ASC PTY LTD AND ITS CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Entity Jun-10 $'000	Consolidated Entity Jun-09 $'000
Revenue from continuing operations	4(a)	515,699	351,997
Other income	4(b)	484	38
Materials and subcontractors		(250,231)	(101,575)
Labour		(178,535)	(170,321)
Depreciation and amortisation	5	(10,815)	(6,900)
Finance costs	5	(971)	(540)
Insurance		(5,161)	(2,307)
Operating lease	5	(10,511)	(7,811)
Security expenses		(2,463)	(1,656)
Professional fees		(7,059)	(6,077)
Repairs and maintenance		(5,559)	(4,372)
Travelling expenses		(4,824)	(4,498)
Office expenses		(6,930)	(1,670)
Utilities expense		(6,044)	(4,468)
Other expenses		(22,188)	(14,321)
Profit before income tax		4,892	25,519
Income tax (expense)/revenue	7(a)	(623)	(7,079)
Profit for the year		4,269	18,440
Other comprehensive income			
Net gain / (losses) on revaluation of land and buildings	21	35,794	4,509
Net actuarial gains (losses) on defined benefit plans	24	671	(2,520)
Income tax relating to components of other comprehensive income		(10,939)	(597)
Other comprehensive income, net of tax		25,526	1,392
Total comprehensive income for the year, net of tax		29,795	19,832
Profit attributable to:			
member of the parent entity		4,269	18440
Total comprehensive income attributable to:			
member of the parent entity		29,795	19,832

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Note	Consolidated Entity Jun-10 $'000	Jun-09 $'000
ASSETS			
CURRENT ASSETS			
Cash at bank and in hand	8	24,980	28,439
Advance funding cash at bank	9	81,119	57,569
Trade and other receivables	10	107,165	77,649
Other financial assets	12		33,756
Prepaid income tax	7(b)		1,224
Inventories	11	4,931	6,211
Other assets	13	4,284	2,249
TOTAL CURRENT ASSETS		222,479	207,097
NON CURRENT ASSETS			
Property, plant and equipment	14	300,888	239,310
TOTAL NON CURRENT ASSETS		300,888	239,310
TOTAL ASSETS		523,367	446,407
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	66,365	54,994
Net unearned contract billing	16	87,440	31,357
Interest-bearing liabilities	18	89,665	114,970
Current tax liabilities	7(b)	1,765	-
Provisions	19	25,912	29,345
TOTAL CURRENT LIABILITIES		271,147	230,666
NON CURRENT LIABILITIES			
Non interest-bearing liabilities	17	15,174	12,097
Retirement benefit obligation	24(d)	175	778
Deferred tax liabilities	7(d)	14,585	6,507
Provisions	19	13,882	12,750
TOTAL NON CURRENT LIABILITIES		43,816	32,132
TOTAL LIABILITIES		314,963	262,798
NET ASSETS		208,404	183,609
EQUITY			
Contributed equity	20	10,000	10,000
Reserves	21	89,627	64,571
Retained earnings	22	108,777	109,038
TOTAL EQUITY		208,404	183,609

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated Entity			
	Issued Capital	Reserves	Retained Earnings	Total
	$'000	$'000	$'000	$'000
Balance at 1 July 2008	10,000	61,415	103,462	174,877
Profit after tax for the year			18,440	18,440
Revaluation increment		4,509		4,509
Actuarial gains (losses) on defined benefit plans			(2,520)	(2,520)
Income tax relating to components of other comprehensive income		(1,353)	756	(597)
Total other comprehensive income	-	3,156	(1,764)	1,392
Total comprehensive income for the year	-	3,156	16,676	19,832
Transactions with owners in their capacity as owners:				
Dividends provided for or paid			(11,100)	(11,100)
Balance at 30 June 2009	10,000	64,571	109,038	183,609
Balance at 1 July 2009	10,000	64,571	109,038	183,609
Profit after tax for the year			4,269	4,269
Revaluation increment		35,794		35,794
Actuarial gains (losses) on defined benefit plans			671	671
Income tax relating to components of other comprehensive income		(10,738)	(201)	(10,939)
Total other comprehensive income	-	25,056	470	25,526
Total comprehensive income for the year	-	25,056	4,739	29,795
Transactions with owners in their capacity as owners:				
Dividends provided for or paid			(5,000)	(5,000)
Balance at 30 June 2010	10,000	89,627	108,777	208,404

The above statements of recognised income and expense should be read in conjunction with the accompanying notes.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

STATEMENTS OF CASH FLOW

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	Consolidated Entity Jun-10 $'000	Jun-09 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts in the course of operations (inclusive of goods and services tax)		536,032	419,895
Payments to suppliers and employees in the course of operations (inclusive of goods and services tax)		(522,013)	(354,435)
Income taxes refunded / (paid)	7(b)	(495)	(13,714)
Net cash provided by / (used in) operating activities	33(b)	13,524	51,746
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,602	5,068
Proceeds from disposal of non current assets		19	33
Proceeds from invested funds		33,756	88,443
Payments for invested funds			(33,756)
Purchase of property, plant and equipment		(36,631)	(97,115)
Net cash provided by / (used in) investing activities		(1,254)	(37,327)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(10,100)	(15,250)
Proceeds from interest-bearing liabilities		40,950	60,253
Repayment of interest-bearing liabilities		(18,554)	(2,011)
Proceeds from non interest-bearing liabilities		3,077	5,017
Interest paid		(6)	(5)
Net cash provided by / (used in) financing activities		15,367	48,004
Net increase/(decrease) in cash and cash equivalents		27,637	62,423
Effects of exchange rate changes on cash and cash equivalents		(7,546)	(316)
Cash and cash equivalents at the beginning of the financial year		86,008	23,901
Cash and cash equivalents at the end of the financial period	33(a)	106,099	86,008

The above statements of cash flows should be read in conjunction with the accompanying notes.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial report for the year ended 30 June 2010 comprises of ASC Pty Ltd (the Company) and its subsidiaries (together referred to as the "Group" or the "consolidated entity"). The financial report is presented in Australian dollars.

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

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS
The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

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

Changes in accounting policies
The Group has changed its accounting policies in the following areas from 1 July 2009:
- accounting for borrowing costs (notes 1(t))
- financial statements presentation

Financial statement presentation
The Group has applied the revised AASB 101 Presentation of Financial Statements which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

Basis of preparation
Notwithstanding the negative working capital of $48,668,000 for the Group, the financial statements are prepared on a going concern basis due to the following reasons:
- all major contracts of the Group are based on a cash flow neutral regime which ensures that the timing of the receipts of the billings meets the timing of the payments for the operating expenditure of the relevant contracts;
- $12.0 million overdraft facility not utilised at balance date; and
- $30.0 million multi option bank facility, $23.4 million not utilised at balance date.

Further details are disclosed in note 3(b).

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(a) Basis of preparation (cont.)

Rounding of amounts

The consolidated entity is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

(b) New accounting standards and interpretations not adopted early

Certain new accounting standards and interpretations have been published but their applications are not mandatory for 30 June 2010 reporting periods. The Group has not adopted the following standards early. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 *(effective from 1 January 2013)*

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 financial statements or earlier. The Group has not yet determined the potential effect of the standards.

Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards *(effective from 1 January 2011)*

In December 2009 the AASB issued AASB 124 *Related Party Disclosures*. The standard simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any material impact on the financial statements.

Revised AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process *(effective from 1 January 2010)*

This standard affects various accounting standards resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

(c) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2010 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group and is disclosed in accordance with AASB 3.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
For the year ended 30 June 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(c) Principles of consolidation (cont.)

Transactions eliminated on consolidation
Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

Rendering of services
Revenue from services rendered is recognised in proportion to the stage of completion of the transaction. The stage of completion is measured either by the cost of work completed and estimated total costs at the completion of the contract, or by surveys of work performed, whichever method is more appropriate, depending on the nature of the contract. Where the outcome of a contract can not be reliably estimated, revenue is only recognised to the extent of the contract costs incurred and where it is probable that the contract costs will be recoverable.

Revenue for incentives is recognised when all criteria relating to the earning of the incentives have been met.

Interest income
Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Contract work in progress

Contract work in progress is carried at cost, plus profit accrued to date based on the value of work completed, less contract billings due and less provision for foreseeable losses. Estimated costs at completion include allowances which recognise the inherent risks associated with a long term contract of this nature. Provision for the total loss on a contract is made as soon as a loss is identified.

Contract costs include all costs directly related to specific contracts and those which can be attributed to contract activity. Such costs include administration overhead costs which are directly related to the contract.

Tendering costs on contracts are expensed as incurred.

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

Progress billings received in advance of the performance of contract activities is deferred and included in the measurement of work in progress.

Where the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred and where it is probable that the contract costs will be recoverable.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(f) Foreign currency

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

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. Foreign exchange differences arising in respect of contract work in progress, to the extent they are recoverable, are included in the measurement of the contract billings and work in progress costs.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(g) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(g) Property, plant and equipment (cont.)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Buildings 8 – 60 years
- Plant and Equipment 3 – 20 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is the Group policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(h) Leases

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

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

(i) Taxation

Tax consolidation
The Company and its wholly-owned Australian subsidiaries have formed an income tax consolidation group under the tax consolidation legislation since 1 July 2002.

The head entity, ASC Pty Ltd, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

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

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

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(i) Taxation (cont.)

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

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

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

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

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

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

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

Investment allowances
Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(j) Employee benefits

Short-term obligations
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations
The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits. Amounts are measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period, using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Retirement benefit obligations
All employees of the Group are entitled to benefits from the Group's superannuation plan on retirement, disability or death. The Group has a defined benefit section and a defined contribution section within its plan. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The defined contribution section receives fixed contributions from entities within the Group and the Group's legal or constructive obligation is limited to these contributions. The employees of the parent entity are all members of the defined contribution section of the Group's plan.

A liability or asset in respect of defined benefit superannuation plans is recognised in the statement of financial position, and is measured as the present value of the defined benefit obligation at the end of the reporting period less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the end of the reporting period, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income.

Past service costs are recognised immediately in profit or loss, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(k) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

(l) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(n) Provisions

A provision is recognised in the statement of financial position when the consolidated entity has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Self insurance

The Group self insures for risks associated with workers' compensation. Outstanding claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the entity expects to incur in settling the claims, discounted using a rate that reflects current market assessments of the time value of money and risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and is measured on a basis consistent with the measurement of the related provision.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(n) Provisions (cont.)

Self insurance (cont.)
In the statement of comprehensive income, the expense recognised in respect of a provision is presented net of the recovery.

In the statement of financial position, the provision is recognised net of the recovery receivable when the entity:

- has a legally recognised right to offset the recovery receivable and the provision; and
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

Warranty
The estimate for the warranty obligation for design, engineering and maintenance activities is based on engineering assessments as to the probable repair or restoration costs of the products arising from warranty claims. Significant uncertainty relates to estimates for contracting activities as the estimates depend on circumstances particular to each contract.

(o) Inventories

Inventories are measured at the lower of cost or net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(p) Impairment

Financial assets
The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value), less any impairment loss on that financial asset previously recognised in profit or loss, is reclassified from equity and recognised in profit or loss as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in profit or loss.

Non financial assets
The carrying amount of the consolidated entity's assets other than inventories and deferred tax assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(p) Impairment (cont.)

Non financial assets (cont.)
Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(q) Cash and cash equivalents

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

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

Change in classification

During the year ended 30 June 2010, the Group changed the disclosure of advance funding for the Hobart Class Air Warfare Destroyer (AWD) project. Advances received by the Commonwealth of Australia (CoA) for the purposes of funding the working capital requirement of the AWD project have been appropriately named as advance funding cash at bank.

Included in the advance funding cash at bank are amounts that have certain contractual restrictions placed on its use. The funds maintained in the advance funding cash at bank may only be applied to direct project expenditure incurred and claims for reimbursement from the CoA. This amount has been disclosed at note 9 Advance Funding Cash at Bank.

The advance funding cash at bank has been included as cash and cash equivalent in the statement of cash flows. Comparative disclosures have been amended to reflect the change.

(r) Investments and other financial assets

Held-to-maturity investment
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(r) Investments and other financial assets (cont.)

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

Recognition and derecognition
Regular purchases and sales of financial assets are recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Subsequent measurement
Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(s) Borrowings (cont.)

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(t) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for the intended use or sale. Other borrowing costs are expensed.

(u) Dividends

Provision is made on or before the end of the financial year in accordance with the Dividend Policy adopted by the Board of the Company.

(v) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

No liability has been recognised by the consolidated entity in relation to these guarantees, as the fair values of the guarantees as at 30 June 2010 and 30 June 2009 are immaterial.

(w) Parent entity financial information

The financial information for the parent entity, ASC Pty Ltd, disclosed in note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

Tax consolidation legislation
Refer to note 1(i).

2 ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Revenue recognition and work in progress
The consolidated entity undertakes a number of long term construction and service contracts. Accounting for these contracts requires a number of assumptions and estimates to be made in relation to the stage of completion and expected outcome of the contract.

Where the outcome of these contracts cannot be reliably measured, revenue is only recognised to the extent of contract costs incurred and recoverable.

If the outcome of these contracts differ from the estimates and assumptions made at balance date, such differences will impact the financial result of these contracts in future periods.

Provision for warranty
The consolidated entity has a warranty provision for submarine related activities. This provision is calculated based on the six Collins Class submarines schedule and their relevant exposure index. ASC Pty Ltd has a Through-Life Support contract with the Commonwealth of Australia represented by the Defence Materiel Organisation for the maintenance of the Collins Class submarines. This contract began on 1 July 2004, and provides little historical evidence for the calculation of the warranty provision. The historical details from the obsolescence, urgent defects and a few specific incidents have therefore been considered as a base for determining potential future warranty claims.

Provision for self insurance
The provision for self insurance is raised when an incident occurs that may give rise to a workers' compensation claim. This is measured by the estimated cost of that claim, discounted to its present value. The margin is inclusive of a contingency which is intended to increase the probability that the provision will remain adequate to meet the expected liabilities. The risk margin is required to allow for the inherent risks in the self insurance industry and for environmental uncertainty. Under the APRA prudential standards for private sector insurers a probability sufficiency of 75% is required as a minimum. The Group's provision level is in excess of the APRA minimum requirement, in line with the Group's assessment of the risks that it is exposed to.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
For the year ended 30 June 2010

3 FINANCIAL & CAPITAL RISK MANAGEMENT

Financial risk management

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

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

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

Both committees report regularly to the Board on their activities.

The consolidated entity holds the following financial instruments:

	Jun-10 $'000	Jun-09 $'000
Financial assets		
Cash at bank and in hand	24,980	28,439
Advance funding cash at bank	81,119	57,569
Trade and other receivables	107,165	77,649
Marketable interest securities	-	33,756
	213,264	197,413
Financial liabilities		
Trade and other payables	66,365	54,994
Non interest-bearing liabilities	15,174	12,097
Interest-bearing liabilities	89,665	114,970
	171,204	182,061

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

For the year ended 30 June 2010

3 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

Financial risk management (cont.)

(a) Credit risk

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

Trade and other receivables

The Group's credit exposures to customers, including outstanding receivables and committed transactions, are minimal, as the one substantial customer of the Group is the Commonwealth of Australia with a "AAA" credit rating from Standard & Poor's.

Investments

The Group limits its exposure to credit risk by only investing in liquid securities with counterparties that have a credit rating of at least BBB from Standard & Poor's. The Group also has policies that limit the amount of credit exposure to any one financial institution based on their credit rating. The lower the independent credit rating, the lower the limit of credit exposure is allowed. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Guarantees

Credit risk also arises in relation to financial guarantees given to certain parties (see note 25 for details). Such guarantees are issued in accordance with the ASC Corporate Management Policies and only provided to support a financial/commercial arrangement.

Recognised financial instruments

	Jun-10 $'000	Jun-09 $'000
Trade and other receivables		
Counterparties with external credit rating (Standard and Poor's)		
AAA - [Australia (Commonwealth of)]	106,723	77,485
A+	365	-
Credit rating not determined	77	164
	107,165	77,649
Cash, cash equivalents and restricted cash		
AA	106,099	86,008
	106,099	86,008
Held-to-maturity investments		
AA	-	18,905
A+	-	4,955
A	-	9,896
	-	33,756

3 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

Financial risk management (cont.)

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

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

Both projects receive their entire funding from an individual customer, being the Commonwealth Government of Australia, who has a Standard and Poor's credit rating of AAA. Therefore the consolidated entity has no material exposure to credit risk in its operations.

Off statement of financial position financial instruments

The Group has not entered into any off statement of financial position financial instruments during the reporting period.

(b) Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

All major contracts of the Group are based on a cash flow neutral billing regime which enables the timing of the receipts of the billings to meet the timing of the payments for the operating expenditure of the relevant contracts. Due to the nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

The Group maintains the following lines of credit:

- $12.0 million overdraft facility not utilised at balance date. Interest would be payable at the rate of Bank Bill Official Rate plus 100 basis points;
- $30.0 million multi option bank facility, $23.4 million not utilised at balance date; and
- Advance funding for the AWD project by the Commonwealth of Australia (CoA) under the Alliance Based Target Incentive Agreement (ABTIA). The ABTIA requires regular review of the advance amount which may be increased or decreased after consideration by the CoA as to the working capital requirements for the AWD project.

Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
For the year ended 30 June 2010

3 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

Financial risk management (cont.)

(b) Liquidity risk (cont.)

Maturities of financial liabilities

The tables below analyse the consolidated entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 12 months	Over 5 years	Total contractual cash flows	Carrying Amount (assets) /liabilities
	$'000	$'000	$'000	$'000
Consolidated - At 30 June 2010				
Non-derivatives				
Non-interest bearing	66,365	38,360	104,725	81,539
Variable rate (including bank overdraft)	89,665	-	89,665	89,665
Total non-derivatives	156,030	38,360	194,390	171,204
Consolidated - At 30 June 2009				
Non-derivatives				
Non-interest bearing	54,994	38,260	93,254	67,091
Variable rate (including bank overdraft)	114,970	-	114,970	114,970
Total non-derivatives	169,964	38,260	208,224	182,061

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
For the year ended 30 June 2010

3 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

Financial risk management (cont.)

(c) Market Risk

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

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

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

		Consolidated Entity	
		Jun-10	Jun-09
	Currency	AUD '000	AUD '000
Financial assets			
Cash at bank and in hand	USD	-	1,163
	EUR	-	7,672
	CAD	-	1,025
	Total	-	9,860
Advance funding cash at bank	USD	5,684	8,754
	EUR	28,370	32,648
	GBP	267	308
	CAD	1,763	670
	NOK	254	-
	JPY	160	-
	Total	36,498	42,380
Trade and other receivables	USD	11,879	
	EUR	11,162	
	GBP	218	3
	CAD	482	
	NOK	47	-
	JPY	-	913
	Total	23,788	916

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
For the year ended 30 June 2010

3 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

Financial risk management (cont.)

(c) Market Risk (cont.)

Foreign exchange risk (cont.)

		Consolidated Entity	
		Jun-10	Jun-09
	Currency	AUD '000	AUD '000
Financial liabilities			
Trade and other payables	USD	9522	1157
	EUR	7,013	7,407
	GBP	302	-
	CAD	-	1,025
	SEK	-	-
	NOK	301	-
	Total	17,138	9,589
Net unearned contract billing	USD	(1,010)	(743)
	EUR	(822)	(7,535)
	GBP	(84)	(1,489)
	Total	(1,916)	(9,767)
Interest-bearing liabilities	USD	9,042	9,497
	EUR	33,330	40,446
	GBP	267	311
	CAD	2,245	2,159
	JPY	160	913
	Total	45,044	53,326

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
For the year ended 30 June 2010

3 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

Financial risk management (cont.)

(c) Market Risk (cont.)

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

These financial instruments are liquid as they are tradeable in a secondary market. As a general rule, the Group holds these investments to maturity, thereby reducing exposure to changes in market value.

The Group does not have any interest bearing long-term borrowings.

At balance date the consolidated entity has an unrealised gain of $5,081 (2009: unrealised gain of $142,972). In the market value of money market securities held (bank accepted bills and negotiable certificate of deposit).

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

30th June 2010

	Total	Effective interest rate
Financial assets	$000	%
Cash at bank and in hand	24,980	3.28%
Advance funding cash at bank	81,119	1.56%
Trade and other receivables	107,165	0.00%
	213,264	
Financial liabilities		
Trade and other payables	66,365	0.00%
Non interest-bearing liabilities	15,174	0.00%
Interest-bearing liabilities	89,665	1.23%
	171,204	

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
For the year ended 30 June 2010

3 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

Financial risk management (cont.)

(c) Market Risk (cont.)

Interest rate risk (cont.)

30th June 2009

	Total	Effective interest rate
Financial assets	$000	%
Cash at bank and in hand	28,439	6.62%
Advance funding cash at bank	57,569	1.23%
Trade and other receivables	77,649	0.00%
Marketable interest securities (at fair value)	33,756	7.22%
	197,413	
Financial liabilities		
Trade and other payables	54,994	0.00%
Non interest-bearing liabilities	12,097	0.00%
Interest-bearing liabilities	114,970	0.60%
	182,061	

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
For the year ended 30 June 2010

3 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

Financial risk management (cont.)

(c) Market Risk (cont.)

Interest rate risk (cont.)

Sensitivity analysis
At 30 June 2010, if market interest rates had a parallel shift of +75 basis points/- 75 basis points from year-end rates with all other variables held constant, equity and profit or loss would have increased (decreased) by the amounts shown below. The analysis is performed on the same basis for 2009. The main interest rate risk arises from cash receivables and loans and other receivables with variable interest rates.

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

30th June 2010	Carrying Amount	Interest Rate Risk			
		-0.75%		+0.75%	
		Profit	Other Equity	Profit	Other Equity
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Cash at bank and in hand	24,980	(187)	-	187	-
Advance funding cash at bank	81,119	(608)	-	608	-
Trade and other receivables	107,165	-	-	-	-
Financial liabilities					
Trade and other payables	(66,365)	-	-	-	-
Non interest-bearing liabilities	(15,174)	-	-	-	-
Interest-bearing liabilities	(89,665)	-	-	-	-
Total increase/(decrease)		(795)		795	

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
For the year ended 30 June 2010

3 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

Financial risk management (cont.)

(c) Market Risk (cont.)

Interest rate risk (cont.)

Sensitivity analysis

At 30 June 2009, if market interest rates had a parallel shift of +75 basis points/- 75 basis points from year-end rates with all other variables held constant, equity and profit or loss would have increased (decreased) by the amounts shown below. The main interest rate risk arises from cash receivables and loans and other receivables with variable interest rates.

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

30th June 2009	Carrying Amount	Interest Rate Risk			
		-0.75%		+0.75%	
		Profit	Other Equity	Profit	Other Equity
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Cash at bank and in hand	28,439	(213)	-	213	-
Advance funding cash at bank	57,569	(432)	-	432	-
Trade and other receivables	77,649	-	-	-	-
Marketable interest securities (at fair value)	33,756	(253)	-	253	-
Financial liabilities					
Trade and other payables	(54,994)	-	-	-	-
Non interest-bearing liabilities	(12,097)	-	-	-	-
Interest-bearing liabilities	(114,970)	-	-	-	-
Total increase/(decrease)		(898)		898	

3 FINANCIAL & CAPITAL RISK MANAGEMENT (CONT.)

Capital risk management

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

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

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Consolidated Entity	
	Jun-10	Jun-09
	$'000	$'000
4		
(a) REVENUE		
Revenue from continuing operations		
Revenue from rendering of services		
Related parties (i)	512,660	344,877
Other parties	883	1,267
	513,543	346,144
(i) During the year $5.9 million of revenue was not charged in respect of disputed costs from the current and prior years.		
Other revenue		
Secondment income received from:		
Other parties	554	783
Interest		
Related parties	-	-
Other parties	1,602	5,070
	2,156	5,853
Total revenue from continuing operations	515,699	351,997
(b) OTHER INCOME		
Other income	484	38
Total other income	484	38
5 EXPENSES		
Items included in profit before tax		
Net loss from disposal of fixed assets	13	4
Depreciation of:		
Buildings	6,792	4,470
Plant and equipment	4,023	2,430
Total depreciation	10,815	6,900

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Consolidated Entity	
	Jun-10	Jun-09
	$'000	$'000
5 EXPENSES (CONT.)		
Items included in profit before tax (cont.)		
Finance costs:		
Bank charges	965	535
Interest expenses		
Other parties	6	5
	971	540
Operating lease rental expense:		
Minimum lease payments	10,511	7,811
Employee related expenses:		
Long service leave expense	1,371	3,042
Redundancy expenes	3,251	4,992
Defined benefit superannuation expense	26	26

6 AUDITORS' REMUNERATION	Consolidated Entity	
	Jun-10	Jun-09
	$	$
Audit services:		
Amount received or due and receivable by the Australian National Audit Office (ANAO) as auditors of the consolidated entity.	304,000	304,000

Other services:

During 2009/10, PricewaterhouseCoopers (PwC) were contracted by ANAO to provide audit services on the ANAO's behalf.

In addition to fees earned from the subcontracted audit, PwC earned the following fees for engagements where they were separately contracted by the consolidated entity during 2009/10:

- Other assurance services	-	2,100
	-	2,100

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

		Consolidated Entity	
		Jun-10	Jun-09
		$'000	$'000
7	**TAXATION**		
(a)	**Income tax expense**		
	Recognised in the income statement		
	Current tax expense		
	Current year	3,581	7,729
	Adjustments for prior years	(97)	-
		3,484	7,729
	Deferred tax expense		
	Temporary differences arising during the year, net of reversal	(2,948)	(650)
	Adjustment for prior years deferred tax	87	-
		(2,861)	(650)
	Total income tax expense in income statement	623	7,079
	Attributable to:		
	Continuing operations	623	7,079
	Numerical reconciliation between tax expense and pre-tax net profit		
	Profit before tax	4,892	25,519
	Income tax using the domestic corporation tax rate of 30% (2009: 30%)	1,467	7,656
	Increase in income tax expense due to:		
	Non-deductible expenses	89	26
	Decrease in income tax expense due to:		
	Tax exempt revenues	(65)	-
	Tax incentives not recognised in income statement	(858)	(636)
		633	7,046
	Under/(over) provided in prior years		
	Adjustment for prior year tax expense	(10)	33
	Income tax expense on profit before tax	623	7,079
	Attributable to:		
	Continuing operations	623	7,079
(b)	**Current tax liabilities/(Prepaid income tax)**		
	Movements during the year were as follows:		
	Balance at the beginning of the year	(1,224)	4,552
	Income tax paid	(495)	(13,714)
	Current year's current income tax expense on operating profit	3,581	7,729
	Controlled entity provision		
	Under/(over) provision in prior years	(97)	209
		1,765	(1,224)
(c)	**Unrecognised deferred tax assets**		
	Deferred tax assets have not been recognised in respect of the following items:		
	Capital gain tax losses	11,445	11,461
		11,445	11,461

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

7 TAXATION (CONT.)

(d) Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES		NET	
	Jun-10	Jun-09	Jun-10	Jun-09	Jun-10	Jun-09
	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated Entity						
Property, plant and equipment	9,502	9,516	(37,247)	(26,969)	(27,745)	(17,453)
Employee entitlements	7,597	7,815	-	-	7,597	7,815
Provisions for warranty	2,614	1,877	-	-	2,614	1,877
Project recognised profit	2,112	492	-	-	2,112	492
Interest accrual	-	-	(33)	(647)	(33)	(647)
Net pension assets	53	234	-	-	53	234
Sundry items	933	1,282	(116)	(107)	817	1,175
Net tax assets/(liabilities)	22,811	21,216	(37,396)	(27,723)	(14,585)	(6,507)

Deferred tax assets have been offset against deferred tax liabilities pursuant to set-off provisions.

Movements

	DEFERRED TAX ASSETS		DEFERRED TAX LIABILITIES		NET	
	Jun-10	Jun-09	Jun-10	Jun-09	Jun-10	Jun-09
Consolidated Entity						
Movement to income tax revenue/(expense)						
Property, plant and equipment	(14)	146	460	315	446	461
Employee entitlements	(218)	921	-	-	(218)	921
Provisions for warranty	737	(784)	-	-	737	(784)
Project recognised profit	1,620	372	-	-	1,620	372
Interest accrual	-	-	614	183	614	183
Net pension assets	20	234	-	(307)	20	(73)
Sundry items	(349)	(365)	(9)	(65)	(358)	(430)
	1,796	524	1,065	126	2,861	650
Movement credited/(debited) directly to equity						
Property, plant and equipment			(10,738)	(966)	(10,738)	(966)
Net pension assets (refer note below)	(201)			756	(201)	756
	(201)	-	(10,738)	(210)	(10,939)	(210)
Net tax assets/(liabilities)	1,595	524	(9,673)	(84)	(8,078)	440

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

7 TAXATION (CONT.)

(e) Amounts recognised directly in equity

	Consolidated Entity	
	Jun-10	Jun-09
	$'000	$'000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity.		
Current tax - credited directly to equity		-
Net deferred tax - debited (credited) directly to equity (note 7(d))	10,939	210

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	Consolidated Entity Jun-10 $'000	Consolidated Entity Jun-09 $'000
8 CASH AT BANK & IN HAND AND BANK OVERDRAFT			
Cash at bank and in hand		24,980	28,439
Bank overdraft			-
		24,980	28,439

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

9 ADVANCE FUNDING CASH AT BANK

Included in the advance funding cash at bank are amounts advanced to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the consolidated entity, by the Commonwealth of Australia (CoA) for the purposes of funding the working capital requirement of the Hobart Class Air Warfare Destroyer (AWD) project. The amounts advanced have certain contractual restrictions placed on its use. The funds maintained may only be applied to direct project expenditure incurred and claims for reimbursement from the CoA. The amount that exceeds the value of direct project expenditure incurred and unbilled as at balance date is defined as restricted cash. At 30 June 2010, the balance of restricted cash was $31.2m (2009: $52.3m).		81,119	57,569

10 TRADE AND OTHER RECEIVABLES

Current			
Trade receivables		106,953	36,149
Less: provision for impairment			-
		106,953	36,149
Other receivables		212	41,500
		107,165	77,649

ACCOUNTS RECEIVABLE AGEING PROFILE

Receivables			
Not Past Due		98,074	77,283
Past Due 1-30 Days		9,072	-
Past Due 31-60 Days		11	360
Past Due 61-90 Days		8	6
Past Due 90+ Days			-
Total receivables		107,165	77,649

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

		NOTE	Consolidated Entity	
			Jun-10	Jun-09
			$'000	$'000
11	**INVENTORIES**			
	Current			
	Raw materials and stores (at lower of cost or net realisable value)		4,931	6,211
			4,931	6,211
12	**OTHER FINANCIAL ASSETS**			
	Current			
	Marketable interest securities (at fair value)			33,756
				33,756
13	**OTHER ASSETS**			
	Prepayments		4,284	2,249
			4,284	2,249
14	**PROPERTY, PLANT AND EQUIPMENT**			
	Freehold land			
	At fair value		29,335	27,769
	Buildings			
	At fair value		222,821	109,770
	Plant and equipment			
	At cost		77,913	52,488
	Accumulated depreciation		(37,507)	(33,730)
			40,406	18,758
	Capital works in progress at cost		8,326	83,013
	Total property, plant and equipment		300,888	239,310

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

14 PROPERTY, PLANT AND EQUIPMENT (CONT.)

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	NOTE	Consolidated Entity Jun-10 $'000	Jun-09 $'000
Freehold land			
Carrying amount at beginning of year		27,769	27,769
Transfers from capital works in progress		83	-
Revaluation increments/(decrements)		1,483	-
Carrying amount at the end of year		29,335	27,769
Buildings			
Carrying amount at beginning of year		109,770	76,900
Additions		519	-
Transfers from capital works in progress		85,013	33,013
Disposals			(4)
Revaluation increments/(decrements)		34,311	4,331
Depreciation		(6,792)	(4,470)
Carrying amount at the end of year		222,821	109,770
Plant and equipment			
Carrying amount at beginning of year		18,758	9,720
Additions		6,794	3,376
Transfers from capital works in progress		18,908	8,125
Disposals		(31)	(33)
Depreciation		(4,023)	(2,430)
Carrying amount at the end of year		40,406	18,758
Capital works in progress			
Carrying amount at beginning of year		83,013	30,411
Additions/(write off)		29,317	93,739
Transfers to property, plant & equipment		(104,004)	(41,137)
Carrying amount at the end of year		8,326	83,013

Valuations

An independent valuation of all land and buildings of the consolidated entity was carried out by Maloney Field Services Property Consultants & Valuers as at 30 June 2010. The valuation basis of land and building is fair value. The fair value of land is based on recent market transactions on arm's length terms and the fair value of buildings is based on the depreciated replacement cost approach.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

		NOTE	Consolidated Entity	
			Jun-10	Jun-09
			$'000	$'000
14	**PROPERTY, PLANT AND EQUIPMENT (CONT.)**			
	Carrying amounts that would have been recognised if land and buildings were stated at cost.			
	Freehold land			
	Cost		2,299	2,216
	Buildings			
	Cost		241,640	156,583
	Accumulated depreciation		(114,936)	(111,154)
	Net book amount		126,704	45,429
	Non current assets pledged as security			
	Refer to note 26 for information on non-current assets pledged as security by the consolidated entity.			
15	**TRADE AND OTHER PAYABLES**			
	Trade payables		23,739	27,538
	Other payables and accruals		42,626	27,456
	Total payables		66,365	54,994
16	**NET UNEARNED CONTRACT BILLING / (CONSTRUCTION WORK IN PROGRESS)**			
	Contract billings due and receivable		1,171,072	720,943
	Contract works in progress		(897,771)	(576,759)
	Profit recognised to date		(185,861)	(112,827)
	Net unearned contract billing/(Contract work in progress)		87,440	31,357
17	**NON INTEREST-BEARING LIABILITIES**			
	Unsecured			
	Non current			
	Term loan		4	4
	Deferred purchase obligation		15,170	12,093
			15,174	12,097

Term Loan

Term loan consists of the interest free 99 year loans to ASC Pty Ltd and ASC Engineering Pty. Limited from the Department of Manufacturin Industry, Small Business and Regional Development (SA), for expenditure on capital items and to assist with site development costs.

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

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

Both of these two term loans have been discounted to their fair value of $4,000 in total in the financial year ended 30 June 2010 (2009: $4,000) under AASB139 (Financial Instruments: Recognition and Measurement)

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	Consolidated Entity Jun-10 $'000	Jun-09 $'000

17 NON INTEREST-BEARING LIABILITIES (CONT.)

Deferred purchase obligation

As part of the Air Warfare Destroyer Program, subsidiaries of the Company entered into an agreement with the Commonwealth of Australia where the Commonwealth of Australia makes a contribution to build a production facility required for the construction of the Air Warfare Destroyers.

Under this arrangement, a subsidiary of the Company has an obligation to purchase the facility within three months of the completion of the last Air Warfare Destroyer at an amount equal to the lesser of the written down value of the facility at an agreed depreciation rate, and the fair market value determined by a licensed valuer.

18 INTEREST-BEARING LIABILITIES

	NOTE	Jun-10 $'000	Jun-09 $'000
Current			
Unsecured			
Government advance		89,665	114,970
		89,665	114,970

Government advance

Government advance represents the working capital advance provided by the Commonwealth of Australia under the Alliance Based Target Incentive Agreement (ABTIA)

Advances paid by the Commonwealth are in both Australian and foreign currencies and are required to be separately maintained in a Commonwealth of Australian interest bearing account.

Funds advances can only be used for the reimbursement of payment to ASC AWD Shipbuilder Pty Ltd, a subsidiary within the consolidated entity, for direct project costs incurred for the Air Warfare Destroyer project. All interest and expenses that accumulate in the separate bank accounts, in relation to funds advanced, accrues to the benefit of the Commonwealth of Australia.

This advance is repayable on demand when certain criteria have been met or if the ABTIA is terminated. ABTIA requires regular review of the advance amount which may be increased or decreased after consideration by the Commonwealth of Australia as to the working capital requirements for the AWD project.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	Consolidated Entity Jun-10 $'000	Consolidated Entity Jun-09 $'000
18 INTEREST-BEARING LIABILITIES (CONT.)			
Financing arrangements			
Unsecured facilities			
Total facilities available			
Loan facilities		30,000	25,000
Overdraft facilities		12,000	12,000
Bank guarantees and letters of credit		3,134	7,033
		45,134	44,033
Facilities utilised at balance date			
Loan facilities		6,606	-
Overdraft facilities			-
Bank guarantees and letters of credit		3,134	7,033
		9,740	7,033
Facilities not utilised at balance date			
Loan facilities		23,394	25,000
Overdraft facilities		12,000	12,000
Bank guarantees and letters of credit			-
		35,394	37,000
19 PROVISIONS			
Current			
Employee entitlements, including on costs (a)		19,600	19,275
Redundancy & termination (b)		459	916
Warranty (c)		3,686	2,646
Self insured workers compensation (d)		1,832	1,408
Dividends (e)			5,100
Other		335	-
		25,912	29,345
Non current			
Employee entitlements, including on costs (a)		5,692	5,578
Warranty (c)		5,027	3,610
Self insured workers compensation (d)		3,163	3,562
		13,882	12,750

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	Consolidated Entity	
		Jun-10	Jun-09
		$'000	$'000

19 PROVISIONS (CONT.)

(a) Employee entitlements, including on costs

The current portion includes all unconditional annual leave and long service leave entitlements including on costs where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The current portion includes the entire amount that the Group does not have an unconditional right to defer settlement.
The non current portion represents the present value of the estimated future cash outflows of long service leave where there is no possibility that the Group could have to pay out the provision within the next 12 months.

(b) Redundancy & termination

The redundany provision is calculated based on the identified positions which would be redundant at the result of the new organisation structure for the new financial year 2010/11. This redundancy and termination provision is expected to be paid in the early part of the 2010/11 financial year.

(c) Warranty

The Company has a warranty provision for the submarine related activities under the Through-Life Support contract with the Commonwealth of Australia represented by the Defence Materiel Organisation.
The current portion of the provision is expected to be settled in the next financial year. This estimate is based on historcial obsolescence and urgent defects costs and takes into account the timing of boat activities on the six boats schedule.

(d) Self insured workers compensation

The consolidated entity is self insured for risks associated with workers' compensation for all staff in South Australia. A provision is raised when an incident occurs that may give rise to a workers' compensation claim. The current portion of the provision is expected to be settled in the next financial year. This estimate is based on historcial claim information and any recent recent trends that may suggest future claims could differ from historical amounts.

(e) Dividends

No provision is made on or before the end of the financial year.

(f) Other

The Company is required to maintain the leased properties in a good working condition. A provision has been recognised for the present value of the estimated expenditure required for this purpose.

Provisions movements:

Redundancy & termination

	Jun-10	Jun-09
Balance at 1 July(current & non current)	916	-
Provision made during the year	459	5,888
Provision used during the year	(916)	(4,972)
Balance at 30 June(current & non current)	459	916

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	Consolidated Entity	
		Jun-10	Jun-09
		$'000	$'000
19 PROVISIONS (CONT.)			
Provisions movements (cont.):			
Warranty			
Balance at 1 July(current & non current)		6,256	8,871
Provision made/(reversed) during the year		2,457	(2,615)
Balance at 30 June(current & non current)		8,713	6,256
Self insured workers compensation			
Balance at 1 July(current & non current)		4,970	4,230
Provision made/(reversed) during the year		890	2,107
Provision used during the year		(865)	(1,367)
Balance at 30 June(current & non current)		4,995	4,970
Dividends			
Balance at 1 July(current & non current)		5,100	9,250
Provision made during the year		5,000	11,100
Provision used during the year		(10,100)	(15,250)
Balance at 30 June(current & non current)			5,100
Other			
Balance at 1 July(current & non current)			-
Provision made during the year		335	-
Balance at 30 June(current & non current)		335	-
20 ISSUED CAPITAL			
Opening issued and paid-up share capital - 10 million ordinary shares (1 July)		10,000	10,000
Movement during the reporting period			-
Closing issued and paid-up share capital		10,000	10,000

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	Consolidated Entity Jun-10 $'000	Consolidated Entity Jun-09 $'000
21 RESERVES			
Opening asset revaluation reserve (1 July)		64,571	51,415
Revaluation increment, gross		35,794	4,509
Deferred tax		(10,738)	(1,353)
Closing asset revaluation reserve		89,627	64,571
Total Reserves		89,627	64,571
Asset revaluation reserve			
Comprises of :			
- Land		18,925	17,887
- Buildings		70,702	46,684
Closing balance		89,627	64,571

Nature and purpose of reserves

The land and buildings revaluation reserve is used to record increments and decrements on the revaluation of land and buildings.

	NOTE	Jun-10 $'000	Jun-09 $'000
22 RETAINED EARNINGS			
Opening retained earnings (1 July)		109,038	103,462
Actuarial gains (losses) on defined benefit plans after tax		470	(1,764)
Net profit for the year		4,269	18,440
Dividends		(5,000)	(11,100)
Closing retained earnings		108,777	109,038
23 DIVIDENDS			
Interim fully franked dividend 50 cents per share, declared and paid (2009: 60 cents/share)		5,000	6,000
No final dividend declared and provided for (2009: 51 cents/share fully franked)			5,100
Total fully franked dividend, represents a distribution to the shareholder		5,000	11,100

All dividends declared during the year were paid out of profits.

	NOTE	Jun-10 $'000	Jun-09 $'000
Dividends franking account			
Class C (30%) franking credits		101,113	99,622

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.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	Consolidated Entity Jun-10 $'000	Jun-09 $'000
24 COMMITMENTS			
(a) Capital expenditure commitments			
Contracted but not provided for and payable:			
Not later than one year		1,003	15,904
Later than one year but not later than five years		-	-
Later than five years		-	-
		1,003	15,904
(b) Operating lease commitments			
Non-cancellable future operating lease rentals not provided for in the financial statements and payable:			
Not later than one year		13,498	10,104
Later than one year but not later than five years		41,440	37,399
Later than five years		101,014	89,799
		155,952	137,302

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

(c) Hire purchase commitments

The consolidated entity has no hire purchase commitments as at the reporting date.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

24 COMMITMENTS (CONT.)

(d) Superannuation commitments

The consolidated entity contributes to the ASC 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 consolidated entity also contributes to the fund at varying contribution rates depending on the category of fund membership of each member. Members of the ASC Superannuation Fund are entitled to benefits on retirement, disability or death. The trustee of the fund is Trust Company Superannuation Services Limited and the administrator of the fund is KPMG Superannuation Services Pty Limited.

DEFINED BENEFITS PLAN

Defined benefit category

The consolidated entity makes contributions to a defined benefit superannuation fund that provides defined benefits for employees on retirement. The fund provides defined benefits based on years of service and final average salary.

An actuarial assessment of the fund as at 30 June 2010 was carried out by David O'Keefe, Fellow of the Institute of Actuaries of Australia, of ALEA Actuarial Consulting Pty Limited on 2 July 2010. The actuary concluded that the assets of the defined benefit category of the fund are not sufficient to meet all benefits payable in the event of the defined benefit category's termination, or the voluntary or compulsory termination of employment of each employee of the consolidated entity.

	Consolidated Entity Jun-10 $'000	Consolidated Entity Jun-09 $'000
Movements in the net asset/(liability) for defined benefits obligations recognised in the statement of financial position		
Net asset/(liability) for defined benefit obligations at 1 July	(778)	1,496
Contributions received	30	26
Income/(Expense) recognised in the income statement	(98)	220
Actuarial gains/(losses) recognised directly in equity	671	(2,520)
Net asset/(liability) for defined benefit obligations at 30 June	(175)	(778)
Defined benefit superannuation fund		
Amounts in the statement of financial position		
Asset		-
Liability	(175)	(778)
Net Pension Assets / (Retirement benefit obligation)	(175)	(778)

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

24 COMMITMENTS (CONT.)

(d) Superannuation commitments (cont.)

	Consolidated Entity Jun-10 $'000	Consolidated Entity Jun-09 $'000
Changes in the present value of the defined benefit obligation are as follows:		
Opening defined benefit obligation	9,844	11,105
Service cost	187	258
Interest cost	514	647
Actuarial losses/(gains)	(633)	327
Benefits paid	(1,862)	(2,493)
Closing defined benefit obligation	8,050	9,844
Changes in the fair value of fund assets are as follows:		
Opening fair value of fund assets	9,066	12,601
Expected return	603	1,125
Actuarial gains/(losses)	38	(2,193)
Contributions by employer	30	26
Benefits paid	(1,862)	(2,493)
	7,875	9,066

	Consolidated Entity Jun-10	Consolidated Entity Jun-09
The major categories of fund assets as a percentage of total fund assets are as follows:		
Australian equities	41%	37%
International equities	29%	34%
Australian fixed interest	16%	13%
International fixed interest	4%	8%
Property trusts	6%	5%
Cash	4%	3%
	100%	100%

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED 30 JUNE 2010

24 COMMITMENTS (CONT.)

(d) Superannuation commitments (cont.)

The investment policies and strategies of the Trustee of the ASC Superannuation Fund are to invest the assets of the Fund in a manner to ensure compliance with the Superannuation Industry (Supervision) Act and any other legislation. The Trustee has formulated and given effect to an investment strategy that recognises the whole of the Fund's circumstances, including the risk and potential return of investments in relation to the Fund's investment objectives. The investment strategy has regard to the diversification of the Fund's investments, the liquidity of its investments, its expected cash flow requirements and the ability of the Fund to discharge its existing and prospective liabilities. The risk management policies of the Fund permits the investment in externally managed Investment Funds and prohibits direct investment in debt and equity securities and derivative financial instruments. For the defined benefit category of membership, members are provided with a benefit based upon their salary, years of service and accrual rate.

	Consolidated Entity	
	Jun-10	Jun-09
	$'000	$'000
Expense recognised in the income statement:		
Current service costs	187	258
Interest cost	514	647
Expected return on fund assets	(603)	(1,125)
	98	(220)
Actuarial gains/(losses) are recognised directly in equity.		
The expense is recognised in the following line items in the income statement:		
Pension costs/(revenues)	68	(246)
Contribution paid (in labour costs)	30	26
	98	(220)
Actual return on fund assets	641	(1,068)
	641	(1,068)
Expense recognised in statements of comprehensive income		
Actuarial gains/(losses) recognised in the year (net of tax)	470	(1,764)
Cumulative actuarial gains/(losses) recognised in the statement of comprehensive income	(2,795)	(3,265)

24 COMMITMENTS (CONT.)

(d) Superannuation commitments (cont')

Employer contributions

Contributions by the Company and its controlled entities to the defined benefits plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals, and the last such full assessment was made as at 30 June 2008.

The objective of the funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution which is expected to be a constant percentage of members' salaries over their working lifetimes.

Using the funding method described above and particular actuarial assumptions as to the plan's future experience (as detailed below), the actuary recommended in the actuarial review as at 30 June 2008, that a contribution holiday be taken by the Company and its controlled entities for contributions to the fund for employees who are members of the defined benefit plan. This contribution holiday has been adopted by the Company and its controlled entities as at 1 January 2007 with the next full review of the actuarial recommendation to take place as at 30 June 2011. The contribution holiday was recommended by the actuary due to the fund surplus as at 31 December 2006 and as at 30 June 2008.

24 COMMITMENTS (CONT.)

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

(d) Superannuation commitments (cont')

The overall expected long-term rate of return on assets is 7.6%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based on historical returns, without adjustments.

	Consolidated Entity	
	Jun-10	Jun-09
Principal actuarial assumptions at the balance date:		
Discount rate at 30 June	5.3%	5.7%
Expected return on fund assets at 30 June	7.6%	7.8%
Future salary increases	4.0%	5.5%

Net financial position of plan

In accordance with AAS 25 *Financial Reporting by Superannuation Plans* the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets. This has been determined as at the date of the most recent financial report of the superannuation fund (30 April 2010), and a deficit of $175,000 was reported.

Any deficit under AAS 25 may differ from the net liability of $175,000 recognised in the balance sheet as at 30 June 2010 due to different measurement rules in the relevant accounting standards AAS25 and AASB 119 Employee Benefits.

Historic summary

	Jun-10	Jun-09	Jun-08	Jun-07	Jun-06	Jun-05
	$'000	$'000	$'000	$'000	$'000	$'000
Defined benefit obligation	(8,050)	(9,844)	(11,105)	(14,005)	(13,874)	(12,277)
Fund assets	7,875	9,066	12,601	18,409	14,612	13,594
Surplus/(deficit)	(175)	(778)	1,496	4,404	738	1,317
Experience adjustments arising on fund assets	38	(2,193)	(5,194)	2,272	(310)	549

24 COMMITMENTS (CONT.)

(e) Other commitments

The consolidated entity has commitments for expenditure in respect of contracts let to subcontractors for the supply of constituent elements required under the consolidated entity's contracts with the Commonwealth of Australia. The final amount of these commitments is not quantifiable. The timing of the consolidated entity's 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.

25 CONTINGENT LIABILITIES

The consolidated entity has arranged the issuance of a bank guarantee in favour of Workcover Corporation of SA for the purpose of self insurance under the Workers Rehabilitation and Compensation Act. Certain entities within the consolidated entity have arranged the issuance of bank guarantees in favour of various beneficiaries in support of their performance obligations. The total value of the bank guarantees arranged by the consolidated entity is \$9.7 million (2009: \$7.0 million).

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

a) to the State Government of South Australia in relation to ASC AWD Shipbuilder Pty Ltd's obligations to the State Government of South Australia in connection with the Common User Facility and the Maritime Skills Centre, Osborne;
b) to Bath Iron Works Australia Corporation in relation to ASC AWD Shipbuilder Pty Ltd's obligations to Bath Iron Works Australia Corporation in connection with the strategic capability service agreement; and
c) to the Commonwealth of Australia in relation to ASC AWD Shipbuilder Pty Ltd's obligations to the Commonwealth of Australia in connection with the Hobart Class Air Warfare Destroyer program.

No losses are expected in relation to these guarantee arrangements.

26 REGISTERED CHARGES

The Commonwealth of Australia holds first mortgage over the freehold land and building owned by the Company and a fixed charge over the moveable manufacturing plant & equipment owned by the Company in connection with the Submarine Build contract.

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

The above charges are held against default of the contracts.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated Entity	
	Jun-10	Jun-09
	$'000	$'000
26 REGISTERED CHARGES (CONT.)		
Total current assets pledged as security		
Trade receivables	55,790	46,435
Other receivables	96	327
Contract work in progress	(70,718)	(33,042)
	(14,832)	13,720
Total non current assets pledged as security		
Land	17,420	17,420
Building	119,456	88,735
Plant & Equipment	15,036	10,244
	151,912	116,399

27 ECONOMIC DEPENDENCY

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

28 KEY MANAGEMENT PERSONNEL DISCLOSURE

Key management personnel compensation

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

	Consolidated Entity	
	2010	2009
	$	$
Short - term employment benefits	1,030,966	1,144,963
Post - employment benefits	168,669	96,295
Termination benefits	404,082	238,500
	1,603,717	1,479,758

Key management personnel consists of executive and non executive directors.

Loans to key management personnel

No loan was outstanding at the reporting date to key management personnel.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

28 KEY MANAGEMENT PERSONNEL DISCLOSURE (CONT')

Other key management personnel transactions with the consolidated entity

From time to time there may be transactions between the key management personnel and the consolidated entity. The terms and conditions of those transactions would be no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non key management personnel related entities on an arm's length basis. There have been no transactions with key management personnel during the financial year.

29 EVENTS OCCURRING AFTER THE 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 consolidated entity, to affect significantly its operations, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

30 RELATED PARTY DISCLOSURES

Directors

The names of each person holding the position of Director of ASC Pty Ltd during the financial year are:

VADM CAR Ritchie AO RANR;
BJ Carter;
S Ludlam;
DA Miles;
JJ O'Connell AO;
GR Phillips;
SAM Pitkin;
JF Shipway;
G Bulmer (retired 15 January 2010);
W Schofield (retired 31 December 2009); and
M Terlet (retired 31 December 2009).

The expenses incurred by directors in discharging duties of their office were reimbursed.

Other related parties

Shareholders

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

The Commonwealth of Australia is the ultimate parent entity.

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

30 RELATED PARTY DISCLOSURES (CONT.)

Other related parties (CONT.)

	Consolidated Entity	
	2010	2009
	$	$
Loans to/(from) the Commonwealth of Australia and its related entities		
Deferred purchase obligation		
Beginning of the year	12,092,724	6,900,000
Present value of loan advanced	3,077,139	5,192,724
End of year	15,169,863	12,092,724

Jun-10				Consolidated Entity			
Government advance	**Total**	**AUD**	**USD**	**GBP**	**CAD**	**EUR**	**JPY**
Beginning of the year		61,643,825	7,706,103	151,286	2,015,090	23,260,666	71,000,000
Advance received		-	-	-	-	-	-
Advance repaid		(17,772,722)	-	-	-	-	(58,912,809)
Interest charged		(716)	(9)	-	-	(6)	(8,230)
Interest received		751,367	-	-	-	-	-
End of year (source currency)		44,621,754	7,706,094	151,286	2,015,090	23,260,660	12,078,961
End of year (AUD equivalent)	89,664,836	44,621,754	9,041,528	267,007	2,244,975	33,329,503	160,071

Jun-09				Consolidated Entity			
Government advance	**Total**	**AUD**	**USD**	**GBP**	**CAD**	**EUR**	**JPY**
Beginning of the year		10,437,690	5,686,586	-	-	-	-
Advance received		50,460,615	4,000,000	150,000	2,015,000	23,200,000	71,000,000
Advance repaid		333,608	(1,901,949)	-	-	-	-
Interest charged		(661)	-	(36)	(23)	-	-
Interest received		412,633	22,466	1,322	113	60,666	-
End of year (source currency)		61,643,825	7,706,103	151,286	2,015,090	23,260,666	71,000,000
End of year (AUD equivalent)	114,969,972	61,643,825	9,497,292	310,521	2,158,970	40,446,298	913,066

Transactions with Shareholders

During the year, the amounts received or receivable by the consolidated entity from the Commonwealth of Australia for various projects was $512,647,000 (2009: $344,877,000).

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

Balances with Shareholders	2010
	$
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:	106,511,124

ASC PTY LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2010

31 PARTICULARS IN RELATION TO CONTROLLED ENTITIES AND ASSOCIATE

			Entity Interest	
	Country of	Class of	2010	2009
Parent entity	**Incorporation**	**Shares**	%	%
ASC Pty Ltd				
Controlled entities				
ASC Engineering Pty. Limited	Australia	Ordinary	100	100
ASC Shipbuilding Pty Limited	Australia	Ordinary	100	100
ASC Modules Pty Ltd	Australia	Ordinary	100	100
ASC AWD Shipbuilder Pty Ltd	Australia	Ordinary	100	100
Deep Blue Tech Pty Ltd	Australia	Ordinary	100	100
Australian Submarine Corporation Thailand Limited	Thailand	Ordinary	49	49

ASC Modules Pty Ltd is a non trading company.

ASC AWD Shipbuilder Pty Ltd is the subsidiary incorporated for the purpose of executing the AWD Build Program.

Australian Submarine Corporation (Thailand) Limited is a non trading company and the process for winding up of this entity has commenced. Based on materiality, this entity has not been consolidated in this financial statements.

All subsidiaries have reporting dates of 30 June.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED 30 JUNE 2010

32 Parent financial information

(a) Summary financial information

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

	Jun-10 $'000	Jun-09 $'000
Balance sheet		
Current assets	81,242	89,127
Total assets	375,512	332,739
Current liabilities	138,230	128,509
Total liabilities	163,570	145,156
Net assets	211,942	187,583
Shareholders' equity		
Issued capital	10,000	10,000
Reserves		
Revaluation surplus - land and building	76,583	54,324
Retained earnings	125,359	123,259
	211,942	187,583
Profit or loss for the year	6,630	21,526
Total comprehensive income	22,728	1,813

(b) Guarantees entered into by the parent entity

The Company has arranged the issuance of a bank guarantee in favour of Workcover Corporation of SA for the purpose of self insurance under the Workers Rehabilitation and Compensation Act. The total value of the bank guarantees arranged by the parent company is $6.6 million (2009: $3.9 million).

In addition to the above, the parent entity has provided guarantees and indemnities to Westpac Banking Corporation in support of the $12.0 million overdraft facility and $3.1 million bank guarantees assumed by its subsidiary.

No liability has been recognised in relation to these financial guarantees in accordance with the policy set in notes 1(v) as the fair values of these guarantees as at 30 June 2010 and 30 June 2009 are immaterial.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2010, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $1,003,000 (30 June 2009:$3,242,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

ASC PTY LTD AND ITS CONTROLLED ENTITIES
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Entity Jun-10 $'000	Jun-09 $'000

33 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:

	Note	Jun-10 $'000	Jun-09 $'000
Cash	8	24,980	28,439
Advance funding cash at bank	9	81,119	57,569
		106,099	86,008

(b) RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES

	Jun-10 $'000	Jun-09 $'000
Operating profit after income tax	4,269	18,440
Add/(less) items classified as investing/financing activities:		
Interest received	(1,602)	(5,068)
Interest expense	6	5
(Profit)/loss on sale of fixed assets	13	-
(Profit)/loss on sale of other non current assets	-	4
Add/(less) non-cash items:		
Depreciation	10,815	6,900
Pension costs	68	(246)
Income tax expense	623	7,079
Income tax paid	(495)	(13,715)
Net cash provided by operating activities before change in assets and liabilities	13,697	13,399
Change in assets and liabilities		
(Increase)/decrease in receivables	(69,919)	(3,343)
(Increase)/decrease in inventories	1,280	829
(Increase)/decrease in prepayments	(1,804)	(1,236)
(Increase)/decrease in net progress payments received	54,786	39,510
Increase/(decrease) in trade creditors	12,686	1,661
(Increase)/decrease in provisions	2,798	926
Net cash provided by operating activities	13,524	51,746