contingent Assets and Contingent Liabilities* immediately before the date of initial application.

*Practical expedients applied*

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 July 2019;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

The following is the impact of implementation of the new standard to the Group's statement of financial position at 1 July 2019.

| **Balance Sheet (extract)** | **30 June 2019 $'000** | **Impact of AASB 16 $'000** | **Revised July 1 2019 $'000** |
|---|---|---|---|
| Right-of-use assets | - | 149,683 | 149,683 |
| Total non-current assets | 73,207 | - | 222,890 |
| Total assets | 432,370 | - | 582,053 |
| Lease liabilities - current | - | 12,957 | 12,957 |
| Total current liabilities | 291,479 | - | 304,436 |
| Lease liabilities - current | - | 136,726 | 136,726 |
| Total non-current liabilities | 6,603 | - | 143,329 |
| Total liabilities | 298,082 | - | 447,765 |
| Total equity | 134,288 | - | 134,288 |

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (a) Basis of preparation - continued

The following is a reconciliation of total operating lease commitments disclosed applying AASB 117 at 30 June 2019 to the lease liabilities recognised at 1 July 2019.

| | | **$'000** |
|---|---|---|
| Total operating lease commitment disclosed at 30 June 2019 | | **113,683** |
| Recognition exemptions: | | |
| - low value leases | (45) | |
| - leases with remaining lease terms of less than 12 months | (13,101) | |
| Amounts payable to Australian Naval Infrastructure Pty Ltd under the Transitional Services Agreement not included at 30 June 2019 | 79,732 | |
| Other adjustments relating to commitment disclosures | 2,638 | |
| | | 69,225 |
| Operating lease liabilities before discounting | | 182,907 |
| Discounted using incremental borrowing rate | | (33,224) |
| Lease liability recognised under AASB 16 at 1 July 2019 | | **149,683** |

*Previous policy (effective to 30 June 2019)*

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised as an asset and liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

*Current policy (effective from 1 July 2019)*

At the start of a contract, the Group determines whether a contract is, or contains, a lease. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease component based on their relative stand-alone prices.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed) less any lease incentives receivable, variable payments that are dependent on an index or rate (initially measured using the index or rate as at the commencement date), amounts expected to be payable under a residual value guarantee or early termination clause, if the early termination is reasonably expected and payments arising from options reasonably certain to be exercised. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The Group measures the lease liability at the present value of the lease payments discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate (being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions).

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the profit or loss over the lease period so as to product a constant periodic rate of interest on the remaining balance of the liability for each period.

For short-term leases and leases of low-value assets, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term instead of recognising a right-of-use asset and lease liability. Short-term leases are leases with a lease term of 12 months or less. Low-value leases comprise various pool cars.

*(iv) 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 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### (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 17. 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.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 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 on financial assets at amortised cost is recognised in profit or loss. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### (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, labour over recoveries and project losses are recognised as contract liabilities.

## (e) Foreign currency

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange differences arising in respect of contract work in progress, to the extent they are recoverable, are included in the measurement of the contract billings and work in progress costs. To the extent they are not recoverable, foreign exchange gains and losses are recognised in profit or loss.

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 fair value of other comprehensive income 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.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (g) Taxation

*Tax consolidation*

The Company and its wholly-owned Australian subsidiaries have formed an income tax consolidation group under the tax consolidation legislation since 1 July 2002. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entitles are set off in the consolidated financial statements.

In addition to its own current and deferred tax amounts, the Group also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

*Accounting for income tax*

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### (h) 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.

*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.

### (i) Trade and other receivables
Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds trade receivables with the objective of collecting the contractual cash flows and therefore subsequently measures them at amortised cost using the effective interest method. 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 1(n) for impairment of financial assets.

### (j) 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.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (k) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated Goods and Services Tax (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.

### (l) 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 SA. 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. The provision is based on an actuarial assessment.

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.

### (m) 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.

### (n) 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*
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.

### (o) Cash and cash equivalents

Cash and cash equivalents include:

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

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

Included in the cash at bank are amounts advanced to the Company and to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the Group, by the CoA, for the purpose of funding the working capital requirement of the CCSM ISSC and the Hobart Class AWD project. The amounts advanced have certain contractual restrictions placed on their use. The funds maintained may only be applied to direct project expenditure incurred and claims for reimbursement from the CoA. This amount has been disclosed at note 7(a).

### (p) 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.

*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.

*Measurement*
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.

### (q) 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.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

### (r) 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.

### (s) 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*.

### (t) 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 the expected credit loss model under *AASB 9 Financial Instruments* and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of *AASB 15 Revenue from Contracts with Customer*s.

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 or subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

### (u) Parent entity financial information

The financial information for the parent entity, ASC Pty Ltd, disclosed in note 18 has been prepared on the same basis as the consolidated financial statements, except as set out below.

*(i) Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost in the financial statements of ASC Pty Ltd.

*(ii) Financial guarantees*

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

### (v) Contributed equity

Ordinary shares are classified as equity.

## 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates, judgements and assumptions concerning the future. These estimates, judgements and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

### Key sources of estimation uncertainty

*Revenue 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 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 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. As at 30 June 2020, the expected loss has been reviewed in the current period based on management's most recent forecast and accounting standard *AASB 15 Revenue from Contracts with Customer*s.

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.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS - CONTINUED

*OPV Program*

Forecasts of costs to complete the construction of the two OPVs are undertaken as part of a formal quarterly process. As at 30 June 2020, management's forecasts of costs to complete the two OPVs indicated that it was probable that total costs related to the contract will exceed total contract revenues, including any expected Contract Change Proposals received from the customer, and that the contract is therefore loss making.

In accordance with *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* and *AASB 15 Revenue from Contracts with Customers*, the Group has recognised an initial provision for loss on the OPV contract of $10.7m as at 30 June 2020.

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.

*Leases*

The Group determines whether a contract is, or contains, a lease at the commencement date. This is done by assessing whether the contract contains an identified asset, has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use and has the right to direct how and for what purpose the asset is used throughout the period of use.

In determining the lease term, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken to help determine the lease term. Extension options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The present value of the lease payment is discounted using the Group's incremental borrowing rate. This rate represents the rate of interest of the Group's overdraft facility which would be the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds to obtain an asset of a similar value to the right of use asset in a similar economic environment.

*Net pension assets / liabilities*

The present value of a defined benefit contribution plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions (including discount rates, future salary increases and expected rate of return).

## 3 FINANCIAL AND CAPITAL RISK MANAGEMENT

### Financial risk management

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

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

The board has also established the BASC, which is responsible for the oversight of non financial risks.

Both committees report regularly to the board on their activities.

| | **June 2020 $'000** | June 2019 $'000 |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | **219,183** | 204,105 |
| Trade and other receivables | **74,240** | 130,251 |
| | **293,423** | 334,356 |
| | | |
| **Financial liabilities** | | |
| Trade and other payables | **46,148** | 87,691 |
| Interest bearing liabilities | **65,954** | 65,788 |
| Non interest bearing liabilities | **134** | 3 |
| Lease liabilities | **139,849** | - |
| | **252,085** | 153,482 |

### (a) Credit risk

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

*Trade and other receivables*

The Group's credit exposures to customers, including outstanding receivables and committed transactions, are minimal, as the one substantial customer of the Group is the CoA 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 12 for details). Such guarantees are issued in accordance with the ASC corporate management policies and are only provided to support a financial/commercial arrangement.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 3 FINANCIAL AND CAPITAL RISK MANAGEMENT - CONTINUED

### (a) Credit risk - continued

*Financial securities received*

Credit risk also arises in relation to $0.9 million (2019: $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. However, the affected financial securities expired in the current year and the Group is no longer exposed to this risk.

*Recognised financial instruments*

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Trade receivables** | | |
| Counterparties with external credit rating | | |
| AAA (CoA) | **72,220** | 127,145 |
| A3 | **1,774** | 2,683 |
| Baa2 | **47** | 19 |
| Credit rating not determined | **113** | 309 |
| **Total trade receivables** | **74,154** | 130,156 |
| | | |
| **Aa3- rated cash at bank, short term deposits and interest receivable** | | |
| Cash and cash equivalents | **219,183** | 204,105 |
| Interest receivable | **86** | 95 |
| | **219,269** | 204,200 |

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 loss allowance provisions as summarised above.

A substantial proportion of the consolidated entity's operations are in relation to the ISSC for six CCSMs, the Hobart Class AWD program for the construction of the Navantia-designed AWDs and the OPV program for the construction of Luerssen-designed OPVs.

The ISSC and AWD projects receive a substantial portion of their entire funding from the CoA, 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.

The Group's ISSC and AWD programs 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 while the OPV program is based on the achievement of milestones. Due to the nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

The Group maintains the following lines of credit:

- $47,000,000 overdraft facility not utilised at balance date (2019: $47,000,000). The facility does not have an expiry date but is reviewed annually by the provider. Interest would be payable at the rate of Bank Bill Overdraft Rate plus margin; and
- $30,000,000 multi-option bank facility not utilised at balance date (2019: $30,000,000). The facility is reviewed annually by management. The current facility will expire in November 2020.

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

*Maturities of financial liabilities*
The tables 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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| Contractual maturities of financial liabilities | < 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 |
|---|---|---|---|---|---|---|---|
| **At 30 June 2020** | | | | | | | |
| **Non-derivatives** | | | | | | | |
| Non interest bearing | - | 46,148 | - | - | 160 | 46,308 | 46,282 |
| Variable rate (including bank overdraft) | - | 65,954 | - | - | - | 65,954 | 65,954 |
| Lease liabilities | 9,279 | 9,279 | 17,695 | 51,282 | 80,631 | 168,166 | 139,849 |
| **Total non-derivatives** | **9,279** | **121,381** | **17,695** | **51,282** | **80,791** | **280,428** | **252,085** |
| At 30 June 2019 | | | | | | | |
| **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 |

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 3 FINANCIAL AND CAPITAL RISK MANAGEMENT - CONTINUED

### (c) Market risk

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

*Foreign exchange risk*

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

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

| | | Consolidated Entity | |
|---|---|---|---|
| | | **June 2020** | June 2019 |
| | **Currency** | **AUD** | AUD |
| | | **$'000** | $'000 |
| **Financial assets** | | | |
| Cash and cash equivalents | USD | **2,707** | 2,493 |
| | EUR | **3,280** | 2,680 |
| | GBP | **421** | 417 |
| | CAD | **272** | 234 |
| | Total | **6,680** | 5,824 |
| Trade and other receivables | | | |
| | USD | **46** | 164 |
| | EUR | **554** | 1,474 |
| | GBP | **-** | 11 |
| | Total | **600** | 1,649 |
| **Financial liabilities** | | | |
| Trade and other payables | USD | **-** | 4 |
| | EUR | **60** | 283 |
| | GBP | **-** | 3 |
| | Total | **60** | 290 |
| Interest bearing liabilities | USD | **1,986** | 1,944 |
| | EUR | **4,120** | 4,080 |
| | GBP | **437** | 441 |
| | CAD | **229** | 234 |
| | Total | **6,772** | 6,699 |

*Interest rate risk*

As the Group holds term interest bearing assets, the Group's income and operating cash flows are exposed to changes in market interest rates. The Group's investment policy permits investment in deposits with banks and securities issued by the State and/or Commonwealth Government.

As a general rule, the Group holds these investments to maturity, thereby reducing exposure to changes in market value.

The exposures of the consolidated entity to interest rate risk as well as the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

| | **June 2020** | | June 2019 | |
|---|---|---|---|---|
| | **$'000** | **Effective Interest Rate %** | $'000 | Effective Interest Rate % |
| **Financial assets** | | | | |
| Cash and cash equivalents | 219,183 | 0.83% | 204,105 | 1.33% |
| Trade and other receivables | 74,240 | 0.00% | 130,251 | 0.00% |
| **Total financial assets** | **293,423** | | 334,356 | |
| **Financial liabilities** | | | | |
| Trade and other payables | 46,148 | 0.00% | 87,691 | 0.00% |
| Interest-bearing liabilities | 65,954 | 0.31% | 65,788 | 0.87% |
| Non interest-bearing liabilities | 134 | 0.25% | 3 | 5.50% |
| Lease liabilities | 139,849 | 3.75% | - | 0.00% |
| **Total financial liabilities** | **252,085** | | 153,482 | |

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

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 3 FINANCIAL AND CAPITAL RISK MANAGEMENT - CONTINUED

### (c) Market risk - continued

*Sensitivity*

At 30 June 2020, 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 2020 has been performed on the same basis as 30 June 2019. 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.

| | | Interest rate risk | | | |
|---|---|---|---|---|---|
| | **Carrying amount** | **-0.75% Profit** | **Other Equity** | **+0.75% Profit** | **Other Equity** |
| **At 30 June 2020** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Financial assets** | | | | | |
| Cash and cash equivalents | $219,183 | (1,644) | - | 1,644 | - |
| Trade and other receivables | $74,240 | (1) | - | 1 | - |
| **Financial liabilities** | | | | | |
| Trade and other payables | ($46,148) | - | - | - | - |
| Interest bearing liabilities | ($65,954) | (72) | - | 72 | - |
| Non interest bearing liabilities | ($134) | - | - | - | - |
| Lease liabilities | ($139,849) | (1,049) | - | 1,049 | - |
| **Total increase/ (decrease)** | | **(2,766)** | **-** | **2,766** | **-** |

| | | Interest rate risk | | | |
|---|---|---|---|---|---|
| | Carrying amount | -0.75% Profit | Other Equity | +0.75% Profit | Other Equity |
| At 30 June 2019 | $'000 | $'000 | $'000 | $'000 | $'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) | - | - | - | - |
| Non interest bearing liabilities | ($3) | - | - | - | - |
| **Total increase/ (decrease)** | | ($1,532) | - | $1,532 | **-** |

### 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.

The financial undertakings in relation to the multi-option facility are as follows:

- Interest coverage ratio to be greater than 3.50 as at the end of the financial year
- Gearing ratio to be greater than 50% as at the end of the financial year
- Leverage ratio to be less than 3.50 as at the end of the financial year

## 4 REVENUE

### (a) Disaggregation of revenue

The Group derives the following types of revenue.

| | June 2020<br>$'000 | June 2019<br>$'000 |
|---|---|---|
| **Revenue from contracts with customers by contract type** | | |
| Target cost estimate contract | **311,884** | 305,671 |
| Cost reimbursable contract | **157,071** | 228,089 |
| Fixed price contract | **49,350** | 35,794 |
| Survey and quote contract | **36,004** | 27,407 |
| Services contract | **115,754** | 134,707 |
| | **670,063** | 731,668 |
| **Interest income** | | |
| Other parties | **1,762** | 3,629 |
| **Other income** | | |
| Related parties | **3,447** | 7,713 |
| Other | **609** | - |
| | **4,056** | 7,713 |
| | **675,881** | 743,010 |
| **Revenue from contract with customers by timing of revenue recognition** | | |
| Over time | **573,215** | 616,779 |
| At a point in time | **96,848** | 114,889 |
| | **670,063** | 731,668 |
| **Revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period.** | | |
| Target cost estimate | **8,293** | 315 |
| Services contract | **6,659** | - |
| Cost reimbursable contract | **-** | 879 |
| Fixed price contract | **38,238** | - |
| Survey and quote contract | **449** | - |
| | **53,639** | 1,194 |

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 4 REVENUE - CONTINUED

### (b) Contract assets and liabilities

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

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Contract assets** | | |
| CCSM | **17,046** | 8,718 |
| MSG | **2,456** | 1,118 |
| | **19,502** | 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 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Contract liabilities** | | |
| CCSM | **37,576** | 51,932 |
| MSG | **27,899** | 48,418 |
| | **65,475** | 100,350 |

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

### (c) Unsatisfied long-term contracts

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

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Aggregate amount of transaction price that are partially or fully unsatisfied as at 30 June.** | | |
| Collins Class Submarines | **119,380** | 519,481 |
| Maritime Services Group | **140,543** | 198,219 |
| | **259,923** | 717,700 |

Management expects that 68% of the transaction price allocated to the unsatisfied contracts as at 30 June 2020 (2019: 76%) will be recognised as revenue during the next reporting period with the remaining 32% (2019: 24%) will be recognised beyond that.

## 5 OTHER INCOME AND EXPENSE ITEMS

Items included in profit before tax

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Depreciation** | | |
| Plant and equipment | **11,348** | 14,052 |
| **Amortisation** | | |
| Contribution to Henderson CUF | **244** | 244 |
| Total depreciation and amortisation | **11,592** | 14,296 |
| **Finance costs** | | |
| Bank charges | **470** | 305 |
| Interest related parties | **92** | 546 |
| | **562** | 851 |
| **Employee related expenses** | | |
| Long service leave expense | **4,775** | 2,456 |
| Redundancy expense | **1,280** | 945 |
| Defined benefit superannuation expense | **(85)** | (389) |
| Wages and salaries | **191,687** | 176,941 |
| | **197,657** | 179,953 |
| Release on AWD project | **(7,149)** | (11,567) |
| Loss on OPV contract | **10,731** | - |
| Bad debt expense | **976** | 877 |
| **Lease related expenses** | | |
| **Depreciation charge for right-of-use assets by asset type** | | |
| - Land | **1,854** | - |
| - Buildings | **12,869** | - |
| - Plant and equipment | **664** | - |
| | **15,387** | - |
| Interest expense - lease | **5,415** | - |
| Short term and low value leases, not recognised as a liability under AASB 16 | **7,024** | - |
| Operating leases under AASB 117 | **-** | 33,321 |
| | **12,439** | 33,321 |
| | **27,826** | 33,321 |

The total cash outflow of leases accounted for under AASB 16 was $25.4 million.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 6 INCOME TAX

### (a) Income tax expense

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Recognised in the income statement** | | |
| *Current tax expense* | | |
| Current year | **19,467** | 10,724 |
| Adjustments for prior years | **(428)** | (91) |
| **Total current tax expense** | **19,039** | 10,633 |
| *Deferred income tax* | | |
| Temporary differences arising during the year, net of reversal | **(9,784)** | 2,224 |
| Adjustment for prior years deferred tax | **428** | - |
| **Total deferred tax expense/(benefit)** | **(9,356)** | 2,224 |
| **Income tax expense** | **9,683** | 12,857 |
| Income tax expense is attributable to: | | |
| Profit from continuing operations | **9,683** | 12,857 |

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

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Profit from continuing operations before income tax expense** | **32,240** | 43,129 |
| Tax at the Australian tax rate of 30.0% (2019 - 30.0%) | **9,672** | 12,939 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Research and development tax incentive | **-** | (91) |
| Non deductible expenses | **11** | 9 |
| Income tax expense | **9,683** | 12,857 |

### (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 2020 $'000 | June 2019 $'000 |
|---|---|---|
| Net deferred tax | **(154)** | (75) |

### (d) Deferred tax assets

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Lease liabilities | **41,696** | - |
| Employee benefits | **15,269** | 11,953 |
| Property, plant and equipment | **2,127** | 1,267 |
| Project recognised profit | **4,513** | 1,601 |
| Sundry items | **2,462** | 1,130 |
| | **66,067** | 15,951 |

| Movements | Lease liabilities $'000 | Employee benefits $'000 | Property, plant and equipment $'000 | Project recognised profit $'000 | Sundry items $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **At 1 July 2018** | - | 11,392 | 1,400 | 4,233 | 1,198 | 18,223 |
| (charged)/credited | | | | | | |
| - to profit or loss | - | 561 | (133) | (2,632) | (68) | (2,272) |
| **At 1 July 2019** | - | 11,953 | 1,267 | 1,601 | 1,130 | 15,951 |
| (charged)/credited | | | | | | |
| - to profit and loss adjustment for prior year | - | - | - | (428) | - | (428) |
| - to profit or loss current year | 41,696 | 3,316 | 860 | 3,339 | 1,332 | 50,544 |
| **At 30 June 2020** | 41,696 | 15,269 | 2,127 | 4,513 | 2,462 | 66,067 |

## (e) Deferred tax liabilities

| | **June 2020 $'000** | June 2019 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Right of use assets | **40,981** | - |
| Net pension assets | **100** | 228 |
| Sundry items | **665** | 912 |
| | **41,746** | 1,140 |

| Movements | Right of use assets $'000 | Net pension asset $'000 | Sundry items $'000 | Total $'000 |
|---|---|---|---|---|
| **At 1 July 2018** | - | 233 | 932 | 1,165 |
| (charged)/credited | | | | |
| - to profit or loss | - | (5) | (20) | (25) |
| **At 1 July 2019** | - | 228 | 912 | 1,140 |
| (charged)/credited | | | | |
| - to equity | - | (154) | - | (154) |
| - to profit or loss | 40,981 | 26 | (247) | 40,760 |
| **At 30 June 2020** | 40,981 | 100 | 665 | 41,746 |

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### (a) Cash and cash equivalents

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Current assets** | | |
| Cash at bank and on hand | **105,503** | 125,578 |
| Other cash and cash equivalents | **113,680** | 78,527 |
| | **219,183** | 204,105 |

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

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 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 2020, the balance of restricted cash was $9.6 million (2019: nil).

### (b) Trade and other receivables

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Current** | | |
| **Trade receivables** | | |
| Trade receivables | **45,135** | 91,586 |
| Loss allowance provision | **(3,479)** | (2,251) |
| | **41,656** | 89,335 |
| | | |
| **Other receivables** | | |
| Accrued revenue | **30,470** | 40,498 |
| Other receivables | **2,028** | 323 |
| Interest receivable | **86** | 95 |
| | **32,584** | 40,916 |
| | | |
| | **74,240** | 130,251 |

| | 30 June 2020 | | 30 June 2019 | |
|---|---|---|---|---|
| **Accounts Receivable Ageing Profile** | **Gross carrying amount $'000** | **Effective loss rate** | Gross carrying amount $'000 | Effective loss rate |
| Not past due | 77,635 | 0.00% | 131,288 | 0.00% |
| Past due 1-30 days | 43 | 0.00% | - | 0.00% |
| Past due 31-60 days | 25 | 0.00% | 1,126 | 0.00% |
| Past due 61-90 days | 12 | 0.00% | - | 0.00% |
| Past due +90 days | 4 | 0.00% | 88 | 0.00% |
| | **77,719** | | **132,502** | |

*Amounts recognised in profit or loss*

The write-downs of receivables to net realisable value recognised during the year ended 30 June 2020 amounted to $1.0 million (2019: $0.9 million).

The loss allowance provision for trade receivables as at 30 June reconcile to the opening loss allowance as follows:

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Opening balance** | **(2,251)** | (1,374) |
| Increase in loss allowance provision recognised in the profit and loss during the year | **(976)** | (877) |
| Receivables written off during the year as uncollectible | **(252)** | - |
| Closing balance | **(3,479)** | (2,251) |

## (c) Borrowings

| **Interest bearing liabilities** | **June 2020** | June 2019 |
|---|---|---|
| **Current - Unsecured** | **$'000** | $'000 |
| Government advance | **65,954** | 65,788 |

### Government advance

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

*ISSC advance*

At 30 June 2020, the balance is $32.0 million (June 2019: $32.0 million). The advance paid by the CoA is in Australian dollars.

It can only be used for the reimbursement of payments by the Company for direct project costs incurred for the ISSC activities.

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

*ABTIA advance*

At 30 June 2020, the balance is $34.0 million (June 2019: $33.8 million). Advances paid by the CoA are both in Australian and foreign currencies and are required to be separately maintained in a CoA interest bearing account.

Funds advanced can only be used for the reimbursement of payments by 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 of the AWD project.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES - CONTINUED

### (c) Borrowings - continued

**Non interest bearing liabilities**

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Non current - unsecured** | | |
| Term loan | **134** | 3 |
| | **134** | 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.

The term loan to ASC Pty Ltd has been discounted to its fair value of $133,700 in total for the year ended 30 June 2020 (2019: $3,200) under AASB 139 Financial Instruments: Recognition and Measurement.

**Lease liabilities**

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Unsecured** | | |
| Current | **13,547** | - |
| Non-current | **126,302** | - |
| | **139,849** | - |

As per note 1(a)(ii), the Group implemented AASB 116 Leases effective 1 July 2019. The Group leases various property, plant and equipment in SA and WA. A significant portion of the leases are long term in nature and are in support of the CCSM maintenance activities.

## 8 NON-FINANCIAL ASSETS AND LIABILITIES

### (a) Property, plant and equipment

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Plant and equipment** | | |
| Cost | **136,232** | 136,287 |
| Accumulated depreciation | **(113,636)** | (104,546) |
| | **22,596** | 31,741 |
| **Asset under construction** | | |
| Assets under construction | **3,756** | 1,663 |
| | **3,756** | 1,663 |
| Total property, plant and equipment | **26,352** | 33,404 |

| | Plant and equipment $'000 | Assets under construction $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 30 June 2020** | | | |
| Opening net book amount | 31,741 | 1,663 | 33,404 |
| Additions | 197 | 4,756 | 4,953 |
| Transfers | 2,683 | (2,663) | 20 |
| Depreciation charge | (11,348) | - | (11,348) |
| Disposals | (677) | - | (677) |
| Closing net book amount | 22,596 | 3,756 | 26,352 |
| **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 |

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

Refer to note 13 for information on non-current assets pledged as security by the Group.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 8 NON-FINANCIAL ASSETS AND LIABILITIES - CONTINUED

### (b) Right-of-use assets

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Land** | | |
| Gross value | **29,086** | - |
| Accumulated depreciation | **(1,855)** | - |
| | **27,231** | - |
| **Buildings** | | |
| Gross value | **122,037** | - |
| Accumulated depreciation | **(12,869)** | - |
| | **109,168** | - |
| **Other plant and equipment** | | |
| Gross value | **1,729** | - |
| Accumulated depreciation | **(663)** | - |
| | **1,066** | - |
| Total right-of-use assets | **137,465** | - |

| | Land $'000 | Buildings $'000 | Other plant and equipment $'000 | Total $'000 |
|---|---|---|---|---|
| **Year ended 30 June 2020** | | | | |
| Opening net book amount | - | - | - | - |
| Implementation of AASB 116 | 28,955 | 118,999 | 1,729 | 149,683 |
| Additions | - | - | - | - |
| Remeasurement | 131 | 3,038 | - | 3,169 |
| Depreciation charge | (1,855) | (12,869) | (663) | (15,387) |
| Closing net book amount | 27,231 | 109,168 | 1,066 | 137,465 |

As per note 1(a)(ii), the Group implemented AASB 116 effective 1 July 2019. The Group leases various property, plant and equipment in SA and WA.

### (c) 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 five years.

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Unpaid share capital** | | |
| Current | **11,000** | 11,000 |
| Non current | **10,971** | 21,671 |
| | **21,971** | 32,671 |

## (d) 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 based 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 2020 was carried out by David O'Keefe, Fellow of the Institute of Actuaries of Australia, of ALEA Actuarial Consulting Pty Limited in June 2020.

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.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 8 NON-FINANCIAL ASSETS AND LIABILITIES - CONTINUED

### (d) 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 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** |
| **1 July 2019** | **(5,341)** | **6,101** | **760** |
| Current service cost | (75) | - | (75) |
| Interest (expense)/income | (96) | - | (96) |
| Expected return on plan assets | - | 123 | 123 |
| **Total amount recognised in profit or loss** | (171) | 123 | (48) |
| Remeasurements | | | |
| Gain/(loss) from change in financial assumptions | (223) | - | (223) |
| Experience gains/(losses) | (27) | (263) | (290) |
| **Total amount recognised in other comprehensive income** | (250) | (263) | (513) |
| Contributions: | | | |
| Employers | - | 133 | 133 |
| Payments from plan: | | | |
| Benefit payments | 642 | (642) | - |
| **30 June 2020** | **(5,120)** | **5,452** | **332** |

Contributions by the Company and its controlled entities to the defined benefits plan are based on 9.5% of all defined members' salaries for the year ended 30 June 2020. 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.

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 22 November 2018 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:

| | **2020** | 2019 |
|---|---|---|
| | **Australia** | Australia |
| Discount rate | **1.3%** | 2.1% |
| Salary growth rate | **4.0%** | 4.0% |

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

| | | | **Impact on defined benefit obligation** | | | |
|---|---|---|---|---|---|---|
| | **Change in assumption** | | **Increase in assumption** | | **Decrease in assumption** | |
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Discount rate | **+ ( - ) 0.5%** | + ( - ) 0.5% | **4,979,000** | 5,182,000 | **5,268,000** | 5,514,000 |
| Future salary increase | **+ ( - ) 0.5%** | + ( - ) 0.5% | **5,264,000** | 5,509,000 | **4,981,000** | 5,185,000 |

*Balance sheet amounts*

The major categories of plan assets are as follows:

| | **30 June 2020** | | | | **30 June 2019** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Quoted** | **Un-quoted** | **Total** | **in %** | **Quoted** | **Un-quoted** | **Total** | **in %** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Equity instruments | **2,372** | **-** | **2,372** | **43.5%** | 2,654 | - | 2,654 | 43.5% |
| Debt instruments | **1,963** | **-** | **1,963** | **36.0%** | 2,196 | - | 2,196 | 36.0% |
| Property | **349** | **-** | **349** | **6.4%** | 390 | - | 390 | 6.4% |
| Other securities | **768** | **-** | **768** | **14.1%** | 861 | - | 861 | 14.1% |
| **Total** | **5,452** | **-** | **5,452** | **100.0%** | **6,101** | **-** | **6,101** | **100.0%** |

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 8 NON-FINANCIAL ASSETS AND LIABILITIES - CONTINUED

### (d) Employee benefit obligations - continued

*Risk exposure*

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

*Asset volatility*

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. If plan assets under perform this yield, this will create a deficit. The plan holds a significant proportion of equities, which are expected to outperform corporate bonds in the long term while providing volatility and risk in the long term. To reduce the volatility within the investment strategy supporting the defined benefit assets, a 50/50 asset allocation (50% 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 5 years (2019: 6 years). The expected maturity analysis of discounted defined benefit obligations is as follows:

| | Less than a year $'000 | Between 1 - 2 years $'000 | Between 2 - 5 years $'000 | Over 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|
| **30 June 2020** | | | | | |
| Defined benefit obligation | - | 4,049 | 325 | 249 | 4,623 |
| **30 June 2019** | | | | | |
| Defined benefit obligation | - | 4,028 | 470 | 626 | 5,124 |

*(v) Amounts recognised in profit or loss*

The amounts recognised in profit or loss are as follows:

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| Current service cost | **75** | 130 |
| Interest cost | **96** | 119 |
| Expected return on plan assets | **(123)** | (200) |
| Total included in employee benefits expense | **48** | 49 |
| Actual return on plan assets | **(140)** | 315 |

*(vi) Amounts recognised in other comprehensive income*

| | | |
|---|---|---|
| Actuarial (loss) recognised in the year | **(513)** | (249) |
| Cumulative actuarial (losses) recognised in other comprehensive income | **(3,841)** | (3,328) |

## (e) Provisions

| | June 2020 | | | June 2019 | | |
|---|---|---|---|---|---|---|
| | Current | Non-current | Total | Current | Non-current | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Employee benefits | **45,826** | **4,632** | **50,458** | 34,581 | 4,846 | 39,427 |
| Self insured workers compensation | **1,465** | **1,789** | **3,254** | 1,676 | 1,754 | 3,430 |
| | **47,291** | **6,421** | **53,712** | 36,257 | 6,600 | 42,857 |

*(i) Information about individual provisions and significant estimates*

*Employee benefits, including on costs*

The current portion includes all unconditional additional leave, 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 SA. 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 WorkSA upon separation of ASC Shipbuilding from the ASC Group in December 2018.

*(ii) Movements in provisions*

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

| | Self insured workers compensation | Total |
|---|---|---|
| | $'000 | $'000 |
| **2020** | | |
| Carrying amount at start of year | **3,430** | 3,430 |
| Provision made during the year | **2,011** | 2,011 |
| Provision used during the year | **(2,187)** | (2,187) |
| Carrying amount at end of year | **3,254** | 3,254 |
| **2019** | | |
| Carrying amount at start of year | **10,090** | 10,226 |
| Provision made during the year | **898** | 898 |
| Provision used during the year | **(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 |

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.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 8 NON-FINANCIAL ASSETS AND LIABILITIES - CONTINUED

### (e) Provisions - continued

| | **June 2020 $'000** | June 2019 $'000 |
|---|---|---|
| Current leave obligations expected to be settled after 12 months | **30,836** | 25,348 |

### (f) Recognised fair value measurements

*(i) Fair value hierarchy*

*Disclosed fair values*

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

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

## 9 OTHER NON-CURRENT ASSETS

| | **June 2020 $'000** | June 2019 $'000 |
|---|---|---|
| **Non-current assets** | | |
| Contribution to the Henderson CUF | **2,317** | 2,561 |

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

## 10 EQUITY

### (a) Share capital

*(i) Movements in ordinary shares:*

| **Details** | **Number of shares (thousands)** | **$'000** |
|---|---|---|
| Opening balance 1 July 2018 | 65,000 | 63,668 |
| Discount on shares issued | - | 1,003 |
| Balance 30 June 2019 | 65,000 | 64,671 |
| | | |
| Opening balance 1 July 2019 | 65,000 | 64,671 |
| Discount on shares issued | - | 300 |
| Balance 30 June 2020 | 65,000 | 64,971 |

*(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 2020 $'000 | June 2019 $'000 |
|---|---|---|---|
| Balance 1 July | | **69,617** | 66,883 |
| Opening balance adjustment (adoption of AASB 15) | | **-** | 150 |
| Net profit for the period | | **22,557** | 30,272 |
| Items of other comprehensive income recognised directly in retained earnings | | | |
| Remeasurements of retirement benefit obligation, net of tax | 8(d) | **(359)** | (174) |
| In specie dividend / separation adjustment | | **70** | (514) |
| Dividends | | **(10,600)** | (27,000) |
| Balance 30 June | | **81,285** | 69,617 |

**(c) Dividends**

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| Final dividend for the year ended 30 June 2019 of 9 cents (2018: 22 cents) per fully paid share paid on 29 October 2019 | **5,800** | 14,100 |
| Special dividend | **800** | 500 |
| Interim dividend for the year ended 30 June 2020 of 6 cents (2019: 19 cents) per fully paid share paid on 29 April 2020 | **4,000** | 12,400 |
| Total unfranked dividends | **10,600** | 27,000 |

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

The Directors declared an unfranked final dividend of $3.2m on 27 August 2020 for the year ended 30 June 2020.

**Dividend franking account**

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| Class C (30%) franking credits | **186,513** | 180,426 |

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax
- franking debits that will arise from the payment of the dividends recognised as a liability at year-end
- franking credits that will arise from the receipt of dividends recognised as receivables at year-end
- franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 11 COMMITMENTS

### (a) Capital expenditure commitments

| | **June 2020 $'000** | June 2019 $'000 |
|---|---|---|
| Property, plant and equipment | **805** | 864 |

### (b) Non-cancellable leases

| | **June 2020 $'000** | June 2019 $'000 |
|---|---|---|
| Non-cancellable operating leases recognised under AASB 117 not provided for in the financial statements and payable: | | |
| Within one year | **-** | 14,605 |
| Later than one year but not later than five years | **-** | 39,213 |
| Later than five years | **-** | 59,865 |
| | **-** | 113,683 |
| **Non-cancellable future short term and low value leases not provided for in the financial statements and payable:** | | |
| Within one year | **302** | - |
| Later than one year but not later than five years | **8** | - |
| Later than five years | **-** | - |
| | **310** | - |

### (c) Other commitments

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

## 12 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 SA for the purpose of self insurance under the Return to Work Regulations 2015, a bank guarantee in favour of the DoD for the purpose of a performance security deed for the Training School contract, a bank guarantee in favour of Westim Pty Ltd for the Bibra Lake 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 $6.2m (2019: $9.2m). 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 2020 and 30 June 2019 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 CUF;
- 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 CoA in relation to ASC AWD Shipbuilder Pty Ltd's obligations to the CoA in connection with the Hobart Class AWD program.

No losses are expected in relation to these guarantee arrangements

## 13 REGISTERED CHARGES

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

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

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

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | **5,993** | 39,511 |
| Other receivables | **1,987** | 289 |
| Total current assets pledged as security | **7,980** | 39,800 |
| **Non-current** | | |
| Plant and equipment | **14,975** | 16,207 |
| Total assets pledged as security | **22,955** | 56,007 |

## 14 ECONOMIC DEPENDENCY

The normal trading activities of the consolidated entity mainly depends on contracts with the CoA for the maintenance of six submarines and the construction of three AWDs and with Luerssen Australia for the construction of two OPVs. These dependencies existed during all of the financial year.

## 15 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 22 July 2020, the ATO issued TD 2020/6 which outlines the ATO's views regarding the application of certain aspects of the de-merger relief provisions in Division 125 of the *Income Tax Assessment Act 1997 (Cth)*. TD 2020/6 applies both retrospectively and prospectively and, as a consequence, there is now some uncertainty as to whether de-merger relief applied to certain restructures of the ASC Group undertaken by its Shareholder. ASC is currently assessing whether TD 2020/6 could have any impact in this regard

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 16 RELATED PARTY TRANSACTIONS

### (a) KMP compensation

The KMP compensation included in personnel expenses are as follows:

| | **June 2020 $** | June 2019 $ |
|---|---|---|
| Short-term employee benefits | **3,365,177** | 3,814,631 |
| Post-employment benefits | **213,469** | 251,354 |
| Other long term benefits | **338,681** | 62,062 |
| | **3,917,327** | 4,128,047 |

There were 14 KMP for the year (2019: 14).

### (b) Loans to KMP

No loans were made available to KMP during the financial year.

### (c) Other KMP transactions with the consolidated entity

There have been no transactions with KMP during the financial year.

### (d) Subsidiaries

Interests in subsidiaries are set out in note 17(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
Stuart Paul Whiley
Geoffrey Roland Rohrsheim

The Hon Gary Gray AO was a director from the beginning of the financial year until his resignation on 11 March 2020.

### (f) Other related parties

*Australian Government Ministers*

There have been no transactions with any Australian Government Ministers during the financial year.

*Shareholders*

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

The CoA is the ultimate parent entity.

### (g) Transactions with other related parties

During the year, the amounts received or receivable by the consolidated entity from the CoA for various projects was $607,136,000 (2019: $683,947,000).

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

**(h) Balances with shareholders**

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **The aggregate amounts payable to the shareholders in relation to these transactions are:** | - | - |
| **The aggregate amounts receivable from the shareholders in relation to these transactions are:** | 94,192 | 159,815 |

**(i) Loans from the CoA and its related parties**

*Government Advance*

| 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** | | | | | |

| June 2020 | AUD | USD | GBP | CAD | EUR | JPY |
|---|---|---|---|---|---|---|
| Beginning of the year | $59,089,304 | $1,363,148 | $244,095 | $215,093 | $2,517,770 | - |
| Advances received | $36,000,000 | - | - | - | - | - |
| Advances repaid | ($36,000,000) | - | - | - | - | - |
| Interest charged | ($4,539) | - | - | - | - | - |
| Interest received | $96,332 | - | - | - | - | - |
| End of year (source currency) | $59,181,097 | $1,363,148 | $244,095 | $215,093 | $2,517,770 | - |
| End of year (AUD equivalent) | $59,181,097 | $1,986,229 | $436,976 | $229,136 | $4,120,063 | - |
| **Total (AUD equivalent)** | **$65,953,501** | | | | | |

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 17 INTERESTS IN OTHER ENTITIES

### (a) Material subsidiaries

The Company's principal subsidiaries at 30 June 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Company, and the proportion of ownership interests held equals the voting rights held by the Company. The country of incorporation or registration is also their principal place of business.

| Name of entity | Place of business/ country of incorporation | Ownership interest held by the group | | Principal activities |
|---|---|---|---|---|
| | | **2020 %** | **2019 %** | |
| 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** | 100.0 | Construction of two OPVs |
| 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.

## 18 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 2020 $'000** | June 2019 $'000 |
|---|---|---|
| **Balance sheet** | | |
| Current assets | **259,483** | 228,305 |
| Non-current assets | **190,740** | 88,104 |
| Current liabilities | **180,893** | 159,905 |
| Non-current liabilities | **132,725** | 6,603 |
| *Shareholders' equity* | | |
| Issued capital | **64,971** | 64,671 |
| Retained earnings | **71,634** | 85,230 |
| Net assets / total equity | **136,605** | 149,901 |
| **Profit or loss for the year** | **(2,706)** | 19,892 |
| **Other comprehensive income** | **(359)** | (174) |
| **Total comprehensive income (loss)** | **(3,065)** | 19,718 |

During the year, the parent entity made a 100% provision against intercompany loans to its subsidiary, ASC AWD Shipbuilder Pty Ltd of $27,759,000. Note that this provision (and the related profit impact) eliminates on consolidation.

### (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 SA for the purpose of self insurance under the Return to Work Regulations 2015, a bank guarantee in favour of the DoD for the purpose of a performance security deed for the Training School contract and a bank guarantee in favour of Westim Pty Ltd for the Bibra Lake warehouse lease. The total value of the bank guarantee arranged by the parent company is \$3,577,503 (2019: \$6,568,000).

In addition to the above, the parent entity has provided a bank guarantee of \$2,634,000 (2019: \$2,634,000) issued by a 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 2020 and 30 June 2019 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 2020 or 30 June 2019. 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 2020, the parent entity had contractual commitments for the acquisition of property, plant and equipment totalling \$523,333 (30 June 2019: \$864,337). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 19 CASH FLOW INFORMATION

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

| | June 2020 $'000 | June 2019 $'000 |
|---|---|---|
| **Profit for the year** | **22,557** | 30,272 |
| Adjustment for | | |
| Depreciation and amortisation | **26,979** | 14,296 |
| Pension costs | **(85)** | (389) |
| Income tax expense | **9,683** | 12,857 |
| Income tax paid | **(5,831)** | (14,283) |
| Interest received | **(1,762)** | (3,629) |
| Interest expense | **5,507** | 546 |
| Doubtful debt expense | **976** | 877 |
| (Profit)/loss on disposal of fixed assets | **(52)** | 72 |
| SAFA loan revaluation | **130** | - |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade debtors | **55,034** | (19,907) |
| (Increase)/decrease in inventories | **71** | 175 |
| (Decrease)/increase in trade creditors | **(41,476)** | 6,665 |
| (Decrease)/increase in other provisions | **10,856** | (7,216) |
| (Increase)/decrease in prepayments | **(2,547)** | 1,665 |
| (Decrease)/increase in contract liabilities | **(34,891)** | (56,515) |
| (Increase)/decrease in contract assets | **(9,666)** | (9,541) |
| Net cash inflow (outflow) from operating activities | **35,483** | (44,055) |

### (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 $'000 | Lease liabilities $'000 | Non-interest bearing liabilities $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 1 July 2018** | 90,770 | - | 3 | 90,773 |
| Net financing cash flows[1] | (26,305) | - | - | (26,305) |
| Non-cash changes: | | | | |
| Effects of changes in exchange rates | 1,323 | - | - | 1,323 |
| Other | - | - | - | - |
| **Balance at 30 June 2019** | 65,788 | - | 3 | 65,791 |
| | | | | |
| **Balance at 1 July 2019** | 65,788 | - | 3 | 65,791 |
| Recognised on adoption of AASB 16 | - | 152,852 | | 152,852 |
| Net financing cash flows[1] | 92 | (13,003) | - | (12,911) |
| Non-cash changes: | | | | |
| Effects of changes in exchange rates | 74 | - | - | 74 |
| Other | - | - | 131 | 131 |
| **Balance at 30 June 2020** | 65,954 | 139,849 | 134 | 205,937 |

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

# Notes to the Consolidated Financial Statements - *continued*

For the year ended 30 June 2020

## 20 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*

| | June 2020 $ | June 2019 $ |
|---|---|---|
| Audit and other assurance services | | |
| Audit and review of financial statements | **293,373** | 446,093 |
| Total remuneration for audit and other assurance services | **293,373** | 446,093 |

The ANAO has contracted PricewaterhouseCoopers to provide audit related services on the ANAO's behalf.

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

| | June 2020 $ | June 2019 $ |
|---|---|---|
| Agreed upon procedures - remuneration services | **18,598** | 17,067 |

*(iii) Other services provided by PricewaterhouseCoopers*

| | June 2020 $ | June 2019 $ |
|---|---|---|
| Agreed upon procedures - tax compliance and consulting services to expatriate employee | **177,530** | 106,992 |

# Index of Requirements

This list of requirements has been prepared in accordance with Resource Management Guide No. 137, Annual Report for corporate Commonwealth entities, published by the Department of Finance (Public Management Reform Agenda group) in May 2018.

| Description | | Page(s) |
|---|---|---|
| **28E** | **Contents of annual report** | |
| (a) | The purposes of the company as included in the company's corporate plan for the reporting period. | 2 |
| (aa) | The results of a measurement and assessment of the company's performance during the reporting period, including the results of a measurement and assessment of the company's performance against any performance measures and any targets included in the company's corporate plan for the reporting period. | 4, 6, 8, 14, 16-18 |
| (b) | The names of the persons holding the position of responsible Minister or responsible Ministers during the reporting period, and the titles of those responsible Ministers | 2 |
| (c) | Any directions given to the entity by a Minister under the company's constitution, an Act or an instrument during the reporting period | 27 |
| (d) | Any government policy order that applied in relation to the company during the reporting period under section 93 of the Act | N/A |
| (e) | Particulars of non compliance with:<br>(a) a direction given to the entity by the Minister under the company's constitution, an Act or instrument during the reporting period; or<br>(b) a government policy order that applied in relation to the company during the reporting period under section 93 of the Act | N/A |
| (f) | Information on each director of the company during the reporting period | 24-34 |
| (g) | An outline of the organisational structure of the company (including any subsidiaries of the company) | 24 |
| (ga) | Statistics on the entity's employees on an ongoing and non ongoing basis, including the following:<br>(a) statistics on full time employees;<br>(b) statistics on part time employees;<br>(c) statistics on gender; | 23 |
| (h) | An outline of the location (whether or not in Australia) of major activities or facilities of the company | 2 |
| (i) | Information in relation to the main corporate governance practices used by the company during the reporting period | 27-30 |
| (j)(k) | For transactions with a related Commonwealth entity or related company where the value of the transaction, or if there is more than one transaction, the aggregate of those transactions, is more than $10,000 (inclusive of GST):<br>(a) the decision making process undertaken by the directors of the company for making a decision to approve the company paying for a good or service from, or providing a grant to, the related Commonwealth entity or related company; and<br>(b) the value of the transaction, or if there is more than one transaction, the number of transactions and the aggregate of value of the transactions | 29 |

| Description | | Page(s) |
|---|---|---|
| (l) | Any significant activities or changes that affected the operations or structure of the company during the reporting period | 36-37 |
| (m) | Particulars of judicial decisions or decisions of administrative tribunals that may have a significant effect on the operations of the company | N/A |
| (n) | Particulars of any reports on the company given by:<br>(a) the Auditor General, or<br>(b) a Parliamentary Committee, or<br>(c) the Commonwealth Ombudsman; or<br>(d) the Office of the Australian Information Commissioner; or<br>(e) the Australian Securities and Investments Commission | 27 |
| (o) | An explanation of information not obtained from a subsidiary of the company and the effect of not having the information on the annual report | N/A |
| (oa) | Information about executive remuneration | 31-33 |
| (ob) | The following information about the audit committee for the company:<br>(a) a direct electronic address of the charter determining the functions of the audit committee;<br>(b) the name of each member of the audit committee;<br>(c) the qualifications, knowledge, skills or experience of each member of the audit committee;<br>(d) information about each member's attendance at meetings of the audit committee;<br>(e) the remuneration of each member of the audit committee | 25-28, 34 |

| 28F | Disclosure requirements for government business enterprises | |
|---|---|---|
| 1 (a)(i) | An assessment of significant changes in the company's overall financial structure and financial conditions | 36-37 |
| 1 (a)(ii) | An assessment of any events or risks that could cause financial information that is reported not to be indicative of future operations or financial condition | 36-37 |
| 1 (b) | Information on dividends paid or recommended | 3, 37 |
| 1 (c) | Details of any community service obligations the government business enterprise has including:<br>(a) an outline of actions taken to fulfil those obligations; and<br>(b) an assessment of the cost of fulfilling those obligations | N/A |
| 2 | A statement regarding the exclusion of information on the grounds that the information is commercially sensitive and would be likely to result in unreasonable commercial prejudice to the government business enterprise | N/A |

# Acronyms

| | |
|---|---|
| **AASB** | Australian Accounting Standards Board |
| **ABTIA** | Alliance Based Target Incentive Agreement |
| **ACSM** | Attack Class Submarine |
| **ANAO** | Australian National Audit Office |
| **ANI** | Australian Naval Infrastructure |
| **ATO** | Australian Taxation Office |
| **AWD** | Air Warfare Destroyer |
| **BASC** | Business Assurance and Security Committee |
| **CASG** | Capability Acquisition and Sustainment Group |
| **CCSM** | Collins Class Submarine |
| **CoA** | Commonwealth of Australia |
| **CSR** | Corporate Social Responsibility |
| **CUF** | Common User Facility |
| **D&I** | Diversity and Inclusion |
| **DTP** | Digital Transformation Program |
| **DoD** | Department of Defence |
| **EMS** | Environmental Management System |
| **FCD** | Full Cycle Docking |
| **FSTO** | Future Submarine Technical Office |
| **GBE** | Government Business Enterprise |
| **GST** | Goods and Services Tax |
| **HMAS** | Her Majesty's Australian Ship |
| **ICT** | Information Communication Technology |
| **ID** | Intermediate Docking |
| **IMP** | Intermediate Maintenance Period |
| **ISSC** | In-Service Support Contract |
| **KMP** | Key Management Personnel |
| **LOTE** | Life of Type Extension |
| **LTI** | Lost Time Injury |
| **LTIFR** | Lost Time Injury Frequency Rate |
| **MCD** | Mid-cycle Docking |
| **MTI** | Medically Treated Injury |
| **MTIFR** | Medically Treated Injury Rate |
| **MSG** | Maritime Services Group |
| **OPV** | Offshore Patrol Vessel |
| **PP3** | Performance Period Three |
| **PP4** | Performance Period Four |
| **RAN** | Royal Australian Navy |
| **SA** | South Australia |
| **STI** | Short Term Incentive |
| **TFR** | Total Fixed Remuneration |
| **TD 2020/6** | Tax Determination TD 2020/6 |
| **WA** | Western Australia |

This page was left blank intentionally

This page was left blank intentionally

# Corporate Directory

**DIRECTORS**

Bruce Carter,
*Chairman*

Stuart Whiley,
*Managing Director*

Rosalind Dubs

Joycelyn Morton

Paul Rizzo

Loretta Reynolds

Geoff Rohrsheim

**COMPANY SECRETARY**

Ashley Menadue (part year)
Ivan Witt

**AUDITORS**

ANAO and PricewaterhouseCoopers
(as agent for ANAO)

**BANKERS**

Westpac Banking Corporation

---


**ASC NORTH**

(Registered and head office)
694 Mersey Road North
Osborne SA 5017
GPO Box 2472
Adelaide SA 5001
Telephone: +61 8 8348 7000

**ASC SOUTH**

640 Mersey Road North
Osborne SA 5017
GPO Box 2472
Adelaide SA 5001
Telephone: +61 8 7423 4000

**ASC WEST**

20 Nautical Drive
Henderson WA 6166
GPO Box 599
Rockingham WA 6168
Telephone: +61 8 9410 4100

**USEFUL EMAIL CONTACTS**

**Employment opportunities**
careers@asc.com.au

**Media queries**
communications@asc.com.au

**Other queries**
info@asc.com.au


ABN: 64 008 605 034

**WEBSITE**

www.asc.com.au

ASC's Annual Reports can
be found at www.asc.com.au

**FIND ASC ON**

CD5042


**ASC Pty Ltd**
ACN 008 605 034

Registered and Head Office
694 Mersey Road, Osborne
South Australia 5017

T + 61 8 8348 7000
F + 61 8 8348 7001

W asc.com.au


Find and follow us on:
Facebook - LinkedIn - Twitter