# ASC Pty Ltd
# Annual Report 2004

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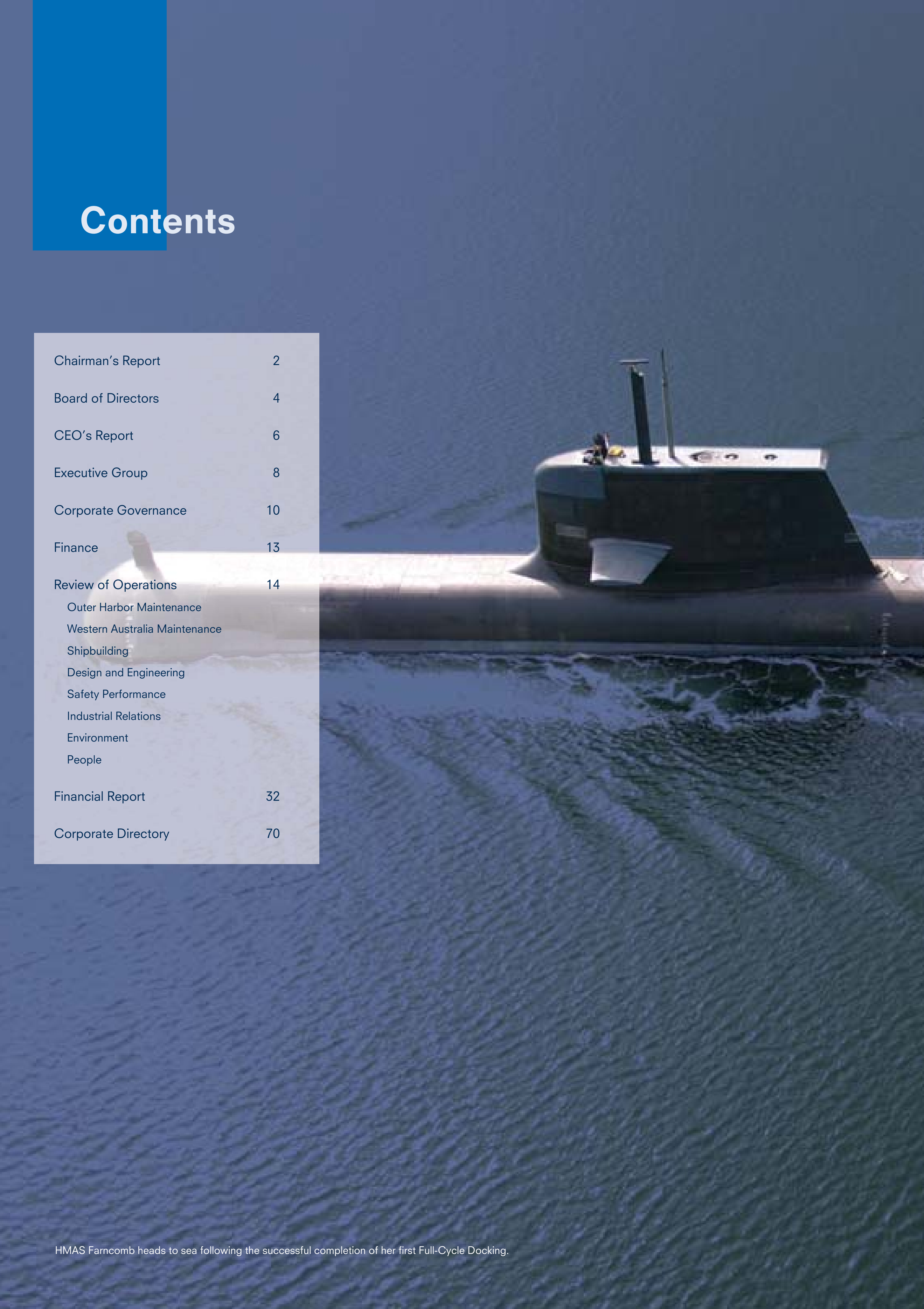


HMAS Farncomb heads to sea following the successful completion of her first Full-Cycle Docking.

# Key Highlights

- ASC awarded 25 year, $3.5billion Through-Life Support Contract.
- All disputes with Kockums settled and ASC granted full access to Kockums' Collins Class technology.
- Submarine Build Contract completed and all disputes with the Commonwealth settled.
- Significant improvement in financial performance: revenue increased by 61% and profit increased by 173%.
- Significant progress made towards ASC achieving 'designer' status for the Collins Class submarines.
- ASC recognised as South Australia's 2004 Safety Employer of the Year.
- 'Operational release' acceptance by the Royal Australian Navy of the six Collins Class submarines.
- Safe and successful completion of seven maintenance activities on time, on budget and to required quality standards.

# Chairman's Report

John Prescott AC

2003/04 has been a watershed year for ASC. It was a year in which we overcame the legacy issues inherited when ASC became fully-owned by the Commonwealth in 2000 and established the foundation for a business that will secure substantial opportunities into the future.

In addition, on 1 October 2004, the company changed its name from Australian Submarine Corporation Pty Limited to ASC Pty Ltd, positioning the company to bid for future naval combatant vessels as an addition to its submarine work. The retention of "ASC" recognises our heritage and achievements.

Key achievements during the year included:

1. Enhancement of ASC's capability to provide through-life support for the Collins Class submarines and the improvement of our relationships with our customers, the Defence Materiel Organisation (DMO) and the Royal Australian Navy (Navy);

2. Agreement of the activities required to complete outstanding warranty and latent defect work, and of various upgrades to the submarines and progress of that work;

3. Recognition by DMO and the Navy of a program for ASC to become the 'designer' for future work on the submarines and implementation of that program with support and benchmarking from Electric Boat Corporation (EB) as our capability partner;

4. Acceptance of all six Collins Class submarines into full naval service;

5. Security of a fifteen plus five plus five year Through-Life Support Contract to maintain and upgrade the submarines throughout their operational lives. This contract will underpin our business long-term and give our people the opportunity to secure their futures;

6. Settlement of all issues with Kockums AB, the original designer of the submarines, and of all claims with the Commonwealth arising from the build of the submarines and in respect to future arrangements for access to intellectual property;

7. Establishment of the foundations of a capability to bid for major work on the next generation of Australia's naval combat ships; and

8. Improved financial outcomes and provision for the payment of a $5million dividend to the Commonwealth as ASC's shareholder.

Work undertaken by ASC to achieve these outcomes included completing weld defect repairs and progressing major Full-Cycle Docking (FCD) and upgrade work on HMAS Collins; progressing major FCD and upgrade work on HMAS Farncomb; and commencing FCD work on HMAS Waller in Outer Harbor. In addition, our Western Australia staff completed seven maintenance programs at HMAS Stirling, Henderson and overseas, all of which were accomplished on schedule.

These outcomes reflect a continuing series of efforts to focus the attitudes and capabilities of our people and our systems to support submarine operational requirements.

Efforts to prepare ASC to bid for major work on the next generation of naval combat vessels, notably the three air warfare destroyers, have included:

- Recruiting John Gallacher as Chief Executive Officer of ASC Shipbuilding;

- Developing an understanding of DMO and Navy requirements;

- Various initiatives to secure the necessary infrastructure and workforce support and training;

- Recruiting specialist staff;

- Securing expert support through the engagement of new capability partners;

- Working to further develop the systems integration capabilities displayed during the development of the Collins Class; and

- Ensuring that our efforts on surface ships bring benefit to submarine capability and costs as well as to the new naval programs.

We are hopeful that South Australian Government initiatives will be beneficial to securing this work to Adelaide.

Another significant challenge faced by ASC this year was to recruit a new Managing Director and Chief Executive Officer to replace Dr Stephen Gumley who left ASC in February to become the Chief Executive of DMO. The Board acknowledges that Dr Gumley provided clear leadership and made a very substantial contribution to ASC.

The Board also acknowledges the valuable efforts of Graeme Bulmer who stepped into the Acting Chief Executive Officer role pending an on-going appointment being made. Mr Bulmer stood down from the Board while acting in this role and we recognise his preparedness to do so.

We look forward to welcoming Greg Tunny as Managing Director and Chief Executive Officer from 11 October 2004.

ASC's key assets are its people and the experience they have collectively acquired in completing the Collins Class program to this stage. The Board believes ASC staff are overwhelmingly committed to taking ASC forward in a successful manner in the future. We thank them all for their efforts.

ASC enters the new financial year as a Government Business Enterprise under the Commonwealth Authorities and Companies Act with the new obligations that it brings, the Board is also conscious of the need to prepare ASC for privatisation in 2006 and we are committed to assisting the Commonwealth with this process and enhancing the sale value of ASC.

**John B Prescott AC**
Chairman

# Board of Directors

**General (Rtd) John Baker AC DSM** (68)
Non-Executive Director
Audit Committee Member

Director since 2002. General Baker was previously the Chief of the Australian Defence Force. He has held a number of key appointments with the Australian Defence Force, including Vice Chief of the Defence Force, Head of the Defence Intelligence Organisation, Chief of Logistics (Army), Commander of Second Military District and Director of Joint Services Policy.

**Charles Bagot** (57)
Non-Executive Director

Director since 2000. Mr Bagot serves on the boards of a number of companies. He is a member of the councils of the University of Adelaide and St Marks College, and is the President of the Australian Institute of Company Directors SA/NT. Mr Bagot has practiced as a lawyer in the commercial law field for more than two decades as a partner at the firm Piper Alderman.

**Stephen Young** (49)
Non-Executive Director
Audit Committee Chairman

Director since 2002. Mr Young is also the Executive Chairman of Equity & Advisory and is a director of Michell Australia Group, A Raptis & Sons, Shaw & Smith, Louminco and a council member of The University of Adelaide. Previously, Mr Young was a member of the Premier's Roundtable, ETSA Corporation and Land Management Corporation.

**John Prescott AC** (63)
Chairman

Chairman since 2000. Mr Prescott is also a director of Newmont Mining Corporation and a member of the Asia Pacific Advisory Committee of the New York Stock Exchange. Previously, he was the Managing Director and Chief Executive Officer of BHP. Mr Prescott has served on many Australian and international industry committees and advisory bodies, and also as an advisor to the Minister for Defence.

# CEO's Report

Graeme Bulmer

ASC's performance continued to improve significantly in 2003/04, with notable events including the award of a long-term contract to provide through-life support for the Collins Class submarines, the resolution of long-standing issues with Kockums AB and the Commonwealth, and ASC's preparation for bidding for major naval surface ships.

### Performance

Revenue for the year increased 61% to $255.9m (from $158.7m) resulting in a significant lift in profit from $5.9m to $16.1m (a 173% increase).

During the year, ASC was responsible for the successful completion of seven maintenance availabilities conducted from Western Australia, all completed safely and delivered on time, on budget and to their required operational standards, signifying that ASC's 'one company, one plan' approach to submarine maintenance has achieved the desired effect. The ongoing effort to manage and close out Priority 1 defects has played a major part in enabling the submarines to sail on time.

Activities at Outer Harbor centred on Full-Cycle Docking (FCD) work on HMAS Farncomb and HMAS Collins, including rectification of weld defects on the imported sections of HMAS Collins. HMAS Farncomb's FCD, the first completed for the Collins Class, was concluded on 25 August 2004 and its valuable lessons are being applied.

### Recognition

Work on HMAS Farncomb, including innovative main motor repairs, helped ASC achieve South Australia's highest engineering honour: The Engineers Australia (SA Division) Excellence Award.

Demonstrative of the company's commitment to the safety of all its employees, ASC also won the 2004 South Australian Safety Employer of the Year award for Medium/Large business.

### Through-Life Support (TLS)

The Through-Life Support (TLS) Contract for the Collins Class submarines was awarded to ASC in December 2003. It provides certainty for ASC and the RAN regarding maintenance and upgrade work on the submarines.

ASC has made the necessary changes to its business structure, organisation and systems to meet the requirements of the TLS Contract and competently deliver an increased work scope for 2004/5. The required changes to ASC's business environment have been challenging and have also given the Commonwealth full financial visibility of ASC's operations.

The TLS environment has had a positive influence on ASC's business philosophy and culture, and has strengthened ASC's relationship with our key customer, Defence Materiel Organisation, through the focus on mutually beneficial outcomes and regular constructive meetings at all levels.

### Settlement with Kockums and the Commonwealth

The settlement with Kockums and the Commonwealth resolves all claims relating to the construction of the submarines. It also provides the Commonwealth and ASC with full access to Kockums' intellectual property on terms suitable to all parties.

### People

This year, a timely review and restructure of ASC's people services function has seen the appointment of a new People Services Manager and a greater emphasis placed on the recruitment, training and retention of ASC's high-end specialist skills base. Amongst other initiatives, this has resulted in re-energised graduate and apprenticeship training programs and a successful international recruitment program targeting experienced submarine engineers.

Today ASC employs over 200 professional engineering staff. Management is committed to enhancing the skills and qualifications of staff and it is pleasing to report that the number of engineers with Certified Practising Engineer (CPEng) status, the highest professional qualification for Australian engineers, grew by 20 during the year. Management's objective is to increase the complement of staff with CPEng status from the present level of 51 to over 70 by the end of 2004.

### Naval combatant projects

Following the launch of the Defence Capability Plan earlier this year, ASC has been making the necessary preparations to competitively tender for work on the Navy's Air Warfare Destroyer (AWD) and Amphibious Ships projects. The Commonwealth's decision to delay the sale of ASC and establish the company as a Government Business Enterprise has facilitated ASC's focus on these projects.

Important management initiatives taken to prepare ASC for the tender processes have included the establishment of ASC Shipbuilding and the appointment of John Gallacher as Chief Executive Officer, the recruitment of experienced staff and the engagement of Bath Iron Works to assess ASC's capability as an AWD shipbuilder.

ASC has also been proactive in communicating the company's achievements and publicising its skills and capabilities. These skills and capabilities will be valuable for the AWD project and will be further enhanced.

### Capability Partners

ASC's submarine capability partner, Electric Boat, has continued its support this year with increased benefits being seen across the company's business functions. Electric Boat's experience has been particularly valuable in assisting ASC to work towards achieving submarine 'designer' status, and thereby enhance Australia's competency.

Bath Iron Works (BIW), sister-company to Electric Boat, recently commenced work as ASC's capability partner for the AWD project. BIW is the major US shipbuilder of AEGIS-based AWDs and has a distinguished history of naval surface vessel design and construction. BIW is currently assisting ASC in preparing for the AWD tender expected to be submitted prior to the end of 2004.

### Future

ASC recently launched a new corporate identity to herald a bold new era and an exciting new direction, as the company moves from the submarine build phase of its history and evolves to meet new growth opportunities based on the advanced skills of our workforce to manage the complex requirements of surface naval ships and systems.

While committing to maintain six fully-operational submarines, ASC is looking forward to a promising future focussed on achieving a pivotal role in enhancing Australia's broader naval defence capability.

I wish to thank management and staff for their dedication and effective response to the many challenges presented in this successful year for ASC.

Graeme Bulmer

**Graeme Bulmer**
Acting Chief Executive Officer

# Executive Group

**Tony Kuhlmann** (38)
General Manager – Commercial and Legal
BA, LLB, GDLP

**John Gallacher** (53)
Chief Executive Officer
ASC Shipbuilding

**Alf Aschenbrucker** (55)
Quality Manager
BAppSc, GradDipBusAdmin

**Robert Cairney** (57)
Chief Financial Officer
FCPA

**Ross Milton** (57)
Deputy Chief Executive Officer
BE, FIEAust, CPEng

**Robert Lemonius** (54)
WA Submarine Operations Manager
Commonwealth Centenary Medal 2003

**Jon Moore** (36)
Business and Information Systems Manager
BEng(Hons), CEng(UK)

**Doug Callow** (55)
Chief Operating Officer – Submarines
BSc, MSc, FIEAust, CPEng

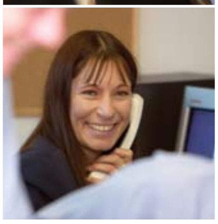
**Mark Gobell** (51)
Works Manager
BTechMechEng, Grad IEAust

**Jodie Fowler** (40)
People Services Manager
ProfDipHR

**Jack Atkinson** (54)
General Manager – Design and Engineering
BE, MEngSc, FIAust, CPEng

**Graeme Bulmer** (65)
Acting Chief Executive Officer
DipChem, DipChemEng

# Corporate Governance



ASC is a proprietary company limited by shares, incorporated under the Corporations Act. All the shares in ASC are owned by the Commonwealth. Shareholder responsibility is vested in the Minister for Finance and Administration.

## Board of Directors

The Board of Directors is responsible for the overall corporate governance of ASC.

In conjunction with management, the Board sets goals and objectives, and the strategic direction of the ASC Group.

As at 30 June 2004, the Board comprised John Prescott AC (Chairman), Charles Bagot, General (Rtd) John Baker AC DSM and Stephen Young.

**Attendance of directors at Board and Audit Committee meetings was follows:**

| Board Member | Board Meetings | | Audit Committee Meetings | |
|---|---|---|---|---|
| | Held | Attended | Held | Attended |
| John Prescott AC | 15 | 15 | - | - |
| Charles Bagot | 15 | 15 | - | - |
| Graeme Bulmer (stood down 16 March 2004) | 15 | 10 | 4 | 3 |
| Gen (Rtd) John Baker AC DSM | 15 | 13 | 4 | 4 |
| Stephen Young | 15 | 14 | 4 | 4 |
| Dr Stephen Gumley (resigned 20 February 2004) | 9 | 9 | - | - |

During the year, Dr Stephen Gumley resigned as a director (20 February 2004). Graeme Bulmer was appointed Acting Chief Executive Officer on 16 March 2004 and since that time has stood down from the Board.

All directors of ASC are appointed by the Minister for Finance and Administration for a finite term. John Prescott, General (Rtd) John Baker and Stephen Young have been appointed to 30 June 2006, while Charles Bagot and Graeme Bulmer were appointed until 31 December 2004. ASC and its Board are subject to Ministerial direction by virtue of ASC's Constitution.

## Audit Committee

The Board has established an Audit Committee to oversee ASC's finances. As at 30 June 2004, the Committee comprised two non-executive directors, namely Stephen Young (Chairman) and General (Rtd) John Baker AC DSM.

Given Graeme Bulmer's appointment as Acting Chief Executive Officer on 16 March 2004, Graeme Bulmer has stood down from the Committee since that time.

The Executive Director of the Australian National Audit Office is an ex-officio attendee and the Department of Finance and Administration is invited to send an observer.

Meetings of the Audit Committee are held on at least a quarterly basis.

The Audit Committee operates under a charter approved by the Board. The role of the Committee is to assist in the formulation of financial policies, monitor the operation of internal controls, including the management of financial risk, and to apply ethical standards.

It reviews all annual and half-yearly financial reports with ASC's auditor and makes recommendations to the Board.

ASC's Board has noted developments in relation to the operation of audit committees in Australia and other companies and therefore seeks to ensure that any changes appropriate to ASC are adopted.

## Management

ASC's management policies are documented in the Corporate Management System. The empowering document is known as CMS1001. The Board authorises this policy document which incorporates authorisation levels, delegations and corporate structure.

To assist in the governance of ASC and to monitor performance, ASC has instituted a Business Plan Review (BPR) process.

The BPR process involves ASC's department managers meeting on a regular basis to review ASC's performance and to make the necessary adjustments to ensure that corporate goals are achieved.

The business plan thereby becomes a live document, using the most relevant data.

**ASC's management structure**

# Corporate Governance

## Reporting

Management provides monthly reports to the Board covering financial and contractual performance against approved budgets. Variances against budget are identified pro-actively where possible and appropriate remedial action recommended.

## Internal Control

ASC maintains a Quality Assurance Department. The primary role of this department is to monitor compliance with the Corporate Management System (CMS) and work which has been undertaken against specifications. The CMS outlines all functional areas, management plans, policies, authorities, delegations and goals.

ASC was recently recertified by Det Norske Veritas to ISO standard 9001:2000.

## Risk Management

ASC is committed to risk management as an integral part of its business. Risk management is a shared management responsibility involving:

· Identifying corporate risks;

· Assessing the likelihood of their occurrence;

· Estimating the likely consequences of risks should they occur; and

· Implementing strategies to avoid, mitigate or minimise the consequences of risk.

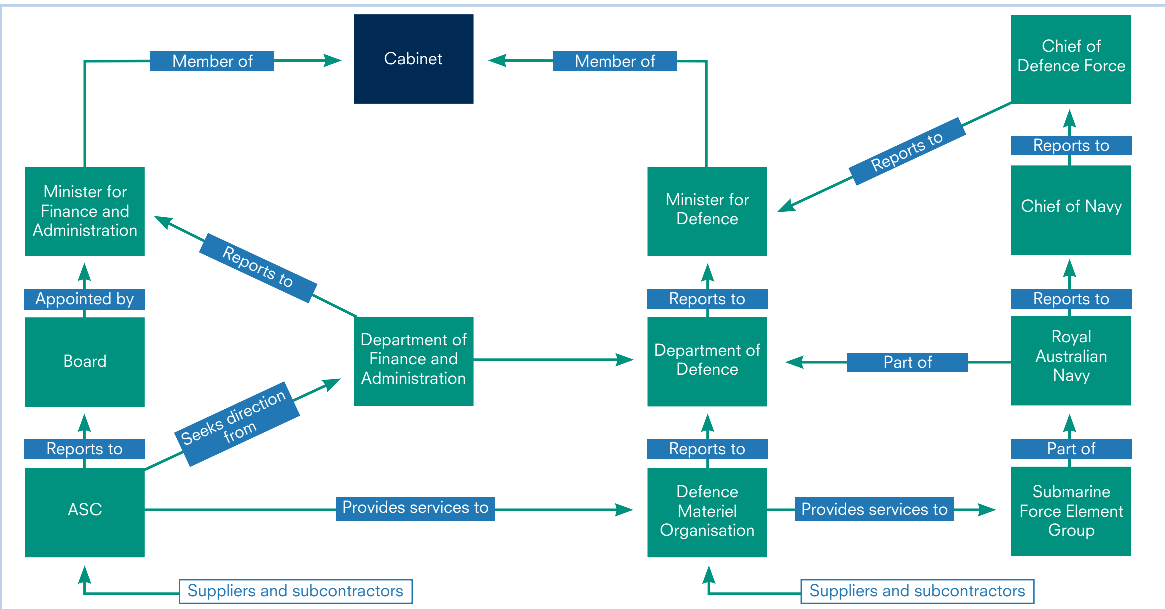
## Legal Compliance

ASC embraces a legal compliance culture that focuses on awareness of compliance issues at the working level. ASC has established and implemented policies and procedures addressing a range of compliance issues. These include occupational health and safety, harassment, prevention of bribery and corruption, trade practices and, in light of Electric Boat's involvement, the US Government's International Traffic in Arms Regulations.

## Ethical Standards

As a responsible corporate citizen, ASC is expected to meet high standards of ethical corporate behaviour. In all their dealings, ASC employees are required to observe ASC's ethical standards.

**ASC operates in a complex business and governmental environment**



# Finance

ASC and its controlled entities achieved a consolidated after tax profit for the year to 30 June 2004 of $16.1 million, compared to $5.9 million after tax profit in 2003.

The increase in this year's profit was, in the main, a result of the recognition of profit on the Full-Cycle Docking for HMAS Farncomb, the increased activity in providing in-service support to the submarines and as a result of the agreement between ASC and the Commonwealth of Australia under the Submarine Build Contract. Previous financial years' unrecognised and significant profits on this contract were brought to account.

Provision for a $5 million dividend was made during the year.

The increase in total assets to $243.5m (2003: $236.7m) and total revenue of $255.9m (2003: $158.7m) reflects the finalisation of the Submarine Build Contact and the transformation of ASC to the role of Australia's prime submarine maintenance provider.

Shareholders' equity is $70.2m (2003: $59.1m).

| | 2004 ($m) | 2003 ($m) | % Change |
|---|---|---|---|
| Revenue from rendering of services | 243.6 | 148.4 | 64.1% |
| Other revenues from ordinary activities | 12.3 | 10.3 | 19.4% |
| **Total Revenue** | **255.9** | **158.7** | **61.3%** |
| Operating Profit Before Tax | 23.6 | 8.9 | 65.2% |
| Operating Profit After Tax | 16.1 | 5.9 | 172.9% |
| Total Assets | 243.5 | 236.7 | 2.9% |
| Net Cash | 7.7 | 8.4 | (8.3%) |
| **Total Shareholder Equity** | **70.2** | **59.1** | **18.8%** |

# Review of Operations

# Outer Harbor Maintenance

The financial year 2003/04 has seen a significant workload with four of the Collins Class submarines residing in Outer Harbor for at least part of the year.

HMAS Collins spent the whole year in the Hull Shop undergoing its Full-Cycle Docking (FCD). A significant milestone was achieved early in 2004 with the completion of weld repairs in sections 300 and 600, resulting in the resolution of a two-year hiatus in the FCD. A decision to incorporate Special Forces modifications into HMAS Collins has extended the FCD completion date to 2005. These modifications are now well in hand in parallel with the re-installation of refurbished equipment.

HMAS Farncomb also spent the whole year at Outer Harbor completing the final stages of its FCD. The boat undocked on 5 April 2004, and completed its FCD on 25 August 2004.

Significant achievements during the year included reinstatement of the hull patch which was cut to allow removal of a diesel generator for repairs.

In addition, ASC, in conjunction with its subcontractor Jeumont Industries, developed a technique for in-situ repairs to the main propulsion motor involving lifting the top half of the motor, which weighed 20 tonnes. These repairs were successfully carried out during the year.

HMAS Waller was due to arrive at Outer Harbor to begin its FCD in October 2003, but this was deferred as a result of the extended duration of Collins' FCD. The boat actually arrived on 12 March 2004 and was docked shortly thereafter, taking up the space in the Outfitting Shop recently vacated by HMAS Farncomb. Initial activities, such as the removal of masts, periscopes and batteries, have been completed and major equipment will now be progressively removed for refurbishment.

HMAS Rankin spent the first few weeks of the financial year at Outer Harbor, undergoing an Assisted Maintenance Period following the successful completion of Shock Trials in July 2003. The boat sailed from ASC on 21 July 2003 and has been in service for the remainder of the year.

**Maintenance Availabilities**

| Year | HMAS Collins | HMAS Farncomb | HMAS Waller | HMAS Dechaineux | HMAS Sheean | HMAS Rankin |
|---|---|---|---|---|---|---|
| 1994 | 1 | 0 | 0 | 0 | 0 | 0 |
| 1995 | 3 | 0 | 0 | 0 | 0 | 0 |
| 1996 | 3 | 0 | 0 | 0 | 0 | 0 |
| 1997 | 3 | 4 | 0 | 0 | 0 | 0 |
| 1998 | 3 | 4 | 4 | 0 | 0 | 0 |
| 1999 | 2 | 4 | 2 | 3 | 0 | 0 |
| 2000 | 3 | 2 | 3 | 3 | 2 | 0 |
| 2001 | | 3 | 3 | 5 | 2 | 0 |
| 2002 | 1 | 2 | 1 | 3 | 3 | 1 |
| 2003 | | 1 | 3 | 2 | 3 | 3 |
| 2004 | | | 2 | 3 | 2 | 3 |
| **Totals** | **19** | **20** | **18** | **19** | **12** | **7** |

Total availabilities to date (August 2004) is 95, 63 of which were undertaken in WA.

| Type of Availability | Number |
|---|---|
| Full Cycle Docking – FCD | 3 |
| Mid Cycle Docking – MCD | 5 |
| Intermediate Docking – ID | 11 |
| Battery Change Docking – BCD | 2 |

| Type of Availability | Number |
|---|---|
| Assisted Maintenance Period – AMP | 70 |
| Certification Extension Docking – CED | 1 |
| Certification Extension Maintenance Period – CEM | 1 |
| Intermediate Availability – IMAV | 1 |
| Self Maintenance Period – SMP | 1 |
| **Total** | **95** |

## Platform Integration

ASC has specified, integrated and installed equipment and material from over 150 major contractors and hundreds of smaller suppliers in its role as whole-of-ship integrator.

Platform integration data was supplied to ASC by all equipment suppliers in accordance with interface specifications provided by ASC.

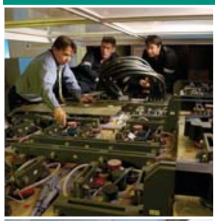
Parameters included electrical power, cooling, noise, weight, connections, monitoring and electromagnetic interference, all under configuration management as data was distributed between the various suppliers during the design phase.

## Ship Design

ASC has the range and depth of skills, and the experience necessary, to undertake complex ship design projects from project definition through to implementation and construction.

Key capabilities and skills include naval architecture, structural analysis, mechanical systems, electrical systems, control systems, communication systems, combat systems, weapons systems, software engineering and development, integrated logistics support, modelling and simulation, welding, materials engineering, fracture mechanics shock analysis, composites, hydrodynamics, acoustics/noise, fluid dynamics, piping systems, electronics, systems engineering, configuration management, project management, subcontractor management, and tests and trials.

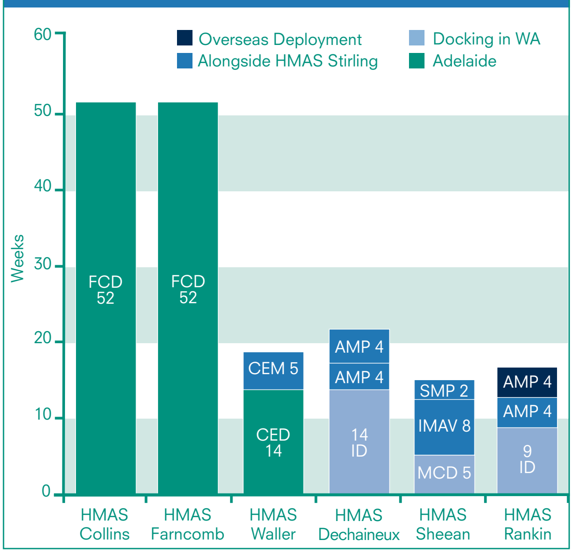
# Western Australia Maintenance



The team of ASC employees working in Western Australia faced many challenges during the 2003/04 financial year to ensure all maintenance activities during this period were completed on time, on budget and to the required quality standards.

HMAS Waller undertook a Certification Extension Maintenance (CEM) Period at HMAS Stirling to ensure certification as a precondition of its FCD. This activity was completed on 31 October 2003, and involved a project team from Outer Harbor working alongside the WA maintenance team. Although the first of its kind, HMAS Waller's CEM was completed on time resulting in no delays to its operations.

**2003/04 Maintenance Availabilities**




FCD = Full-Cycle Docking
MCD = Mid-Cycle Docking
AMP = Assisted Maintenance Period
ID = Intermediate Docking
CED = Certification Extension Docking
CEM = Certification Extension Maintenance Period
SMP = Self Maintenance Period
IMAV = Intermediate Maintenance Availability

Two Assisted Maintenance Periods (AMPs) and an Intermediate Docking (ID) were conducted on HMAS Dechanieux during the year. Undertaken alongside at HMAS Stirling, the AMPs consisted of four-monthly and eight-monthly maintenance routines and were conducted from 8 March to 5 April 2004 and 5 July to 30 July 2004, respectively.

In addition to normal alongside maintenance, HMAS Dechaineux's ID involved rectification of the submarine's equipment and systems while it was docked. During the ID, emergent work was identified and managed within schedule, resulting in its completion on time in November 2003.

HMAS Sheean was involved in an Intermediate Maintenance Availability (IMAV) from 5 March to 3 May 2004. Undertaken alongside at HMAS Stirling, the IMAV was a trial requested by the Commonwealth in an effort to rationalise submarine maintenance and ultimately increase available sea time. The IMAV was completed on time and on budget.

Also on time and on budget was HMAS Rankin's ID, completed from 20 October 2003 to 19 January 2004. From 11 June 2004 to 2 July 2004, an AMP was conducted on HMAS Rankin in Hawaii, the first AMP in several years to be undertaken outside of Australia. Involving ASC, Commonwealth, Fleet of Intermediate Maintenance Organisation personnel and contracting personnel, HMAS Rankin's AMP was successfully completed on schedule and in time for RIMPAC activities.

# Shipbuilding

ASC's shipbuilding operations commenced on 1 January 2004, and were subsequently publicly launched on 5 February 2004, with a view to actively tender for the Navy's Air Warfare Destroyer (AWD) and Amphibious Ships projects.

Following a strategic review in 2003, ASC's Board approved an expansion of activities with a particular focus on these upcoming naval combatant projects.

John Gallacher commenced work in May 2004 to lead the Group's strategy and business development towards the Navy's future shipbuilding projects.

Operating out of the 20 hectare former ASC-Engineering facility, situated next to ASC's Outer Harbor headquarters, ASC's shipbuilding personnel have been involved in a number of overseas visits to competing AWD ship designers and shipyards, in addition to planning and preparing for the October 2004 issue by the Commonweath of a formal Request for Proposal to select the preferred shipbuilder.

General Dynamics subsidiary, Bath Iron Works (BIW), was engaged at the start of 2004 to undertake a capability assessment and planning study to identify ASC's strengths and weaknesses in undertaking the air warfare destroyer's design and construction activities. Given BIW's experience gained from the construction of the Arleigh Burke DDG-51 AEGIS Destroyer Class for the United States Navy, this exercise provided valuable planning information.

ASC continues to work closely with BIW and it is envisaged that this relationship will extend to ongoing AWD activities if ASC's bid is successful.

Along with other Australian shipbuilders, ASC has also been associated with activities in relation to the Amphibious Ships project, where ASC has been invited to the Amphibious Ships project office in a shipbuilding advisory capacity.

Facility planning has also been an important focus for ASC. The planning has taken into account the requirements of both the AWD and Amphibious Ships projects, and involves close liaison with the South Australian Government.

A suitable facility plan, centred on ASC's Outer Harbor facility, has been developed, along with a number of options for future growth opportunities. Work in this area will continue as part of the ongoing preparations for upcoming naval shipbuilding projects.

ASC has continued to design and supply patrol vessels to the international market. Initial design activities for the Krait Class patrol boat have been completed, with the international marketing group continuing to source an order for this product.

# Design and Engineering



The Design and Engineering group has matured over the 2003/04 period, strengthening its role as submarine designer for the Collins Class.

The engineering capability has grown, adding depth and experience across all disciplines, while processes have been enhanced to comply with the recently-mandated Royal Australian Navy (RAN) technical regulatory requirements which apply across all areas of the business, including:

- Engineering program management;
- Configuration management;
- Requirements analysis, conceptual design review and design studies;
- Platform integration and system design;
- Detailed designer design to build verification;
- Design validation;
- Functional and performance verification;
- Logistics engineering;
- Support to design certification;
- Engineering support to maintenance/ sustainment work; and
- Technical quality continual improvement.

The RAN Technical Regulatory Guidelines issued under Australian Book of Reference (ABR) 6492 emphasize process, competence of design staff, certification of engineering design and technical risk management.

Supported by its capability partner, Electric Boat, ASC measures its performance and progress towards full 'designer' capability using an Electric Boat benchmarking method encompassing training, work progress, project management, safety and SUBSAFE, continuous improvement, cost schedule control, customer focus and domain coverage.

The support of full-cycle dockings for HMAS Collins and HMAS Farncomb have been an essential part of the design and engineering business this year. Development of new capability and design improvements, in addition to assistance to the operational fleet, has been a substantial part of this work scope.

This year, designs progressed for the introduction of a special forces capability, increased automation of the onboard sewerage system, upgrade of the halon fire fighting system and many other design tasks for improved performance and operability of the submarines.

**Design and Engineering personnel**

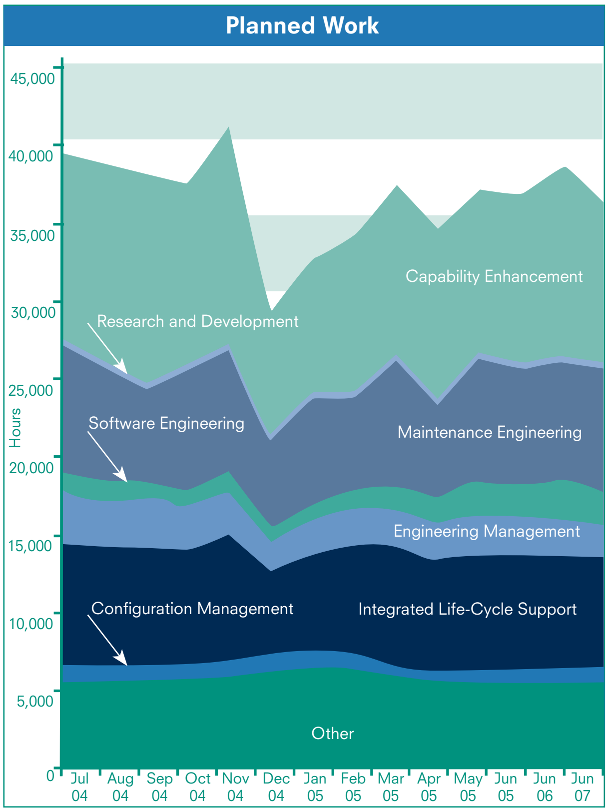
| Occupation | Personnel Numbers |
|---|---|
| Combat/Communications/ Weapons Engineers | 9 |
| Configuration Management Administration | 9 |
| Technical Officers | 48 |
| Detail Designers | 23 |
| Electrical Engineers | 11 |
| Logistics Engineers | 6 |
| Materials Engineers | 3 |
| Mechanical Engineers | 34 |
| Naval Architects | 5 |
| Office Administrators | 9 |
| Project Engineers | 6 |
| Project Managers | 7 |
| Signature/Acoustic Engineers | 2 |
| Software/IT Engineers | 26 |
| Structural Engineers | 6 |
| Systems Engineers | 4 |
| Welding Engineers | 1 |
| **Total** | **209** |

The introduction of the new heavyweight torpedo into the Collins Class has required structural changes and modifications to the embarkation and weapons handling system. This development work has been in parallel with the implementation of a replacement combat system comprising a United States Navy Tactical Command and Control (TCC) subsystem, and improvements to the sonar processing solution and associated infrastructure.

Additional design activities this year have included extensive modelling of the emergency blow system, improving the potable water quality, propeller repairs, implementing in-situ repairs and modifications to the main propulsion motor and cutting the pressure hull to remove the diesel generator for repair.

ASC has also been active in expanding the technical support network for the Collins Class submarines as it continues to build an in-country skills-base with onsite capability partner support from Electric Boat. The involvement of key subcontractors, participation of universities in defect investigations and research, and the establishment of a strategic alliance with the DSTO in support of ASC's research and design activities is also building on Australia's in-country skills-base.

The utilisation of design and engineering personnel in support of the Air Warfare Destroyer project has demonstrated the broad commonality of many aspects of the business. The sharing of skills, tools, processes and expertise is expected to continue.



## Weapons and Combat System

ASC has experience in project managing and integrating combat and weapons systems onto major platforms.

In addition to physical integration, ASC has taken the lead role in managing the interface between the weapons systems and the platform in which they are installed, successfully specifying, supervising and testing the weapons system/platform interface.

Liaising with Commonwealth authorities, combat system suppliers, US weapon authorities and other system authorities, ASC has exercised overall responsibility for delivering a fully-functional and integrated weapons system to the Royal Australian Navy.

ASC managed the combat system compliance against specification and controlled external interfaces. ASC was additionally responsible for the overall platform integration of the combat system, including the production of hyperlinked electronic manuals used for support and maintenance.

## Systems Integration

Systems integration involves technically interconnecting and testing individual systems and equipment to provide a fully-functioning vessel with the required operational capability.

A submarine is a system of systems. A Collins Class submarine contains 108 systems all of which need power and cooling and many of which need to communicate and interact with each other in order to achieve the operational capability.

With equipment and systems being specified and procured from many different sources, it was a requirement that ASC understood the characteristics of each item to enable them to be successfully integrated, supported and developed through-life.

# Safety Performance

ASC's safety policy is to ensure that all employees are safe from injury and risk to health while at work.

ASC is committed to the continual improvement of health and safety systems and practices through the management of risk exposure and the elimination of hazards. This is achieved by the application of engineering and administrative controls, the provision of personal protective equipment and the substitution of hazardous materials with less-hazardous materials.

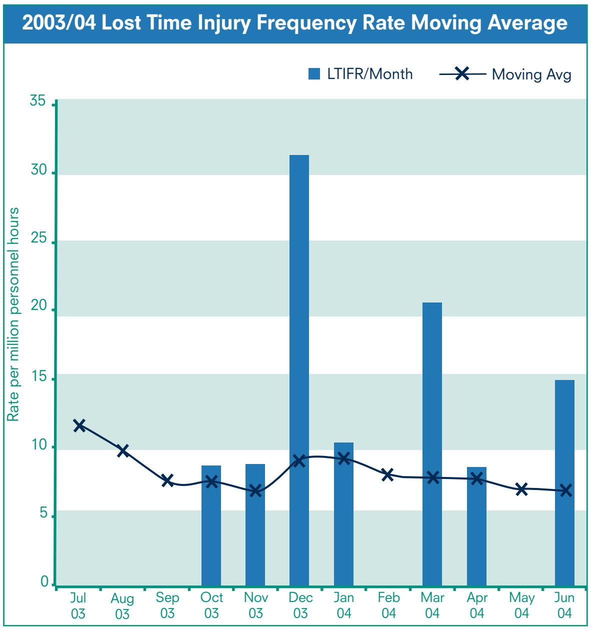
Given the nature of the repair and maintenance work undertaken at ASC, employees are often required to work in and around locations that may be potentially hazardous to employees' health and safety.

Section 74 of the Occupational Health and Safety (Commonwealth Employment) Act 1991 (Act) requires that measures are taken throughout the year to ensure the health, safety and welfare of employees at work, and that there is statistical reporting of any accidents or dangerous incidents that occur during the year.

Detailed information on Occupational Health and Safety Policies and Procedures implemented or modified during the year is contained in the Corporate Management System (CMS) series of documents.

During the year 2003/04 ASC reported 3 accidents or incidents to Comcare under section 68 of the Act. Comcare investigated 2 of these occurrences. ASC investigated 88 incidents internally of which 14 related to Lost Time Injuries (LTIs).

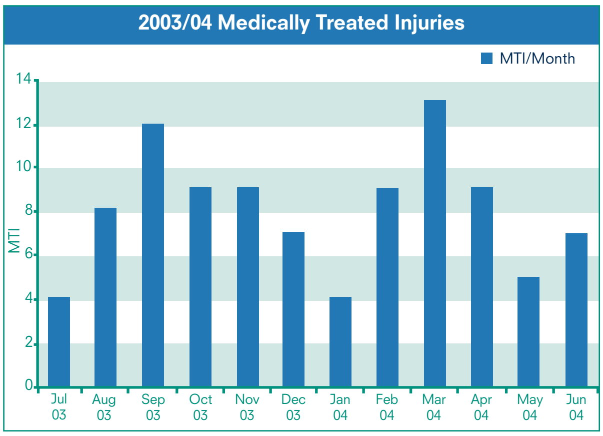
ASC has reported a 43 percent reduction in the annual lost time injury frequency rate (LTIFR) over the last year, which has in turn shown a significant reduction in WorkCover insurance premiums and WorkCover insurance claims costs.




LTIFR = Number of LTIs x 1,000,000 divided by hours worked per month.

| Month | Jul 03 | Aug 03 | Sep 03 | Oct 03 | Nov 03 | Dec 03 |
|---|---|---|---|---|---|---|
| LTI | 0.00 | 0.00 | 0.00 | 1.00 | 1.00 | 3.00 |
| LTIFR/Month | 0.00 | 0.00 | 0.00 | 8.47 | 8.70 | 30.93 |
| Moving Avg | 11.63 | 9.82 | 7.51 | 7.44 | 6.71 | 9.11 |

| Month | Jan 04 | Feb 04 | Mar 04 | Apr 04 | May 04 | Jun 04 |
|---|---|---|---|---|---|---|
| LTI | 1.00 | 0.00 | 3.00 | 1.00 | 0.00 | 2.00 |
| LTIFR/Month | 10.20 | 0.00 | 20.46 | 8.26 | 0.00 | 14.81 |
| Moving Avg | 9.05 | 8.06 | 7.79 | 7.67 | 6.97 | 8.28 |
| LTIFR Target | | | | | | 0 |




MTI = Number of injuries treated off site

| Month | Jul 03 | Aug 03 | Sep 03 | Oct 03 | Nov 03 | Dec 03 |
|---|---|---|---|---|---|---|
| MTI/Month | 4.00 | 8.00 | 12.00 | 9.00 | 9.00 | 7.00 |

| Month | Jan 04 | Feb 04 | Mar 04 | Apr 04 | May 04 | Jun 04 |
|---|---|---|---|---|---|---|
| LTIFR/Month | 4.00 | 9.00 | 13.00 | 9.00 | 5.00 | 7.00 |

ASC's current LTIFR of 6.21 per million hours worked has been achieved through:

- The ongoing provision of a safe workplace and a safe and healthy working environment;
- The development and implementation of safe systems of work for all staff;
- The provision of information, instruction, training and supervision to ensure that every employee is safe from injury and health risks;
- Effective consultation with employees on all issues which may effect health and safety at work, and the provision of rehabilitation following work-related injuries; and
- Effective injury and illness reporting, recording and investigation and effective claims management.

ASC's Board of Directors has set performance targets in Occupational Health, Safety and Injury Management (OHS&IM). The current lost time injury frequency rate target is 0, with a broadly based safety index of 140. The previous safety index target of 110 was achieved in February 2004. To mark this achievement, employees voted to donate $1500 to World Vision to provide for the ongoing support of three sponsored children.

The comprehensive approach to OHS&IM, and effectiveness of the system, was formally recognised in June 2004 with ASC being awarded Employer of the Year – Medium/Large Business at the South Australian 2004 Safe Work Awards.

ASC's Western Australia operations achieved an annual LTIFR of 6.29 over the financial period. The Submarine Training Systems Centre was also awarded the National Safety Council of Australia (NSCA) 5 Star and High Achievement Award as part of the NSCA 5 Star Safety Management System.

## Subcontractor Management

ASC has experience in managing over 1600 individual contractors and suppliers, 346 of which were from overseas countries.

The overseas suppliers were required, under the Submarine Build Contract, to support a minimum 70 percent Australian industry content for the platform. At the conclusion of the contract, ASC has achieved an outstanding 73.5 percent Australian industry involvement.

## People

ASC employs over 900 people, including a team of over 200 engineering and technical specialists.

These staff, sourced both locally and from overseas, are trained in a broad range of engineering disciplines and represent Australia's high-end skills capability for complex naval ship systems. The team is able to draw on ASC's unparalleled experience in complex maritime defence projects in its work of developing design and design enhancements, and introducing new operational capabilities and continuous improvements in reliability. ASC's depth of project management expertise means that multiple complex engineering projects can be undertaken simultaneously.

ASC's knowledge and expertise has been, and continues to be, enhanced by direct involvement with key government organisations, universities, specialist technology providers and international capability partners.

# Industrial Relations

ASC's industrial relations function revolves around the formulation, management and implementation of industrial awards and enterprise bargaining agreements.

The blue collar workforce is unionised with employees belonging to the Australian Manufacturing Workers' Union, the Communications, Electrical and Plumbing Union or the Australian Workers' Union.

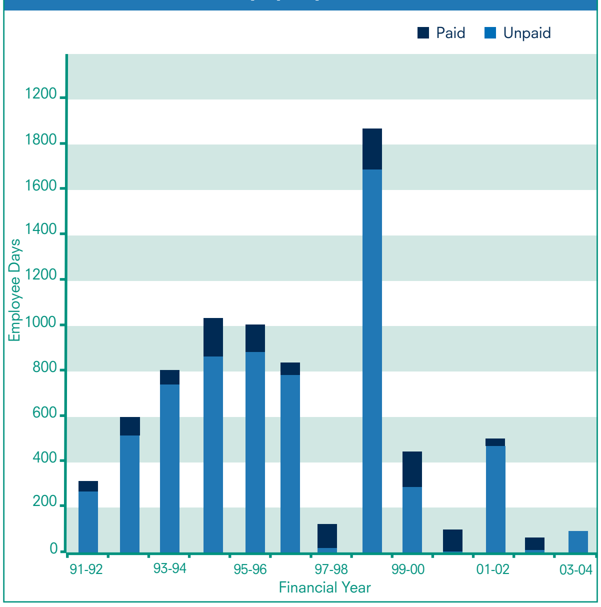
Like most metals and manufacturing organisations, ASC's industrial relations history has been difficult at times, resulting in industrial action and confrontation between management and employees.

ASC has actively met the challenges and has reported significant improvements in the relations between management, the workforce and unions over the last six years.

A single stoppage occurred in the 2003/04 financial year resulting in a loss of 8.5 hours per worker, or 197 equivalent work days. This action was the first dispute since enterprise bargaining agreement (EBA) negotiations in 2001.

ASC has a 3-year EBA with its blue collar workforce that will remain in force until 10 June 2006.

**Loss days per year to 2004**




# Environment

ASC is firmly committed to the overall protection and improvement of the environment, and this constitutes a prime consideration in all of its operational activities.

By implementing a sound environmental policy, ASC enhances the quality of its activities and provides leadership in an area which is of concern to the community.

Through the active management of, and adherence to, ASC's environmental policies and procedures, there have been no environmental incidents during the construction and maintenance of the Collins Class submarines at the Outer Harbor facility.

To further build on ASC's environmental record, ASC aspires to:

- Promote environmental awareness and sensitivity amongst all employees;
- Promote principles and practices of environmental responsibility by sharing knowledge and experience with other companies, governments, private organisations and community groups; and
- Be aware of, implement, monitor and review compliance with legislative obligations in relation to the environment.

# People

ASC's most valuable asset is its people. Many companies make this claim but, in ASC's case, it accurately reflects the reality of our business.

Over the past 15 years, ASC's people have developed and applied a set of skills and body of knowledge that is second to none in Australia's naval shipbuilding industry. These high-end skills and expertise are continuously maintained and improved enabling ASC to successfully undertake future Australian naval shipbuilding programs.

| Departmental staff numbers | |
|---|---|
| Design and Engineering | 209 |
| Quality | 40 |
| Production | 302 |
| Service Contracts | 115 |
| General and Administration | 120 |
| Western Australia | 133 |
| **Total** | **919** |

To support our people, ASC has adopted a proactive approach to protect and enhance their value by:

- Attracting and retaining high quality staff;
- Providing training and development opportunities;
- Setting out a framework for performance management, remuneration and incentives to encourage a high performing culture aligned with our objectives;
- Ongoing career development and succession planning at all levels within the company; and
- Recognising the importance of work/life balance.

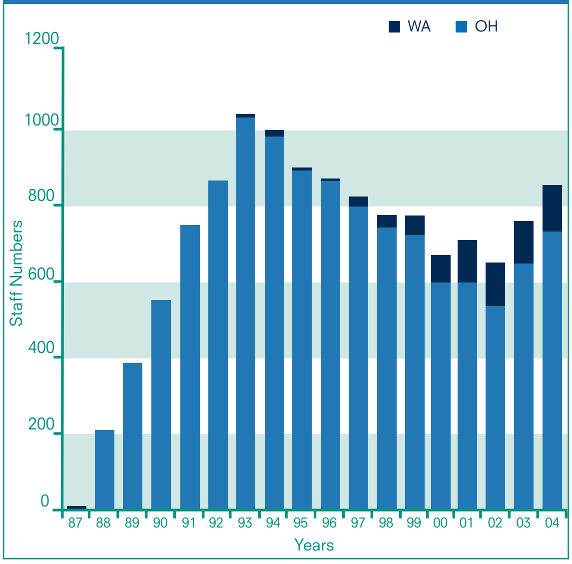
This approach is designed to ensure that ASC is regarded as an employer of choice, thus enabling the company to meet its projected future requirements.

In addition, ASC has a variety of initiatives designed to provide more open communication at all levels within the company including:

- Regular strategy briefings;
- Periodic Business Plan Review sessions;
- Frequent updates on the intranet and via email; and
- Publication of an in-house magazine, "In Depth".

All of these initiatives ensure that our organisational culture aligns with our objectives, and have assisted ASC to make the transition from a traditional shipbuilder to a professional services organisation with a customer orientation, clearly focussed on providing a superior, value-for-money service to the Commonwealth.

**Staff numbers since inception**



## Configuration Management

The management of baselines and the controlled application of change are important elements of ensuring the success of any engineering project.

Knowing the precise physical configuration of ship systems and equipment ensures efficient implementation of design changes and assurance of compliance to specifications.

ASC uses the Configuration Management Information System database for the identification and control of all physical and functional characteristics of the elements that make up the product baseline of a system.

Configuration Management includes the upkeep and distribution of technical documentation that describes the baselines of systems. There are an estimated 350,000 individual technical documents associated with the Collins Class submarines.

## Integrated Logistics Support

ASC's Integrated Logistics Support (ILS) team has the skills and experience to address supportability requirements through all phases of the life-cycle of the Collins Class.

ASC has developed a world-class ILS package that provides comprehensive and cost-effective support for the Collins Class' mission and support systems, from conception to the end of the submarines' operational lives.

The simultaneous support of design, sustainment and operational needs through the life of the platform is a key feature of ASC's ILS capability.

# Financial Report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Auditors' Report to Shareholders 35

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Notes To and Forming Part of the Financial Statements 40


Note: this Financial Report was prepared for Australian Submarine Corporation Pty Limited which subsequently changed its name to ASC Pty Ltd on 1 October 2004.

# Directors' Report

For the year ended 30 June 2004

The Directors present their report, together with the consolidated financial report of the consolidated entity, being Australian Submarine Corporation Pty. Limited (the Company) and its controlled entities, for the year ended 30 June 2004 and the auditors' report thereon.

### Directors

The Directors of the Company at any time during or since the end of the financial year are:

| | |
|---|---|
| John Barry Prescott AC | Appointed 3/11/00 |
| Charles Neville Hervey Bagot | Appointed 3/11/00 |
| Stephen Elliott Young | Appointed 1/7/02 |
| General (Rtd) John Stuart Baker AC DSM | Appointed 1/7/02 |
| Stephen John Gumley | Appointed 6/11/02<br>Resigned 20/02/04 |
| Graeme Richard Bulmer | Appointed 10/11/00 |

Dr Stephen John Gumley resigned as Managing Director and Chief Executive Officer on 20 February 2004. As a result of his appointment as Acting Chief Executive Officer on 16 March 2004, Mr Graeme Richard Bulmer has ceased to act as a director pending the appointment of a permanent chief executive officer.

On 4 August 2004, the Company announced the appointment of Mr Gregory Roy Tunny as Managing Director and Chief Executive Officer of Australian Submarine Corporation Pty. Limited. Mr Tunny will join the Company in the near future.

### Principal Activities

The principal activity of the consolidated entity during the course of the financial year was the design, engineering, construction and maintenance of six submarines for the Royal Australian Navy. During the financial year there was no significant change in the nature of those activities.

### Consolidated Result

The consolidated profit of the consolidated entity for the financial year attributable to the shareholders of Australian Submarine Corporation Pty. Limited was $16,104,000 after provision for income tax expense of $7,470,000.

### Review of Operations

Construction of the six submarines is complete. The Company has increased its submarine support under the Full Cycle Docking and In Service Support contracts. On 8 December 2003, the Company signed a fifteen year contract with the Commonwealth of Australia for the ongoing maintenance and through life support of the Collins Class submarines.

### Dividends

Dividends for $5,000,000 were provided for by the Company since the end of the previous financial year for the year ended 30 June 2004.

### State of Affairs

In the opinion of the Directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review other than the following:

1. The company entered into a 15 year strategic agreement for through life support of the Collins Class submarines;
2. All disputes with Kockums AB were settled in June 2004;
3. All claims under contract C218269 between the Commonwealth of Australia and the Company have been settled and that contract has been terminated save for the completion of certain minor works; and
4. The financial impact of items (2) and (3) above are reflected in the Company's financial statements as at 30 June 2004.

### Events Subsequent to Balance Date

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

# Directors' Report
(continued)

### Likely Developments

It is the Commonwealth of Australia's stated intent to sell the Company into private ownership at some point in the future. On 27 May 2004, the Minister for Finance and Administration announced that Australian Submarine Corporation Pty. Limited will be established as a Government Business Enterprise under the Commonwealth Authorities and Companies Act, which will require the Company to operate efficiently, earn at least a commercial rate of return and observe a more standardised and transparent reporting framework. Strict procedures governing the relationship between Australian Submarine Corporation Pty. Limited, the Department of Defence and the Department of Finance and Administration will also be put in place.

### Directors' Benefits

Since the end of the previous financial year no Director of the Company has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of remuneration received or due and receivable by Directors shown in the consolidated accounts) because of a contract made by the Company, 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 Officers' Indemnification

The Company has entered into agreements by which current and previous Directors and Officers of the Company are indemnified out of the property of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise in their capacity as Directors and Officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreements stipulate that the Company will meet, to the extent permitted by law, the full amount of any such liabilities, including costs and expenses.

### Insurance Premiums

Since the end of the previous financial year the Company has paid insurance premiums of $117,127 in respect of Directors' and Officers' liability insurance contracts for current and former Directors and Officers, including Executive Officers of the Company 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 company, which are not indemnified by the Company and which the Director or Officer becomes legally obligated to pay on account of certain claims made against him/her individually or otherwise.

### Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in this report and the accompanying financial statements have been rounded off to the nearest thousand dollars unless otherwise stated.

Dated at Adelaide this 26th day of August 2004.

Signed in accordance with a resolution of Directors:

John B Prescott AC
Chairman

Stephen E Young
Director

# Independent Audit Report

**To the members to the Australian Submarine Corporation Pty Ltd**

## Scope

*The financial report and directors' responsibility*

The financial report comprises:

- Directors' Declaration;
- Statements of Financial Performance, Financial Position and Cash Flows; and
- Notes to and forming part of the Financial Report

for both the Australian Submarine Corporation Pty Ltd and the consolidated entity (ASC), comprising the Company and the entities it controlled, for the year ended 30 June 2004.

The Company's Directors are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

***Audit Approach***

I have conducted an independent audit of the financial report of ASC, as set out on pages 37 to 69, in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designated to provide assurance on internal controls.

I have performed procedures to assess whether, in all material aspects, the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by management.

## Independence

In conducting the audit, I have followed the independence requirements of the ANAO, which incorporate Australian professional ethical pronouncements.

## Audit Opinion

In my opinion, the financial statements of ASC is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

National Australian Audit Office

Ian P Goodwin
Executive Director

Delegate of the Auditor-General, CANBERRA

26 August 2004

# Directors' Declaration

For the year ended 30 June 2004

1 In the opinion of the Directors of the Australian Submarine Corporation Pty. Limited:

(a) the financial statements and notes, set out on pages 37 to 69, are in accordance with Note 1 of the financial statements (page 40), including;

(i) giving a true and fair view of the financial position of the consolidated entity as at 30 June 2004 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Adelaide this 26th day of August 2004.

Signed in accordance with a resolution of Directors:

John B Prescott AC
Chairman

Stephen E Young
Director

# Statements of Financial Performance

For the year ended 30 June 2004

| | | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|---|
| | NOTE | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | | $'000 | $'000 | $'000 | $'000 |
| Revenue from rendering of services | 2 | 243,593 | 148,389 | 237,741 | 124,628 |
| Other revenues from ordinary activities | 2 | 12,277 | 10,298 | 12,126 | 10,019 |
| **Total Revenue** | | **255,870** | **158,687** | **249,867** | **134,647** |
| Expenses from ordinary activities | | | | | |
| Materials & subcontractors | | (114,631) | (49,715) | (106,257) | (29,849) |
| Labour | | (81,307) | (70,066) | (78,256) | (67,183) |
| Depreciation and amortisation | 3 | (3,760) | (4,490) | (3,266) | (3,894) |
| Repairs & maintenance | | (2,929) | (2,998) | (2,430) | (2,445) |
| Professional fees | | (6,723) | (3,258) | (6,515) | (3,139) |
| Utilities expense | | (2,587) | (2,803) | (2,162) | (2,255) |
| Borrowing costs | 3 | (14) | (49) | (99) | (191) |
| Carrying amount of assets sold | | (366) | (681) | (21) | (350) |
| Insurance | | (1,271) | (735) | (923) | (469) |
| Motor vehicle expenses (including novated lease) | | (1,319) | (1,179) | (1,276) | (1,138) |
| Operating lease | | (557) | (1,284) | (444) | (1,219) |
| Production consumables and supplies | | (1,318) | (1,506) | (997) | (1,021) |
| Shareholders/Directors fees | | (786) | (350) | (786) | (350) |
| Security expenses | | (678) | (674) | (472) | (473) |
| Travelling expenses | | (1,462) | (2,168) | (1,445) | (2,146) |
| Service Agreement costs | | (7,324) | (4,841) | (7,324) | (4,841) |
| Other expenses from ordinary activities | | (5,495) | (3,135) | (4,893) | (2,862) |
| **Total Expenses** | | **(232,527)** | **(149,932)** | **(217,566)** | **(123,825)** |
| Share of net profits of associates and joint ventures accounted for using the equity method | | 231 | 161 | - | - |
| Profit from ordinary activities before related income tax expense | | 23,574 | 8,916 | 32,301 | 10,822 |
| Income tax (expense)/benefit relating to ordinary activities | 5(a) | (7,470) | (3,070) | (10,175) | (3,646) |
| **Profit from ordinary activities after related income tax expense** | | **16,104** | **5,846** | **22,126** | **7,176** |

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 40 to 69.

# Statements of Financial Position

As at 30 June 2004

| | | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|---|
| | NOTE | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | | $'000 | $'000 | $'000 | $'000 |
| CURRENT ASSETS | | | | | |
| Cash assets | 7 | 7,683 | 8,421 | 7,642 | 8,274 |
| Receivables | 8 | 50,577 | 38,801 | 49,602 | 36,466 |
| Other financial assets | 10 | 46,680 | 53,645 | 46,680 | 53,645 |
| Inventories | 9 | 9,691 | 10,749 | 9,574 | 10,197 |
| Other | 12 | 585 | 660 | 409 | 490 |
| **Total Current Assets** | | **115,216** | **112,276** | **113,907** | **109,072** |
| NON CURRENT ASSETS | | | | | |
| Receivables | 8 | 29,419 | 30,937 | 29,419 | 30,937 |
| Investments accounted for using the equity method | 11 | 55 | 949 | 47 | 47 |
| Other financial assets | 10 | 59,652 | 50,127 | 72,652 | 63,127 |
| Property, plant and equipment | 13 | 31,179 | 33,252 | 26,466 | 27,700 |
| Deferred tax assets | 5 | 7,966 | 9,184 | 7,966 | 9,184 |
| **Total Non Current Assets** | | **128,271** | **124,449** | **136,550** | **130,995** |
| **Total Assets** | | **243,487** | **236,725** | **250,457** | **240,067** |
| CURRENT LIABILITIES | | | | | |
| Payables | 14 | 111,988 | 122,234 | 109,087 | 118,476 |
| Interest-bearing liabilities | 15 | 360 | 684 | 7,913 | 8,357 |
| Provision for current income tax | 5 | 2,508 | 5,302 | 2,508 | 5,302 |
| Provisions | 16 | 27,979 | 18,121 | 23,319 | 16,694 |
| **Total Current Liabilities** | | **142,835** | **146,341** | **142,827** | **148,829** |
| NON CURRENT LIABILITIES | | | | | |
| Interest-bearing liabilities | 15 | - | 33 | - | - |
| Deferred tax liabilities | 5 | 28,567 | 29,723 | 28,567 | 29,723 |
| Provisions | 16 | 1,891 | 1,538 | 1,883 | 1,461 |
| **Total Non Current Liabilities** | | **30,458** | **31,294** | **30,450** | **31,184** |
| **Total Liabilities** | | **173,293** | **177,635** | **173,277** | **180,013** |
| **Net Assets** | | **70,194** | **59,090** | **77,180** | **60,054** |
| EQUITY | | | | | |
| Contributed equity | 17 | 10,000 | 10,000 | 10,000 | 10,000 |
| Retained profits | 18 | 60,194 | 49,090 | 67,180 | 50,054 |
| **Total Equity** | | **70,194** | **59,090** | **77,180** | **60,054** |

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 40 to 69.

# Statements of Cash Flows

For the year ended 30 June 2004

| | NOTE | CONSOLIDATED Jun-04 $'000 | CONSOLIDATED Jun-03 $'000 | THE COMPANY Jun-04 $'000 | THE COMPANY Jun-03 $'000 |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Cash receipts in the course of operations | | 215,813 | 201,339 | 208,303 | 181,324 |
| Cash payments in the course of operations | | (208,534) | (164,507) | (197,080) | (142,894) |
| Income taxes refunded / (paid) | 5(b) | (10,204) | (7,651) | (10,204) | (7,651) |
| **Net cash provided by / (used in) operating activities** | 30(b) | **(2,925)** | **29,181** | **1,019** | **30,779** |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Interest received | | 2,807 | 4,064 | 2,782 | 4,021 |
| Proceeds from distribution on liquidation of associates | | 1,125 | - | - | - |
| Leverage lease income | | 1,594 | 908 | 1,594 | 908 |
| Proceeds from disposal of non-current assets | 2 | 427 | 906 | 71 | 566 |
| (Increase)/decrease in invested funds | 30 | (1,048) | (33,016) | (1,047) | (33,016) |
| Payments for property, plant and equipment | | (2,055) | (2,026) | (2,055) | (1,268) |
| Loan (to)/from controlled entity | | - | - | (3,149) | (945) |
| Loan (to)/from associates | | 1,220 | 2,142 | 1,765 | 552 |
| Investment in associates | 11 | - | (5) | - | (5) |
| **Net cash used in investing activities** | | **4,070** | **(27,027)** | **(39)** | **(29,187)** |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from/(repayment to) borrowings | | (357) | (563) | - | - |
| Borrowing costs paid | | (14) | (47) | (100) | (192) |
| **Net cash used in financing activities** | | **(371)** | **(610)** | **(100)** | **(192)** |
| **Net increase/(decrease) in cash held** | | **774** | **1,544** | **880** | **1,400** |
| **Cash at the beginning of the financial year** | | **6,021** | **4,477** | **5,874** | **4,474** |
| **Cash at the end of the financial year** | 30(a) | **6,795** | **6,021** | **6,754** | **5,874** |

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 40 to 69.

# Notes To and Forming Part of the Financial Statements

For the year ended 30 June 2004

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

### (a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, Finance Minister's Orders, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied by each entity in the economic entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

### (b) Principles of Consolidation

The consolidated financial statements of the economic entity include the financial statements of the Company, being the parent entity, and its controlled entities ("the consolidated entity").

Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

The balances, and effects of transactions, between controlled entities included in the consolidated accounts have been eliminated.

### (c) Revenue Recognition

Rendering of Services

Revenue from rendering services is recognised in the period in which the service is provided, having regard to the stage of completion of the contract.

Interest Income

Interest income is recognised as it accrues.

Asset Sales

The gross proceeds of asset sales are included as revenue of the entity at the date an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Other Revenue

The revenue recognition policy for construction work in progress is described in Accounting Policy Note 1(d) below.

### (d) Construction Work in Progress

Valuation

Construction work in progress is carried at cost, plus profit recognised to date based on the value of work completed, less contract billings due and less provision for foreseeable losses. Provision for the total loss on a contract is made as soon as the loss is identified. Cost includes all costs directly related to specific contracts, and those which can be attributed to contract activity in general and which can be allocated to specific contracts on a reasonable basis. Such costs include administration overhead costs which are directly related to the Company's contract with the Commonwealth of Australia.

Where the outcome of a contract cannot be reliably estimated contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is only recognised to the extent of costs incurred.

Recognition of Revenue

Contract billings due and receivable to balance date are recorded on the basis of claims approved, and claims submitted for approval, by the Commonwealth of Australia, in relation to construction contract costs incurred by the Company.

Revenue arising from the performance of the contract is recognised in the Statements of Financial Performance on the basis of the level of completion achieved. Recognition of revenue arising from progress billings received in advance of the performance of construction contract activities has been deferred and included in the measurement of construction work in progress.

Recognition of Profit

Profit on construction contracts is recognised using the percentage of completion method which is measured either by the cost of work completed and estimated total costs at completion of the contract or by physical completion. Estimated costs at completion include allowances which recognise the inherent risks associated with a long term construction contract of this nature. Profit recognition on these projects does not normally commence until the revenues, costs and a profit forecast can be reliably determined. Provision for the total loss on a contract is made as soon as the loss is identified.

In the past few years, continuing profit recognition on the Submarine Build contract (contract C218269) had been suspended until resolution had been arrived at on issues relating to full cycle docking of Submarine 01. These issues have now been resolved and the appropriate profit has been recognised in the 2004 financial year to the amount equal the percentage of cost completed.

### (e) Foreign Currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

The incurrence of liabilities denominated in foreign currencies is matched by the recognition of contract claims receivable denominated in the same foreign currencies.

Exchange differences arising in respect of foreign currency items are included in the measurement of the contract billings and work in progress costs.

Hedges

All non specific hedge transactions relating to non-contract exposures are initially recorded at the spot rate at the date of the transaction. Hedges outstanding at balance date are translated at the rates of exchange ruling on that date and any exchange differences are bought to account in the Statements of Financial Performance. Costs or gains arising at the time of entering into the hedge are deferred and amortised over the life of the hedge.

Where hedge transactions are designed to hedge the purchase or sale of goods and services, exchange differences arising up to the date of purchase or sale, together with any costs or gains arising at the time of entering into the hedge, are included in the measurement of the purchase or sale. Any exchange differences after that date are included in the Statements of Financial Performance. Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur, the deferred gains and losses that arose in the foreign currency hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur, deferred gains and losses that arose on the foreign currency hedge prior to termination are included in the Statements of Financial Performance for the period.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

### (f) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

### (g) Property, Plant and Equipment

Acquisitions

Items of property, plant and equipment are recorded at cost and depreciated as outlined below. The cost of property, plant and equipment constructed includes the cost of materials and direct labour and an appropriate proportion of fixed and variable overheads.

Complex Assets

Major items of plant and equipment comprising a number of components that have different useful lives, are accounted for as separate assets. The components may be replaced during the useful life of the complex asset.

### Subsequent Additional Costs

Costs incurred on property, plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years. Where these costs represent separate components of a complex asset they are accounted for as separate assets and are separately depreciated over their useful lives.

### Depreciation

Items of property, plant and equipment, including buildings but excluding freehold land, are depreciated over their estimated useful lives using the straight line method.

The depreciation rates used for each class of asset are as follows:

- Buildings 2.5 – 7.5%
- Plant and Equipment 9.0 – 33.0%

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

### Leased Plant and Equipment

Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the accounting period in which they are incurred. Capitalised lease assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset. Lease liabilities are reduced by repayments of principal.
The interest components of the lease payments are charged to the Statements of Financial Performance.

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representable of the pattern of benefits to be derived from the leased property.

## (h) Taxation

### Income Tax

The Company is the Head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 28. The implementation date for the tax-consolidated group is 1 July 2002.

The Head entity recognises all of the current and deferred tax assets and liabilities of the tax consolidated group (after elimination of intra-group transactions).

The tax-consolidated group has entered into a tax sharing agreement that requires wholly-owned subsidiaries to make contributions to the Head entity for tax liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation. The contributions are calculated as a percentage of the group's current tax liability. The contributions are payable annually.

The assets and liabilities arising under the tax sharing agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on the operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statements of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the assets is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

### Capital Gains Tax

Capital gains tax is provided for in the Statements of Financial Performance in the period in which the asset is sold except where the sale relates to a non-current asset which has previously been revalued.

Where a non-current asset is revalued, capital gains tax is provided at the time of revaluation only when it is known that the asset will eventually be sold. This provision is made against the asset revaluation reserve, with the result that when the asset is sold there is no charge to the Statements of Financial Performance for capital gains tax except to the extent of adjustments for over/under provisions in previous periods.

The tax effect of capital losses is not recorded unless realisation is virtually certain.

### (i) Employee Benefits

#### Wages, Salaries and Annual Leave

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates expected to be paid at reporting date including related on-costs.

#### Long Service Leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs.

#### Superannuation Plan

The Company and its controlled entities contribute to a defined benefit and several defined contribution superannuation plans. Contributions are recognised as an expense as they are made. Eight members of Australian Submarine Corporation Superannuation Fund are members of the defined benefit plan. The consolidated entity has a responsibility to ensure the members benefit are adequately provided for. Further information is set out in Note 20(d).

### (j) Leveraged Lease

A lease receivable is brought to account (at the beginning of the lease term) at an amount equal to the aggregate amount of the investment in the leveraged lease plus unearned income. The consolidated entity does not record the gross investment and corresponding liability of the lease partnership. Total income receivable from the partnership and the related income tax expense is recognised in accordance with the "gross-of-tax" method of accounting for income tax.

Income and tax benefits are progressively brought to account over the term of the lease.

Where a change occurs in estimated lease cash flows during the term of the lease, total lease profit is recalculated and reallocated over the entire lease term.

### (k) Non Current Assets

The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value.

### (l) Investments

#### Controlled Entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Dividends and distributions are brought to account in the Statements of Financial Performance when they are declared by the controlled entities.

#### Associates

An associate is an entity, other than a partnership, over which the consolidated entity exercises significant influence and where the investment in that entity has not been acquired with a view to disposal in the near future.

In the Company's financial statements investments in associates are carried at the lower of cost and recoverable amount. Income from interim dividends is brought to account in the Statements of Financial Performance as dividends are received. Income from final dividends is brought to account as revenue at the time the dividends have been declared by the associate in a general meeting.

In the consolidated financial statements investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount.

The consolidated entity's share of the associates' net profit or loss after tax is recognised in the consolidated Statements of Financial Performance after adjustments for:

revisions in depreciation of depreciable assets and amortisation of goodwill arising from notional adjustments made as at the date of acquisition; dissimilar accounting policies; and the elimination of unrealised profits and losses on transactions between the associate and any entities in the consolidated entity or another associate of the consolidated entity. Other movements in reserves are recognised directly in consolidated reserves.

**(m) Derivative Financial Instruments**

The consolidated entity is exposed to changes in interest rates and foreign exchange rates from its activities. The consolidated entity uses derivative financial instruments to hedge these risks. Derivative financial instruments are not held for speculative purposes.

Derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposure.

Gains and losses on derivative financial instruments hedging specific future purchases and sales are deferred until the date of purchase or sale and included in the measurement of that transaction.

The accounting for forward foreign exchange contracts is set out in Note 1(e).

**(n) Receivables**

Trade and Contract Debtors are carried at amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts.

**(o) Payables**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 37 days from the end of the month in which the invoice was raised on the Company.

**(p) Interest Bearing Liabilities**

Bank loans are carried on the statements of financial position at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in "Other Creditors and Accruals".

**(q) Warranty**

The estimate for the warranty obligation for manufactured products is based on engineering assessments as to probable repair or restoration costs of the products arising from warranty claims.

**(r) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statements of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

**(s) Provisions**

The provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that an outflow of economic benefit will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefit 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 financial performance, 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 set-off the recovery receivable and the provision:
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

### (t) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on an average cost basis and include direct materials, direct subcontractors and direct labour. Net realisable value is determined on the basis of each inventory line's expected recoverable amount. Selling expenses are estimated and deducted to establish net realisable value.

### (u) Adoption of Australian Equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future.

The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value.
- Income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity.
- Surpluses and deficits in the defined benefit superannuation plans sponsored by entities within the consolidated entity will be recognised in the statement of financial position and the statement of financial performance.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.
- Revaluation increments and decrements relating to revalued property, plant and equipment and intangible assets will be recognised on an individual asset basis, not a class of assets basis.
- Impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired.

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |
| 2 REVENUE FROM ORDINARY ACTIVITIES | | | | |
| **Revenue from rendering of services** | | | | |
| Related parties | 238,135 | 124,576 | 237,671 | 124,502 |
| Other parties | 5,458 | 23,813 | 70 | 126 |
| | 243,593 | 148,389 | 237,741 | 124,628 |
| OTHER REVENUES | | | | |
| **From operating activities:** | | | | |
| **Interest** | | | | |
| Related parties | - | - | - | - |
| Associate parties | - | 20 | - | - |
| Other parties | 4,375 | 4,203 | 4,350 | 4,181 |
| **Equipment rental:** | | | | |
| Associate parties | - | 208 | - | - |
| Other parties | 35 | 14 | - | - |
| **Secondment income received from:** | | | | |
| Related parties | - | - | 307 | 362 |
| Associate parties | - | 36 | - | - |
| **Rental income received from:** | | | | |
| Other parties | 42 | - | - | - |
| **From outside operating activities:** | | | | |
| Insurance proceeds received | - | 1 | - | - |
| Service Agreement income | 7,323 | 4,841 | 7,323 | 4,841 |
| Leveraged lease income | 75 | 69 | 75 | 69 |
| Gross proceeds from sale of non-current assets | 427 | 906 | 71 | 566 |
| Total other revenues | 12,277 | 10,298 | 12,126 | 10,019 |
| **Total revenues from ordinary activities** | **255,870** | **158,687** | **249,867** | **134,647** |

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |

## 3 PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

**Profit from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:**

| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
|---|---|---|---|---|
| **Depreciation of:** | | | | |
| Buildings | 3,027 | 3,708 | 2,948 | 3,623 |
| Plant & equipment | 733 | 782 | 318 | 271 |
| Total depreciation | 3,760 | 4,490 | 3,266 | 3,894 |
| **Borrowing costs:** | | | | |
| Related parties | - | - | 99 | 190 |
| Other parties | 14 | 49 | - | 1 |
| | 14 | 49 | 99 | 191 |
| **Net bad and doubtful debts expense including movements in provision for doubtful debts** | 707 | 97 | 707 | 76 |
| **Net expense from movements in provision for:** | | | | |
| Employee entitlements | 2,002 | 2,714 | 2,046 | 2,226 |
| Employee redundancies & terminations | - | 22 | - | (1) |
| Warranties | 3,492 | - | - | - |
| Inventory write down | 1,699 | - | 1,276 | - |
| **Operating lease rental expense:** | | | | |
| Minimum lease payments | 557 | 1,284 | 444 | 1,219 |
| **Net (gain)/loss on disposal of non-current assets:** | | | | |
| Property, plant and equipment | (62) | (261) | (50) | (216) |
| Investments | (1) | (5) | (1) | (5) |

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |
| 4 AUDITORS' REMUNERATION | | | | |
| **Audit services:** | | | | |
| Amount received or due and receivable by the Australian National Audit Office (ANAO) as auditors of ASC | 188 | 177 | 150 | 141 |
| **Other services:** KPMG have been contracted by ANAO to provide audit services on the ANAO's behalf. In addition to fees earned from the subcontracted audit, KPMG have earned the following fees for engagements where they have been separately contracted by ASC | | | | |
| - Other assurance services | 43 | 87 | 43 | 87 |
| - Taxation services | 98 | 106 | 84 | 86 |
| | 141 | 193 | 126 | 173 |
| 5 TAXATION | | | | |
| **(a) Income Tax Expense** | | | | |
| Prima facie income tax expense calculated at 30% (2003:30%) on the profit from ordinary activities | 7,072 | 2,670 | 9,690 | 3,246 |
| **Increase/(Decrease) in income tax expense due to:** | | | | |
| Sundry items (including entertainment) | 396 | 434 | 477 | 434 |
| | 396 | 434 | 477 | 434 |
| Income tax expense on operating profit | 7,468 | 3,104 | 10,167 | 3,680 |
| Add:Income tax under/(over) provided in prior year | 2 | (34) | 8 | (34) |
| **Total income tax expense** | **7,470** | **3,070** | **10,175** | **3,646** |
| **Total income tax expense is made up of:** | | | | |
| Current income tax provision | 5,629 | 9,916 | 8,327 | 10,495 |
| Deferred income tax provision | 434 | (1,123) | 434 | (1,120) |
| Future income tax benefit | 1,412 | (5,656) | 1,412 | (5,660) |
| Under/(over) provision in prior years | (5) | (67) | 2 | (69) |
| | **7,470** | **3,070** | **10,175** | **3,646** |

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |
| **(b) Provision for Current Income Tax / (Current Income Tax Receivable)** | | | | |
| **Movements during the year were as follows:** | | | | |
| Balance at the beginning of the year | 5,302 | 1,631 | 5,302 | 1,631 |
| Income tax paid | (10,204) | (7,651) | (10,204) | (7,651) |
| Current year's current income tax expense on operating profit | 8,104 | 9,829 | 9,912 | 10,461 |
| Controlled entity provision | - | - | (1,808) | (632) |
| Under/(over) provision in prior years | (694) | 1,493 | (694) | 1,493 |
| | **2,508** | **5,302** | **2,508** | **5,302** |
| **(c) Provision for Deferred Income Tax** | | | | |
| **Provision for deferred income tax comprises the estimated expense at the applicable income tax rate of 30% (2003: 30%) on the following items:** | | | | |
| Deferred income arising from leveraged lease transaction | 27,906 | 29,476 | 27,906 | 29,476 |
| Sundry items | 661 | 247 | 661 | 247 |
| | **28,567** | **29,723** | **28,567** | **29,723** |
| **(d) Future Income Tax Benefit** | | | | |
| **Future income tax benefit comprises the estimated future benefit at the applicable income tax rate of 30% (2003: 30%) of the following items:** | | | | |
| Provisions for accrued employee entitlements not currently deductible | 4,322 | 3,809 | 4,322 | 3,809 |
| Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes | 1,411 | 1,540 | 1,411 | 1,540 |
| Difference in contract profit recognised for accounting and income tax purpose | 287 | 3,292 | 287 | 3,292 |
| Sundry items | 1,946 | 543 | 1,946 | 543 |
| | **7,966** | **9,184** | **7,966** | **9,184** |

## 6 SEGMENT REPORTING

Segments results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

### Business segments

The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

| | |
|---|---|
| **Build Project:** | Submarine build project |
| **Support Projects:** | Submarine support projects which include full cycle docking, battery change out, submarine emergency rescue service and others submarine support projects |
| **Other Projects:** | Other submarine support projects which include design and engineering projects performed by the controlling entity |
| **Heavy Engineering**: | Design, construction and project management of heavy engineering projects performed by ASC Engineering Pty Ltd (a controlled entity) |

| | BUILD PROJECT | | SUPPORT PROJECTS | | OTHER PROJECTS | | HEAVY ENGINEERING | | ELIMINATIONS | | CONSOLIDATED | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Revenue** | | | | | | | | | | | | |
| External segment revenue | 77,847 | 20,037 | 150,597 | 95,810 | 9,294 | 8,777 | 5,885 | 23,671 | (382) | (75) | 243,241 | 148,220 |
| Inter-segment revenue | | | | | | | | | | | | |
| Total segment revenue | 77,847 | 20,037 | 150,597 | 95,810 | 9,294 | 8,777 | 5,885 | 23,671 | (382) | (75) | 243,241 | 148,220 |
| Other unallocated revenue | | | | | | | | | | | 12,629 | 10,467 |
| **Total revenue** | | | | | | | | | | | **255,870** | **158,687** |
| **Result** | | | | | | | | | | | | |
| Segment result | 9,891 | 0 | 17,247 | 8,973 | 836 | 637 | (2,376) | (1,627) | 174 | 13 | 25,772 | 7,996 |
| Share of net profit or loss of equity accounted investments | | | | | | | | | | | 231 | 161 |
| Unallocated corporate expenses | | | | | | | | | | | (2,429) | 759 |
| Profit from ordinary activities before income tax | | | | | | | | | | | 23,574 | 8,916 |
| Income tax expenses | | | | | | | | | | | (7,470) | (3,070) |
| **Net profit** | | | | | | | | | | | **16,104** | **5,846** |
| Depreciation and amortisation (1) | | | | | | | | | | | 3,760 | 4,490 |
| Non Cash Expenses other than Depreciation and amortisation:<br>- Doubtful Debt Provisions | | | (22) | 76 | | | 0 | 21 | | | (22) | 97 |
| **Assets** | | | | | | | | | | | | |
| Segment assets | 0 | 2,571 | 37,608 | 23,476 | 4,169 | 2,468 | 890 | 2,628 | | | 42,667 | 31,143 |
| Equity accounted investments | | | | | | | | | | | | |
| Unallocated corporate assets (1) | | | | | | | | | | | 200,820 | 205,582 |
| **Consolidated total assets** | | | | | | | | | | | **243,487** | **236,725** |
| **Liabilities** | | | | | | | | | | | | |
| Segment liabilities | | | | | | | 366 | 543 | | | 366 | 543 |
| Unallocated corporate liabilities | | | | | | | | | | | 172,927 | 177,092 |
| **Consolidated total liabilities** | | | | | | | | | | | **173,293** | **177,635** |
| Acquisitions of non-current assets (1) | | | | | | | | | | | 2,054 | 2,026 |

Note (1): Unallocated assets include all fixed assets of the Company.
Fixed assets can not be allocated to segments on a reasonable and non arbitrary basis.

**Geographical segments** The consolidated entity operates predominantly in one geographical segment being Australia.

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |
| **7 CASH ASSETS** | | | | |
| Cash | 6,795 | 6,021 | 6,754 | 5,874 |
| Term deposits | 888 | 2,400 | 888 | 2,400 |
| | **7,683** | **8,421** | **7,642** | **8,274** |
| **8 RECEIVABLES** | | | | |
| **Current** | | | | |
| Trade debtors | 42,766 | 29,611 | 41,776 | 26,743 |
| Less Provision for doubtful trade debtors | (2,209) | (2,231) | (2,169) | (2,191) |
| | 40,557 | 27,380 | 39,607 | 24,552 |
| Contract debtors | - | 1,771 | - | 1,771 |
| Other debtors | 3,996 | 2,407 | 3,971 | 2,354 |
| Loans to associates | 43 | 1,262 | 43 | 1,808 |
| Other loans | 5,981 | 5,981 | 5,981 | 5,981 |
| | **50,577** | **38,801** | **49,602** | **36,466** |
| **Non current** | | | | |
| Leveraged lease receivable | 32,274 | 33,868 | 32,274 | 33,868 |
| Less - unearned income | (2,855) | (2,931) | (2,855) | (2,931) |
| | **29,419** | **30,937** | **29,419** | **30,937** |

**Contract Debtors and Other Debtors**

These amounts arise from transactions relating to the submarine construction contract and other operating activities of the consolidated entity. Other debtors also includes interest receivable.

Interest may be charged on debtors balances that are not repaid by the due date. Further, interest may be charged, at agreed upon rates normally reflecting market rates, where contract terms of repayment fall outside of the consolidated entity's normal terms. Collateral may or may not be obtained.

Further details of term deposits, broker's deposits and bonds are set out in note 29.
Other loans consist of amounts receivable in connection with the Thailand joint venture patrol boats projects and from Australian Submarine Corporation (Thailand) Limited. No interest has been charged on these loans for the whole financial year.

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |
| 9 INVENTORIES | | | | |
| **Current** | | | | |
| Raw materials and stores (at cost) | 9,691 | 10,749 | 9,574 | 10,197 |
| | **9,691** | **10,749** | **9,574** | **10,197** |
| 10 OTHER FINANCIAL ASSETS | | | | |
| **Current** | | | | |
| Marketable interest securities (at cost) | 46,680 | 53,645 | 46,680 | 53,645 |
| | **46,680** | **53,645** | **46,680** | **53,645** |
| Non-Current | | | | |
| Marketable interest securities (at cost) | 59,652 | 50,127 | 59,652 | 50,127 |
| Unlisted shares at cost | - | - | 20,000 | 20,000 |
| Less - Provision for Diminution | - | - | (7,000) | (7,000) |
| | **59,652** | **50,127** | **72,652** | **63,127** |
| 11 INVESTMENT ACCOUNTED FOR USING EQUITY METHOD | | | | |
| Associates | 55 | 949 | 47 | 47 |
| Joint venture entities | - | - | - | - |
| | **55** | **949** | **47** | **47** |
| 12 OTHER CURRENT ASSETS | | | | |
| Prepayments | 585 | 660 | 409 | 490 |
| | **585** | **660** | **409** | **490** |

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |
| 13 PROPERTY, PLANT & EQUIPMENT | | | | |
| Freehold land | | | | |
| At cost | 2,638 | 2,638 | 1,200 | 1,200 |
| Buildings | | | | |
| At cost | 122,338 | 122,296 | 119,662 | 119,599 |
| Accumulated depreciation | (98,512) | (95,560) | (97,620) | (94,726) |
| | 23,826 | 26,736 | 22,042 | 24,873 |
| Plant & equipment | | | | |
| At cost | 41,147 | 51,899 | 28,477 | 38,627 |
| Accumulated depreciation | (37,893) | (48,829) | (26,713) | (37,560) |
| | 3,254 | 3,070 | 1,764 | 1,067 |
| Capital works in progress | 1,461 | 808 | 1,460 | 560 |
| **Total property, plant & equipment net book value** | **31,179** | **33,252** | **26,466** | **27,700** |
| **Reconciliations** | | | | |
| Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below: | | | | |
| **Freehold land** | | | | |
| Carrying amount at beginning of year | 2,638 | 2,638 | 1,200 | 1,200 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| **Carrying amount at the end of year** | **2,638** | **2,638** | **1,200** | **1,200** |
| **Buildings** | | | | |
| Carrying amount at beginning of year | 26,736 | 30,515 | 24,873 | 28,567 |
| Transfers from capital works in progress | 118 | 250 | 118 | 250 |
| Disposals | (1) | (321) | (1) | (321) |
| Depreciation | (3,027) | (3,708) | (2,948) | (3,623) |
| **Carrying amount at the end of year** | **23,826** | **26,736** | **22,042** | **24,873** |

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |
| 13 PROPERTY, PLANT & EQUIPMENT (CONT.) | | | | |
| **Plant & equipment** | | | | |
| Carrying amount at beginning of year | 3,070 | 3,153 | 1,067 | 871 |
| Additions | - | 565 | - | - |
| Transfers from capital works in progress | 1,282 | 493 | 1,034 | 493 |
| Disposals | (365) | (359) | (19) | (26) |
| Depreciation | (733) | (782) | (318) | (271) |
| **Carrying amount at the end of year** | **3,254** | **3,070** | **1,764** | **1,067** |
| **Capital works in progress** | | | | |
| Carrying amount at beginning of year | 808 | 90 | 560 | 34 |
| Additions | 2,054 | 1,462 | 2,054 | 1,270 |
| Transfers to property, plant & equipment | (1,401) | (744) | (1,154) | (744) |
| **Carrying amount at the end of year** | **1,461** | **808** | **1,460** | **560** |

**Valuations**

The independent valuation of the Company's freehold land and buildings carried out as at 30 July 2002 on the basis of open market values for existing use resulted in a valuation of buildings of $51,000,000 and a valuation of land of $4,000,000. The independent valuation of, its wholly owned subsidiary company, ASC-Engineering Pty Ltd's freehold land and building carried out as at 30 June 2004 on the basis of open market values for vacant possession resulted in a valuation of buildings of $1,500,000 and a valuation of land of $8,000,000. As land and buildings are recorded at cost, the valuation has not been brought to account.

| 14 PAYABLES | | | | |
|---|---|---|---|---|
| Trade creditors | 30,015 | 10,374 | 29,446 | 9,981 |
| Other creditors and accruals | 12,374 | 4,369 | 12,161 | 4,148 |
| | 42,389 | 14,743 | 41,607 | 14,129 |
| Advance income received: | | | | |
| Contract billings due and receivable | 5,138,494 | 4,930,434 | 5,052,710 | 4,850,513 |
| Contract works in progress | (4,660,500) | (4,438,715) | (4,583,443) | (4,370,500) |
| Profit recognised to date | (408,395) | (384,228) | (401,787) | (375,666) |
| Net progress payments received and receivable | 69,599 | 107,491 | 67,480 | 104,347 |
| **Total payables** | **111,988** | **122,234** | **109,087** | **118,476** |

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |
| **15 INTEREST BEARING LIABILITIES** | | | | |
| **Current** | | | | |
| Loans from controlled entities | - | - | 7,753 | 8,197 |
| Term loan | 360 | 360 | 160 | 160 |
| Hire purchase liabilities | - | 324 | - | - |
| | 360 | 684 | 7,913 | 8,357 |
| **Non-Current** | | | | |
| Hire purchase liabilities | - | 33 | - | - |
| | **-** | **33** | **-** | **-** |

Term loan consists of the interest free 99 year loans to Australian Submarine Corporation Pty. Ltd and ASC Engineering 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.

(i) ASCE ($200,000): repayable in the year 2094 or at the option of the Company at any time prior to the year 2094.

(ii) ASC ($160,000): repayable in the year 2092 or at the option of the Company at any time prior to the year 2092.

### Financing Arrangements

**The consolidated entity has discontinued the bank overdraft and bank loans lines of credit:**

| | | | | |
|---|---|---|---|---|
| **Bank overdrafts** | | | | |
| Total facilities available | - | - | - | - |
| Facilities utilised at balance date | - | - | - | - |
| Facilities not utilised at balance date | - | - | - | - |
| **Bank loans** | | | | |
| Total facilities available | - | - | - | - |
| Facilities utilised at balance date | - | - | - | - |
| Facilities not utilised at balance date | - | - | - | - |

| | NOTE | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|---|
| | | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | | $'000 | $'000 | $'000 | $'000 |
| 16 PROVISIONS | | | | | |
| **Current** | | | | | |
| Employee entitlements, including on costs | | 12,516 | 11,164 | 12,069 | 10,444 |
| Warranty | | 4,000 | 507 | - | - |
| Dividends | | 5,000 | - | 5,000 | - |
| Other | | 6,463 | 6,450 | 6,250 | 6,250 |
| | | **27,979** | **18,121** | **23,319** | **16,694** |
| **Non-Current** | | | | | |
| Employee entitlements, including on costs | | 1,891 | 1,538 | 1,883 | 1,461 |
| | | **1,891** | **1,538** | **1,883** | **1,461** |
| **Number of permanent employees at the end of the year** | | **862** | **823** | **844** | **745** |
| 17 CONTRIBUTED EQUITY | | | | | |
| **Issued and paid-up share capital** | | | | | |
| 10,000,000 (2003:10,000,000) ordinary shares, fully paid | | 10,000 | 10,000 | 10,000 | 10,000 |
| | | **10,000** | **10,000** | **10,000** | **10,000** |
| 18 RETAINED PROFITS | | | | | |
| Retained profits at beginning of year | | 49,090 | 43,244 | 50,054 | 42,878 |
| Net profit attributable to members of the parent entity | | 16,104 | 5,846 | 22,126 | 7,176 |
| Dividends | 19 | (5,000) | - | (5,000) | - |
| **Retained profits at the end of the year** | | **60,194** | **49,090** | **67,180** | **50,054** |

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |
| 19 DIVIDENDS | | | | |
| **Dividends provided for or paid by the Company are:** | | | | |
| **Dividends year ended 30 June 2004:** | | | | |
| Dividend provided for the year | 5,000 | - | 5,000 | - |
| **Dividends franking account** | | | | |
| Class C (30%) franking credits | 30,089 | 18,684 | 30,089 | 18,684 |

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

(a) franking credits that will arise from the payment of the amount of the provision for income tax

(b) franking debits that will arise from the payment of the dividends recognised as a liability at year-end

(c ) franking credits that will arise from the receipt of dividends recognised as receivables at year-end

(d) 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

**Tax Consolidation Legislation**

On 1 July 2002, Australian Submarine Corporation Pty Ltd and its wholly-owned subsidiaries adopted the Tax Consolidation legislation which requires a tax-consolidation group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the tax-consolidated group) disclosed at 30 June 2004 and at 30 June 2003 have been measured under the new legislation as those available from the tax-consolidated group.

| | NOTE | CONSOLIDATED Jun-04 $'000 | CONSOLIDATED Jun-03 $'000 | THE COMPANY Jun-04 $'000 | THE COMPANY Jun-03 $'000 |
|---|---|---|---|---|---|
| 20 COMMITMENTS | | | | | |
| **(a) Capital Expenditure Commitments** | | | | | |
| Contracted but not provided for and payable: | | | | | |
| Not later than one year | | 1,775 | 145 | 1,775 | 145 |
| **(b) Operating Lease Commitments** | | | | | |
| Non-cancellable future operating lease rentals not provided for in the financial statements and payable: | | | | | |
| Not later than one year | | 794 | 906 | 794 | 859 |
| Later than one year but not later than five years | | 908 | 954 | 908 | 918 |
| Later than five years | | - | - | - | - |
| | | **1,702** | **1,860** | **1,702** | **1,777** |
| The consolidated entity leases computer and other equipment under operating leases expiring from one to three years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. | | | | | |
| **(c) Hire Purchase Commitments** | | | | | |
| Hire purchase payments are payable as follows: | | | | | |
| Not later than one year | | - | 339 | - | - |
| Later than one year but not later than five years | | - | 34 | - | - |
| Later than five years | | - | - | - | - |
| | | - | 373 | - | - |
| Less future interest expense charges | | - | 16 | - | - |
| | | **-** | **357** | **-** | **-** |
| Hire purchase liabilities provided for in the financial statements | | | | | |
| Current | 14 | - | 324 | - | - |
| Non-Current | 14 | - | 33 | - | - |
| | | **-** | **357** | **-** | **-** |

### (d) Superannuation Commitments

The Company and its controlled entities contribute to a superannuation fund that provides for a combination of accumulation and defined benefits. Employees contribute to the fund at various percentages of their gross income. The Company and its controlled entities also contribute to the fund at varying contribution rates depending on the category of fund membership of each member. After serving a qualifying period, all employees are entitled to benefits on retirement, disability or death. The fund is managed by Australian Submarine Corporation Superannuation Fund Pty. Ltd.

#### Defined Benefit Category

The fund provides defined benefits based on years of service and final average salary. An actuarial assessment of the fund as at 1 July 2002 was carried out by Jules Gribble Fellow of the Institute of Actuaries of Australia a principal of Ask IT Consulting Pty Ltd on 5 February 2003. 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 Company and other controlled entities.

The accrued benefits, fund assets at net market value and vested benefits of the defined benefit category of the fund are as follows:

| | CONSOLIDATED |
|---|---|
| | $'000 |
| Defined benefit category assets at net market value at 30 June 2004 (i) | 7,849 |
| Accrued benefits at 30 June 2004 (ii) | 7,849 |
| Excess of fund assets over accrued benefits at 30 June 2004 | - |
| Vested benefits as at 30 June 2004 (i) | 7,849 |

(i) defined benefit category assets at net market value and defined benefit category vested benefits have been calculated at 30 June 2004, being the date of the most recent financial statements of the defined benefit category.

(ii) Accrued benefits have been obtained from the most recent financial statements of the defined benefit category being 30 June 2004, but are based on actuarial reviews performed as at 30 June 2002. Updated information from the actuary is not available to the Company.

The Directors, based on the advice of the trustees of the fund, are not aware of any changes in circumstances since the date of the most recent financial statements of the fund which would have a material impact on the overall financial position of the fund.

The next actuarial review of the fund is planned to be conducted as at 30 June 2005 in September 2005.

### (e) Other Commitments

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

## 21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The company has entered into various business arrangements that call for the granting of various performance guarantees and issuance of letters of credit.

## 22 REGISTERED CHARGES

The Commonwealth Government of Australia and the Government of South Australia hold registered charges over the facilities of the Company, procured for the purpose of the construction of submarines. The above charges are held against default of the contract.

## 23 ECONOMIC DEPENDENCY

The normal trading activities of Australian Submarine Corporation Pty. Limited depend on contracts the Company has with the Commonwealth Government of Australia for the construction and maintenance of six submarines. That dependency existed during all of the financial year.

## 24 PRINCIPAL AREAS OF ACTIVITY OF THE COMPANY

The principal activity of the Company during the course of the financial year was the design, engineering, construction and maintenance of six submarines for the Royal Australian Navy.

## 25 DIRECTORS' REMUNERATION

| | 2004 NUMBER | 2003 NUMBER |
|---|---|---|
| **Directors' Income**<br>The number of Directors of the Company whose income from the Company or any related party falls within the following bands: | | |
| $20,000 - $29,999 | - | 1 |
| $40,000 - $49,999 | 1 | 1 |
| $50,000 - $59,999 | 1 | 3 |
| $60,000 - $69,999 | 1 | - |
| $90,000 - $99,999 | 1 | - |
| $120,000 - $129,999 | - | 1 |
| $150,000 - $159,999 | 1 | - |
| $290,000 - $299,999 | - | 1 |
| $470,000 - $479,999 | 1 | - |

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | Jun-04 | Jun-03 | Jun-04 | Jun-03 |
| | $'000 | $'000 | $'000 | $'000 |
| **Total income paid or payable, or otherwise made available, to all Directors of the Company and controlled entities from the Company or any related party** | **885** | **645** | **885** | **645** |

The number of directors and their total income disclosed above excludes the directors of controlled entities that are executive officers of the controlling entity but not directors of the controlling entity.

## 26 EVENTS SUBSEQUENT TO BALANCE DATE

On 8 December 2003, the Company signed a fifteen year contract with the Commonwealth of Australia for the ongoing maintenance and upgrade of the Collins Class submarines. The contract commences at the beginning of financial year 2004/05.

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

## 27 RELATED PARTY DISCLOSURES

### Directors

The names of each person holding the position of Director of Australian Submarine Corporation Pty. Limited during the financial year are Messrs JB Prescott AC, General (Rtd) JS Baker AC DSM, CNH Bagot, SE Young and GR Bulmer.

During the year, Dr SJ Gumley resigned as director of the Company. As a result of his appointment as Acting Chief Executive Officer on 16 March 2004, GR Bulmer temporarily ceased to act as a director pending the appointment of a permanent chief executive officer.

On 4 August 2004, the Company announced the appointment of Mr Gregory Roy Tunny as Managing Director and Chief Executive Officer of Australian Submarine Corporation Pty. Limited. Mr Tunny will join the Company in the near future.

Piper Alderman an organisation of which CNH Bagot is a partner, has received fees from a controlled entity for the provision of consultancy and professional services. The value of these fees was $3,815 for the financial year (2003: $39,000).

### Other Related Parties

**Shareholders**

In performing its contracts, the Company has transacted on normal commercial terms and conditions with the following shareholder:

- the Commonwealth of Australia and their related entities.

The Commonwealth of Australia has provided auditing services to the Company through ANAO.

The Commonwealth of Australia is the ultimate parent entity.

The Company is a large proprietary company, incorporated in Australia. The registered office and principal place of business is Mersey Road, Outer Harbor SA 5018.

**Transactions with Shareholders**

During the year, the amounts received or receivable by the Company from the Commonwealth of Australia for various projects was $237,671,000 (2003: $124,502,000).

During the year, the amounts of audit fees paid to ANAO was $188,000 (2003: $177,000).

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

| | 2004 | 2003 |
|---|---|---|
| | $'000 | $'000 |
| **Balances with Shareholders** | | |
| The aggregate amounts payable to the shareholders in relation to these transactions are: | - | - |
| The aggregate amounts receivable from the shareholders in relation to these transactions are: | 41,604 | 24,997 |

## Wholly-Owned Controlled Entities

Details of interests in wholly-owned controlled entities are set out at note 28. Details of dealings with these entities are set out below.

**Loans**

Amount receivable from or owing to ASC - Engineering Pty. Ltd. (wholly-owned controlled entity) attract interest at the 30 day Bank Bill Swap rate on the average outstanding balance each month. Refer to Notes 2 and 3 for details of interest revenue and interest expenses in relation to this loan.

No interest is charged on the current loans receivable from or owing to ASC Shipbuilding Pty. Ltd. and ASC Pty. Ltd (formerly ASC Processing Pty. Ltd.) (wholly-owned controlled entities).

No interest has been charged on the amounts receivable from Australian Submarine Corporation (Thailand) Limited (a controlled entity) for the whole financial year.

| | 2004 | 2003 |
|---|---|---|
| | $'000 | $'000 |
| **Balances with Entities within the Wholly-Owned Group** | | |
| The amounts currently payable to the wholly-owned controlled entities by the Company at balance date: | 7,753 | 8,197 |
| The amounts currently receivable from the wholly-owned controlled entities by the Company at balance date: | - | - |

## 28 PARTICULARS IN RELATION TO CONTROLLED ENTITIES

| | Class of Share | Entity Interest | |
|---|---|---|---|
| | | 2004 | 2003 |
| **Chief entity** | | % | % |
| Australian Submarine Corporation Pty. Limited | | | |
| **Controlled entities** | | | |
| ASC-Engineering Pty. Limited | Ordinary | 100 | 100 |
| ASC Shipbuilding Pty. Limited | Ordinary | 100 | 100 |
| ASC Pty. Limited (formerly ASC Processing Pty. Limited) | Ordinary | 100 | 100 |
| ASCOV Pty. Limited | Ordinary | 50 | 50 |

ASCOV Pty. Limited is an incorporated joint venture with Covus Pty. Limited. The Company was formed to bid for a Commonwealth contract. The bid was unsuccessful. The Company is not operating.

## 29 ADDITIONAL FINANCIAL INSTRUMENT DISCLOSURES

**(A) Interest Rate Risk**

The consolidated entity enters into futures contracts and options on futures contracts to manage interest rate risk associated with the consolidated entity's holdings of fixed interest bonds.

As at balance date the following contracts (disclosed at face value) were outstanding:

| | 2004 $'000 | 2003 $'000 |
|---|---|---|
| Futures contracts | - | - |
| Options on futures contracts | - | - |
| | **-** | **-** |

At balance date the consolidated entity carried no unrealised gain or loss (2003: gain of $6,570) in the market value of money market securities held (bank accepted bills and negotiable certificates of deposit).

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

| | | | FIXED INTEREST MATURING IN: | | | | |
|---|---|---|---|---|---|---|---|
| | | Floating interest rate | 1 year or less | Over 1 to 5 years | More than 5 years | Non interest bearing | Total |
| 30th June 2004 | Note | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets** | | | | | | | |
| Cash | 7 | 6,795 | - | - | - | - | 6,795 |
| Term Deposits | 7 | 888 | - | - | - | - | 888 |
| Marketable interest securities (at cost) | 10 | 46,680 | - | 59,652 | - | - | 106,332 |
| | | **54,363** | **-** | **59,652** | **-** | **-** | **114,015** |
| Weighted average interest rate | | 4.60% | 0.00% | 5.72% | 0.00% | | |
| **Financial liabilities** | | | | | | | |
| Accounts Payable | 14 | - | - | - | - | 42,389 | 42,389 |
| Term Loan | 15 | - | - | - | - | 360 | 360 |
| | | **-** | **-** | **-** | **-** | **42,749** | **42,749** |
| Weighted average interest rate | | 0.00% | 0.00% | 0.00% | 0.00% | | |

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities for the previous financial year is set out below:

| | | | FIXED INTEREST MATURING IN: | | | | |
|---|---|---|---|---|---|---|---|
| | | Floating interest rate | 1 year or less | Over 1 to 5 years | More than 5 years | Non interest bearing | Total |
| 30th June 2003 | Note | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets** | | | | | | | |
| Cash | 7 | 6,021 | - | - | - | - | 6,021 |
| Term Deposits | 7 | 2,400 | - | - | - | - | 2,400 |
| Marketable interest securities (at cost) | 10 | 53,645 | - | 50,127 | - | - | 103,772 |
| | | **62,066** | **-** | **50,127** | **-** | **-** | **112,193** |
| Weighted average interest rate | | 4.81% | 0.00% | 4.35% | 0.00% | | |
| **Financial liabilities** | | | | | | | |
| Bank overdrafts and loans | 15 | - | - | 357 | - | - | 357 |
| Accounts Payable | 14 | - | - | - | - | 14,743 | 14,743 |
| Term Loan | 15 | - | - | - | - | 360 | 360 |
| | | **-** | **-** | **357** | **-** | **15,103** | **15,460** |
| Weighted average interest rate | | 0.00% | 0.00% | 7.57% | 0.00% | | |

**(B) Foreign Exchange Risk**

The consolidated entity enters into forward foreign exchange contracts to hedge certain anticipated purchase and sale commitments denominated in foreign currencies.

The following table sets out the gross value under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity (amounts denominated in $AUD equivalents):

| | 2004 | 2004 | 2003 | 2003 |
|---|---|---|---|---|
| | $'000 | Weighted Average Rate | $'000 | Weighted Average Rate |
| **Buy Euro** | | | | |
| Not longer than one year | - | - | - | - |
| **Sell Euro** | | | | |
| Not longer than one year | - | - | 90 | 0.55 |

If the consolidated entity closed out these forward foreign exchange contracts at balance date, no gain or loss (2003: profit of $3,077 ) would have arisen.

For forward exchange contracts, the net fair value is taken to be the unrealised gain or loss at balance date.

### (C) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

#### Recognised Financial Instruments

The credit risk on financial assets of the consolidated entity which have been recognised on the statements of financial position, is the carrying amount, net of any provision for doubtful debts. A substantial proportion of the consolidated entity's operations are in relation to the construction contract for six submarines and therefore a material exposure with an individual customer exists (the Commonwealth Government of Australia). Credit risk for the recognised financial instruments derivative contracts is minimised by transacting with counterparties with acceptable credit ratings determined by a recognised rating agency. Exposure limits, based on these credit ratings, are set for each counterparty to ensure that counterparty credit risk is diversified.

#### Off Balance Sheet Financial Instruments

Credit risk on the unrecognised financial instruments derivative contracts is minimised as counterparties are financial intermediaries with acceptable credit ratings determined by a recognised rating agency. Foreign exchange contracts are subject to credit risk in relation to the relevant counterparties, which are principally large banks. The maximum credit risk exposure on foreign currency contracts is the full amount of the foreign currency the consolidated entity pays when settlement occurs, should the counterparty fail to pay the amount which it is committed to pay the consolidated entity. The full amount of the exposure is disclosed in Note 29(B) above. As all futures contracts are transacted through a recognised futures exchange, there is considered to be no credit risk associated with these contracts.

### (D) Net Fair Values of Financial Assets and Liabilities

#### Valuation Approach

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

#### Recognised Financial Instruments

The net fair value of cash and cash equivalents and non interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value. The net fair value of other monetary financial assets and financial liabilities is based upon market prices.

#### Unrecognised Financial Instruments

The valuation of off-balance sheet financial instruments detailed in this note reflects the estimated amounts which the consolidated entity expects to pay or receive to terminate the contracts (net of transaction costs) or replace the contracts at their current market rates as at reporting date. This is based on independent market quotations and determined using standard valuation techniques.

#### Unrecognised Financial Instruments

The net fair value of the unrecognised financial instruments held as at reporting date are:

| | 2004 | 2003 |
|---|---|---|
| | $'000 | $'000 |
| Forward foreign exchange contracts | - | 3 |
| Interest rate futures contracts | - | - |
| Interest rate options on futures contracts | - | - |
| | **-** | **3** |

| | NOTE | CONSOLIDATED Jun-04 $'000 | Jun-03 $'000 | THE COMPANY Jun-04 $'000 | Jun-03 $'000 |
|---|---|---|---|---|---|
| **30 NOTES TO THE STATEMENT OF CASH FLOWS** | | | | | |
| **(a) Reconciliation of Cash** | | | | | |
| For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the balance sheets as follows: | | | | | |
| Cash | 7 | 6,795 | 6,021 | 6,754 | 5,874 |
| | | **6,795** | **6,021** | **6,754** | **5,874** |
| **(b) Reconciliation of Operating Profit after Income Tax to Net Cash Provided by Operating Activities** | | | | | |
| Operating profit after income tax | | 16,104 | 5,846 | 22,126 | 7,176 |
| **Add/(less) items classified as investing/financing activities:** | | | | | |
| Interest received | | (4,375) | (4,223) | (4,351) | (4,182) |
| Leverage lease income | | (74) | (69) | (74) | (69) |
| Borrowing cost paid | | 14 | 49 | 99 | 191 |
| (Profit)/loss on sale of non current assets | | (63) | (15) | (50) | (221) |
| Consideration paid for tax losses | | - | - | 2,705 | 1,247 |
| **Add/(less) non-cash items:** | | | | | |
| Doubtful debts | | - | 97 | - | 77 |
| Depreciation | | 3,760 | 596 | 3,266 | 3,894 |
| Increase/(decrease) in income taxes payable | 5(b) | (2,792) | 3,669 | (2,794) | 3,669 |
| (Increase)/decrease in future income tax benefits | 5(d) | 1,215 | (7,175) | 1,215 | (7,801) |
| Increase/(decrease) in deferred taxes payable | 5(c) | (1,156) | (1,123) | (1,156) | (1,120) |
| Share of associates' net (profit)/loss | | (232) | (114) | - | - |
| Net cash provided by operating activities before change in assets and liabilities | | 12,401 | (2,462) | 20,986 | 2,861 |

| | NOTE | CONSOLIDATED Jun-04 $'000 | CONSOLIDATED Jun-03 $'000 | THE COMPANY Jun-04 $'000 | THE COMPANY Jun-03 $'000 |
|---|---|---|---|---|---|
| **Change in assets and liabilities** | | | | | |
| (Increase)/decrease in receivables (1) | | (11,442) | 6,075 | (13,334) | 5,450 |
| (Increase)/decrease in inventories | 9 | 1,057 | (10,092) | 623 | (10,198) |
| (Increase)/decrease in prepayments | 12 | 91 | (199) | 80 | (105) |
| (Increase)/decrease in net progress payments received (2) | | (37,892) | 37,893 | (36,864) | 34,384 |
| Increase/(decrease) in trade creditors (3) | | 27,649 | (4,335) | 27,480 | (3,840) |
| (Increase)/decrease in provisions (4) | | 5,211 | 2,301 | 2,048 | 2,227 |
| **Net cash provided by operating activities** | | **(2,925)** | **29,181** | **1,019** | **30,779** |
| **(1) (Increase)/decrease in Receivables is comprised of:** | | | | | |
| Prima-facie movement in trade debtors | 8 | (13,177) | 7,510 | (15,056) | 6,885 |
| Prima-facie movement in contract debtors | 8 | 1,771 | (486) | 1,771 | (486) |
| Prima-facie movement in sundry debtors and other loans | 8 | (1,605) | (1,104) | (1,618) | (1,104) |
| Add/(less) item included in movement of invested funds: | | | | | |
| Accrued interest income | | 1,569 | 155 | 1,569 | 155 |
| | | **(11,442)** | **6,075** | **(13,334)** | **5,450** |
| **(2) (Increase)/decrease in Progress Payments is comprised of:** | | | | | |
| Prima-facie movement in net progress payments | 14 | (37,717) | 34,229 | (36,864) | 34,384 |
| Adjustment for unrealised intercompany profit | | (175) | (14) | - | - |
| | | **(37,892)** | **37,893** | **(36,864)** | **34,384** |
| **(3) Increase/(Decrease) in Trade Creditors and Accruals is comprised of:** | | | | | |
| Prima-facie movement in trade creditors & accruals | 14 | 27,649 | (4,341) | 27,480 | (3,846) |
| Movement in unrealised gain/loss on Foreign exchange on NSMP | | - | 6 | - | 6 |
| | | **27,649** | **(4,335)** | **27,480** | **(3,840)** |

| | NOTE | CONSOLIDATED Jun-04 $'000 | CONSOLIDATED Jun-03 $'000 | THE COMPANY Jun-04 $'000 | THE COMPANY Jun-03 $'000 |
|---|---|---|---|---|---|
| **(4) Increase/(Decrease) in Provisions is comprised of:** | | | | | |
| Prima-facie movement in provisions for employee entitlements | 16 | 1,706 | 2,501 | 2,048 | 2,227 |
| Prima-facie movement in provisions for warranty | 16 | 3,492 | - | - | - |
| Prima-facie movement in provisions for redundancy & termination | 16 | - | (200) | - | - |
| Prima-facie movement in other provisions | 16 | 13 | - | - | - |
| | | **5,211** | **2,301** | **2,048** | **2,227** |
| **(c) Reconciliation of Net (Increase)/decrease in Invested Funds** | | | | | |
| (Increase)/decrease in term deposits | 7 | 1,512 | (1,664) | 1,513 | (1,664) |
| (Increase)/decrease in marketable interest securities | 10 | (2,560) | (31,357) | (2,560) | (31,357) |
| Profit/ (loss) on sale of securities | | - | 5 | - | 5 |
| | | **(1,048)** | **(33,016)** | **(1,047)** | **(33,016)** |

# Corporate Directory

**Directors**

John Prescott AC (Chairman)

Charles Bagot

General (Rtd) John Baker AC DSM

Stephen Young

**Company Secretary**

Tony Kuhlmann

**Auditors**

Australian National Audit Office and
KPMG (as agent for ANAO)

**Solicitors**

Mallesons Stephen Jaques

**Bankers**

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