



DEFENCE SA

ANNUAL REPORT 2015-16



1 July 2015 to 30 June 2016

Defence SA

ABN 42 912 246 233
Level 4, 151 Pirie Street
ADELAIDE SA 5000

PO Box 3643
RUNDLE MALL SA 5000

T +61 8 8463 7140
F +61 8 8463 7150
E enquiries@defencesa.com

www.defencesa.com

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Government of
South Australia

DEFENCE SA



Hon Martin Hamilton-Smith MP
Minister for Defence Industries
Level 13
State Administration Centre
200 Victoria Square
ADELAIDE SA 5000

30 September 2016

Dear Minister

I am pleased to present to you Defence SA's Annual Report and financial statements for the year ended 30 June 2016. The report has been prepared in accordance with the requirements of the *Public Sector Act 2009* and the *Public Finance and Audit Act 1987*.

Yours sincerely

Andy Keough
CHIEF EXECUTIVE





1 BDE (ADEL)
1st Brigade (Adelaide)





CONTENTS

2	CHIEF EXECUTIVE'S FOREWORD
5	HIGHLIGHTS
6	ABOUT DEFENCE SA
8	Our organisation
14	Strategic directions
16	ACHIEVEMENTS
18	Effective advocacy
22	Sustainable defence industries
28	Expanded Defence presence
30	Productive infrastructure
31	Exemplar government agency
34	APPENDICES
42	FINANCIAL STATEMENTS



CHIEF EXECUTIVE'S FOREWORD

2015-16 was a history-making year for South Australia's defence industry and Defence SA. Huge wins were celebrated with key decisions in naval shipbuilding resulting in the first one to two Offshore Patrol Vessels, nine Future Frigates and 12 Future Submarines all to be constructed at Australia's premier naval industry hub, Techport Australia.

Due to their size and complexity, these new projects will play a key role in achieving South Australia's transition towards a high-tech advanced manufacturing future. The defence industry is critical to South Australia's prosperity. The projects secured will create thousands of jobs for decades to come, driving innovation and economic growth.

The release of the 2016 Defence White Paper, Defence Industry Policy Statement and Integrated Investment Plan was welcomed by our state. The core sentiments of the Policy Statement in particular was evidence of South Australia's prolonged campaign to raise the importance of the defence industry to the point where it is now recognised as a fundamental capability to Defence.

Defence SA is a unique agency, comprised of defence experts and specialists, with a detailed understanding of the defence industry and the decision making process for Defence programs. This enables us to play a crucial advocacy and support role for South Australia's defence industry, while preparing for current programs and securing future defence activity for the state.

Our effective advocacy was a contributing factor to the naval shipbuilding announcements for South Australia. The state campaigned long and hard for a continuous

naval shipbuilding program and securing this for Techport Australia was a huge achievement.

Securing the Offshore Patrol Vessels was of particular importance to South Australia because the decision was based on preserving our industrial capability and skilled workforce while de-risking the larger, more complex, Future Frigates. The Advisory Board and Defence SA were able to advise the Government and make a strong case for this through its connections to key decision-makers and a robust campaign through media and industry publications.

In order to fully realise the benefits of the Offshore Patrol Vessels, the challenge for Defence SA in 2016-17 will be to ensure that the project utilises the South Australian supply chain and the infrastructure intended for Future Frigates, validating the system and building a skilled workforce.

South Australia was also a strong advocate for an Australian-build for our Future Submarines. This campaign also came to fruition in 2015-16 with the Australian Government announcing in April that all 12 submarines will be built at Techport Australia. The technical expertise and new technologies gained from such a project gives South Australia a competitive advantage and unique opportunity to become a world leader in complex defence projects.

This year also saw ASC's South Australian submarine workforce and the Submarine Enterprise achieve the first revised two-year full cycle docking for HMAS Farncomb, following the recommendation to reduce the length of cycle from three years to two for the Collins Class submarines. This is a significant milestone which demonstrates what can be achieved



when the Australian Government (through the Capability Acquisition Sustainment Group), Royal Australian Navy and industry work together.

While naval shipbuilding was an area of focus for Defence SA, significant work also progressed in other sectors, including the state's pursuit of LAND 400. Defence SA continued to advocate for South Australia as the best location to build and integrate complex defence equipment, with a proven track record in having produced more military vehicles than any other state since World War II. Plans for a new Land Systems Precinct progressed, as did negotiations with the LAND 400 bidders.

In the aerospace sector, the agency is focused on securing programs identified in the 2016 Defence White Paper. This includes the replacement of the Orion maritime patrol aircraft with a new fleet of P-8A Poseidons; the upgrade of the Jindalee Operational Radar Network and the acquisition of seven MQ-4C Triton unmanned aerial vehicles to be based at RAAF Base Edinburgh. The new Gulfstream G550 aircraft are also likely to be located at the RAAF Base, boosting our intelligence surveillance reconnaissance and electronic warfare capabilities.

The Defence SA Advisory Board also played a crucial role in advocacy and strategic policy advice and I thank them for their significant contributions. Led by our Chair, Air Chief Marshal Sir Angus Houston AK AFC, the Board again utilised their extensive defence knowledge to the benefit of South Australia.

The next 12 months will be critical for realising the benefits of the projects which have been secured and

ensuring that South Australia's reputation as the Defence State continues to grow. A key part of this will be energising and supporting the supply chain to maximise job opportunities for South Australia.

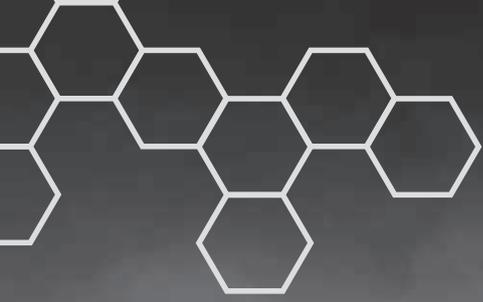
Defence SA will also continue its work to ensure the right infrastructure is in place to support program delivery. Our increased focus in this area is evidenced by the creation of a new position, General Manager, Infrastructure to oversee statewide defence infrastructure programs.

Work has already begun on working in partnership with our universities and educational institutions to ensure we have the skilled workforce ready with the flexibility to deliver on all future defence programs.

There is much work to be done and Defence SA is up for the challenge. I look forward to building on our accomplishments to date by working closely with the Minister for Defence Industries, Department of Defence, South Australian Government Departments and the defence industry to achieve our goals.

Andy Keough
CHIEF EXECUTIVE





HIGHLIGHTS

- Secured the build based in South Australia of nine Future Frigates under a continuous build program at Techport Australia
- Secured the build of 12 Future Submarines based in South Australia as part of a rolling acquisition program at Techport Australia
- Secured the build of the first one to two Offshore Patrol Vessels at Techport Australia
- Forged strong relationships with the bidders for the Future Submarine program from France, Germany and Japan in the lead up to the announcement in April 2016 that France's DCNS was the successful bidder
- Promoted the state's maritime industry credentials at Pacific 2015
- Secured the 2016 Land Forces event for the Adelaide Convention Centre
- Supported global defence companies opening offices or expanding their presence in the state, including Boeing, RUAG, Babcock, Raytheon, BAE Systems, Rheinmetall and Lockheed Martin
- Contributed to several cross-agency workforce development and skills initiatives, notably related to the State Government's Science Technology Engineering and Maths (STEM) agenda and the Capability Acquisition and Sustainment Group (CASG) funded Advanced Technology Industry–School Pathways Program
- Through a machinery of government change, Defence SA took on a newly created sector: Space Industry and R&D Collaborations, highlighting the South Australian Government's increased focus on attracting opportunities in the growing space sector
- Supported visits from a number of international defence companies and delegates, enabling them to explore investment opportunities in the defence sector
- Participated in seven overseas defence-specific business missions
- Facilitated six commercial dockings at Techport Australia; a 500 per cent increase from the previous year, driving revenue for the state
- The South Australian workforce contributed to the completion of a new two-year full cycle docking process for the Collins Class submarines
- The new Centre for Defence Industry Capability will be headquartered in Adelaide.

Opposite: On 26 April 2016, DCNS was selected as the preferred international partner for the design of 12 Future Submarines based on its Shortfin Barracuda design. (Image courtesy of DCNS)

Overleaf: The first Air Warfare Destroyer, *Hobart*, commenced sea trials in September 2016 (Image courtesy of AWD Alliance).

ABOUT DEFENCE SA





OUR ORGANISATION

MISSION

Defence SA's mission is to grow the defence industry, and strengthen the Defence Force presence in the state.

An administrative unit pursuant to the *Public Sector Act 2009*, Defence SA plays a key role in supporting the Australian Government's strategic defence policy, particularly in the areas of local industry participation and supporting infrastructure and skills development.

The growth of Defence and sustainable industries in South Australia contributes strongly to economic development, with the state's economy transitioning towards a high-tech, advanced manufacturing future.

VALUES

Our values are a reflection of how we conduct our business:

- Service
- Professionalism
- Trust
- Respect
- Collaboration and engagement
- Honesty and integrity
- Courage and tenacity
- Sustainability.

REPORTING ARRANGEMENTS

Defence SA reports to the Minister for Defence Industries. Our strategy and policy development is assisted by the Defence SA Advisory Board.

To achieve state government objectives, we maintain strong relationships with key government agencies, including:

- State Development
- Premier and Cabinet
- Treasury and Finance
- Planning, Transport and Infrastructure
- Education and Child Development
- Renewal SA.

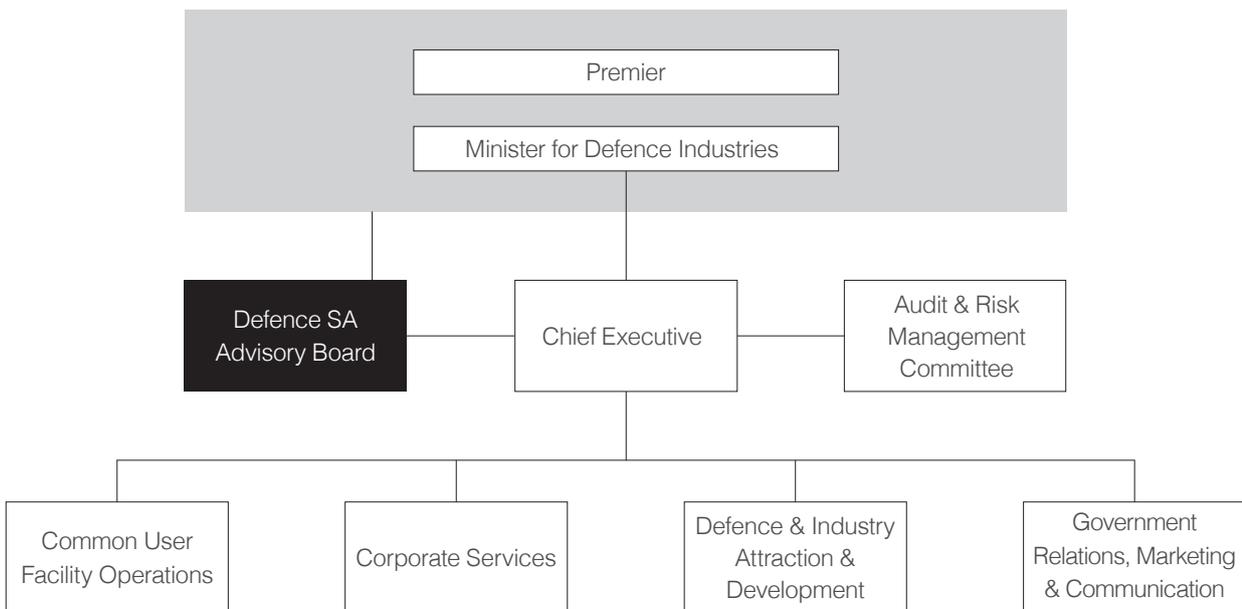




ORGANISATION STRUCTURE

At 30 June 2016, Defence SA employed 30.05 full-time equivalent employees at two locations – Adelaide and Osborne. The agency's structure and reporting arrangements are depicted below:

Defence SA organisational structure at 30 June 2016





UNIT FUNCTIONS

Common User Facility Operations manage the Techport Australia Common User Facility (CUF) at Osborne, including ship lift, wharf and dry berth transfers, power, gas, compressed air and water supply. The unit is responsible for delivering all CUF operations and services to the Air Warfare Destroyer program, promoting the CUF for commercial projects, and overseeing the development and expansion of the CUF to meet the requirements of future naval shipbuilding projects.

Corporate Services deliver all administration, human resources, finance and procurement support for the agency, as well as providing commercial cost/benefit analysis when required. The unit delivers specialist assistance to contract negotiations in the areas of legal advice, insurance and risk mitigation, and is responsible for work health and safety, and environmental coordination.

Defence and Industry Attraction and Development is responsible for Defence and industry expansion in South Australia, the development of sector and project strategies, as well as effectively promoting the state's defence industry and research capabilities. The unit liaises closely with the defence industry's peak body, the Defence Teaming Centre, as well as defence-related companies and research organisations generally to identify and address opportunities to support growth.

Government Relations, Marketing and Communication is responsible for government relations and whole-of-government initiatives at both a state and federal level. It provides high level advocacy, communications and engagement advice to the agency, Defence SA Advisory Board and the Minister for Defence Industries. The unit is also responsible for the planning and delivery of the agency's marketing, event and sponsorship activities. The unit delivers executive support to the Defence SA Advisory Board and coordinates strategic and business planning while leading Defence SA's efforts in strategy and policy development, including skills planning, the Cultana Training Area expansion and the Woomera Prohibited Area coexistence framework.





DEFENCE SA ADVISORY BOARD

The Defence SA Advisory Board (the Board) provides high-level strategic and policy advice to promote the growth of Defence and defence industries and facilities on a competitive and sustainable basis in accordance with *South Australia's Strategic Plan*.

The Board also supports efforts to build on South Australia's capabilities and strengths across Defence SA's six priority defence domains: maritime, systems and cyber, aerospace, land, space, and science and technology.

Since its establishment in 2007, the board has made a significant contribution to the state's efforts to cement its reputation as the Defence State and to lay the foundations for a strong sustainable future through well-guided strategic policy advice.

The Board's focus areas and achievements for 2015-16 included:

- the appointment of global submarine expert and former Chief Executive of ASC, Steve Ludlam; further enhancing the board's submarine expertise in preparation for the upcoming Future Submarines program
- significant ongoing advocacy for a continuous naval shipbuilding plan
- significant advocacy to promote the need for the Offshore Patrol Vessel program to occur in South Australia to de-risk the larger, more complex Future Frigate program
- advocacy and ambassadorial roles at major events, including Pacific 2015, as well as many minor events.





BOARD MEMBERSHIP

Defence SA Advisory Board membership recommendations are based on a core skills requirement of high-level strategic defence expertise and networks across the full range of defence capabilities, coupled with commercial and financial expertise.

Members of the Board as at 30 June 2016 were:

- Air Chief Marshal Sir Angus Houston AK AFC (Chairman) – former Chief of Defence Force (2005-11)
- Dr Neil Bryans – former Executive Director Counter Terrorism and Security Technology Centre, DSTO (2007-12) and former Deputy Chief Defence Scientist
- Vice Admiral Russ Crane AO CSM RANR – former Chief of Navy (2008-11)
- Mr Paul Johnson MBE – defence industry leader and former Chief Executive of Lockheed Martin Australia
- Mr Andy Keough CSC – Chief Executive, Defence SA (2015-current)
- Ms Beth Laughton – Chartered Accountant, former investment banker and company director
- Lieutenant General Peter Leahy AC – former Chief of Army (2002-08)
- Mr Steve Ludlam FREng – global submarine expert and former Chief Executive ASC Pty Ltd (2010-14)

- Rear Admiral Trevor Ruting AM CSC RANR – naval architect and former Head Maritime Systems, Defence Materiel Organisation.

The Premier and Minister for Defence Industries are ex-officio members of the Board.

Emeritus Professor Paul Dibb AM is an advisor to the Board on strategic policy matters.

BOARD MEETINGS

The Board held six formal meetings in 2015-16 and attendance was as follows:

	Eligible	Attended
ACM Sir Angus Houston AK AFC (Chairman)	6	6
Hon Jay Weatherill MP, Premier	6	1
Hon Martin Hamilton-Smith MP, Minister for Defence Industries	6	3
Dr Neil Bryans	6	5
VADM Russ Crane AO CSM RANR	6	6
Mr Andy Keough CSC*	5	5
Mr Paul Johnson MBE	6	5
Ms Beth Laughton	6	5
LTGEN Peter Leahy AC	6	5
Mr Steve Ludlam FREng**	5	5
RADM Trevor Ruting AM CSC RANR	6	6
Emeritus Professor Paul Dibb AM (advisor)	6	4

*Commenced with Defence SA 31 August 2015
 **Appointed 1 September 2015



AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee provides independent risk management advice to the Chief Executive. Five meetings were held during the year and committee members at 30 June 2016 were:

- Mr Christopher McSporran – Director, Financial Services Reform, Department of the Premier and Cabinet (Chairman and independent member)
- Ms Beth Laughton – Defence SA Advisory Board member
- Mr Peter Robertson – Chartered Accountant (independent member)
- Mr Andrew Blaskett – Executive Director, Public Finance, Department of Treasury and Finance (independent member)
- Mr Rob Barnett – General Manager, Corporate Services, Defence SA.

LEGISLATION

Defence SA does not administer any legislation.



STRATEGIC DIRECTIONS

CONTRIBUTION TO BROADER GOVERNMENT STRATEGIES

Defence SA is the lead agency for target 43 in *South Australia's Strategic Plan*:

Increase Defence and defence industry annual contribution to our economy to \$2.5 billion and employment to 37,000 people by 2020.

South Australia continues to work towards this target and the latest figures show the state's defence sector employs 28,666 (current figure).

At the end of 2012, the defence industry directly employed 4985 full-time equivalent persons and generated about \$1.95 billion in revenue.

The 2016 Defence White Paper announced an increase in Defence spending of \$29.9 billion over the next 10 years, enabling approximately \$195 billion of new investment in our Defence capabilities in this period. While South Australia has secured major naval shipbuilding programs, and is actively pursuing a number of other opportunities, the economic benefits of these programs will not be seen immediately and it will be several years until the workforce again builds up to its peak.

Defence SA also contributes to the Premier's Growth through Innovation economic priority through its work to create sustainable defence industry growth and attract additional activity.

SOUTH AUSTRALIA'S DEFENCE STRATEGY 2025

Defence SA's work in 2015-16 continued to be guided by *South Australia's Defence Strategy 2025* which was launched by the Premier in February 2015.

Defence SA supports Defence and defence industry to achieve strategic outcomes across six key sectors; maritime, systems and cyber, aerospace, land, space, and science and technology.

Note that the strategy previously encompassed five key sectors, with 'space' being added in 2015-16 when Defence SA took over responsibility for this newly formed sector.

The main focus areas from the strategy are those in which Defence SA can have the greatest impact: effective advocacy, investment in strategic infrastructure and skills programs and fostering a competitive business environment.

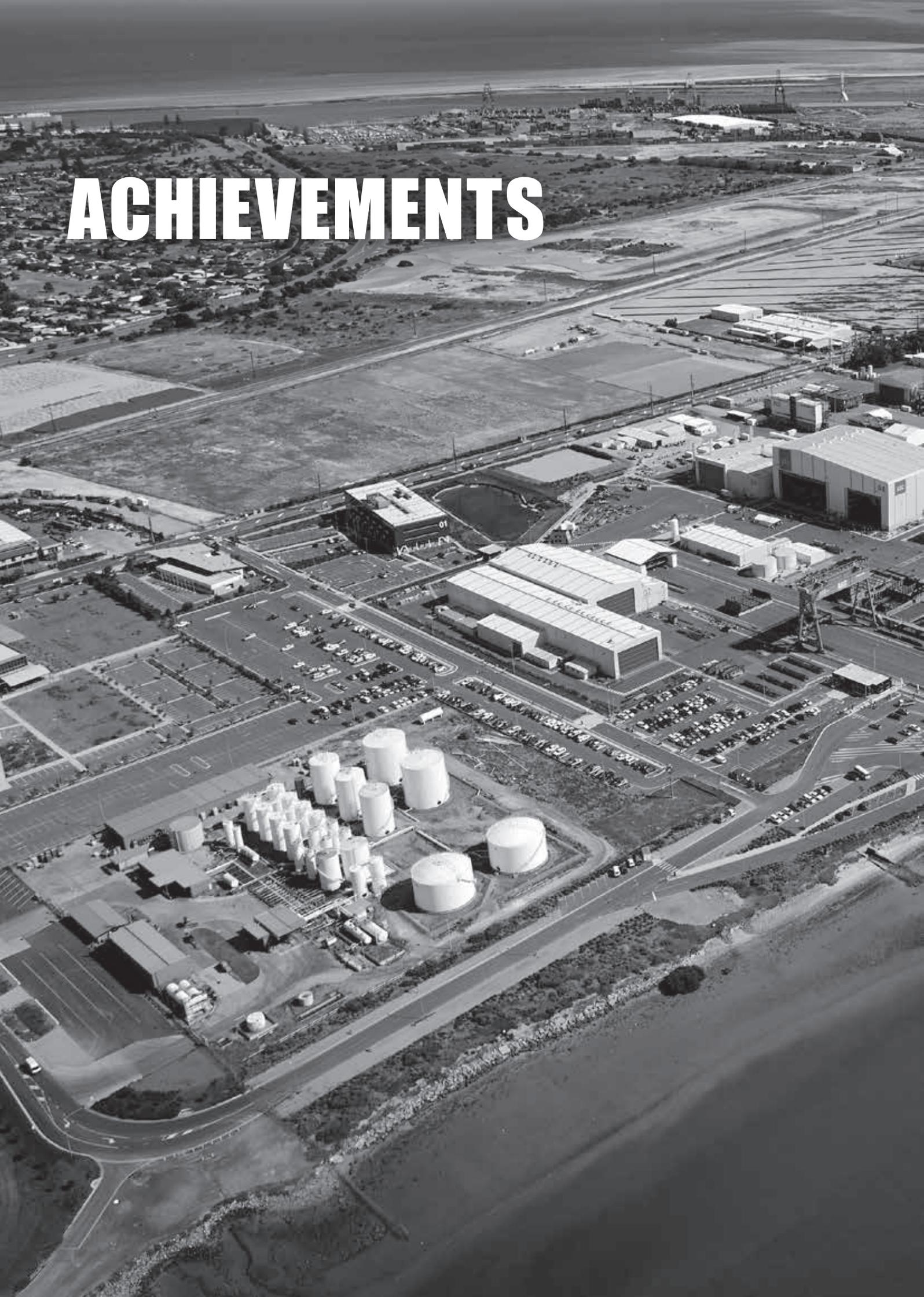




**DEFENCE SA'S MISSION
IS TO GROW THE DEFENCE
INDUSTRY, AND STRENGTHEN
THE DEFENCE FORCE
PRESENCE IN THE STATE.**



ACHIEVEMENTS





EFFECTIVE ADVOCACY



DEFENCE POLICY ADVOCACY

The South Australian Government continued its strong advocacy campaign for increased engagement with local industry and the creation of a long-term sustainable defence industry.

The release of the 2016 Defence White Paper, ten year Integrated Investment Program and Defence Industry Policy Statement in February 2016, provided strong evidence of the Australian Government's commitment to maximum Australian industry involvement in future Defence projects.

The Defence Industry Policy Statement recognised the defence industry as fundamental to defence capability. This fundamental shift in thinking came after a long campaign by the South Australian Government, unions representing shipyard workers, and industry through the Defence Teaming Centre.

Securing major naval shipbuilding projects was a continued focus in 2015-16, with the state drawing on its world-class facilities at Techport Australia, strong defence industry presence and highly-skilled workforce.

This campaign proved a success, with the state awarded a large share of the future shipbuilding programs, with the first one to two Offshore Patrol Vessels, the \$35 billion Future Frigate program and the \$50 billion Future Submarine program all due to occur at Techport Australia.

An important component of the advocacy campaign was the rationale for the Offshore Patrol Vessel program to occur at Techport in order to de-risk the larger, more complex Future Frigate program.

Commencing the Offshore Patrol Vessel program in South Australia in 2018 ensures critical shipbuilding skills and knowledge are retained and the infrastructure remains productive, ready for the frigate program in 2020.

Throughout the year, we used our evidenced-based research to advocate for:

- Potential supply chain opportunities for Whyalla and the Upper Spencer Gulf region through an *Industry Capability Assessment* conducted by Advisian
- Additional Australian Defence Force presence for South Australia through the *Optimal location for the basing of Australian Defence Force (ADF) Unmanned Aerial System (UAS)* report conducted by Nova Systems
- Opportunities for expansion/update of the Cultana Training Area through the commissioning of the *Cultana 2040 – Integrated, Reconfigurable, Adaptable and Scalable* report by Babcock Australia and New Zealand.

South Australia also continued its commitment towards a collaborative approach to defence industry with other state governments. On 16 March 2016 the Premier and Victorian Premier Daniel Andrews signed the *South Australian and Victorian Government Defence Industry Accord* to further enhance collaboration between the two states.

Defence SA hosted the annual Defence Consultative Forum in August 2015. Each year key Defence leaders visit each state and territory for a consultative forum. These meetings are the peak annual engagement between Defence and state jurisdictions, providing an opportunity to discuss priorities and issues and agree how to best work together in the coming year.

In November 2015, Defence SA met with Defence's Strategic Policy Division to discuss changes to the *Defence Trade Controls Act 2012* and how the state can assist the Australian Government in ensuring companies and academia are aware of changes and abide by the requirements of the Act.

The advocacy campaign for maximum Australian industry involvement in naval shipbuilding programs will continue into 2016-17 with plans progressing for the state's attendance at Euronaval in Paris in October 2016; providing an opportunity for local industry to showcase their capabilities to a global audience, while engaging with potential overseas program partners.





WORKFORCE DEVELOPMENT

Defence SA continued to place significant emphasis on a strong pipeline of skills to support defence industry sustainability and growth. South Australia's continuous naval shipbuilding program, due to start with the Offshore Patrol Vessels in 2018, means that the state will need to build on its existing workforce base to ensure it has the right skills mix to meet future demands.

In 2015-16, the agency contributed to several cross-agency initiatives to meet this aim, notably related to the State Government's Science Technology Engineering and Math (STEM) agenda and the Capability Acquisition and Sustainment Group funded Advanced Technology Industry-School Pathways Program.

South Australian firms and the education and training sector continued to focus on improved workforce outcomes, with:

- the Australian Government committing to extending the Pathways program until June 2017
- the rollout of the Defence STEM Honours Scholarship and Internship Programs and ongoing implementation of the state's STEM Skills Strategy
- the Heights School delivering new programs associated with its specialisation as a defence high school
- establishment of new partnerships between global defence companies and South Australian secondary schools.

Defence SA is also coordinating a working group across the three South Australian universities to conduct an audit of defence-related courses currently on offer in the state.

In April 2016, Defence SA hosted US premier shipbuilding company Huntington Ingalls Industries to develop a relationship and explore opportunities in shipbuilding workforce and training.

Defence SA is also working closely with the Department of State Development to progress a workforce strategy for the LAND 400 program.

WOOMERA PROHIBITED AREA DEFENCE-MINING COEXISTENCE

The Woomera Range Complex is located about 500kms north-west of Adelaide, covering 122,000 square kilometres. The range is used extensively by Australian and allied forces, and plays a significant role in Australia's national security. The range will be an important asset for testing advanced weapons systems into the future.

In 2015-16, Defence SA continued to progress activities to ensure Defence consistently engages and effectively coexists with non-Defence users of the Woomera Prohibited Area in accordance with the *Defence Legislation Amendment (Woomera Prohibited Area) Act 2014*.

Defence SA's Chief Executive and the Department of State Development's Deputy Chief Executive are members of the WPA Advisory Board. During the reporting year, the Advisory Board monitored the continuing implementation of the legislative framework introduced in August 2014.



**SOUTH AUSTRALIA HAS A
SKILLED WORKFORCE WITH A
TRACK RECORD OF DELIVERING
THE MOST COMPLEX DEFENCE
PROJECTS EVER UNDERTAKEN
IN AUSTRALIA.**



SUSTAINABLE DEFENCE INDUSTRIES



INVESTMENT ATTRACTION/ INDUSTRY DEVELOPMENT

A strong and vibrant defence industry is a vital part of South Australia's high tech advanced manufacturing future.

The South Australian Government, through Defence SA, is committed to supporting and growing the defence industry by encouraging existing companies to expand their operations and new companies to consider locating in South Australia.

In 2015-16, Defence SA supported companies to open offices or expand their presence in the state including Boeing, RUAG, Babcock, Raytheon, BAE Systems, Rheinmetall and Lockheed Martin.

Throughout 2015-16, a number of international defence companies and delegates visited South Australia to explore investment opportunities in the defence sector. Defence SA supported these visits through itinerary development, business matching and networking opportunities, often in collaboration with the Defence Teaming Centre. These activities were particularly focused around visits from the Future Submarine bidders from Japan, France and Germany, and potential European Offshore Patrol Vessel and Future Frigate design partners.

Defence SA also promoted the state's credentials to the three bidders for LAND 400 phase 2 through a visit to Europe and the United Kingdom in January 2016. After the Future Submarine program's French design partner DCNS was selected in April 2016, Defence SA accompanied the Premier to France to meet with representatives of the French Government and defence industry to discuss potential South Australian industry involvement in the program.

Defence SA continued its focus on defence export opportunities. In 2015-16, Defence SA accompanied the Minister for Defence Industries on a trade mission to India and South East Asia (August 2015), pursued defence industry opportunities in Singapore, Malaysia and Indonesia (February 2016) and attended an official trade mission to Indonesia (May 2016).

As part of the 2016 Defence Industry Policy Statement, a new \$230 million Centre for Defence Industry Capability will be headquartered in Adelaide to connect Defence needs with the innovation and expertise of Australian defence industry, as well as help grow a competitive, sustainable Australian defence industry base.

The new centre will be funded by the Department of Defence.

The Centre for Defence Industry Capability will help build defence capability and promote Australian defence industry competitiveness by providing:

- advice and funding to help Australian defence industry build its skills and capabilities
- development support for small to medium enterprises, including assisting industry to access global supply chain markets
- information about Defence's innovation requirements, to support the development of innovative capabilities by Australian defence industry.

In January 2016 the South Australian Government approved a proposal put forward by Defence SA to assist local shipbuilding company MG Engineering in their bid for a commercial shipbuilding project. The project would have provided 75 jobs and importantly assisted MG Engineering to continue profitable operations until the Future Frigates project commences in 2020. While MG Engineering were unsuccessful in the tender, this activity is an example of Defence SA's work to support the local shipbuilding supply chain to maximise opportunities in the sector.

In April 2015, through a machinery of government change, Defence SA took on a newly created sector; Space Industry and R&D Collaborations, highlighting the South Australian Government's increased focus in attracting opportunities in the growing space sector, with the ultimate goal to become the nation's hub for future space industry development.



A LONG-TERM SUSTAINABLE DEFENCE INDUSTRY IS CRITICAL TO AUSTRALIA'S NATIONAL SECURITY AND SOVEREIGN CAPABILITY.

The new department promotes an active network and enhanced cooperation among the main stakeholders of the space innovation ecosystem, including opportunities for engagement with international partners.

MARITIME

AIR WARFARE DESTROYERS

The Air Warfare Destroyer Alliance reached several major milestones in 2015-16, including the activation of a number of critical combat systems and main engines onboard the first ship *Hobart*, in preparation for sea trials later in 2016.

As at June 2016, *Hobart* is 96% complete with a number of key combat systems activated including the Vertical Launch System, the Australian Tactical Interface, the Aegis Software Operating Environment and the SPY1D-V phased array radar, along with various engines, navigation and platform systems.

The AWD Alliance team, comprised of the Department of Defence, Raytheon Australia and ASC, has invested over the last decade in developing the people, processes, tools and supplier relationships required to integrate and activate such highly technical and complex systems.

Meanwhile, Ship 2, *Brisbane* is 81% complete and is being prepared for launch in the coming year. Ship 3, *Sydney*, is 54% complete, and is progressing well to deliver a significant cost saving over ship 2.

Both *Brisbane* and *Sydney* have benefitted significantly in terms of both performance and cost from the lessons being applied from the first ship, *Hobart*.

COLLINS CLASS SUBMARINES

The Collins Class submarines were built by ASC in Adelaide between 1990 and 2003, and are now maintained and supported at Techport Australia. This support includes full-cycle dockings, as well as design enhancements to ensure the fleet remains at the cutting edge of submarine technology.

In early 2016-17 Collins Class submarine HMAS Farncomb is set to be the first submarine to complete a revised two-year full cycle docking following the Coles Review into submarine sustainment. The successful transition to a new two-year cycle from the previous three-years is a result of an innovative approach from ASC, who implemented approximately 30 change initiatives.

The Government announced the Coles Review, a *Study into the Business of Sustaining Australia's Strategic Collins Class Submarine Capability*, in August 2011, with the final report released in December 2012.

The report made 25 recommendations to restore the Collins Class fleet to an international benchmark by 2016, including reducing the length of full cycle docking from three years to two.

The Collins Class submarine fleet will be upgraded and have its service life extended to ensure capability is maintained until the Future Submarines are introduced into service in the early 2030s.



FUTURE SUBMARINES

In April 2016, the Australian Government announced that Australia's next generation submarines will be built at Techport Australia under a rolling acquisition of 12 vessels.

France's DCNS was announced as the international design partner following a competitive evaluation process involving DCNS, Germany's TKMS and the Government of Japan.

The Future Submarine program has a total program value of \$50 billion and DCNS estimates that it will result in 2900 jobs for South Australia including direct jobs, supply chain opportunities and combat systems integration.

The program represents a critical part of South Australia's high tech advanced manufacturing future and, with the program now secured for the state, Defence SA's attention has turned to strengthening relationships with DCNS to ensure maximum South Australian industry participation in the project.

Defence SA's Chief Executive accompanied the Premier to France following the announcement in late April 2016 to meet with senior DCNS executives and tour DCNS's shipbuilding facility in Cherbourg.

Plans are also well advanced for a business mission to Paris in October 2016 where Defence SA will lead 16 companies from local industry to attend Euronaval, the leading global maritime security, safety and naval defence trade show.

FUTURE FRIGATES

The release of the 2016 Defence White Paper in February 2016 re-confirmed that the Future Frigate fleet will be built in South Australia under a continuous build program of nine vessels.

In April 2016, the Australian Government announced the shortlisted designers who will refine their designs through a competitive evaluation process – BAE Systems; Fincantieri; and Navantia. The frigates will incorporate the Australian-developed CEA Phased-Array Radar.

The new frigates will be larger and more capable than the ANZACs, with a heavy emphasis on anti-submarine warfare. The design and construction phase of the program is valued at approximately \$35 billion with the program expected to create more than 2000 jobs in South Australia.

OFFSHORE PATROL VESSELS

In April 2016, the Australian Government announced that construction of the \$3 billion Offshore Patrol Vessels will commence in Adelaide from 2018, following the completion of the Air Warfare Destroyers. The program will be transferred to Western Australia when the Future Frigate program commences at Techport in 2020.

The decision followed a long campaign from the State Government highlighting the importance of the Offshore Patrol Vessel program in ensuring a continuous shipbuilding industry for South Australia.

Importantly, the program will create over 400 direct jobs ensuring the retention of a skilled workforce following the completion of the Air Warfare Destroyer program. The key activity for Defence SA moving forward is to energise the local supply chain to preserve industrial capability.

LAND

Activity in the land sector in 2015-16 was focused on the LAND 400 program, with Defence SA spearheading the state's campaign to secure the \$50 billion program.

The key message of the campaign is that South Australia is the best location to undertake the LAND 400 program. It has the skilled workforce with a track record of delivering the most complex defence projects ever undertaken in Australia.

LAND 400 is one of the world's largest acquisitions of armoured fighting vehicles. It will procure up to 675 vehicles of three types over 15 years, with sustainment and upgrade occurring over a further 35 years.

SOUTH AUSTRALIA IS THE NATURAL HOME FOR THE LAND 400 PROGRAM.

Phase 2 of the program will deliver up to 225 vehicles to replace the in-service Australian Light Armoured Vehicles (ASLAV). The Australian Government announced the shortlisted bidders for phase 2 in early 2016-17 as Rheinmetall Landsysteme GmbH and BAE Systems Australia.

Defence SA has been working closely with both of the shortlisted bidders over a number of years, as each have an existing presence in South Australia.

South Australia's vision is to create a single, purpose-built Land Integration and Innovation Centre within a larger Land Systems Precinct. The centre will allow for an agile response to contemporary security challenges and provide a place where Defence and industry can increase collaboration and innovation.

The Land Systems Precinct proposed for LAND 400 in South Australia is unique and features co-location with:

- significant army presence including headquarters of Army's 1st Armoured Regiment, which will use the LAND 400 vehicles
- RAAF 'Super Base' Edinburgh featuring the Air Warfare Centre which undertakes integration across air force platforms and data fusion of intelligence and surveillance information from national assets
- the largest Defence Science and Technology Group establishment
- the Centre for Defence Industry capability which is located in Adelaide.

Design works for the new precinct have been completed and stage 1 approved which includes: the establishment of precinct supporting infrastructure; the development facility for the successful LAND 400 phase 2 bidder and the establishment of the industry proving ground.

In May 2016 the South Australian Government approved an offer of support which was subsequently made to each of the phase 2 bidders.

In September 2015 Adelaide won the rights to host Land Forces 2016 from 6-8 September 2016. The event provided further opportunity for the state to showcase its defence industry credentials, and continue to build the case as the natural home of the LAND 400 program. The event also injected more than \$16 million into the state's economy.

AEROSPACE

The 2016 Defence White Paper confirmed a number of projects in the aerospace sector which will have a positive impact for South Australia.

RAAF Base Edinburgh in Adelaide will be the base for the nation's new fleet of P-8A Poseidon maritime surveillance aircraft, as it has been for RAAF's AP-3C Orion maritime patrol fleet during the past four decades.

To replace the Orions, the Australian Government has approved the acquisition of eight P-8As to be introduced in the early 2020s, with seven additional aircraft to be acquired in two tranches to bring the total to 15 aircraft by the late 2020s.

Under Project AIR 7000 Phase 1B, the Australian Government also committed to acquiring seven MQ-4C Triton unmanned aerial vehicles subject to the successful completion of a United States Navy development program. The Tritons will complement the new fleet of P-8As at RAAF Base Edinburgh.

The new Gulfstream G550 aircraft are also likely to be based at RAAF Base Edinburgh, boosting our intelligence surveillance reconnaissance and electronic warfare capabilities.

In 2015-16 Defence SA also continued to support local manufacturers' involvement in the Joint Strike Fighter program. Local companies such as BAE Systems, RUAG Australia, Levett Engineering, Axiom Precision Manufacturing and Mincham Aviation form part of the project's supply chain, manufacturing parts for the Joint Strike Fighter tail fin, engine and other subsystems in South Australia.

In December 2015, local company Levett Engineering received a commendation for service and manufacturing excellence for its work on the Joint Strike Fighter program.

The Australian Aerospace Alliance, based in South Australia, targets global aerospace-related opportunities for local companies, particularly in avionics systems and electronic products, software solutions, autonomous systems, advanced manufacturing and aircraft sustainment.

The Defence White Paper confirmed that the Jindalee Operational Radar Network at Edinburgh will receive a \$1-2 billion enhancement. The network will be enhanced through a spiral development program into the 2030s in order to realise its full potential as a wide area surveillance capability.

SYSTEMS AND CYBER

South Australia's vision is to be seen as the national Defence hub for integrated systems of systems and cyber capabilities required by Navy, Army and Air Force by 2025.

The Australian Government announced a new Cyber Security Strategy on 21 April 2016. The first initiative announced as part of this was the Cyber Security Growth Centre, a virtual network bringing together industry, researchers and government.

Defence SA subsequently commenced work with the Investment Attraction Agency and Chief Scientist to refine the state's Cyber Strategy to ensure it aligns with the new Cyber Centre. A workshop was held on 4 May 2016 involving key stakeholders from industry

and academia to continue to map the way forward and ensure South Australia's strength in cyber security forms a prominent component of the national agenda. Work will continue on this initiative in 2016-17.

In 2015-16 the South Australian Government continued its support of the Data to Decisions Cooperative Research Centre, located at Technology Park Adelaide. The collaborative facility brings together researchers and industry to provide big data capability, which has the potential to make the nation safer and more secure.

SCIENCE AND TECHNOLOGY

Defence SA continued its focus on increased research, development and commercialisation of defence science and technologies through a collaborative university, industry and government approach. Developing future technologies in support of major defence projects is an important component of retaining South Australia's position as the pre-eminent hub for defence.

Defence SA provided pitch training and coordination support to six South Australian university and industry representatives in the Pacific 2015 Innovation Showcase pitch session. 'Pitchfest' is a national event at which innovators present three-minute pitches to potential investors.

In 2015-16 Defence SA also showcased South Australian research capabilities to potential industry partners and investors, including international Prime companies; and provided briefings to university representatives about opportunities arising from future defence projects in South Australia.

SPACE

In June 2016, Defence SA released the 2016 SA *Space Capability Directory*. The directory showcases the current space capability available in South Australia, including the state's unique selling points. The directory is the first of its kind in Australia, detailing organisations, research and educational institutions, government departments and consultancies who are engaged in South Australia's space ecosystem.

Work is also well progressed on the *Space Innovation and Space Strategy (South Australia) Action Plan 2016-2020*, due to be released in early 2016-17. The strategy provides for a three pillared action plan; growing economy through space activity, invigorating South Australia's space innovation ecosystem, and engaging international cooperation with lead countries.

In May 2016 the first South Australian Space Forum was held with more than 100 stakeholders from across South Australia and Australia's space industry in attendance.

The implementation of the Action Plan will enable further international engagement opportunities, including attendance at the International Astronautical Congress in Mexico in September 2016. Arrangements are also progressing for the 2017 International Astronautical Congress which will be held in Adelaide in September 2017, attracting more than 3,000 delegates from around the world.





EXPANDED DEFENCE PRESENCE

CULTANA TRAINING AREA

The Cultana Training Area is critical to Army's ongoing training needs in Australia, and is now the most suitable training area for the year-round manoeuvre of large armoured formations.

With the assistance of Defence SA, the Department of Defence has expanded the Cultana Training Area from 500 square kilometres to 2100 square kilometres.

The expansion will boost the state's economy, with Defence expected to spend up to \$150 million developing the area in the short-term and up to a further \$300 million in the long term plus annual operating expenditure.

The expansion of the training area allowed for 'Exercise Hamel' to occur in South Australia over an eight week period, commencing in June 2016. The exercise brought 8,000 soldiers and 1,500 vehicles to the area, bringing much needed economic activity to the Iron Triangle. Defence SA played a crucial role as the state's point of contact with Defence in preparation for the Hamel exercise.

The Cultana expansion will create opportunities for additional Defence units to be relocated to South Australia and has the potential to attract allied nations to participate in combined exercises, providing economic benefit for regional communities.

In 2015-16, Defence SA commissioned Babcock Australia and New Zealand to produce a report titled, *Cultana 2040 – Integrated, Reconfigurable, Adaptable and Scalable*. In order to enable training that will meet current, emerging and future threat scenarios, Cultana will need to be adapted and renewed to accommodate joint training with new equipment and evolving methods of operation. The final report was delivered in early 2016-17.

The Cultana 2040 report delivers a holistic approach to multiple lines of development which extend beyond the physical boundaries of the Cultana Training Area to maximise the benefits for the Australian Defence Force from anticipated advances over the next 25 years in technology, training systems, asset management, accessibility to the training area and the likely spectrum of threats.

DEFENCE PRESENCE IN SOUTH AUSTRALIA

The presence of the Australian Defence Force in South Australia generates substantial economic activity in the state through employment, expenditure in the local community and support for local industry services. Australian Defence Force presence also encourages Defence and industry to view South Australia favourably when planning defence projects and exercise activity.

In August 2015 the Premier wrote to the Prime Minister to actively seek more Army personnel in South Australia in line with the 2012 *Army Presence in South Australia* report.

THE CULTANA TRAINING AREA IS NOW THE MOST SUITABLE TRAINING AREA FOR THE YEAR-ROUND MANOEUVRE OF LARGE ARMoured FORMATIONS.

In 2015-16 Defence SA commissioned a study by Nova Systems titled *Optimal location for the basing of Australian Defence Force (ADF) Unmanned Aerial System (UAS)*. In order to provide focus to the Defence SA campaign to attract Australian Defence Force presence and activity in South Australia, the study aims to determine the optimum place to locate the ADF UAS capabilities. The study also sought to identify specific actions that could be undertaken by the state to influence their location.

The expanded range will provide vital training for Army's 1st Brigade, in particular the 1st Armoured Regiment and the 7th Battalion Royal Australian Regiment based at RAAF Base Edinburgh.

WOOMERA RANGE COMPLEX

In June 2016, Raytheon Australia was awarded a new \$297 million contract for the development of the Test Range System within the Woomera Prohibited Area of South Australia. Raytheon will undertake the work in Adelaide in partnership with the Australian Defence Force, with the project aiming to deliver the most modern and advanced military test range.

Raytheon currently employs 370 people in Adelaide and with the new contract, expect to nearly double that figure over the next three years.





PRODUCTIVE INFRASTRUCTURE

TECHPORT AUSTRALIA COMMON USER FACILITY

Techport Australia is the nation's pre-eminent naval shipbuilding precinct. It is home to two major, long-term defence projects in the Air Warfare Destroyer (AWD) program and Collins class submarine sustainment as well as being the confirmed build location for Australia's next generation warships and submarines.

The Common User Facility (CUF) at Techport is owned and operated by the Government of South Australia through Defence SA. The CUF is a world-class ship building and repair facility with the largest capacity shiplift in the southern hemisphere.

In March 2016 the South Australian Government approved a multi-million dollar upgrade of the Techport CUF wharf. This upgrade is being funded by the AWD program and will result in a 22 metre extension of the wharf, permitting two Air Warfare Destroyers to be berthed alongside concurrently. The Australian Government requested for Defence SA to undertake the proposed construction works of this strategic asset. Works commenced in early 2016-17.

In 2015-16, CUF personnel assisted with the five remaining AWD block deliveries with the final delivery occurring in May 2016.

Other than the AWD Alliance, Techport Australia also supports commercial users, with Defence SA facilitating six commercial opportunities in 2015-16.

In 2016-17 a key priority for Defence SA will be working in partnership with the Australian Government to ensure infrastructure at Techport is ready to complete future naval shipbuilding programs, Offshore Patrol Vessels, Future Frigates and Future Submarines. In early 2016-17, the State Government committed \$1 million for further development planning of Techport to help fast-track infrastructure projects and achieve maximum local economic benefit.

MARKETING AND PROMOTION

The Techport Australia marketing campaign continued throughout the first half of 2015-16, with the advertising budget reallocated to other areas of the business from January – June 2016.

Defence SA continued to update the related website and collateral in line with naval shipbuilding announcements; undertook aerial photography; and used a range of flythrough and time-lapse presentations to showcase onsite activity. Defence SA also updated the Techport Australia billboard on Victoria Road to reflect confirmation it will be home to Australia's next generation submarines and warships.

Strong public relations outcomes were generated throughout 2015-16, with a number of high profile visits to the site, particularly in the lead up to the Future Submarine announcement in April 2016.

EXEMPLAR GOVERNMENT AGENCY

WORK HEALTH AND SAFETY (WHS)

Defence SA has continued to maintain a proactive approach to the management of work health and safety, ensuring these values are integrated into the core business functions and processes of the agency.

During 2015-16 Lloyds Register Quality Assurance undertook two surveillance visits in relation to the Techport Australia Common User Facility (CUF) AS/NZS 4801:2001 accreditation. The resulting report noted that the CUF has 'Excellent systems in place' and no instances of non-conformance were identified.

In addition, a review of the hazard management system was undertaken focusing on improving the hazard reporting process and conducting an awareness program. As a result there has been in excess of a 200 per cent increase in the identification and reporting of hazards over the previous year.

Defence SA continues to undertake an extensive range of activities to support our WHS commitment, including safety moments and staff meetings, daily toolbox meetings, monthly safety reviews for CUF technical staff, monthly safety and wellbeing messages, facilitation of annual voluntary flu vaccinations, an

annual WHS survey and provision of an employee assistance program. In 2015-16 Defence SA also implemented a quarterly safety inspection program at the CUF, undertaken by the Chief Executive and Defence SA Advisory Board member Steve Ludlam.

In 2015-16, Defence SA had 0 medically treated injuries and 1 lost time injury.

STAFF DEVELOPMENT AND TRAINING

In addition to individual staff training and specific development activities, Defence SA conducted a series of staff briefings on topics relevant to daily operations including;

- Independent Commissioner Against Corruption briefing
- *Freedom of Information Act 1991* and agency requirements
- Travel security briefing
- Bike SA 'Be Safe Be Seen' presentation
- Project manager briefings on key Defence acquisition programs
- Salary sacrifice employee benefit opportunities
- Duress incident training and simulation
- Organisational culture and change program
- Manual handling training.



FINANCIAL OVERVIEW

As a South Australian Government agency with a strategic economic development focus, Defence SA's activities are predominantly funded via appropriation. Some external revenue is generated via the Techport Australia Common User Facility through services and facilities delivered to the Australian Government and third party users. Defence SA continues to deliver on savings initiatives implemented via the budget process and in 2015-16 the agency's net operating cost was \$552,000 below the approved budget.

MARKETING AND COMMUNICATIONS

MARKETING CAMPAIGN

The South Australia – the Defence State marketing campaign continued in 2015-16, in support of Defence SA's advocacy and investment attraction activities.

Defence SA placed 12 advertisements in specialist publications and lift-outs during the year. Note that advertising was suspended from January – June 2016 as funds were directed to other areas of the business.

The Defence State positioning and branding was reinforced through the sponsorship of seven events and programs by Defence SA on behalf of the state.

VIP EVENTS AND SPEAKING ENGAGEMENTS

To promote South Australia – the Defence State, Defence SA facilitated or participated in more than 20 targeted minor events in 2015-16, hosting over 600 guests including VIP site tours, external speaking

engagements, parliamentary meetings, boardroom lunches and themed dinners.

Engagement with bidders for the Future Submarine program was a focus in 2015-16, with the state hosting a number of events for key personnel from Germany, France and Japan; providing an opportunity to showcase the state's infrastructure and defence industry capabilities.

Defence SA also hosted a series of boardroom lunches about the 2016 Defence White Paper and what it means for the South Australian defence industry and wider business community.

MAJOR EVENTS

Major events provide a unique opportunity for South Australia to showcase its defence industry credentials to a wide national and international audience, including key Defence personnel and decision-makers.

In October 2015, Defence SA led a contingent of 18 South Australian defence industry companies to PACIFIC 2015, reinforcing the state's position as the national centre of naval shipbuilding.

In 2015-16 significant planning occurred in preparation for the Land Forces 2016 event, held on 6-8 September 2016. The event saw South Australia's Defence State stand host 19 South Australian companies with Defence SA also hosting a number of events and meetings with key industry players.

Overleaf: Welding at ASC South for the Air Warfare Destroyer program.

OVERSEAS MISSIONS

Regular and ongoing international engagement is a critical component of Defence SA's strategy to build relationships with key defence prime manufacturers, the majority of which are headquartered overseas. Defence SA is also heavily involved in promoting and supporting the local defence industry to international partners in order to generate opportunities for them in the global supply chain.

In 2015-16, Defence SA, our Minister and board chairman participated in seven overseas defence-specific business missions.



APPENDICES





HUMAN RESOURCES MANAGEMENT

EMPLOYMENT AND WORKFORCE DIVERSITY

Number of employees by age bracket and gender

Age bracket	Male	Female	Other	Total	% of total	2014 Workforce benchmark* %
15-19	0	0	0	0	0	5.5
20-24	0	1	0	1	3.23	9.7
25-29	1	0	0	1	3.23	11.2
30-34	1	2	0	3	9.68	10.7
35-39	1	4	0	5	16.13	9.6
40-44	1	3	0	4	12.9	11.4
45-49	5	0	0	5	16.13	11.1
50-54	1	1	0	2	6.45	11.4
55-59	7	0	0	7	22.58	9.1
60-64	1	1	0	2	6.45	6.7
65+	0	1	0	1	3.23	3.6
Total	18	13	0	31	100.0	100.0

*Source: Australian Bureau of Statistics Australian Demographic Statistics, 6291.0.55.001 Labour Force Status (ST LM8) by sex, age, state, marital status – employed – total from Feb78 Supertable, South Australia at November 2013.

Total number of employees with disabilities (according to Commonwealth DDA definition)

Male	Female	Other	Total	% of agency
1	0	0	1	3.1

Types of disability (where specified)

Disability	Male	Female	Other	Total	% Agency
Physical	0	0	0	0	0
Intellectual	0	0	0	0	0
Sensory (requiring workplace adaptation)	1	0	0	1	3.1
Psychological/Psychiatric	0	0	0	0	0

Executives by gender, classification and status

Classification	Ongoing			Term tenured			Term untenured			Other (casual)			Total					
	M	F	X	M	F	X	M	F	X	M	F	X	M	%	F	%	X	%
Exec0A	0	0	0	0	0	0	1	0	0	0	0	0	1	12.5	0	0	0	0
SAES1	0	0	0	0	0	0	6	1	0	0	0	0	6	75	1	0	0	0
Total	0	0	0	0	0	0	7	1	0	0	0	0	7	87.5	1	12.5	0	0

LEAVE MANAGEMENT

Average days leave per full-time equivalent employee

Leave type	2012-13	2013-14	2014-15	2015-16
Sick leave	3.49	2.81	6.27	5.34
Family carer's leave	0.96	1.18	1.24	0.80
Special leave with pay	0.11	0.62	0.16	2.05

PERFORMANCE MANAGEMENT

Documented review of individual performance management

Employees with:	% total workforce
A review within the past 12 months	100
A review older than 12 months	0
No review	0

LEADERSHIP AND MANAGEMENT DEVELOPMENT

Leadership and management training expenditure

Training and development	Total cost \$	% of total salary expenditure
Total training and development expenditure	41,276	1.12%
Total leadership and management development expenditure	15,824	0.43%

EMPLOYMENT OPPORTUNITY PROGRAMS

Nil.

WORK HEALTH AND SAFETY (WHS) AND INJURY MANAGEMENT

WHS prosecutions, notices and corrective action taken

Number of notifiable incidents pursuant to WHS Act Part 3	Nil
Number of notices served pursuant to WHS Act Section 90, Section 191 and Section 195 (provisional improvement, improvement and prohibition notices)	Nil
Number of prosecutions pursuant to WHS Act Part 2 Division 5	Nil
Number of enforceable undertakings pursuant to WHS Act Part 11	Nil

Work health and safety performance (Building Safety Excellence Targets)

Total new workplace injury claims	Nil
Significant injuries – where lost time exceeds one working week (expressed as frequency rate per 1000 FTE)	N/A
Significant musculoskeletal injuries – where lost time exceeds one working week (expressed as frequency rate per 1000 FTE)	N/A
Significant psychological injuries – where lost time exceeds one working week (expressed as frequency rate per 1000 FTE)	N/A

Agency gross workers compensation expenditure for 2015-16 compared with 2014-15

Expenditure	2015-16 (\$)	2014-15 (\$)	Variation (\$) + (-)	% change + (-)
Income support	3,556	5,233	(1,667)	-32%
Hospital	-	714	(714)	-100%
Medical	954	1,865	(911)	-49%
Rehabilitation/return to work	-	-	-	-
Investigations	-	200	(200)	-100%
Legal expenses	-	-	-	-
Lump sum	-	-	-	-
Travel	-	-	-	-
Other	-	-	-	-
Total claim expenditure	4,510	8,012	(3,502)	-44%

¹ Before third party recovery

² Information available from the Self Insurance Management System (SIMS)

FINANCIAL PERFORMANCE

FINANCIAL STATEMENTS

See page 49 for audited general purpose financial statements.

CONSULTANTS

Use of consultants

Consultant	Purpose of consultancy	Number	Total (\$)
Value below \$10 000			
Various	Various		
<i>Subtotal</i>		3	12,890
Value \$10 000 and above			
Systems Knowledge Concepts	Socioeconomic study of the impact of Army presence in South Australia	1	12,800
Innovation Performance Australia	Production of discussion paper for a Defence Research Institute	1	50,000
Ernst & Young	Economic analysis and assessment of models for a possible Defence Research Institute	1	60,000
<i>Subtotal</i>		3	122,800
Total		6	135,690

FRAUD DETECTION AND CONTROL

There have been no instances of fraud detected in the agency during 2015-16.

OVERSEAS TRAVEL

Information about overseas travel can be found on the Defence SA website: www.defencesa.com

CONTRACTUAL ARRANGEMENTS

Information on contractual arrangements can be found on the SA Tenders and Contracts website: www.tenders.sa.gov.au

OTHER MANDATORY REPORTING ITEMS

REPORTING AGAINST THE CARERS RECOGNITION ACT 2005

Nil.

DISABILITY ACCESS AND INCLUSION PLANS

As a small economic development agency, Defence SA is not responsible for the provision of services to the South Australian public. Defence SA recognises the rights of people with disabilities and supports the principle that people with disabilities have the same opportunities as other community members to access and participate in all facets of community life.

Defence SA complies with the requirements of the *Disability Discrimination Act 1992* insofar as the Act relates to the functions of the agency. Defence SA confirms its commitment to the key priorities of the State Government's *Disability Action and Inclusion Plan 2014-18*.

Defence SA's offices are located within a modern Adelaide CBD building with high levels of accessibility. Defence SA's primary public interface is through the agency's website. In line with the South Australian Government commitment for greater accessibility to public services and information, Defence SA is progressively reviewing the format and functionality of the website in accordance with website accessibility guidelines.

URBAN DESIGN CHARTER

South Australia's Urban Design Charter aims to embed the principles of good design into government processes and to record the State Government's commitment to good urban design. The principles of the charter are reflected in the planning and design of Techport Australia and its environs.

Defence SA established the *Techport Australia Guidelines* to create a coherent vision for the built form and landscape of Techport Australia, and ensure that the precinct incorporates best practice design, planning and sustainability principles. The Urban Design section of the guidelines ensures that a high standard of construction and presentation can be achieved, clearly articulating the design principles; while the Ecologically Sustainable Development section outlines current environmental policies, plans and statements as well as detailing the fundamental design elements for ecologically sustainable development, encouraging such development in the precinct.

Any future development at Techport Australia will be undertaken in this manner, consistent with the Urban Design Charter.

FREEDOM OF INFORMATION STATEMENT

A freedom of information statement is on the Defence SA website: www.defencesa.com

WHISTLEBLOWERS PROTECTION ACT 1993

Defence SA has designated responsible officers for the purposes of the *Whistleblowers Protection Act 1993* (WPA) pursuant to Section 7 of the *Public Sector Act 2009*. There have been no instances of disclosure of public interest information to a responsible officer of Defence SA under the WPA.

PUBLIC COMPLAINTS

Defence SA has not received any public complaints for the year 2015-16.

SUSTAINABILITY REPORTING

Defence SA continues to promote and implement sustainability practices in line with various government initiatives. In doing so, Defence SA aims to ensure that its business activities and operations are environmentally, socially and economically sustainable.

Overleaf: Construction of Australia's Future Submarines will occur at Techport Australia with the first submarines likely to begin entering service in the early 2030s. (Photo credit: DCNS)

FINANCIAL STATEMENTS



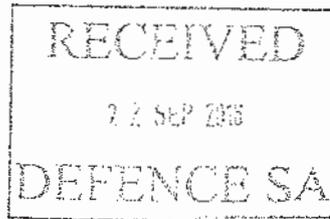




Our ref: A16/451

20 September 2016

Mr A Keough
Chief Executive
Defence SA
PO Box 3643
Rundle Mall
ADELAIDE SA 5000



Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

Dear Mr Keough

Audit of Defence SA for the year to 30 June 2016

We have completed the audit of your accounts for the year ended 30 June 2016. Key outcomes from the audit are the:

- 1** Independent Auditor's Report on your agency's financial report
- 2** opinion on your financial controls
- 3** audit management letter recommending you address identified weaknesses.

1 Independent Auditor's Report

We are returning the financial statements for Defence SA, with the Independent Auditor's Report. This report is unmodified.

My annual report to Parliament indicates that we have issued an unmodified Independent Auditor's Report on your financial statements.

2 Opinion on financial controls

In my opinion, the controls exercised by Defence SA in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of Defence SA have been conducted properly and in accordance with law.

3 Audit management letter

During the year, we sent the agency an audit management letter detailing the weaknesses we noted and improvements we considered you need to make.

We have received responses to these matters and we will follow these up in the 2016-17 audit.

For official use only

What the audit covered

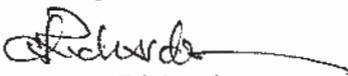
Our audit covered the principal areas of the agency's financial operations and included test reviews of systems, processes, internal controls and financial transactions. Some notable areas were:

- payroll
- accounts payable
- cash
- general ledger
- revenue
- fixed assets.

Our audits meet statutory audit responsibilities under the *Public Finance and Audit Act 1987* and the Australian Auditing Standards.

I would like to thank the staff and management of your agency for their assistance during this year's audit.

Yours sincerely



Andrew Richardson

Auditor-General

enc



Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
DX 56208
Victoria Square
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

**To the Chief Executive
Defence SA**

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* I have audited the accompanying financial report of Defence SA for the financial year ended 30 June 2016. The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2016
- a Statement of Financial Position as at 30 June 2016
- a Statement of Changes in Equity for the year ended 30 June 2016
- a Statement of Cash Flows for the year ended 30 June 2016
- Disaggregated Disclosures - Expenses and Income for the year ended 30 June 2016
- Disaggregated Disclosures - Assets and Liabilities as at 30 June 2016
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Chief Executive and the Executive Director, Corporate Services.

The Chief Executive's responsibility for the financial report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as the Chief Executive determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances.

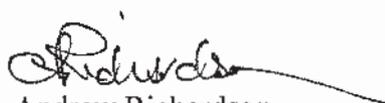
An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chief Executive, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My report refers only to the financial statements described above and does not provide assurance over the integrity of publication of the financial report on Defence SA's website nor does it provide an opinion on any other information which may have been hyperlinked to/from these statements.

Opinion

In my opinion, the financial report gives a true and fair view of the financial position of Defence SA as at 30 June 2016, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.



Andrew Richardson

Auditor-General

20 September 2016

CERTIFICATION OF THE FINANCIAL STATEMENTS

We certify that the attached general purpose financial statements for Defence SA:

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of Defence SA; and
- present a true and fair view of the financial position of Defence SA at 30 June 2016 and the results of its operation and cash flows for the financial year.

We certify that the internal controls employed by Defence SA for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.



Andy Keough
Chief Executive

September 2016



Robert Barnett
General Manager, Corporate Services

September 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Note no.	30 June 2016 \$' 000	30 June 2015 \$' 000
Expenses			
Employee benefits expenses	5	5,098	5,008
Supplies and services	6	7,696	7,441
Depreciation and amortisation	7	7,458	7,374
Net loss from disposal of non-current assets	8	-	43
Grants and subsidies	9	1,871	1,553
Other expenses	10	131	97
Total expenses		22,254	21,516
Income			
Revenues from fees and charges	12	4,696	3,998
Grants	13	204	7
Techport Australia recoveries	14	120	163
Other income	15	361	329
Total income		5,381	4,497
Net cost of providing services		(16,873)	(17,019)
Revenues from/payments to SA Government			
Revenues from SA Government	16	18,644	16,474
Payments to SA Government	16	-	(2,174)
Net result		1,771	(2,719)
Total comprehensive result		1,771	(2,719)

The net result and total comprehensive result are attributable to the SA Government as owner.
The above statement should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Note no.	30 June 2016 \$' 000	30 June 2015 \$' 000
Current assets			
Cash	17	27,586	18,395
Receivables	18	746	999
Total current assets		28,332	19,394
Non-current assets			
Land	19, 20	22,370	22,370
Buildings and improvements, plant and equipment	19, 20	6,439	6,154
Harbour and port facilities	19, 20	211,288	216,162
Capital works in progress	21	235	2,730
Total non-current assets		240,332	247,416
Total assets		268,664	266,810
Current liabilities			
Payables	22	1,448	1,359
Employee benefits	23	482	523
Provisions	24	10	6
Other liabilities	25	-	20
Total current liabilities		1,940	1,908
Non-current liabilities			
Payables	22	24	20
Employee benefits	23	400	359
Provisions	24	20	14
Total non-current liabilities		444	393
Total liabilities		2,384	2,301
Net assets		266,280	264,509
Equity			
Contributed capital		101,823	101,823
Retained earnings		164,457	162,686
Total equity		266,280	264,509

The total equity is attributable to the SA Government as owner.

Unrecognised contractual commitments 26

Contingent assets and liabilities 27

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Contributed capital	Retained earnings	Total equity
Note no.	\$' 000	\$' 000	\$' 000
Balance at 30 June 2014	101,823	165,405	267,228
Net result for 2014-15	-	(2,719)	(2,719)
Total comprehensive result for 2014-15	-	(2,719)	(2,719)
Balance at 30 June 2015	101,823	162,686	264,509
Net result for 2015-16	-	1,771	1,771
Total comprehensive result for 2015-16	-	1,771	1,771
Balance at 30 June 2016	101,823	164,457	266,280

All changes in equity are attributable to the SA Government as owner.
The above statement should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Note no.	30 June 2016 \$' 000	30 June 2015 \$' 000
Cash flows from operating activities			
Cash outflows			
Employee benefits payments		(4,980)	(4,929)
Payments for supplies and services		(8,473)	(8,204)
Payments of grants and subsidies		(2,123)	(1,970)
Payments for paid parental leave scheme		(12)	(3)
Cash used in operations		(15,588)	(15,106)
Cash inflows			
Grants		142	74
Fees and charges		5,376	3,996
Techport Australia recoveries		167	144
GST recovered from the ATO		548	596
Receipts for paid parental leave scheme		12	1
Other receipts		398	316
Cash generated from operations		6,643	5,127
Cash flows from SA Government			
Receipts from SA Government		18,644	16,474
Payments to SA Government		-	(2,174)
Cash generated from SA Government		18,644	14,300
Net cash provided by operating activities	30	9,699	4,321
Cash flows from investing activities			
Cash outflows			
Payments for capital work in progress		(508)	(2,518)
Cash used in investing activities		(508)	(2,518)
Net cash used in investing activities		(508)	(2,518)
Net increase in cash		9,191	1,803
Cash at the beginning of the period		18,395	16,592
Cash at the end of the period	17, 30	27,586	18,395

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

DISAGGREGATED DISCLOSURES - EXPENSES AND INCOME FOR THE YEAR ENDED 30 JUNE 2016

Refer Note 4 for detailed activity descriptions	Defence Industry Development		Techport Australia		Total Defence SA Activities	
	2016 \$' 000	2015 \$' 000	2016 \$' 000	2015 \$' 000	2016 \$' 000	2015 \$' 000
Expenses						
Employee benefits expenses	3,580	3,591	1,518	1,417	5,098	5,008
Supplies and services	3,496	3,357	4,200	4,084	7,696	7,441
Depreciation and amortisation	111	121	7,347	7,253	7,458	7,374
Net loss from disposal of non-current assets	-	-	-	43	-	43
Grants and subsidies	1,871	1,553	-	-	1,871	1,553
Other expenses	94	62	37	35	131	97
Total expenses	9,152	8,684	13,102	12,832	22,254	21,516
Income						
Revenues from fees and charges	100	54	4,596	3,944	4,696	3,998
Grants	-	-	204	7	204	7
Techport Australia recoveries	-	-	120	163	120	163
Other income	361	329	-	-	361	329
Total income	461	383	4,920	4,114	5,381	4,497
Net cost of providing services	(8,691)	(8,301)	(8,182)	(8,718)	(16,873)	(17,019)
Revenues from/payments to SA Government						
Revenues from SA Government ⁽¹⁾	18,644	16,474	-	-	18,644	16,474
Payments to SA Government	-	(2,174)	-	-	-	(2,174)
Net result	9,953	5,999	(8,182)	(8,718)	1,771	(2,719)

⁽¹⁾ Revenues from SA Government are provided to fund the operating activities of Defence SA and have not been allocated between activities.

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

DISAGGREGATED DISCLOSURES - ASSETS AND LIABILITIES AS AT 30 JUNE 2016

Refer Note 4 for detailed activity descriptions

	Defence Industry Development		Techport Australia		Total Defence SA Activities	
	2016 \$' 000	2015 \$' 000	2016 \$' 000	2015 \$' 000	2016 \$' 000	2015 \$' 000
Assets						
Cash	27,586	18,395	-	-	27,586	18,395
Receivables	251	385	495	614	746	999
Land	-	-	22,370	22,370	22,370	22,370
Buildings and improvements, plant and equipment	3	114	6,436	6,040	6,439	6,154
Harbour and port facilities	-	-	211,288	216,162	211,288	216,162
Capital works in progress	-	-	235	2,730	235	2,730
Total assets	27,840	18,894	240,824	247,916	268,664	266,810
Liabilities						
Payables	1,033	647	439	732	1,472	1,379
Employee benefits	618	636	264	246	882	882
Provisions	30	20	-	-	30	20
Other liabilities	-	20	-	-	-	20
Total liabilities	1,681	1,323	703	978	2,384	2,301
Net assets	26,159	17,571	240,121	246,938	266,280	264,509

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

NOTE INDEX

	Note
Objectives of Defence SA	Note 1
Summary of significant accounting policies	Note 2
New and revised accounting standards and policies	Note 3
Activities of Defence SA	Note 4
Expense notes	
Employee benefits expenses	Note 5
Remuneration of employees	Note 5
Supplies and services	Note 6
Depreciation and amortisation	Note 7
Net loss from disposal of non-current assets	Note 8
Grants and subsidies	Note 9
Other expenses	Note 10
Auditor's remuneration	Note 11
Payments to SA Government	Note 16
Income notes	
Revenues from fees and charges	Note 12
Grants	Note 13
Techport Australia recoveries	Note 14
Other income	Note 15
Revenues from SA Government	Note 16
Asset notes	
Cash	Note 17
Receivables	Note 18
Property, plant and equipment	Note 19
Fair value measurement	Note 20
Capital works in progress	Note 21
Liability notes	
Payables	Note 22
Employee benefits	Note 23
Provisions	Note 24
Other liabilities	Note 25
Other notes	
Unrecognised contractual commitments	Note 26
Contingent assets and contingent liabilities	Note 27
Transferred functions	Note 28
Remuneration of Advisory Board and committee members and related party disclosure	Note 29
Cash flow reconciliation	Note 30
Transactions with SA Government	Note 31
Budgetary reporting and explanations of major variances	Note 32
Financial risk management/financial instruments	Note 33
Events after the reporting period	Note 34

NOTES

Note 1 Objectives of Defence SA

Defence SA is South Australia's lead government agency for all defence related matters. It facilitates the development and growth of Defence (Department of Defence and Australian Defence Forces) presence and defence industries in South Australia on a competitive and sustainable basis in accordance with *South Australia's Strategic Plan*.

The agency delivers the Government of South Australia's commitments to the Air Warfare Destroyer project, as well as working towards capturing further Defence and defence industry work in the four defence sectors - maritime, land, aerospace and systems.

Defence SA is also striving to ensure the right climate exists for defence industry growth, and is working with several partners to deliver results for industry in the areas of workforce development and innovation.

Note 2 Summary of significant accounting policies

a) Statement of compliance

These financial statements have been prepared in compliance with section 23 of the *Public Finance and Audit Act 1987*.

The financial statements are general purpose financial statements. The accounts have been prepared in accordance with relevant Australian Accounting Standards and comply with Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the *Public Finance and Audit Act 1987*.

Defence SA has applied Australian Accounting Standards that are applicable to not-for-profit entities, as Defence SA is a not-for-profit entity.

Except for AASB 2015-7 which Defence SA has early adopted, Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by Defence SA for the reporting period ending 30 June 2016 (refer note 3).

b) Basis of preparation

The preparation of the financial statements requires:

- the use of certain accounting estimates and requires management to exercise its judgement in the process of applying Defence SA's accounting policies. The areas involving a higher degree of judgement or where assumptions and estimates are significant to the financial statements are outlined in the applicable notes;
- accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported and;
- compliance with Accounting Policy Statements issued pursuant to section 41 of the *Public Finance and Audit Act 1987*. In the interest of public accountability and transparency the Accounting Policy Statements require the following note disclosures, which have been included in these financial statements:
 - a) revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at reporting date, classified according to their nature;
 - b) expenses incurred as a result of engaging consultants;
 - c) employees whose normal remuneration is equal to or greater than the base executive remuneration level (within \$10 000 bandwidths) and the aggregate of the remuneration paid or payable or otherwise made available, directly or indirectly by the entity to those employees; and
 - d) board/committee member and remuneration information, where a board/committee member is entitled to receive income from membership other than a direct out-of-pocket reimbursement.

NOTES

Note 2 b) Basis of preparation (continued)

Defence SA's Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets that were valued in accordance with the valuation policy applicable.

The Statement of Cash Flows has been prepared on a cash basis.

The financial statements have been prepared based on a 12 month period and presented in Australian currency.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2016 and the comparative information presented.

c) Reporting entity

Defence SA is a government agency of the State of South Australia, established pursuant to the *Public Sector Act 2009*. Defence SA is an administrative unit acting on behalf of the Crown.

Defence SA does not control any other entity and has no interests in unconsolidated structured entities.

Defence SA has not entered into any contractual arrangements which involve the sharing of control or significant influence over another entity.

d) Transferred functions

To improve the delivery of the Government's economic priorities and better align Ministerial responsibilities, Cabinet approved the transfer of aerospace and space resources from the Department of State Development to Defence SA. The Cabinet decision of 25 January 2016 came into effect from 4 April 2016 (refer note 28).

e) Budgeted amounts

Budget information refers to the amounts presented to Parliament in the original budgeted financial statements in respect of the reporting period (2015-16 Budget Paper 4). Budgeted information has been included for the Statement of Comprehensive Income and for Investment Expenditure. Budget information has not been included for the Statement of Financial Position or Statement of Cash Flows as the information in these statements are not budgeted for on the same basis and/or determined in a different manner to financial statement information. These original budgeted amounts have been presented and classified on a basis that is consistent with the line items in the financial statements. These amounts have not been adjusted to reflect revised budgets or administrative restructures/machinery of government changes. The budget process is not subject to audit.

f) Comparative information

The presentation and classification of items in the financial statements are consistent with prior periods except where specific accounting standards and/or accounting policy statements have required a change.

Where presentation or classification of items in the financial statements have been amended, comparative figures have been adjusted to conform to changes in presentation or classification in these financial statements unless impracticable.

g) Rounding

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

NOTES

Note 2 h) Taxation

Defence SA is not subject to income tax. Defence SA is liable for payroll tax, fringe benefits tax, goods and services tax (GST) and the emergency services levy.

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

The amount of GST recoverable from the ATO is included as a part of receivables and the amount payable to the ATO is included as a part of payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from the investing and financing activities, which is recoverable from, or payable to the ATO is classified as part of operating cash flows.

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the ATO. If GST is not payable to, or recoverable from the ATO, the commitments and contingencies are disclosed on a gross basis.

i) Events after the reporting period

Adjustments are made to amounts recognised in the financial statements where an event occurs after 30 June and before the date the financial statements are authorised for issue, where the event provides information about conditions that existed at 30 June.

Note disclosure is made about events between 30 June and the date the financial statements are authorised for issue where the events relate to a condition which arose after 30 June and which may have a material impact on the results of subsequent years.

j) Income

Income is recognised to the extent that it is probable that the flow of economic benefits to Defence SA will occur and can be reliably measured.

Income has been aggregated according to its nature and has not been offset unless required or permitted by a specific accounting standard or where offsetting reflects the substance of the transaction or other event.

The following are specific recognition criteria:

Revenues from fees and charges

Revenues from fees and charges are derived from the provision of goods and services to other SA Government agencies and to external entities. This revenue is recognised upon delivery of the service to the clients or by reference to the stage of completion.

Revenues from SA Government

Appropriations to fund activities are recognised as revenues when Defence SA obtains control over the funding. Control over appropriations is normally obtained upon receipt.

Where money has been appropriated in the form of an equity contribution, the Treasurer has acquired a financial interest in the net assets of Defence SA and the appropriation is recorded as contributed capital.

Other income

Other income consists of recoveries of costs for work performed on behalf of external entities and other government entities.

NOTES

Note 2 k) Expenses

Expenses are recognised to the extent that it is probable that the flow of economic benefits from Defence SA will occur and can be reliably measured.

Expenses have been aggregated according to their nature and have not been offset unless required or permitted by a specific accounting standard or where offsetting reflects the substance of the transaction or other event.

The following are specific recognition criteria:

Employee benefits expenses

Employee benefits expenses include all costs related to employment including wages and salaries, non-monetary benefits and leave entitlements. These are recognised when incurred.

Superannuation

The amount charged to the Statement of Comprehensive Income represents the contributions made by Defence SA to State Government and externally managed superannuation schemes in respect of services of current Defence SA staff.

Depreciation and amortisation

All non-current assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is applied to leasehold improvements. Depreciation is applied to other tangible assets. Defence SA has no recognised intangible assets.

Assets' residual values, useful lives and depreciation/amortisation methods are reviewed and adjusted if appropriate, on an annual basis.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate, which is a change in accounting estimate.

The value of leasehold improvements is amortised over the estimated useful life of each improvement, or the unexpired period of the relevant lease, whichever is shorter.

Land is not depreciated.

Depreciation/Amortisation is calculated on a straight line basis over the estimated useful life of the classes of assets as follows:

Class of asset	Useful life (years)
Harbour and port facilities	5-50
Buildings and improvements	6-40
Leasehold improvements	Life of lease
Plant and equipment	4-25

Net gain/(loss) from disposal of non-current assets

The net gain or loss from the disposal of non-current assets is recognised when control of the asset has passed to the buyer or the asset is derecognised and is determined by comparing proceeds with the carrying amount. When revalued assets are sold, the revaluation surplus is transferred to retained earnings.

Grants and subsidies

For contributions payable, the contribution will be recognised as a liability and expense when Defence SA has a present obligation to pay the contribution and the expense recognition criteria are met. All contributions paid by Defence SA have been unconditional.

Payments to SA Government

Payments to the SA Government consist of the return of surplus cash pursuant to the cash alignment policy. These funds are paid directly to the Consolidated Account.

NOTES

Note 2 l) Current and non-current classification

Assets and liabilities are characterised as either current or non-current in nature.

Defence SA has established a clearly identifiable operating cycle of 12 months. Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle, even when they are not expected to be realised within 12 months after the reporting date, have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

Where asset and liability line items combine amounts expected to be realised within 12 months and more than 12 months, Defence SA has separately disclosed the amounts expected to be recovered or settled after more than 12 months.

m) Assets

Assets have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard or where offsetting reflects the substance of the transaction or other event.

Cash

Cash in the Statement of Financial Position comprises deposits with the Treasurer.

For the purposes of the Statement of Cash Flows, cash consists of cash as defined above.

Cash is measured at nominal value.

Receivables

Receivables include amounts receivable from goods and services, GST input tax credits recoverable, prepayments and other accruals.

Receivables arise in the normal course of selling goods and services to external entities. Receivables are generally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement.

Collectability of receivables is reviewed on an ongoing basis. An allowance for doubtful debts is raised when there is objective evidence that Defence SA will not be able to collect the debt. Bad debts are written off when identified.

Capital works in progress

During the period work continued on the development of infrastructure to support the Air Warfare Destroyer construction program in accordance with the Infrastructure Assistance Agreement.

Defence SA accounts for expenses associated with all capital projects as work in progress until the assets are installed and ready for use. On completion the assets are recognised in accordance with non-current asset acquisition and recognition policy (refer below).

Non-current asset acquisition and recognition

Non-current assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

Harbour and Port Facilities including wharf, shiplift, transfer system and dry berth are considered specialised assets and are recorded at cost less accumulated depreciation.

Other asset classes are subsequently measured at fair value less accumulated depreciation.

NOTES

Note 2 m) Assets (continued)

Where assets are acquired at no value, or minimal value, they are recorded at fair value in the Statement of Financial Position. However, if the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements then the assets are recognised at book value, i.e. the amount recorded by the transferor public authority immediately prior to the restructure.

All non-current tangible assets with a value equal to or in excess of \$10 000 are capitalised.

Complex assets are componentised when the asset's fair value at the time of acquisition is equal to, or in excess of \$5 million for infrastructure assets and \$1 million for other assets.

Assets have been componentised where appropriate to recognise their unique nature and useful lives.

Revaluation of non-current assets

All non-current tangible assets are valued at written down current cost (a proxy for fair value) and revaluation of non-current assets or group of assets (excluding specialised assets) will only be performed when the assets' fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than three years. The Treasurer has approved that specialised assets will not need to be revalued until 30 June 2024.

Every six years Defence SA revalues its land and buildings via an independent Certified Practising Valuer. If at any time, management considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last revaluation took place. Non-current tangible assets that are acquired between revaluations are held at cost until the next valuation, where they are revalued to fair value. Defence SA's land, buildings and associated plant and equipment were last revalued in the year ended 30 June 2012.

Any revaluation increment is credited to the asset revaluation surplus, except to the extent that it reverses a revaluation decrease in the same asset class previously recognised as an expense, in which case the increase is recognised as income. Any revaluation decrease is recognised as an expense, except to the extent that it offsets a previous revaluation increase for the same asset class, in which case the decrease is debited directly to the asset revaluation surplus to the extent of the credit balance existing in the revaluation surplus for that asset class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Upon disposal or derecognition, any revaluation surplus relating to an asset is transferred to retained earnings.

Impairment

All non-current tangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. The recoverable amount is determined as the higher of the asset's fair value less costs of disposal and depreciated replacement cost. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

For revalued assets, an impairment loss is offset against the asset revaluation surplus.

Fair value measurement

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

Defence SA classifies fair value measurement using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements, based on the data and assumptions used in the most recent revaluation:

- Level 1 – traded in active markets and is based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at measurement date;

NOTES

Note 2 m) Assets (continued)

- Level 2 – not traded in an active market and are derived from inputs (inputs other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly; or
- Level 3 – not traded in an active market and are derived from unobservable inputs.

The valuation processes and fair value changes are reviewed at each reporting date.

Non-financial assets

In determining fair value, Defence SA has taken into account the characteristic of the asset (e.g. condition and location of the asset and any restrictions on the sale or use of the asset); and the asset's highest and best use (that is physically possible, legally permissible, financially feasible).

Defence SA's current use is the highest and best use of the asset unless other factors suggest an alternative use is feasible. As Defence SA did not identify any factors to suggest an alternative use, fair value measurement is based on current use.

The carrying amount of non-financial assets with a fair value at the time of acquisition that was less than \$1 million or an estimated useful life that was less than three years are deemed to approximate fair value.

Financial assets/liabilities

Defence SA does not recognise any financial assets or financial liabilities at fair value.

n) Liabilities

Liabilities have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard or where offsetting reflects the substance of the transaction or other event.

Payables

Payables include creditors, accrued expenses, GST payable, employment on-costs and Paid Parental Leave Scheme payable.

Creditors represent invoices for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

The Paid Parental Leave Scheme payable represents amounts which Defence SA has received from the Commonwealth Government to forward on to eligible employees via Defence SA's standard payroll processes. That is, Defence SA is acting as a conduit through which the payment to eligible employees is made on behalf of the Family Assistance Office.

All payables are measured at their nominal amount, are unsecured and are normally settled within 30 days from the date of the invoice or date the invoice is first received, in accordance with Treasurer's Instruction 11 *Payment of Creditor Accounts*.

Employee benefits on-costs include superannuation contributions and payroll tax in respect of outstanding liabilities for salaries and wages, long service leave, annual leave, and skills and experience retention leave.

Defence SA makes contributions to State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to these superannuation schemes.

NOTES

Note 2 n) Liabilities (continued)

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement.

Operating leases

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income over the term of the lease.

Lease incentives

All incentives received for the agreement of a new or renewed operating lease are recognised as a liability.

The aggregate benefits of lease incentives received by Defence SA in respect of operating leases have been recorded as a reduction of rental expense over the lease term, on a straight-line basis.

Employee benefits

These benefits accrue for employees as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

Wages, salaries, annual leave, skills and experience retention leave and sick leave

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date.

The annual leave liability and the skills and experience retention leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave expected to be taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

Long service leave

The liability for long service leave is 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.

The estimated liability for long service leave is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and years of service.

These assumptions are based on employee data over SA Government entities.

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

Employee benefits on-costs

Employee benefits on-costs (payroll tax and superannuation) are recognised separately under payables.

Provisions

Provisions are recognised when Defence SA has a potential obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When Defence SA expects some or all of the provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

NOTES

Note 2 n) Liabilities (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the potential obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted for the time value of money and the risks specific to the liability.

The workers compensation provision is an actuarial estimate of the outstanding liability as at 30 June 2016 provided by a consulting actuary engaged through the Office for the Public Sector. The provision is for the estimated cost of ongoing payments to employees as required under the current legislation.

Defence SA is responsible for payments of workers compensation claims. Defence SA has a Service Level Agreement with the Office for the Public Sector to undertake injury management and rehabilitation services in the event of a claim.

o) Insurance

Defence SA has arranged, through the South Australian Government Financing Authority - Insurance Division (SAICORP), to insure all major risks of Defence SA. The excess payable under this arrangement is \$5 000 per claim.

p) Unrecognised contractual commitments and contingent assets and liabilities

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources and are disclosed at their nominal value.

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Defence SA secures performance guarantees in support of contractor performance. No value is assigned to these guarantees for financial statement purposes as they will only be called upon in the event that the contractor fails to fulfill their agreed contractual commitments.

Note 3 New and revised accounting standards and policies

Defence SA did not voluntarily change any of its accounting policies during 2015-16.

Accounting Standards

Except for AASB 2015-7 which Defence SA has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective, have not been adopted by Defence SA for the period ending 30 June 2016. Defence SA has assessed the impact of the new and amended standards and interpretations and considers there will be no impact on the accounting policies or the financial statements of Defence SA apart from those described for leases.

AASB 16 *Leases* will apply for the first time to the 30 June 2020 financial report. This standard will require Defence SA to recognise all leased items in the statement of financial position as assets representing the value of items leased and as liabilities representing the expected future lease payments.

Note 4 Activities of Defence SA

Activity information is prepared in accordance with the accounting policies of the entity as disclosed in note 2.

In achieving its objectives Defence SA provides a range of services classified into the following activities:

Activity 1 - Defence Industry Development

This activity delivers strategy and policy that, together with the Defence SA Advisory Board, provides leadership across government on all defence related matters.

It targets national and international business development opportunities and supports Defence SA's administrative, financial and other operational services.

The activity delivers the state's workforce development commitments to the Air Warfare Destroyer project, including the Maritime Skills Centre and integration of defence industry skills into whole of state workforce development planning and implementation initiatives.

NOTES

Note 4 Activities of Defence SA (continued)

This activity seeks to support the growth of Defence and sustainable defence industries in South Australia across the maritime, land, aerospace and systems sectors.

Activity 2 – Techport Australia

This activity delivers the state's shipbuilding infrastructure commitment to the Air Warfare Destroyer project and reinforces Techport Australia as Australia's premier naval industry hub.

The disaggregated disclosures schedules present expenses, income, assets and liabilities information attributable to each of the activities for the years ended 30 June 2016 and 30 June 2015.

Note 5 Employee benefits expenses	30 June 2016 \$' 000	30 June 2015 \$' 000
Salaries and wages	3,692	3,582
Long service leave	116	127
Annual leave	237	247
Skills and experience retention leave	4	2
Employment on-costs - superannuation	395	391
Employment on-costs - other	235	230
Advisory Board and committee fees (note 29)	325	329
Workers compensation	10	25
Other employee related expenses	84	75
Total employee benefits expenses	5,098	5,008

Remuneration of employees

The number of employees whose remuneration received or receivable falls within the following bands:

	No.	No.
\$145 001 to \$155 000	1	-
\$155 001 to \$165 000	2	-
\$165 001 to \$175 000	1	1
\$175 001 to \$185 000	-	4
\$185 001 to \$195 000	2	1
\$195 001 to \$205 000	2	1
\$205 001 to \$215 000	-	1
\$215 001 to \$225 000	1	1
\$235 001 to \$245 000	2	1
\$255 001 to \$265 000	-	1
\$275 001 to \$285 000	1	-
\$315 001 to \$325 000	-	1
Total number of employees	12	12

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year.

Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits.

The total remuneration received by these employees for the year was \$2.399 million (\$2.548 million).

NOTES

Note 6	Supplies and services	30 June 2016 \$' 000	30 June 2015 \$' 000
	Accommodation and service costs	351	336
	Consultants (refer below)	136	131
	Contractors	1,719	1,159
	Electricity	1,423	1,386
	Gas and gas equipment	168	185
	Insurance	95	103
	Legal fees	204	201
	Minor plant and equipment	133	199
	Promotion and events	692	1,179
	Property	464	323
	Provision of corporate services under Service Level Agreements	341	295
	Security services	732	702
	Staff safety, development and recruitment	180	159
	Travel and related expenses	285	408
	Other expenses	773	675
	Total supplies and services	7,696	7,441

The total supplies and services amount disclosed includes GST amounts not recoverable from the ATO where Defence SA does not hold a valid tax invoice or for payments relating to third party arrangements.

Consultants

The number and dollar amount of consultants paid/payable that fell within the following bands:

	No.	30 June 2016 \$' 000	No.	30 June 2015 \$' 000
Below \$10 000	3	13	-	-
Above \$10 000	3	123	2	131
Total paid/payable to the consultants engaged	6	136	2	131

Note 7	Depreciation and amortisation	30 June 2016 \$' 000	30 June 2015 \$' 000
	Depreciation and amortisation		
	Buildings and improvements	188	172
	Plant and equipment	100	94
	Harbour and port facilities	7,062	6,991
	Leasehold improvements	108	117
	Total depreciation and amortisation	7,458	7,374

NOTES

Note 8	Net loss from disposal of non-current assets	30 June 2016 \$' 000	30 June 2015 \$' 000
	Net book value of harbour and port assets disposed	-	43
	Total net loss from disposal of non-current assets	-	43
Note 9	Grants and subsidies	30 June 2016 \$' 000	30 June 2015 \$' 000
	Defence Teaming Centre	902	735
	ASC AWD Shipbuilder Pty Ltd	694	618
	Data 2 Decision Co-operative Research Centre	200	200
	South Australian Fire and Emergency Services Commission	75	-
	Total grants and subsidies	1,871	1,553
Note 10	Other expenses	30 June 2016 \$' 000	30 June 2015 \$' 000
	Audit fees (refer note 11)	39	38
	Internal audit	75	41
	Allowances for doubtful debts (refer note 18)	-	(6)
	Other	17	24
	Total other expenses	131	97
Note 11	Auditor's remuneration	30 June 2016 \$' 000	30 June 2015 \$' 000
	Audit fees paid/payable to the Auditor-General's Department relating to the audit of financial statements	39	38
	Total audit fees	39	38
	Other services		
	No other services were provided by the Auditor-General's Department.		
Note 12	Revenues from fees and charges	30 June 2016 \$' 000	30 June 2015 \$' 000
	CUF priority access fee	2,706	2,683
	Techport Australia other fees	1,890	1,261
	Renewal SA income	100	54
	Total fees and charges	4,696	3,998

NOTES

	30 June 2016 \$' 000	30 June 2015 \$' 000
Note 13 Grants		
ASC AWD Shipbuilder Pty Ltd contribution to CUF infrastructure	204	-
Other	-	7
Total grants	204	7
Note 14 Techport Australia recoveries		
Other Techport Australia recoveries	120	163
Total Techport Australia recoveries	120	163
Note 15 Other income		
Transfers received - Department for State Development	246	254
Other income	115	75
Total other income	361	329
Note 16 Revenues from/payments to SA Government		
Revenues from SA Government		
Appropriations from Consolidated Account pursuant to the <i>Appropriation Act</i>	18,636	16,467
Transfers received – Department of Treasury and Finance	8	7
Total revenues from SA Government	18,644	16,474
Payments to SA Government		
Return of surplus cash pursuant to cash alignment policy	-	(2,174)
Total payments to SA Government	-	(2,174)
Appropriations from Consolidated Account were \$18.644 million (\$16.474 million) for operational funding and capital projects.		
Note 17 Cash		
Deposits with the Treasurer	3,890	905
Deposits with the Treasurer - Accrual Appropriation Excess Funds Account ⁽¹⁾	23,696	17,490
Total cash	27,586	18,395

⁽¹⁾ The balance of these funds is not available for general use and can only be used in accordance with the Treasurer's/Under Treasurer's approval.

Interest rate risk

Deposits with the Treasurer are non-interest bearing. The carrying amount of cash represents fair value.

NOTES

Note 18

	30 June 2016 \$' 000	30 June 2015 \$' 000
Receivables		
Current		
Receivables and accrued income	529	740
Less allowance for doubtful debts	(99)	(99)
Prepayments	131	81
GST input tax recoverable	185	277
Total current receivables	746	999

Movement in the allowance for doubtful debts

The allowance for doubtful debts (allowance for impairment loss) is recognised when there is objective evidence that a receivable is impaired.

An allowance for impairment loss has been recognised in 'other expenses' in the Statement of Comprehensive Income for specific debtors for which such evidence exists.

Movements in the allowance for doubtful debts (impairment loss)

Carrying amount at the beginning of the period	99	105
Increase in allowance	-	-
Amounts written off	-	-
Amounts recovered during the year	-	(6)
Carrying amount at the end of the period	99	99

Interest rate and credit risk

Receivables are raised for all goods and services provided for which payment has not been received.

Receivables are normally settled within 30 days. Receivables, prepayments and accrued revenues are non-interest bearing.

Other than as recognised in the allowance for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand.

There is no concentration of credit risk.

(a) Maturity analysis of receivables - refer to note 33

(b) Categorisation of financial instruments and risk exposure information - refer to note 33

(c) Ageing analysis of financial assets - refer to note 33

NOTES

Note 19	Property, plant and equipment	30 June 2016 \$' 000	30 June 2015 \$' 000
	Land		
	Land only holdings at fair value ⁽¹⁾	16,250	16,250
	Land only holdings improvements at cost	2,736	2,736
	Site land at fair value	2,500	2,500
	Site land at cost	884	884
	Total land	22,370	22,370
	Buildings and improvements		
	Buildings at fair value	3,425	3,425
	Buildings at cost ⁽²⁾	3,556	2,949
	Accumulated depreciation at the end of the period	(1,092)	(903)
	Total buildings and improvements	5,889	5,471
	Leasehold improvements		
	Leasehold improvements at cost	884	884
	Accumulated amortisation at the end of the period	(884)	(776)
	Total leasehold improvements	-	108
	Plant and equipment		
	Plant and equipment at cost	1,089	1,014
	Accumulated depreciation at the end of the period	(539)	(439)
	Total plant and equipment	550	575
	Total buildings and improvements, plant and equipment	6,439	6,154
	Harbour and port facilities		
	Habour and port facilities at cost ⁽²⁾	256,223	254,036
	Accumulated depreciation at the end of the period	(44,935)	(37,874)
	Total harbour and port facilities	211,288	216,162
	Total property, plant and equipment	287,547	284,678
	Total accumulated depreciation/amortisation at the end of the period	(47,450)	(39,992)
	Total property, plant and equipment	240,097	244,686

NOTES

Note 19 Property, plant and equipment (continued)

Valuation of land and buildings

The valuation of land and buildings was performed by an independent Certified Practising Valuer from Savills Valuations Pty Ltd as at 29 February 2012. The valuer arrived at the fair value of unrestricted land using the market approach. The valuation was based on recent market transactions for similar assets in the area taking into account zoning, restricted use and development work completed as at the valuation date.

⁽¹⁾ The land valuation takes into account that this land is reserved for use for future naval shipbuilding purposes to support the State's defence industry. These landholdings have direct access to the Common User Facility as a result of infrastructure works which have been undertaken to ensure this land can be used as an integral part of future shipbuilding activity. Works have included the relocation of services and infrastructure works to facilitate access across Mersey Road to the Common User Facility.

⁽²⁾ All Techport Australia Common User Facility assets (including buildings) are considered a specialised asset, are recorded at written down current cost (a proxy for fair value) and have not been revalued.

Carrying amount of leasehold improvements, plant and equipment and harbour and port facilities

All leasehold improvements and items of plant and equipment have a fair value at the time of acquisition that was less than \$1 million or had an estimated life of less than three years, and have not been revalued in accordance with Accounting Policy Framework III. The carrying value of these assets are deemed to approximate fair value. These assets are classified in level 3 as there has been no subsequent adjustment to their value, except for management assumptions about asset condition and remaining useful life.

Harbour and port facilities includes \$2.325 million (\$1.394 million) of fully depreciated assets still in use.

Impairment

There were no indications of impairment of property, plant and equipment as at 30 June 2016.

NOTES

Note 19 Property, plant and equipment (continued)

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

The following table shows the movement of property, plant and equipment during 2014-15

	Land \$' 000	Buildings \$' 000	Leasehold improvements \$' 000	Plant and equipment \$' 000	Harbour and port facilities \$' 000	Total assets \$' 000
Carrying amount at the beginning of the period	21,870	5,643	225	652	220,493	248,883
Acquisitions and transfers	500	-	-	17	2,703	3,220
Disposals	-	-	-	-	(43)	(43)
Depreciation and amortisation	-	(172)	(117)	(94)	(6,991)	(7,374)
Carrying amount at the end of the period	22,370	5,471	108	575	216,162	244,686

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT

The following table shows the movement of property, plant and equipment during 2015-16

	Land \$' 000	Buildings \$' 000	Leasehold improvements \$' 000	Plant and equipment \$' 000	Harbour and port facilities \$' 000	Total assets \$' 000
Carrying amount at the beginning of the period	22,370	5,471	108	575	216,162	244,686
Acquisitions and transfers	-	606	-	75	2,188	2,869
Disposals	-	-	-	-	-	-
Depreciation and amortisation	-	(188)	(108)	(100)	(7,062)	(7,458)
Carrying amount at the end of the period	22,370	5,889	-	550	211,288	240,097

NOTES

Note 20 Fair value measurement

Fair value hierarchy

The fair value of non-financial assets must be estimated for recognition, measurement and for disclosure purposes. Defence SA categorises non-financial assets measured at fair value into the hierarchy based on the level of inputs used in measurement as follows:

Fair value measurements at 30 June 2015 (refer note 2m and 19)

	Level 2 \$' 000	Level 3 \$' 000	Total \$' 000
Recurring fair value measurements			
Land	18,750	3,620	22,370
Buildings ⁽¹⁾	2,894	2,577	5,471
Leasehold improvements	-	108	108
Plant and equipment	-	575	575
Harbour and port facilities	-	216,162	216,162
Total recurring fair value measurements	21,644	223,042	244,686

⁽¹⁾ Adjusted to reflect \$88 000 of depreciation of Level 2 assets incorrectly included in Level 3 at 30 June 2015.

Fair value measurements at 30 June 2016

Recurring fair value measurements

Land	18,750	3,620	22,370
Buildings	2,806	3,083	5,889
Plant and equipment	-	550	550
Harbour and port facilities	-	211,288	211,288
Total recurring fair value measurements	21,556	218,541	240,097

Defence SA's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period.

Valuation techniques and inputs used to derive level 2 and 3 fair values are described in note 19. During 2015 and 2016, Defence SA had no valuations categorised into level 1; there were no transfers of assets between fair value hierarchy levels and there were no changes in valuation technique.

NOTES

Note 20 Fair value measurement (continued)

Reconciliation of level 3 fair value measurements as at 30 June 2015

	Land \$' 000	Buildings \$' 000	Leasehold improvements \$' 000	Plant and Equipment \$' 000	Harbour and port facilities \$' 000
Carrying amount at the beginning of the period	3,120	2,661	225	652	220,493
Acquisitions and transfers	500	-	-	17	2,703
Disposals	-	-	-	-	(43)
Depreciation/amortisation	-	(84)	(117)	(94)	(6,991)
Carrying amount at the end of the period	3,620	2,577	108	575	216,162

Reconciliation of level 3 fair value measurements as at 30 June 2016

	Land \$' 000	Buildings \$' 000	Leasehold improvements \$' 000	Plant and Equipment \$' 000	Harbour and Port facilities \$' 000
Carrying amount at the beginning of the period	3,620	2,577	108	575	216,162
Acquisitions and transfers	-	606	-	75	2,188
Disposals	-	-	-	-	-
Depreciation/amortisation	-	(100)	(108)	(100)	(7,062)
Carrying amount at the end of the period	3,620	3,083	-	550	211,288

NOTES

Note 21 Capital works in progress

	30 June 2016 \$'000	30 June 2015 \$'000
The carrying amount of capital works in progress as at the end of the reporting period.	235	2,730

Capital works in progress includes planning, design and development work associated with CUF assets not yet completed.

RECONCILIATION OF CAPITAL WORKS IN PROGRESS

The following table shows the movement of capital works in progress during 2014-15

	Improvements to freehold land \$'000	Harbour and port facilities \$'000	Plant and equipment \$'000	Total capital works in progress \$'000
Carrying amount at the beginning of the period	-	3,300	-	3,300
Acquisitions	65	2,568	17	2,650
Reclassified as property, plant and equipment	(65)	(3,138)	(17)	(3,220)
Carrying amount at the end of the period	-	2,730	-	2,730

RECONCILIATION OF CAPITAL WORKS IN PROGRESS

The following table shows the movement of capital works in progress during 2015-16

	Improvements to freehold land \$'000	Harbour and port facilities \$'000	Plant and equipment \$'000	Total capital works in progress \$'000
Carrying amount at the beginning of the period	-	2,730	-	2,730
Acquisitions	-	374	-	374
Reclassified as property, plant and equipment	-	(2,869)	-	(2,869)
Carrying amount at the end of the period	-	235	-	235

NOTES

Note 22	Payables	30 June 2016 \$' 000	30 June 2015 \$' 000
	Current		
	Creditors and accrued expenses	1,264	1,210
	Employment on-costs	95	92
	GST payable	89	57
	Total current payables	1,448	1,359
	Non-current		
	Employment on-costs	24	20
	Total non-current payables	24	20
	Total payables	1,472	1,379

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave taken as leave has changed from the 2015 rate (37%) to a rate of 40% and the average factor for the calculation of employer superannuation cost on-cost has also changed from the 2015 rate (10.3%) to 10.2%. These rates are used in the employment on-cost calculation.

The net financial effect of the changes in the current financial year is an increase in the employment on-cost of \$3 000 (\$3 000) and employees benefits expense of \$3 000 (\$3 000). The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of assumptions. A key assumption is the proportion of Long Service Leave taken as leave instead of a lump sum, a result determined by the actuary based on current period data.

Interest rate and credit risk

Creditors and accruals are raised for all amounts billed but unpaid. Sundry creditors are normally settled within 30 days. Employment on-costs are settled when the respective employee benefits that they relate to are discharged. All payables are non-interest bearing. The carrying amount of payables represents fair value due to the amounts being payable on demand.

(a) Categorisation of financial instruments and risk exposure information - refer to note 33

NOTES

Note 23	Employee benefits	30 June 2016 \$' 000	30 June 2015 \$' 000
	Current		
	Accrued salaries and wages	48	39
	Annual leave	208	209
	Long service leave	220	271
	Skills and experience retention leave	6	4
	Total current employee benefits	482	523
	Non-current		
	Long service leave	400	359
	Total non-current employee benefits	400	359
	Total employee benefits	882	882

AASB 119 contains the calculation methodology for long service leave liability. The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave. AASB 119 requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has decreased to 2% (from 3% 2015).

This decrease in the bond yield, which is used as the rate to discount future long service leave cash flows, results in an increase in the reported long service leave liability.

The net financial effect of the changes in the current financial year is an increase in the long service leave liability of \$44 000 and employee benefits expense of \$44 000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of assumptions. A key assumption is the long term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance left the salary inflation rate at 4% for long service leave liability and 3% for annual leave and skills, experience and retention leave liability. As a result, there is no net financial effect resulting from changes in the salary inflation rate \$nil (\$2 000).

NOTES

Note 24	Provisions	30 June 2016 \$' 000	30 June 2015 \$' 000
	Current		
	Provision for workers compensation	<u>10</u>	<u>6</u>
	Total current provisions	<u>10</u>	<u>6</u>
	Non-current		
	Provision for workers compensation	<u>20</u>	<u>14</u>
	Total non-current provisions	<u>20</u>	<u>14</u>
	Total provisions	<u>30</u>	<u>20</u>
	Movements in provisions		
	Carrying amount at the beginning of the period	20	-
	Additional provisions recognised	10	20
	Reductions resulting from re-measurement	<u>-</u>	<u>-</u>
	Carrying amount at the end of the period	<u>30</u>	<u>20</u>

A liability has been reported to reflect potential workers compensation claims.

The workers compensation provision is based on an actuarial assessment performed by the Office for the Public Sector.

NOTES

Note 25	Other liabilities	30 June 2016 \$' 000	30 June 2015 \$' 000
	Current		
	Lease incentive	-	20
	Total current other liabilities	<u>-</u>	<u>20</u>
	Total other liabilities	<u>-</u>	<u>20</u>

Lease liabilities are due to SA Government entities and are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

Note 26	Unrecognised contractual commitments	30 June 2016 \$' 000	30 June 2015 \$' 000
	Capital commitments		
	Capital expenditure contracted for as at the reporting date but not recognised as liabilities in the financial statements are payable as follows:		
	Within 1 year	<u>4,293</u>	<u>108</u>
	Total capital commitments	<u>4,293</u>	<u>108</u>

Defence SA's capital commitments are to various contractors providing design and construction services for the Techport Australia Common User Facility.

Expenditure commitments

Operating expenditure commitments as at the reporting date but not recognised as liabilities in the financial statements are payable as follows:

Within 1 year	2,289	2,934
Later than 1 year but not longer than 5 years	2,939	3,151
Later than 5 years	-	60
Total capital commitments	<u>5,228</u>	<u>6,145</u>

Defence SA's operating commitments reflect grant and fee for service contracts for defence industry development and specialist technical and engineering advice.

NOTES

Note 27	Contingent assets and contingent liabilities	30 June 2016 \$' 000	30 June 2015 \$' 000
	Contingent liabilities to which a value can be assigned		
	Contingent liabilities to which a value can be assigned	29,100	6,000
	Total	29,100	6,000

Techport Australia Commercial Campus (Stage One)

Defence SA facilitated the private sector delivery of the Techport Australia Commercial Campus pursuant to its commitments to the AWD project and development of Techport Australia as Australia's premier naval industry hub. Stage One development includes the AWD Alliance's AWD Systems Centre, Raytheon Australia's SA Engineering Centre and supporting commercial and retail accommodation.

Related contractual commitments require Defence SA to accept novation of the residual lease period should ASC AWD Shipbuilder Pty Ltd elect to vacate the premises between December 2019 and expiration of its initial 10-year lease term in May 2020, which is considered unlikely.

Air Warfare Destroyer Project - Workforce Assistance

The State's contractual commitments with the Commonwealth in support of the AWD project includes reimbursement of a portion of the Shipbuilder's payroll tax liability under certain terms and conditions.

State support for the Land 400 Armoured vehicle program

Government attraction / assistance package to bidders for the Land 400 armoured fighting vehicle program comprising the development of a State owned industry precinct including a vehicle proving ground, industry grants for production facility design assistance and workforce incentives.

State industry support to attract Australian Signals Directorate work to South Australia

Industry Grant to assist the capture of software engineering support program with Defence.

Contingent liabilities to which no value can be assigned

Air Warfare Destroyer Project - Common User Facility

The State has entered into an agreement with the Commonwealth for the construction of a Common User Facility (CUF) at Osborne to support ASC AWD Shipbuilder Pty Ltd in the construction of three air warfare destroyers for the Royal Australian Navy. The agreement indemnifies the Commonwealth from any third party losses or damages arising from a failure by the State to complete the CUF in accordance with the agreed design and schedule or meet the agreed performance criteria. The State has now completed the CUF construction in accordance with the agreed design and schedule thereby eliminating this risk. The State continues to be liable if there are defects in the CUF or it fails to meet agreed performance criteria. The likelihood of non-performance is considered remote, and the State's exposure is capped at \$320 million.

NOTES

Note 28 Transferred functions

To improve the delivery of the Government's economic priorities and better align Ministerial responsibilities, Cabinet approved the transfer of aerospace and space resources from the Department of State Development to Defence SA. The Cabinet decision of 25 January 2016 came into effect from 4 April 2016.

Total income and expenses attributable to the Space Unit were:

	Department of State Development 2016 \$' 000	Defence SA 2016 \$' 000	Total 2016 \$' 000
Appropriation	312	123	435
Total income	312	123	435
Employee benefits expenses	219	81	300
Grants	75	-	75
Supplies and services	18	42	60
Total expenses	312	123	435
Net result	-	-	-

Defence SA assumed employee benefit liabilities of \$70,000 as a result of this restructure.

NOTES

Note 29 Remuneration of Advisory Board and committee members and related party disclosure

Members of the Defence SA Advisory Board during the financial year were:

ACM Sir A Houston AK AFC (Chair)
 Hon J Weatherill MP *
 Hon M Hamilton-Smith MP *
 Dr N Bryans
 VADM R Crane AO CSM RANR
 M Jackman ** (resigned 3 July 2015)
 P Johnson MBE
 A Keough ** (appointed 31 August 2015)
 B Laughton
 S Ludlam FREng (appointed 1 September 2015)
 LTGEN P Leahy AC
 RADM T Ruting AM CSC RANR

Members of the Audit and Risk Management Committee during the financial year were:

C McSparran (independent member/chair) **
 R Barnett **
 A Blaskett (independent member) **
 B Laughton (independent member)
 P Robertson (independent member)

The number of members whose remuneration received or receivable falls within the following bands is:

	30 June 2016 No.	30 June 2015 No.
\$1 to \$9 999	1	2
\$20 000 to \$29 999	-	1
\$30 000 to \$39 999	7	5
\$40 000 to \$49 999	-	1
\$70 000 to \$79 999	1	1
Total number of members	9	10

Remuneration of members reflects all costs of performing board/committee member duties including sitting fees, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits. Total remuneration received or receivable, by board and committee members was \$325 000 (\$329 000), plus Defence SA compulsory superannuation contributions of \$31 000 (\$31 000). Other Advisory Board expenses were \$154 000 (\$170 000).

* The Hon J Weatherill MP and the Hon M Hamilton-Smith MP did not receive any remuneration for board duties during the period.

** Pursuant to the Department of Premier and Cabinet Circular PC016, government employees did not receive any remuneration for board/committee duties during the financial year.

Unless otherwise disclosed, transactions between related parties are on conditions no more favourable than those that it is reasonable to expect the entity would have adopted if dealing with the related party at arm's length in the same circumstances.

P Johnson MBE is a board member of Industry Defence and Security Australia Ltd. Defence SA participated in the Pacific International Maritime Exposition in October 2015 and will participate in the Land Forces Exposition in September 2016. These events are managed by Industry Defence and Security Australia Ltd.

LTGEN P Leahy AC is a board member of Electro Optic Systems which has an involvement with the Land 400 project (armoured vehicles).

Dr Neil Bryans has undertaken contract work on behalf of Defence SA for science and technology projects. Payments for this work are additional to the Board remuneration he received.

NOTES

Note 30	Cash flow reconciliation	Note No.	30 June 2016 \$' 000	30 June 2015 \$' 000
Reconciliation of cash at end of reporting period:				
	Cash disclosed in the Statement of Financial Position		27,586	18,395
	Balance as per the Statement of Cash Flows		27,586	18,395
Reconciliation of net cash (used in)/provided by operating activities to net cost of providing of services:				
	Net cash (used in)/provided by operating activities		9,699	4,321
	Revenues from SA Government	16	(18,644)	(16,474)
	Payments to SA Government	16	-	2,174
Add/(less) non-cash items				
	Depreciation and amortisation expense of non-current assets	7	(7,458)	(7,374)
	Net gain/(loss) from the disposal of non-current assets	8	-	(43)
	Net movement in non-current assets accrual in payables		(134)	132
Movement in assets/liabilities				
	Increase/(decrease) in receivables	18	(253)	568
	(Increase)/decrease in payables	22	(93)	(273)
	(Increase)/decrease in employee benefits	23	-	(51)
	(Increase)/decrease in provisions	24	(10)	(20)
	(Increase)/decrease in other liabilities	25	20	21
	Net cost of providing services		(16,873)	(17,019)

Note 31 Transactions with SA Government

The following table discloses revenues, expenses, financial assets and liabilities where the counterparty/transaction is with an entity within the SA Government as at the reporting date, classified according to their nature.

Note No.	Expenses	SA Government		Non-SA Government		Total	
		2016 \$' 000	2015 \$' 000	2016 \$' 000	2015 \$' 000	2016 \$' 000	2015 \$' 000
5	Employee benefits expenses	235	230	4,863	4,778	5,098	5,008
6	Supplies and services:						
	Accommodation and service costs	351	336	-	-	351	336
	Consultants	-	-	136	131	136	131
	Contractors	-	-	1,719	1,159	1,719	1,159
	Electricity	-	-	1,423	1,386	1,423	1,386
	Gas and gas equipment	-	-	168	185	168	185
	Insurance	95	103	-	-	95	103
	Legal fees	204	200	-	1	204	201
	Minor plant and equipment	-	-	133	199	133	199
	Promotion and events	4	-	688	1,179	692	1,179
	Property	22	34	442	289	464	323
	Provision of corporate services under Service Level Agreements	341	295	-	-	341	295
	Security services	2	2	730	700	732	702
	Staff safety, development and recruitment	-	-	180	159	180	159
	Travel and related expenses	-	-	285	408	285	408
	Other expenses	140	128	633	547	773	675
7	Depreciation and amortisation	-	-	7,458	7,374	7,458	7,374
8	Net loss from disposal of non-current assets	-	-	-	43	-	43
9	Grants and subsidies	75	-	1,796	1,553	1,871	1,553
10	Other expenses:						
	Audit fees	39	38	75	41	114	79
	Allowances for doubtful debts	-	-	-	(6)	-	(6)
	Other expenses	17	18	-	6	17	24
	Total expenses	1,525	1,384	20,729	20,132	22,254	21,516

Note 31 Transactions with SA Government (continued)

Note No.	Income	SA Government		Non-SA Government		Total	
		2016 \$' 000	2015 \$' 000	2016 \$' 000	2015 \$' 000	2016 \$' 000	2015 \$' 000
12	Revenues from fees and charges: CUF priority access fee Techport Australia other fees Renewal SA income	- - 100	- - 54	2,706 1,890 -	2,683 1,261 -	2,706 1,890 100	2,683 1,261 54
13	Grants	-	4	204	3	204	7
14	Techport Australia recoveries	-	-	120	163	120	163
15	Other income: Transfers received - Department for State Development Other income	246 59	254 -	- 56	- 75	246 115	254 75
	Total income	405	312	4,976	4,185	5,381	4,497
	Net cost of providing services	(1,120)	(1,072)	(15,753)	(15,947)	(16,873)	(17,019)
16	Revenues from SA Government	18,644	16,474	-	-	18,644	16,474
16	Payments to SA Government	-	(2,174)	-	-	-	(2,174)
	Net result	17,524	13,228	(15,753)	(15,947)	1,771	(2,719)
	Total comprehensive result	17,524	13,228	(15,753)	(15,947)	1,771	(2,719)

Note 31 Transactions with SA Government (continued)

Note No.	SA Government		Non-SA Government		Total	
	2016 \$' 000	2015 \$' 000	2016 \$' 000	2015 \$' 000	2016 \$' 000	2015 \$' 000
	Financial assets					
18	Receivables:					
	11	85	518	655	529	740
	-	-	(99)	(99)	(99)	(99)
	-	-	131	81	131	81
	-	-	185	277	185	277
	11	85	735	914	746	999
	Total financial assets					
	Financial liabilities					
22	Payables:					
	207	125	1,057	1,085	1,264	1,210
	47	44	72	68	119	112
	-	-	89	57	89	57
	254	169	1,218	1,210	1,472	1,379
	Total financial assets					

NOTES

Note 32 Budgetary reporting and explanations of major variances between budget and actual amounts

The following are brief explanations of variances between original budget⁽¹⁾ and actual amounts. Explanations are provided for variances where the variance exceeds the greater of 10% of the original budgeted amount and 5% of original budgeted total expenses.

Statement of Comprehensive Income	Note	Original budget⁽¹⁾ 2016 \$' 000	Actual 2016 \$' 000	Variance⁽²⁾ \$' 000
Expenses				
Employee benefits expenses		5,122	5,098	24
Supplies and services		7,083	7,696	(613)
Depreciation and amortisation		7,689	7,458	231
Grants and subsidies		1,670	1,871	(201)
Other expenses		170	131	39
Total expenses		21,734	22,254	(520)
Income				
Revenues from fees and charges		3,669	4,696	1,027
Grants		-	204	204
Techport Australia recoveries		127	120	(7)
Other income		521	361	(160)
Total income		4,317	5,381	1,064
Net cost of providing services		(17,417)	(16,873)	544
Revenues from/payments to SA Government				
Revenues from SA Government		18,636	18,644	8
Net result		1,219	1,771	552
Total comprehensive result		1,219	1,771	552
Investing expenditure summary				
		Original budget⁽¹⁾ 2016 \$' 000	Actual 2016 \$' 000	Variance⁽²⁾ \$' 000
New projects		-	143	(143)
Existing projects	(a)	1,100	141	959
Annual programs		424	90	334
Total investing expenditure		1,524	374	1,150

⁽¹⁾The budget process is not subject to audit. Budget information refers to amounts presented to Parliament in the original budgeted financial statements in respect of the reporting period (2015-16 Budget Paper 4). These original budgeted amounts have been presented and classified on a basis that is consistent with line items in the financial statements. These amounts have not been adjusted to reflect revised budgets or administrative restructures/machinery of government changes.

⁽²⁾The use of brackets identifies an adverse variance.

(a) Techport Australia Common User Facility maintenance dredging works have been deferred to 2016-17 at the request of ASC.

NOTES

Note 33 Financial risk management/Financial instruments

Financial risk management

Risk management is undertaken by Defence SA's corporate services section and Defence SA's risk management policies are in accordance with the *Risk Management Policy Statement* issued by the Premier and Treasurer and the principles established in the Australian Standard *Risk Management Principles and Guidelines*.

Defence SA is exposed to financial risk - liquidity risk, credit risk and market risk. There have been no changes in risk exposure since the last reported period.

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in note 2 *Summary of Significant Accounting Policies*.

Defence SA does not recognise any financial assets or financial liabilities at fair value but does disclose fair value in the notes. All the resulting fair value estimates are included in level 2 as all significant inputs required are observable.

The carrying value less impairment provisions of receivables and payables is a reasonable approximation of their fair values due to the short-term nature of these financial instruments (refer note 2, 18, 22).

Category of financial assets and financial liabilities	Statement of Financial Position	Note	Carrying Amount	Carrying Amount
			30 June 2016 \$' 000	30 June 2015 \$' 000
Financial assets				
Cash	Cash	17, 30	27,586	18,395
Receivables	Receivables ^{(1) (2)}	18	430	641
Financial liabilities				
Financial liabilities	Payables ⁽¹⁾	22	1,122	1,072

⁽¹⁾Receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables. In government, certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levies, tax and equivalents etc they would be excluded from the disclosure. The standard defines contracts as enforceable by law. All amounts recorded are carried at cost (not materially different from amortised cost).

⁽²⁾Receivables amount disclosed here excludes prepayments. Prepayments are presented in note 18 in accordance with paragraph 78(b) of AASB 101. Prepayments are not financial assets as defined in AASB 132 as the future economic benefit of these assets is the receipt of goods and services rather than the right to receive cash or another financial asset.

NOTES

Note 33 Financial risk management/financial instruments (continued)

Liquidity risk

Defence SA is funded principally from appropriations by the SA Government. Defence SA works with the Department of Treasury and Finance to determine the cash flows associated with its Government approved program of work and to ensure funding is provided through SA Government budgetary processes to meet the expected cash flows. The continued existence of Defence SA is dependent on State Government policy and on continuing appropriations by Parliament for the administration and activities of Defence SA. Defence SA settles undisputed accounts within 30 days from the date of the invoice or date the invoice is first received. In the event of a dispute, payment is made within 30 days of resolution.

The exposure of Defence SA to liquidity risk is insignificant based on past experience and current assessment of risk.

Credit risk

Credit risk arises when there is the possibility of Defence SA's debtors defaulting on their contractual obligations resulting in financial loss to Defence SA. Defence SA measures credit risk on a fair value basis and monitors risk on a regular basis.

Defence SA has minimal concentration of credit risk. Defence SA has policies and procedures in place to ensure that transactions occur with customers with appropriate credit history. Defence SA does not engage in hedging for its financial assets. No collateral is held as security and no credit enhancements relate to financial assets held by Defence SA.

Allowances for impairment of financial assets are calculated on past experience and current and expected changes in client credit rating. Other than receivables, there is no evidence to indicate that financial assets are impaired. Refer to note 18 for information on the allowance for the impairment in relation to receivables.

The carrying amount of financial assets as detailed in the above table represents Defence SA's maximum exposure to credit risk.

NOTES

Note 33 Financial risk management/Financial instruments (continued)

Ageing analysis of financial assets past due including impaired assets

The following table discloses the ageing of financial assets that are past due but not impaired and impaired assets.

Ageing analysis of financial assets

	Past due by			Total \$' 000
	< 30 days \$' 000	30 - 60 days \$' 000	> 60 days \$' 000	
2015				
Not impaired				
Receivables*	7	-	-	7
Impaired				
Receivables*	-	-	90	90
2016				
Not impaired				
Receivables*	-	-	-	-
Impaired				
Receivables*	-	-	90	90

*Amount of receivables disclosed here excludes statutory receivables (GST). They are carried at cost.

Maturity analysis of financial assets and liabilities

All Defence SA financial assets and liabilities mature within 1 year.

Market Risk

Defence SA has no material interest bearing assets or liabilities. There is minimal exposure to foreign currency or other price risks as all significant contracts are in Australian dollars.

Sensitivity analysis disclosure

A sensitivity analysis has not been undertaken for interest rate risk given the immaterial exposure.

Note 34 Events after the reporting period

There are no reportable events after the reporting period.

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