AUSTRALIAN NAVAL INFRASTRUCTURE

ANNUAL REPORT 2017 - 2018

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In defining ANI's corporate identity, ANI has adopted Morse code, a communication method still used as an important tool today on seafaring vessels as a means of silent communication, or as a fall back when other methods are unavailable or disabled. The Morse graphic literally translates as ANI.

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TRANSMITTAL LETTER

AUSTRALIAN NAVAL INFRASTRUCTURE

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

The Hon Christopher Pyne
Minister for Defence
Parliament House CANBERRA ACT 2600

Dear Ministers,

Australian Naval Infrastructure Pty Ltd 2017-18 Annual Report

I am pleased to submit the 2017-18 Annual Report for Australian Naval Infrastructure Pty Ltd (ANI or the Company), which has been prepared in accordance with the *Public Governance, Performance and Accountability Act 2013* (Cth) (PGPA Act).

The Annual Report includes the financial statements for the financial year ended 30 June 2018 and reports on ANI's progress during the financial year.

The Company's primary purpose is to support the Commonwealth's continuous naval shipbuilding program through:

1) acquiring, holding, managing and developing the infrastructure and related facilities used in connection with this program, and

2) efficiently and effectively managing this infrastructure (including providing access) in a manner that ensures an integrated and coordinated approach to the delivery of all aspects of this program.

ANI's Board has approved this report in accordance with a resolution on 13 September 2018.

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

Yours sincerely,

LUCIO DI BARTOLOMEO
Chair

13 September 2018

CHAIR AND CEO'S LETTER

We are pleased to present the 2017-18 Annual Report for Australian Naval Infrastructure Pty Ltd (ANI or the Company).

The formation of ANI in March 2017 represents a nation building commitment by the Australian Government. ANI's primary objective is to support the Australian Government's continuous naval shipbuilding program by being the owner and developer of infrastructure and related facilities.

In addition, ANI is tasked with providing access and efficiently and effectively managing the infrastructure in a manner that ensures an integrated and coordinated approach to the delivery of the shipbuilding program.

This report covers ANI's first full year of operations since separation from the ASC Group in March 2017, which has been a truly formative year in all respects.

ANI started the 2017-18 year with a single employee, and without any of the facilities or systems that are needed to run a successful enterprise. Pleasingly, ANI's stand-up phase has been successfully completed, and ANI is now a fully functioning and independent business. The past year has seen the employment of an experienced management team together with key project and operations personnel, and the development and implementation of systems, policies and processes.

Under agreements struck with the South Australian Government, ANI completed the acquisition of the Techport business in November 2017, enabling it to effectively consolidate the ownership of the broader Osborne Naval Shipyard precinct. Assets acquired included the Common User Facility, which includes the largest shiplift in the southern hemisphere, the Maritime Skills Centre (MSC) and other vacant land previously owned by Defence SA.

ANI has also completed the acquisition of several privately-owned properties which are adjacent to the precinct, and which were required to enable the proposed development of the yard to construct Australia's future submarine fleet.

To facilitate building Australia's skilled workforce for major shipbuilding programs, a lease has been agreed with NSI (Aust) Pty Ltd to house the Naval Shipbuilding College in the former MSC facilities.

ANI has commenced negotiations with Luerssen Australia Pty Ltd (Luerssen) to facilitate access to the existing Osborne South shipyard for the construction of the first two Offshore Patrol Vessels (OPVs).

In a significant milestone for the Osborne Naval Shipyard, ANI appointed Lendlease as Managing Contractor for the Osborne South Development Project (OSDP). With a cost estimate of $535 million, this project involves the construction of new facilities at the Osborne South Shipyard in order to support the continuous build of surface combatants.

A great deal of progress has been made on this project during the year, with earthworks and piling almost complete, and procurement of steel and specialised equipment progressing to plan. The yard will be commissioned in the first half of 2020, and will initially be utilised by BAE Systems to build the Commonwealth's new Hunter Class Frigates.

ANI is working with the Commonwealth and other stakeholders, including the Naval Group, to progress the planning for the Osborne North Development Project (ONDP) which will house the construction of the future Barracuda Class submarine fleet. A 30% conceptual design has been developed by Naval Group, and a strategy for the appointment of a Managing Contractor to finalise the design and implement the works is being progressed by ANI and the Commonwealth.

ANI stands for reinvesting into the nation's economy and its skilled workforce through creating a continuous thriving industry that is in the best interests of Australia.

David Knox

LUCIO DI BARTOLOMEO

Chair

13 September 2018

DAVID KNOX

Managing Director and CEO

OSDP: Block Assembly Hall

ANI is a Commonwealth company and a Government Business Enterprise (GBE), classified as a Public non-Financial Corporation (PnFC).

The creation of ANI followed a strategic review of the ASC Group in 2015-16, which resulted in ASC Engineering Pty Ltd (as ANI was formerly known) being separated from ASC Pty Ltd on 26 March 2017.

ANI's primary object is to support the Commonwealth's continuous naval shipbuilding program through:

- acquiring, holding, managing and developing the infrastructure and related facilities used in connection with this program; and
- efficiently and effectively managing the infrastructure (including providing access) in a manner that ensures an integrated and co-ordinated approach to delivery of all elements of this program.

As at 30 June 2018, ANI's shareholders were the Minister for Defence Industry and the Minister for Finance, and the Company was prescribed as a GBE on 1 July 2017.

In the 2017-18 financial year, ANI has established its operational capability and capacity, including staffing, corporate functions, systems and processes.

Context: Naval Shipbuilding Plan

The *2016 Defence White Paper* set out the Australian Government's plan for a significant recapitalisation of the Royal Australian Navy, alongside a commitment to build a sustainable naval shipbuilding capability in Australia.

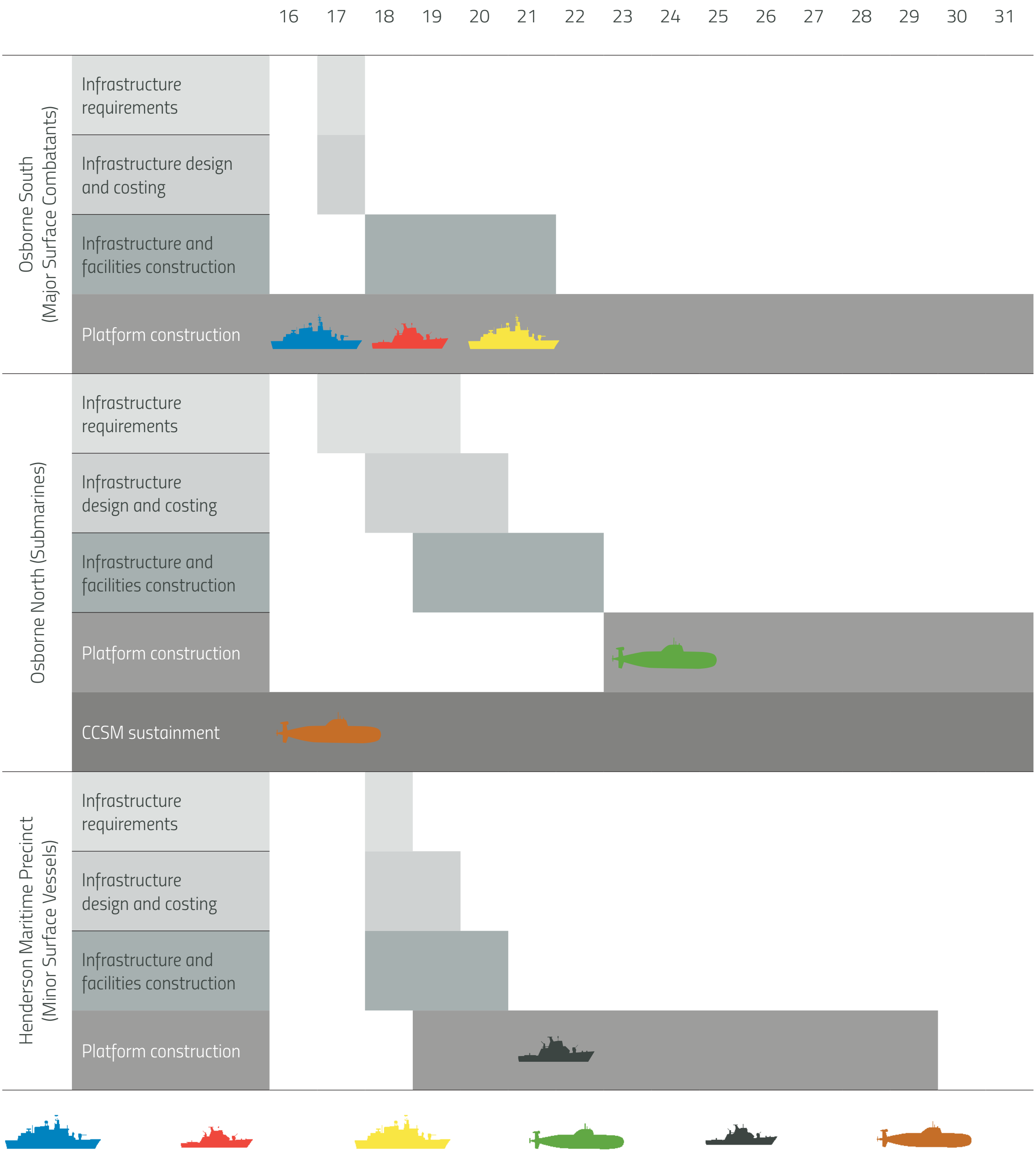
Delivering the naval capabilities that the Government announced in the 2016 Defence White Paper is predicated on four key enablers:

- a modern, innovative and secure naval shipbuilding and sustainment infrastructure;
- a highly capable, productive and skilled naval shipbuilding and sustainment workforce;
- a motivated, innovative, cost-competitive and sustainable Australian industrial base, underpinned initially by experienced international ship designers and builders who transfer these attributes to Australian industry; and
- a national approach to delivering the Naval Shipbuilding Plan.

ANI's principal contribution to the successful delivery of the Naval Shipbuilding Plan is its role as an owner, developer and manager of critical shipyard infrastructure.

A summary of the continuous naval shipbuilding program is depicted in the following diagram.

Continuous naval shipbuilding program summary



Commencement of Air Warfare Destroyer (AWD) Program prior to ANI stand up

Commencement of Offshore Patrol Vessel (OPV) construction 2018

Commencement of future frigate construction 2020

Commencement of future submarine construction 2022–2023

Transfer of OPV production from Ship 3 onwards to Henderson, WA c.2020

Collins Class Submarine sustainment ongoing to final out-of-service date

Organisational Structure

As at 1 July 2017, the Company comprised the Interim Managing Director and CEO (now Managing Director and CEO) as the only employee. As at 30 June 2018, the team has grown to a total of 17 staff, including a corporate team, a facilities/operations team, and a project management team for the OSDP.

Some of ANI's administrative support activities have been outsourced to appropriately qualified external providers, including IT and accounting support.

ANI expects the continuous build of local ships will deliver spill-over benefits across the wider economy, driving investment, jobs, growth and innovation, and will create opportunities for small to medium sized businesses across the nation.

ANI's Assets

ANI is headquartered in Osborne, South Australia, and owns the infrastructure necessary for ongoing naval vessel building and sustainment at Osborne as well as assets within the Henderson site in Western Australia.

Assets held within ANI include:

Osborne North Shipyard (SA)

This is the current location for the full-cycle docking and maintenance of the Royal Australian Navy's six existing Collins Class submarines by ASC.

To facilitate the construction of the new Barracuda Class submarines by Naval Group, the existing submarine yard will be expanded and refurbished. A conceptual design for this project has been developed by Naval Group, and planning for the completion of the design and construction is ongoing.

Osborne South Shipyard (SA)

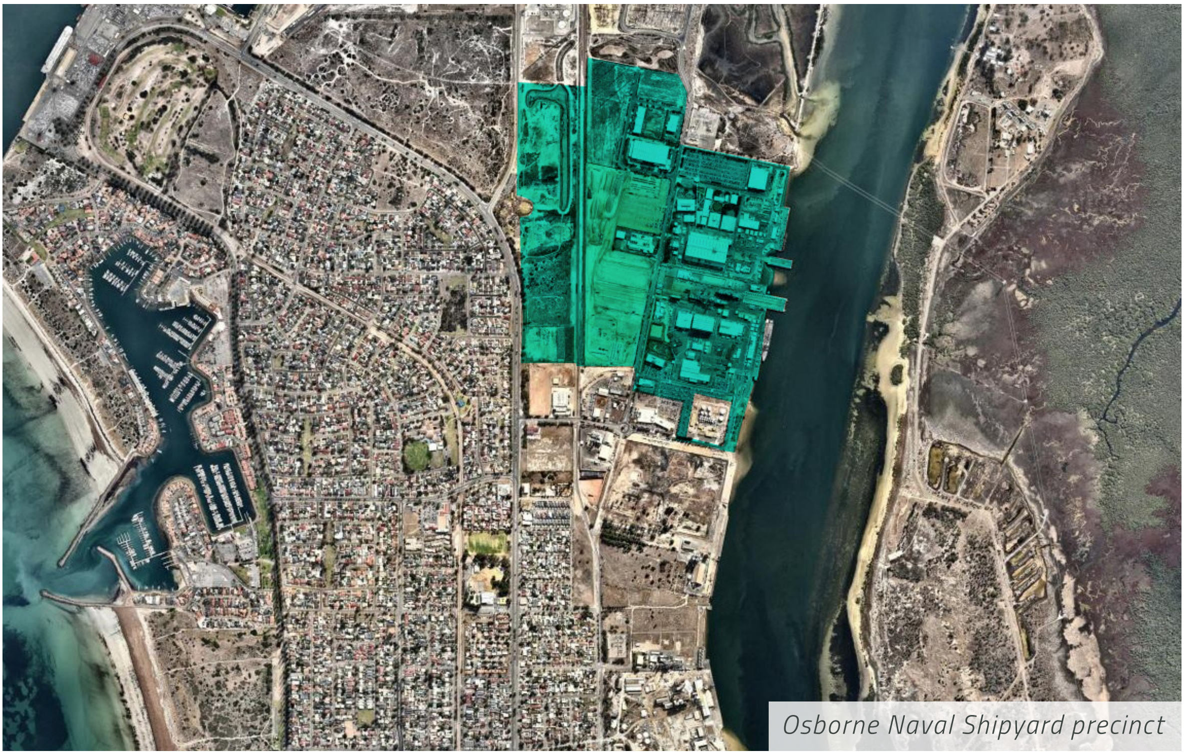
This is the location for the Air Warfare Destroyer (AWD) program being undertaken by the AWD Alliance (ASC, Raytheon Australia and the Commonwealth) for the delivery of three vessels by 2020.

As announced by the Commonwealth on 24 November 2017, two OPVs will be constructed in the existing Osborne South facilities by Luerssen and ASC (as a sub-contractor to Luerssen) from 2018 as the AWD program nears completion. The remaining vessels in the OPV program will be constructed in Henderson, Western Australia.

As announced by the Commonwealth on 29 June 2018, BAE has been awarded a contract to construct nine Hunter Class Frigates at Osborne South, commencing in 2020. To facilitate this project, the shipyard is being redeveloped and modernised, as described on page 9.

Henderson Shipyard (WA)

ANI owns minor assets in support of Collins Class sustainment mid-cycle docking by ASC.



Osborne Naval Shipyard precinct

Defence SA asset acquisition and operational integration

In May 2017 the Commonwealth entered a Memorandum of Understanding with the South Australian Government to facilitate the staged acquisition of State Government owned assets at Osborne, as follows:

- **Tranche 1** – vacant land and the existing Maritime Skills Centre (acquisition completed on 10 August 2017);
- **Tranche 2** – the Common Use Infrastructure (CUI, formerly known as the CUF) including wharf, dry berth, transfer system and shiplift (acquisition completed on 30 November 2017); and
- **Tranche 3** – State or Council owned roads/verges (to be completed during 2018).

In addition, the legacy IT, finance and operational systems supporting the CUI, together with associated former Defence SA staff, have been integrated into ANI's operational structure since December 2017.

Osborne South Development Project (OSDP)

The OSDP objective is to construct new facilities that support the continuous build of major surface combatants. The facilities to be delivered under this project are being designed and built not only for the current planned capacity (Future Frigates) but to support a continuous build program for major surface combatant vessels up to Destroyer size.

In late 2016 the Commonwealth engaged Odense Maritime Technology to undertake the design of the shipyard works based on the Programmatic Needs Statement and High Level Functional Requirements.

Following a comprehensive tender process ANI entered into a Managing Contractor Contract (MCC) with Lendlease in October 2017 for the expansion and refurbishment of the Osborne South shipyard on land acquired under the Tranche 1 acquisition.

The capital cost of this project is estimated to be $535 million, and the new yard will be completed and commissioned during the first half of 2020.

Artist's impression of OSDP

The Commonwealth has undertaken to provide ANI with equity funding to facilitate this development.

Activity as at 30 June 2018 can be summarised as follows:

Site progress	Status
Appointment of Lendlease as MC	Completed
Site establishment	Completed
Mobilisation earthworks	Completed
Early works package	Substantially completed
Piling work	In progress
Off-site works (steel fabrication)	In progress
Plant and equipment purchases	In progress
Design progression and value management	Ongoing

Company performance

The key objectives outlined in ANI's Interim Corporate Plan, including the stand-up of ANI, completion of the Tranche 1 and 2 acquisitions, appointment of the MC and commencement of OSDP works and progression of access arrangements, as described above, have all been achieved.

Governance structure

ANI is incorporated as a company under the *Corporations Act 2001* (Cth) (Corporations Act), limited by shares and is subject to the *Public Governance, Performance and Accountability Act, 2013* (Cth) (PGPA Act).

All the share capital of ANI is owned by the Commonwealth of Australia.

Under the PGPA Act, ANI is a Commonwealth Company[1], Public Non-Financial Corporation Classification, prescribed as a GBE. While the Corporations Act is the primary regulatory framework, the PGPA Act sets the standards of governance and accountability and imposes specific duties on our Board and executive relating to the use and management of resources.

Shareholder Ministers

ANI sits within the Finance portfolio of the Australian Government. Our Board reports to both the Minister for Finance and the Minister for Defence Industry as Shareholder Ministers (Responsible Ministers).

As at 30 June 2018, our Shareholder Ministers were:

Minister for Finance, Senator the Hon Mathias Cormann

Minister for Defence Industry, The Hon Christopher Pyne MP

Ministerial directions

ANI did not receive any direction by a Minister, under the constitution, an Act or instrument, or any government policy orders (under section 93 of the PGPA Act) in the 2017-18 financial year.

The Board

The ANI Board comprises six members. The Board is chaired by an independent non-executive director and the roles of Chair and Managing Director are separate. The Managing Director is the only executive director on the Board and is also the Chief Executive Officer. All other directors are independent non-executive directors.

The Board is responsible for the corporate governance of ANI, and operates within an approved Board Charter. Each director is appointed by the Shareholder Ministers pursuant to a formal letter of appointment.

Chair

Lucio Di Bartolomeo was appointed Chair on 26 June 2017. The Chair of the Board is responsible for the leadership of the Board and for the efficient and proper functioning of the Board, including maintaining relationships with the shareholders.

[1] A company, established by the Commonwealth under the Corporations Act 2001 and wholly controlled by the Commonwealth. Created to allow the government to conduct some form of commercial enterprise at arm's length from usual government agency structures and processes.

The Board's role and responsibilities

The Board acts in the best interests of ANI as a whole and on behalf of the shareholders and is accountable to shareholders for the overall strategic direction, management and corporate governance of ANI.

Subject to the PGPA Act, the constitution and directions from the Shareholder Ministers, the Board is responsible for:

a) overseeing ANI, including control and accountability systems;

b) appointing and monitoring the performance of the CEO and the Company Secretary and, where appropriate, the removal of the CEO and Company Secretary;

c) providing strategic advice to management;

d) approving and monitoring the progress of major capital expenditure projects, capital management, acquisitions and divestitures, as well as financial and other reporting;

e) approving annual budgets and key performance indicators, and reviewing ANI's performance against them and monitoring the implementation of necessary corrective actions;

f) reviewing and interrogating systems of risk management, internal control and legal compliance to satisfy itself that appropriate compliance frameworks and controls are in place;

g) reviewing and overseeing the implementation of ANI's Code of Conduct;

h) appointing Board committees and approving the composition, and any charters, of Board committees;

i) monitoring and verifying compliance with legal and regulatory requirements, ethical standards and policies; and

j) exercising due diligence to ensure that ANI complies with its work, health and safety obligations.

Board Committees

Audit and Risk Committee

The Board established an Audit and Risk Committee on 15 August 2017, to assist the Board in carrying out its responsibilities, to share detailed work and to consider certain issues and functions in detail.

The Audit and Risk Committee's charter sets out the matters relevant to the composition, responsibilities and administration of the committee, and has been approved by the Board.

The Audit and Risk Committee will meet as often as it considers necessary but at least four times a year. A quorum for an Audit and Risk Committee meeting is two Audit and Risk Committee members.

The objectives of the Audit and Risk Committee are to:

a) help the Board achieve its objectives in relation to reviewing the appropriateness of the:

   (i) financial reporting;

   (ii) performance reporting;

   (iii) systems of risk (financial and performance) oversight and management;

   (iv) systems of internal control;

   (v) annual budgeting; and

   (vi) application of accounting policies;

b) maintain and improve the quality, credibility and objectivity of the financial accountability process (including financial reporting on a consolidated basis);

c) assess ANI's risk management principles, policies, processes and practices so that it can satisfy itself that:

   (i) adequate systems are in place for the effective identification and assessment of all areas of potential material business risk;

   (ii) adequate policies, processes and procedures have been designed and implemented to manage identified material risks;

   (iii) appropriate action is undertaken to bring the identified material risks within ANI's risk tolerance levels;

   (iv) a culture of compliance is being promoted; and

   (v) compliance strategies and functions are effective;

d) establish and maintain effective internal and external audit functions, and communication between the Board and the internal and external auditor; and

e) verify financial compliance strategies and financial compliance functions are effective.

As at the date of this report, the Audit and Risk Committee comprises Janice van Reyk (Chair), Peter Iancov and Jeremy Schultz.

Conflicts

Directors are expected to be sensitive to conflicts of interest or duty that may arise and mindful of their fiduciary obligations. Directors must:

a) disclose to the Board any actual or potential conflict of interest or duty that might reasonably be thought to exist as soon as the situation arises;

b) take necessary and reasonable action to resolve or avoid any actual or potential conflict of interest or duty; and

c) comply with the *Corporations Act 2001* and the constitution in relation to disclosing material personal interests and any restrictions on voting.

The Board reviews all directors' disclosures at each meeting of the Board.

Delegations of authority and risk management

Clear delegated authorities consistent with maintaining efficiency of operations and effective management of risks has been implemented by the Board.

ANI has implemented an enterprise risk management framework and risk register, which is periodically reviewed by the Board and Audit and Risk Committee to ensure risks are being effectively managed.

Board performance and education

The Board assesses the performance of the Board and the Chair on an annual basis. An internal performance review process was undertaken for the 2017-18 financial year, with an external performance review to be undertaken for the 2018-19 financial year.

The Board comprises experienced directors, including some directors with prior GBE experience. In ANI's start-up phase, education of directors has been focused on ensuring familiarity with GBE requirements. An induction pack for new directors is under development, and other educational requirements will be considered as part of the Board's annual plan.

OSDP construction in progress

Code of Conduct

ANI has adopted a Code of Conduct (Code) that sets out the standards of conduct expected of ANI's directors, employees and contractors (ANI personnel).

The Code articulates the high standards of honesty, integrity, ethical and law abiding behaviour expected of ANI personnel and encourages the observance of those standards to protect and promote the interests of ANI, its shareholders and other stakeholders.

Compliance with the Code will assist ANI in creating a safe, healthy and productive work environment and preserve and enhance ANI's reputation in the community. The Code supports ANI's purpose to be the owner and developer and asset manager of shipyard infrastructure, in the Osborne precinct (South Australia) and other associated activities throughout Australia.

This Code operates in conjunction with ANI's policies and procedures.

Public Governance, Performance and Accountability Act and Rules

ANI will operate within the PGPA Act which sets out the requirements for the governance, reporting and accountability of Commonwealth entities and Commonwealth companies.

GBE requirements

From 1 July 2017, ANI was prescribed as a GBE within the definitions outlined in the PGPA Act. As a GBE, ANI is required to follow the GBE guidelines.

Wholly owned GBEs (including ANI) are required to prepare a Corporate Plan and Statement of Corporate Intent (SCI) in consultation with Shareholder Ministers. These documents focus on the purpose and corporate outlook of the GBE, and express the expectations of its management in relation to future financial and non-financial performance.

ANI's interim Corporate Plan and SCI were developed in late 2017, and its first full Corporate Plan and SCI were developed in 2018, with the SCI being published in August 2018 on ANI's website at www.ani.com.au.

Community service obligations

The Company is not required to fulfil any community service obligations.

Decisions affecting the Company and particulars of reports on the Company during the period

During the period, there were no judicial or administrative tribunal decisions applicable or reports on the Company.

Commercially sensitive information excluded from the annual report

The directors have not excluded from the annual report any information that is considered to be commercially sensitive and would be likely to result in unreasonable commercial prejudice to the Company.

Work Health Safety and Environment

ANI takes a proactive approach to the management of work health and safety, and protection of the environment through appropriate management systems and programs, including employee health checks, inductions and safety related training. In ANI's first year of operations, there have been no notifiable incidents, nor any investigations under Part 10 of the *Work Health and Safety Act 2011* (Cth).

The OSDP is a major construction project, being undertaken by ANI's Managing Contractor, Lendlease, under their safety management system. ANI monitors the project's safety performance to ensure that safety systems are operationalised and provide a safe place to work. Since mobilising to site in late 2017 there have been no notifiable incidents.

Voluntary Tax Transparency Code (TTC)

ANI has complied with the requirements of the TTC as follows:

- *A reconciliation of accounting profit to tax expense and to income tax paid or income tax payable:* Being in a loss-making position, ANI is yet to pay income tax. The tax benefit, based on accounting losses equals 30% and is further detailed in note 6(b) of the financial statements.
- *Identification of material temporary and non-temporary differences:* ANI's net deferred tax balance of $31.5m comprises temporary differences, mainly attributable to revaluations of property, plant and equipment. This is further explained in note 6 (d)(iii) of the financial statements.
- *Accounting effective company tax rates for Australian and global operations:* ANI does not have a global presence and, from its Australian perspective, the tax benefit, based on accounting losses equals 30%.

Board and Management

The below table details Board and Committee meetings and director attendance during the reporting period.

	Board of Directors		Audit and Risk Committee	
	Held	Attended	Held	Attended
Mr Lucio Di Bartolomeo	8	8		
Mr Peter Iancov*	8	8	4	4
Mr Jim Whalley	8	7		
Mr Jeremy Schultz*	8	8	4	4
Ms Janice van Reyk*	8	8	4	4
Mr David Knox	8	8		

** indicates Audit and Risk Committee member*

The names and details of the directors in office as at 30 June 2018 are as follows:

LUCIO DI BARTOLOMEO

B.E (Civil), M.Eng.Sc

Chair and Non-Executive Director

Lucio was appointed as Chair on 26 June 2017. His current term will expire on 25 June 2020.

With over 40 years' experience in the transport industry, Lucio brings extensive knowledge in rail, infrastructure and engineering fields to the ANI Board as a non-executive director. He is currently the Chairman of Northwest Rapid Transit and Health Infrastructure NSW as well as director of Moorebank Intermodal Company and Australian Super. He was previously a non-executive director of Australian Rail Track Corporation. Prior to taking on non-executive director roles, Lucio was the Managing Director of ADI Limited, Country Director of Thales (Australia) and Managing Director of FreightCorp.

PETER IANCOV

FIEAust, FAIB, FAIM, SMIEEE, MAICD, CSE

Non-Executive Director

Peter was appointed on 13 February 2017 and reappointed on 26 June 2017. His current term will expire on 25 June 2020.

Peter is an experienced executive with over 25 years' expertise gained in the energy infrastructure, mining, commercial construction, contracting and defence sectors. He has previously held senior executive positions with responsibility for building business partnerships across Australian and multinational organisations.

In his previous executive roles, Peter has been instrumental in securing and delivering major infrastructure projects and was responsible for the management, construction and operation of $4.3 billion of critical energy infrastructure assets.

Peter's other directorships include Southern Ports and Western Power, and prior to joining ANI, was a non-executive director of ASC Pty Ltd.

ALAN (JIM) WHALLEY

MBA(Adel), BSc(NSW), MRAeS, GAICD

Non-Executive Director

Jim was appointed on 26 June 2017. His current term will expire on 25 June 2020.

Jim is a co-founder and executive Chairman of Nova Systems, one of Australia's largest privately owned defence professional service providers. He is a former air force fighter pilot and a graduate of the Royal Air Force Empire Test Pilots' School. Amongst other qualifications, he holds a Masters of Business Administration, a science degree and is a graduate of the Harvard Business School OPM Executive Education Program. He is a member of the Sir Ross and Keith Smith Advisory Committee, a director of AMCHAM and the Adelaide Festival.

Jim is also a former member of The University of Adelaide Business School Advisory Council, the Federal Government's Defence Industry Innovation Centre Advisory Board, the AIG Defence council and Deputy Chair of The Repat Foundation. He is a member of the Society of Experimental Test Pilots, the Flight Test Society of Australia, the Royal Aeronautical Society and a graduate of the Australian Institute of Company Directors.

JEREMY SCHULTZ

LLB (HONS), LLM, GDLP, FAICD, MAIE

Non-Executive Director

Jeremy was appointed on 13 February 2017 and reappointed on 26 June 2017. His current term will expire on 25 June 2020.

Jeremy is currently Chairman of Partners at Finlaysons and heads up the firm's Corporate and Energy practice areas.

He is an Australian Institute of Company Directors Fellow, a former Deputy Chair, Law Council of Australia, Business Law Section – Corporations Committee and Clean Energy Council – Founding Board Member, current RUAG Australia Pty Ltd Chair and St Peter's Girls' School Chair and Australian Institute of Energy Board Member, Les Favell Cricket Foundation Trustee and Lisa Fahey Foundation Inc. Board Member.

MS JANICE VAN REYK

FAICD, CPA

Non-Executive Director

Janice was appointed on 14 August 2017. Her current term will expire on 13 August 2020.

Janice is a non-executive director serving on the boards of Lochard Energy Group, Citywide, Victorian Ports Corporation, Tennis Australia, Melbourne and Olympic Park Trust and Northern Territory EPA. Previously, she enjoyed a career as a senior executive in ASX 100 companies (BHP, Orica, National Foods).

She also serves as an independent member of Vic Roads Risk Audit and Governance Committee. She is a Fellow of the AICD, a CPA and a Leadership Victoria Fellow.

DAVID KNOX

BSc (Hons) Mech Eng, MBA, FIEAust, FTSE, GAICD

Managing Director and CEO

David was appointed interim MD and CEO on 13 June 2017 and appointed MD and CEO on 13 September 2017. His current term will expire on 12 September 2020.

Prior to his appointment at ANI, David was MD and CEO of Santos Limited from 2008 to 2015. David was previously the Managing Director for BP Developments in Australasia from 2003 to 2007. He has worked for BP in the United Kingdom and Pakistan, and has held management and engineering positions at ARCO and Shell in the USA, Netherlands, United Kingdom and Norway.

David is Chair of TACSI and i3 Energy (UK Ltd) and a director of Red Flow Ltd, CSIRO, Adelaide Festival and the Migration Council. He is a member of the Commonwealth Science Council and a council member of RiAus. David holds a Bachelor of Science (Honours) in Mechanical Engineering, a Masters of Business Administration and is a Graduate of the Australian Institute of Company Directors.

ANDREW SEATON

BE (Chem) Hons, Grad Dip Bus Admin, GAICD

Chief Financial and Commercial Officer

Andrew was appointed Chief Financial and Commercial Officer in July 2017.

Andrew has had an extensive career encompassing a broad range of finance, strategy, commercial, investment banking, engineering and project management roles. He was most recently the CFO of Santos Limited, a significant Australian producer of oil, domestic gas and LNG and he previously worked in investment banking with Merrill Lynch.

Andrew has an Honours degree in Chemical Engineering, a Graduate Diploma in Business Administration and is a graduate of the Australian Institute of Company Directors.

SALLY MCLENNAN

LLB (with Honours), GDLP, BMgt, MAICD

General Counsel and Company Secretary

Sally was appointed General Counsel and Company Secretary in August 2017.

Sally is an experienced in-house commercial and corporate lawyer. Prior to joining ANI, she held senior legal roles at ASC Pty Ltd and Santos Limited. Sally's prior experience includes commercial and human resources roles across industries, including oil and gas, telecommunications and manufacturing sectors.

Sally has a Bachelor of Laws (with Honours), Graduate Diploma in Legal Practice and a Bachelor of Management (Labour Relations).

PAUL BATES

BA, Grad Dip Information Mgt, Dip Leadership and Mgt.

General Manager, Operations

Paul was appointed General Manager, Operations in June 2017.

Paul has substantial maritime operations experience. Prior to his appointment at ANI, Paul was General Manager - Infrastructure of the Defence SA Techport Common User Facility (CUF), ensuring the successful delivery of the CUF and other contracted services to the Air Warfare Destroyer Program since 2009. From 2006, Paul was Project and Bid Manager for DMS Maritime Pty Ltd (now Serco Defence), leading a number of successful tenders for that company.

Paul is a graduate of the Australian Defence Force Academy and served for 18 years in the Royal Australian Navy, holding a variety of operations roles both at sea and ashore.

PHIL CORNISH

B.Eng (Civil)

Project Director

Phil was appointed as Project Director for the OSDP in January 2018.

Phil has more than 28 years' experience in project and construction management of major infrastructure projects such as highway and major arterial roads, road and rail tunnels, public transport systems, marine structures and major transit systems for airports and railway stations.

Prior to joining ANI, Phil was Construction Manager for the $4B Westconnex M4 Project with Sydney Motorway Corporation, and previously filled senior management roles with a number of Australian construction companies.

Your directors present their report, together with the financial report of Australian Naval Infrastructure Pty Ltd (the Company), for the year ended 30 June 2018 and the auditor's report thereon.

Directors

The following were directors of the Company during the whole of the financial year and up to the date of this report:

- Lucio Di Bartolomeo
- David Knox
- Peter Iancov
- Jeremy Schultz
- Alan (Jim) Whalley

The following person was appointed as a director during the period:

- Janice van Reyk - appointed 14 August 2017

Principal activities

The Company holds property, plant and equipment utilised for the maintenance of the Collins Class submarines and construction of the AWDs and is presently undertaking an expansion and refurbishment of the Osborne South Shipyard in support of the Commonwealth's continuous naval shipbuilding program.

Result

The net loss of the Company for the financial year attributable to the shareholders of the Company, was $3.8 million (2017: $0.3 million profit) after an income tax benefit of $1.6 million (2017: $0.1 million expense).

Dividends

As at the date of this report, the directors had not paid or declared any dividends since the end of the previous financial year.

Particulars relating to the entity

Australian Naval Infrastructure Pty Ltd is incorporated in Australia. The registered office and principal place of business is at 61 Veitch Road, Osborne SA 5017. It is wholly owned by the Commonwealth Government.

Significant changes in the state of affairs

Acquisition of South Australian Government owned land and infrastructure:
Under a Memorandum of Understanding between the Commonwealth Government and the State of South Australia, the Company purchased the agreed operational assets of the Techport business, including certain liabilities and the transfer of relevant operational employees for total consideration of $230 million, with the final payment made on 30 November 2017.

Osborne Naval Shipyard development:
During the financial year, capital works commenced on the Osborne Naval Shipyard. Upgrading the shipyard to modern standards, including the introduction of advanced manufacturing capabilities, is critical to the capability and capacity of the Osborne Naval Shipyard to undertake the continuous build of major surface combatants and construction of future submarines.

Environmental regulation

The operations of the Company are subject to environmental regulation under both Commonwealth and State legislation in relation to activities undertaken on site in South Australia.

The Company is committed to achieving a high standard of environmental performance consistent with the requirements of AS/NZ ISO 14001. ANI's Common Use Facility has accreditation for AS/NZ ISO 14001: Environmental Management Systems.

The Company has complied with all applicable environmental regulations and site specific environmental licence requirements.

There have been no environmental incidents in the reporting period requiring official regulatory notification.

Events subsequent to the end of the reporting period

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

Directors' benefits

Since the end of the previous financial year, no director of the Company has received or become entitled to receive any benefit (other than reimbursement of expenses and the aggregate amount of remuneration received or due and receivable by directors shown in the consolidated accounts) because of a contract made by the Company, or a related body corporate with the director or with a firm of which the director is a member, or with an entity in which the director has a substantial interest.

Indemnification and insurance of directors and officers

(a) *Indemnification*
The Company has agreed to indemnify the current and previous directors and officers of the Company for all liabilities to another person (other than the Company or a related body corporate) that may arise in their capacity as directors and officers of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreements stipulate that the Company will meet, to the extent permitted by law, the full amount of any such liabilities, including costs and expenses.

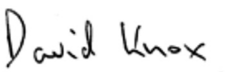
(b) *Insurance premiums*
Since the end of the previous financial year, the Company has paid insurance premiums in respect of directors' and officers' liability insurance contracts for current and former directors and officers, including executive officers of the Company and directors. The insurance premiums cover directors and officers for actual losses incurred in their capacity as directors and officers of the Company, which are not indemnified by the Company and which the director or officer becomes legally obligated to pay on account of certain claims made against him/her individually or otherwise. The terms of the insurance policy prohibit disclosure of the amounts of the premium payable.

Lead auditor's independence declaration

The auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 30.

This report is made in accordance with a resolution of directors.

Lucio Di Bartolomeo
Chair



David Knox
Managing Director

Adelaide
13 September 2018

This report covers ANI's Key Management Personnel (KMP) who have authority and responsibility for planning, directing and controlling the activities of the Company directly and indirectly throughout the year.

	Title	2017 Status	KMP Status
Directors			
Lucio Di Bartolomeo	Non-Executive Chair	Full Year	Current
Alan (Jim) Whalley	Non-Executive Director	Full Year	Current
Jeremy Schultz	Non-Executive Director	Full Year	Current
Peter Iancov	Non-Executive Director	Full Year	Current
Janice van Reyk	Non-Executive Director	New Appointment	Appointed 14 August 2017
Senior executives			
David Knox	Managing Director and Chief Executive Officer	Full year	Current
Andrew Seaton	Chief Financial and Commercial Officer	New Appointment	Appointed 20 July 2017
Sally McLennan	General Counsel and Company Secretary	New Appointment	Appointed 21 August 2017
Paul Bates	General Manager Operations	New Appointment	Appointed 1 December 2017
Phil Cornish	Project Director	New Appointment	Appointed 15 January 2018

Non-executive director fees

All non-executive directors of ANI are appointed by the Commonwealth Government through the Shareholder Ministers.

Fees for non-executive directors are set through the determinations of the Commonwealth Remuneration Tribunal, an independent statutory body overseeing the remuneration of key Commonwealth offices. ANI is obligated to comply with the Tribunal's determinations and plays no role in the consideration or determination of non-executive director fees.

Remuneration for non-executive directors for FY 2018 and FY 2017 is shown in the table below:

		Short-term benefits	Post-employment benefits	Total remuneration
		Directors fees	Superannuation contributions	
		$	$	$
Non-executive directors				
Lucio Di Bartolomeo	2018	116,743	11,091	127,834
	2017	-	-	-
Alan (Jim) Whalley	2018	58,371	5,545	63,916
	2017	-	-	-
Jeremy Schultz	2018	66,166	-	66,166
	2017	-	-	-
Peter Iancov	2018	66,359	6,304	72,663
	2017	-	-	-
Janice van Reyk	2018	64,532	6,130	70,662
	2017	-	-	-
Total non-executive directors	2018	372,171	29,070	401,241
	2017	-	-	-

Remuneration for senior executives for FY 2018 and FY 2017 is shown in the table below:

		Short-term benefits		Post-employment	Long-term benefits	Total remuneration
		Base salary[1]	STI/Bonuses	Superannuation contributions	Long service leave[2]	Total
Senior executives	$	$	$	$	$	
David Knox	2018	510,529	81,348	54,066	3,957	649,900
	2017	8,182	-	722	190	9,094
Andrew Seaton	2018	442,127	70,155	22,335	1,492	536,109
	2017	-	-	-	-	-
Phil Cornish	2018	149,630	24,110	15,504	515	189,759
	2017	-	-	-	-	-
Paul Bates	2018	131,783	36,822	15,591	3,778	187,974
	2017	-	-	-	-	-
Sally McLennan	2018	204,893	38,388	22,182	736	266,199
	2017	-	-	-	-	-
Total executives	2018	1,438,962	250,823	129,678	10,478	1,829,941
	2017	8,182	-	722	190	9,094
Total KMP	2018	1,811,133	250,823	158,748	10,478	2,231,182
	2017	8,182	-	722	190	9,094

(1) Base salary includes KMP's accrued annual leave entitlements.

(2) Long service leave amounts relate to the movement in the provision, for long service leave during the relevant period, which is calculated in accordance with Australian Accounting Standards. In estimating the provision, consideration is given to expected future wage and salary levels, fulfillment of service level milestones and periods of service. Expected future payments are discounted using market yields at the balance date on national corporate bonds.

OSDP construction in progress

Mr Lucio Di Bartolomeo
Chairman of the Board
Australian Naval Infrastructure Pty Ltd
61 Veitch Road
Osborne SA 5017

AUSTRALIAN NAVAL INFRASTRUCTURE PTY LTD
FINANCIAL REPORT 2017–18
AUDITOR'S INDEPENDENCE DECLARATION

In relation to my audit of the financial report of Australian Naval Infrastructure Pty Ltd for the year ended 30 June 2018, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) no contravention of any applicable code of professional conduct.

Australian National Audit Office

Carla Jago
Group Executive Director

Delegate of the Auditor-General

Canberra

13 September 2018

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

The directors declare that, in the directors' opinion:

(a) the financial statements and notes set out on pages 35 to 67 are in accordance with the *Corporations Act 2001*, including:

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

   (ii) giving a true and fair view of the entity's financial position as at 30 June 2018 and of its performance for the year ended on that date, and

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

Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of directors.

Lucio Di Bartolomeo
Chair

David Knox
Managing Director

Adelaide
13 September 2018

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the members of Australian Naval Infrastructure Pty Ltd

Opinion

In my opinion, the financial report of Australian Naval Infrastructure Pty Ltd for the year ended 30 June 2018 is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of Australian Naval Infrastructure Pty Ltd's financial position as at 30 June 2018 and of its performance for the year then ended; and

(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

The financial report of Australian Naval Infrastructure Pty Ltd, which I have audited, comprises the following statements as at 30 June 2018 and for the year then ended:

- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Statement of Cash Flows;
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information; and
- Directors' declaration.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of Australian Naval Infrastructure Pty Ltd in accordance with the *Corporations Act 2001* and the relevant ethical requirements for financial report audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code.

I confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Naval Infrastructure Pty Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, but does not include the financial report and my auditor's report thereon.

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

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

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

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Directors' Responsibility for the Financial Report

The directors of Australian Naval Infrastructure Pty Ltd are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing Australian Naval Infrastructure Pty Ltd's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

My objective is to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Australian National Audit Office

CJago

Carla Jago
Group Executive Director
Delegate of the Auditor-General
Canberra
13 September 2018

OSDP: Block outfitting and erection hall

FINANCIAL STATEMENTS

	Notes	June 2018 $'000	June 2017 $'000
Revenue from continuing operations			
Total revenue from continuing operations	5(a)	18,669	15,391
Expenses			
Depreciation and amortisation expense	5(b)	(15,467)	(8,621)
Utilities		(568)	(1,895)
Repairs and maintenance		(598)	(1,545)
Corporate Costs		(7,270)	(2,123)
Impairment of plant and equipment	5(b)	-	(459)
Finance costs	5(b)	(189)	(371)
Loss before income tax		(5,423)	377
Income tax benefit/(expense)	6(a)	1,627	(113)
Loss for the period		(3,796)	264
Other comprehensive income *Items that will not be reclassified to profit and loss*			
Gain on revaluation of land and buildings	8(a)	6,318	2,974
Income tax relating to these items		(1,895)	(765)
Other comprehensive income for the period, net of tax		4,423	2,209
Total comprehensive income for the period		627	2,473
Loss is attributable to:			
Owners of Australian Naval Infrastructure Pty Ltd		(3,796)	264
Total comprehensive income for the period is attributable to:			
Owners of Australian Naval Infrastructure Pty Ltd		627	2,473

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

STATEMENT OF FINANCIAL POSITION / AS AT 30 JUNE 2018

	Notes	June 2018 $'000	June 2017 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	30,855	41,509
Trade and other receivables	7(b)	4,834	2,545
Prepayments		264	99
Current tax receivable		981	-
Total current assets		36,934	44,153
Non-current assets			
Property, plant and equipment	8(a)	573,780	279,402
Total non-current assets		573,780	279,402
Total assets		610,714	323,555
LIABILITIES			
Current liabilities			
Trade and other payables	7(c)	11,543	362
Current tax liabilities		-	421
Provisions	8(b)	287	2
Other current liabilities		233	-
Total current liabilities		12,063	785
Non-current liabilities			
Provisions	8(b)	36	-
Deferred tax liabilities	6(d)	31,542	36,011
Non-interest-bearing liabilities	7(d)	15,747	15,560
Total non-current liabilities		47,325	51,571
Total liabilities		59,388	52,356
Net assets		551,326	271,199
EQUITY			
Share capital	10(a)	566,223	286,723
Revaluation surplus	10(b)	31,039	26,616
Retained earnings	10(c)	(45,936)	(42,140)
Total equity		551,326	271,199

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

STATEMENT OF CHANGES IN EQUITY / FOR THE YEAR ENDED 30 JUNE 2018

	Share capital $'000	Revaluation surplus $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2016	10,000	24,620	(42,617)	(7,997)
Profit/(loss) for the year	-	-	264	264
Revaluation of land and buildings	-	2,974	-	2,974
Asset revaluation reserve balance adjustment	-	(213)	213	-
Income tax relating to these items	-	(765)	-	(765)
Total comprehensive income for the year	-	1,996	477	2,473
Transactions with owners in their capacity as owners:				
Contributions of equity	40,000	-	-	40,000
Conversion of intercompany loan to equity	236,723	-	-	236,723
	276,723	-	-	276,723
Balance at 30 June 2017	286,723	26,616	(42,140)	271,199
Balance at 1 July 2017	286,723	26,616	(42,140)	271,199
(Loss)/profit for the year	-	-	(3,796)	(3,796)
Revaluation of land and buildings	-	6,318	-	6,318
Income tax relating to these items	-	(1,895)	-	(1,895)
Total comprehensive income for the year	-	4,423	(3,796)	627
Transactions with owners in their capacity as owners:				
Contributions of equity	279,500	-	-	279,500
	279,500	-	-	279,500
Balance at 30 June 2018	566,223	31,039	(45,936)	551,326

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

STATEMENT OF CASH FLOWS / FOR THE YEAR ENDED 30 JUNE 2018

	Notes	June 2018 $'000	June 2017 $'000
Cash flows from operating activities			
Receipts from customers		20,011	12,846
Payments to suppliers and employees		(11,738)	(5,902)
Net cash inflow from operating activities	7(a)	8,273	6,944
Cash flows from investing activities			
Acquisition of Techport business	4(a)	(230,000)	-
Payments for property, plant and equipment		(68,943)	(1,433)
Proceeds from sale of property, plant and equipment		-	1,997
Interest received		516	5
Loan to ASC Pty Ltd		-	(14,854)
Loan from ASC Pty Ltd		-	8,850
Net cash outflow from investing activities		(298,427)	(5,435)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities	10(a)	279,500	40,000
Interest paid		-	-
Net cash inflow from financing activities	7(a)	279,500	40,000
Net (decrease)/increase in cash and cash equivalents		(10,654)	41,509
Cash and cash equivalents at beginning of period		41,509	-
Cash and cash equivalents at end of year	7(a)	30,855	41,509

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

NOTES TO THE FINANCIAL STATEMENTS

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1 ABOUT THIS REPORT

ANI is a company incorporated and domiciled in Australia. It is wholly-owned by the Commonwealth Government. The financial report is presented in Australian dollars.

ANI is a for-profit entity for the purpose of preparing the financial report.

2 BASIS OF PREPARATION

(a) Statement of compliance

This general purpose financial report has been prepared in accordance with:

1. Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB); and
2. The *Corporations Act 2001.*

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

(b) Historical cost convention

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

- certain classes of property, plant and equipment - measured at fair value; and
- financial assets and liabilities (including derivative instruments) - measured at fair value.

(c) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates or judgements which are material or have the potential to be material to the financial report are found in the following notes:

Accounting estimates and judgements	Note
Fair value of land and buildings	8(a)
Estimation of percentage completion for assets under construction	8(a)

(d) Significant accounting policies

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability. Unless otherwise stated, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

Significant accounting policies are contained in the notes to the financial statements to which they relate and note 15 (Other significant accounting policies).

3 FUNCTIONAL AND PRESENTATION CURRENCY

The Company's financial statements are presented in Australian dollars, which is the Company's functional currency. The Company is of a kind referred to in ASIC Legislative Instrument 2016/191 dated 1 April 2016 and, in accordance with the Legislative Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

4 SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

(a) Acquisition of State Government owned land and infrastructure

Under a Memorandum of Understanding between the Commonwealth Government and the State of South Australia (enduring Commonwealth-State collaboration in relation to the conduct of continuous naval shipbuilding in Osborne, South Australia), the Company purchased the agreed operational assets of the Techport business, including certain liabilities and the transfer of relevant operational employees for total consideration of $230 million, with the final payment made on 30 November 2017.

Assets acquired and liabilities assumed:

	Fair value recognised on acquisition $'000
Assets	
Property, plant and equipment	225,562
Deferred tax assets	4,737
Total assets	230,299
Liabilities	
Employee entitlements	(299)
Total liabilities	(299)
Total net identifiable assets at fair value	230,000
Purchase consideration transferred	230,000

From the date of acquisition, the Techport Australia business has contributed $1.8 million of revenue and $4.6 million to loss before tax from continuing operations of the Company. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been $19.9 million and loss before tax from continuing operations of the Company would have been $8.7 million.

Acquisition costs

Costs incurred as a result of the acquisition amount to $0.5 million and are included in Corporate costs in the statement of comprehensive income.

(b) Osborne Naval Shipyard

During the financial year, capital works commenced on the Osborne Naval Shipyard. Upgrading the shipyard to modern standards, including the introduction of advanced manufacturing capabilities, is critical to the capability and capacity of the Osborne Naval Shipyard to undertake the continuous build of major surface combatants and construction of future submarines.

5 FINANCIAL PERFORMANCE

(a) Revenue

	June 2018 $'000	June 2017 $'000
Revenue from continuing operations		
Facilities and services charge	17,831	15,386
Rental income	322	-
Total	18,153	15,386
Interest income	516	5
	18,669	15,391

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised when it is probable that economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue stream	Recognition
Facilities and services charge	The charge is made up of a capital charge, depreciation charge and priority access fee. Revenue for these charges is recognised in the period invoiced.
Capital charge	Revenue is recognised based on a percentage of the depreciated historic cost of critical infrastructure assets that have not been funded by a program or project.
Depreciation charge	Revenue is recognised based on the depreciation of critical infrastructure assets provided by the Company.
Priority access fee	Annual priority access fee revenue is recognised on a straight-line basis over the period to which the charge relates.
Rental income	Annual rental charges are recognised on a straight-line basis over the period to which the charge relates.
Interest income	Interest income is recognised as it accrues, using the effective interest method.

5 FINANCIAL PERFORMANCE (cont)

(b) Other income and expense items

(i) *Items included in profit before tax*

	June 2018 $'000	June 2017 $'000
Depreciation		
Buildings	11,747	5,178
Plant and equipment	3,720	3,443
	15,467	8,621
Finance costs		
Interest expense - other	189	371
Impairment of plant and equipment		
Impairment of plant & equipment	-	459

Accounting policy

Expense	Policy
Depreciation	Accounting policies for depreciation and amortisation are described in note 8(a).
Finance costs	Borrowing costs incurred during the financial year are expensed.

6 TAXATION

(a) Income tax (benefit)/expense

Recognised in the statement of comprehensive income

	June 2018 $'000	June 2017 $'000
Current tax (benefit)/expense		
Current year	(884)	353
Total current tax (benefit)/expense	(884)	353
Deferred income tax		
Temporary differences arising during the year, net of reversal	(743)	(240)
Total deferred tax (benefit)/expense	(743)	(240)
Income tax (benefit)/expense	(1,627)	113
Income tax expense is attributable to:		
(Loss)/profit from continuing operations	(1,627)	113

6 TAXATION (cont)

(a) Income tax (benefit)/expense (cont)

Accounting policy

Income tax on profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Expense	Policy
Current tax	Represents the expected tax payable on taxable income for the year, using tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.
Deferred tax	Represents the expense relating to future tax consequences of all transactions undertaken in the current year regardless of when their tax impact may occur.

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

	June 2018 $'000	June 2017 $'000
(Loss)/profit from continuing operations before income tax	(5,423)	377
Tax at the Australian tax rate of 30.0% (2017 - 30.0%)	(1,627)	113
Income tax (benefit)/expense	(1,627)	113

(c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity.

	June 2018 $'000	June 2017 $'000
Net deferred tax	1,895	765

6 TAXATION (cont)

(d) Deferred tax balances

Net position as presented in the statement of financial position

	June 2018 $'000	June 2017 $'000
Net deferred tax liabilities		
Deferred tax assets	16,470	10,847
Deferred tax liabilities	(48,012)	(46,858)
	(31,542)	(36,011)

(iv) Deferred tax assets

	June 2018 $'000	June 2017 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	15,454	10,847
Tax losses carried forward	884	-
Sundry items	132	-
	16,470	10,847

	Property, plant and equipment $'000	Sundry items $'000	Total $'000
Movements			
At 1 July 2016	1,124	-	1,124
Charged/(credited)			
- profit or loss	121	-	121
Transfer of non-critical assets	(607)	-	(607)
Transfer of critical assets	10,209	-	10,209
At 30 June 2017	10,847	-	10,847
At 1 July 2017	10,847	-	10,847
Charged/(credited)			
- profit or loss	(40)	926	886
Acquisition	4,647	90	4,737
At 30 June 2018	15,454	1,016	16,470

6 TAXATION (cont)

(d) Deferred tax balances (cont)

(ii) *Deferred tax liabilities*

	June 2018 $'000	June 2017 $'000
The balance comprises temporary differences attributable to:		
Property, plant and equipment	47,895	46,740
Sundry items	117	118
	48,012	46,858

	Property, plant and equipment $'000	Sundry items $'000	Total $'000
Movements			
At 1 July 2016	9,148	186	9,334
Charged/(credited)			
- profit or loss	(50)	(68)	(118)
- to other comprehensive income	765	-	765
Transfer of non-critical assets	90	-	90
Transfer of critical assets	36,787	-	36,787
At 30 June 2017	46,740	118	46,858
At 1 July 2017	46,740	118	46,858
Charged/(credited)			
- profit or loss	(740)	(1)	(741)
- to other comprehensive income	1,895	-	1,895
At 30 June 2018	47,895	117	48,012

(iii) *Net deferred tax*

	June 2018 $'000	June 2017 $'000
The net balance comprises temporary differences attributable to:		
Property, plant and equipment	(32,441)	(35,893)
Sundry items	899	(118)
	(31,542)	(36,011)

7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Cash and cash equivalents

	June 2018 $'000	June 2017 $'000
Current assets		
Cash and cash equivalents	30,855	41,509
	30,855	41,509

Cash and cash equivalents include cash at bank and on hand as well as deposits held at call with financial institutions. The Company's exposure to interest rate risk is discussed in note 9(d).

Reconciliation of (loss)/profit after income tax to net cash inflow from operating activities

	June 2018 $'000	June 2017 $'000
(Loss)/Profit for the year	(3,796)	264
Adjustment for:		
Depreciation and amortisation	15,467	8,621
Interest expense	187	371
Impairment of plant and equipment	-	459
Income tax (benefit)/expense	(1,627)	113
Interest received	(516)	(5)
Change in operating assets and liabilities:		
(Increase) in trade and other debtors	(2,294)	(2,540)
Increase/(decrease) in trade creditors and other liabilities	2,718	(240)
(Increase) in prepayments	(165)	(99)
Movement in current and deferred taxes	(1,701)	-
Net cash inflow from operating activities	8,273	6,944

Reconciliation of movements of liabilities and equity to cash flows arising from financing activities

	2018 $'000	2017 $'000
Proceeds from issue of share capital	279,500	40,000
Net cash inflow from financing activities	279,500	40,000

7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont)

(b) Trade and other receivables

	June 2018 $'000	June 2017 $'000
Current assets		
Trade receivables	3,106	2,540
Other receivables	1,728	5
	4,834	2,545

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

(c) Trade and other payables

	June 2018 $'000	June 2017 $'000
Current liabilities		
Trade payables	11,543	55
Other payables	-	307
	11,543	362

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid and are measured at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition.

7 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont)

(d) Borrowings

Non-interest-bearing liabilities

	June 2018 $'000	June 2017 $'000
Non-current		
Term loan	3	3
Deferred purchase obligation	15,744	15,557
	15,747	15,560

(i) *Non-interest-bearing liabilities*

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

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

(ii) *Deferred purchase obligation*

As part of the AWD program, ASC AWD Shipbuilder Pty Ltd and ASC Engineering Pty Limited, subsidiaries of ASC Pty Ltd, entered into an agreement with the Commonwealth of Australia where the Commonwealth of Australia made a contribution to build a production facility required for the construction of the AWDs.

Under this arrangement, ASC AWD Shipbuilder Pty Ltd had an obligation to purchase the facility within three months of the completion of the last AWD at an amount equal to the lesser of the written down value of the facility at an agreed depreciation rate, and the fair market value determined by a licensed valuer. No loss is expected to be incurred in relation to this deferred purchase obligation.

As of 26 March 2017, this obligation transferred to the Company as owner of the critical infrastructure of the AWD shipyard.

The deferred purchase obligation has been discounted to its fair value of $15.7 million at 30 June 2018 in accordance with AASB 139 *Financial Instruments: Recognition and Measurement.*

(iii) *Term loan*

The term loan consists of an interest free 99-year loan to the Company from the Department of Manufacturing Industry, Small Business and Regional Development (SA), for expenditure on capital items and to assist with site development costs.

The $0.2 million term loan is repayable in 2094 or at the option of the Company at any time prior to 2094.

The term loan has been discounted to its fair value of $0.003 million at 30 June 2018 (2017: $0.003 million) in accordance with AASB 139 *Financial Instruments: Recognition and Measurement.*

8 NON-FINANCIAL ASSETS AND LIABILITIES

(a) Property, plant and equipment

	June 2018 $'000	June 2017 $'000
Freehold land		
Freehold land	79,943	31,500
Freehold buildings and infrastructure		
Freehold buildings and infrastructure	338,789	239,289
Plant and equipment		
Gross value	103,716	13,812
Accumulated depreciation	(7,745)	(5,362)
	95,971	8,450
Assets under construction		
Assets under construction	59,077	163
Total property, plant and equipment	573,780	279,402

8 NON-FINANCIAL ASSETS AND LIABILITIES (cont)

(a) Property, plant and equipment (cont)

	Freehold land $'000	Freehold buildings and infrastructure $'000	Plant and equipment $'000	Assets under construction $'000	Total $'000
Year ended 30 June 2017					
Opening net book amount	12,500	101,126	27,718	131	141,475
Revaluation surplus	-	2,974	-	-	2,974
Additions	19,000	141,943	4,813	1,596	167,352
Transfers	-	39	1,332	(1,371)	-
Depreciation charge	-	(5,178)	(3,443)	-	(8,621)
Impairment loss	-	-	(459)	-	(459)
Disposals	-	(1,615)	(21,511)	(193)	(23,319)
Closing net book amount	31,500	239,289	8,450	163	279,402
Year ended 30 June 2018					
Opening net book amount	31,500	239,289	8,450	163	279,402
Revaluation surplus	-	6,318	-	-	6,318
Acquisitions	32,025	98,122	90,698	4,717	225,562
Additions	16,418	2,321	544	58,682	77,965
Transfers	-	4,485	-	(4,485)	-
Depreciation charge	-	(11,746)	(3,721)	-	(15,467)
Impairment loss	-	-	-	-	-
Disposals	-	-	-	-	-
Closing net book amount	79,943	338,789	95,971	59,077	573,780

(iv) *Assets in the course of construction*

The carrying value of property, plant and equipment includes $58 million (2017: nil) of expenditure on assets which are in the course of construction in relation to the Osborne South shipyard, which are to be funded through capital injections from shareholders, under an equity funding agreement. As these assets are not ready for use, no depreciation is charged on these assets.

8 NON-FINANCIAL ASSETS AND LIABILITIES (cont)

(a) Property, plant and equipment (cont)

(ii) *Recognition and measurement*

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

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

Increases in the carrying amounts arising on revaluation of land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

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

- Freehold buildings and infrastructure 8 - 60 years
- Plant and equipment 3 - 20 years

The cost of an individual item of property, plant and equipment with an acquisition cost of less than $1,000 will be considered a minor equipment purchase and will therefore not be depreciated but expensed at acquisition.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These amounts are included in the statement of comprehensive income. When revalued assets are sold, it is the Company's policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

(iii) *Impairment*

The carrying amount of the Company's assets other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

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

(iv) *Valuations of land and buildings*

An independent valuation of all land and buildings of the Company was carried out by Griffin Valuation Advisory as at 30 June 2018 with the exception of assets acquired during the course of the reporting period. The fair value of the land is based on recent market transactions on arm's length terms and the fair value of buildings is based on the depreciated replacement cost approach.

8 NON-FINANCIAL ASSETS AND LIABILITIES (cont)

(a) Property, plant and equipment (cont)

(v) *Carrying amounts that would have been recognised if land and buildings were stated at cost*

If freehold land and buildings were stated on the historical cost basis, the amounts would be as follows:

	June 2018 $'000	June 2017 $'000
Freehold land		
Cost	51,163	2,721
Buildings		
Cost	323,491	269,270
Accumulated depreciation	(89,770)	(131,627)
Net book amount	233,721	137,642

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

There are no non-current assets pledged as security by the Company.

(vii) *Capital expenditure commitments*

At reporting date, the Company has capital expenditure commitments of $267 million (2017: Nil).

(b) Provisions

A provision is recognised in the statement of financial position when the entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

	June 2018 $'000	June 2017 $'000
Employee benefits		
Current	287	2
Non-current	36	-
Total employee benefits	323	2

(i) *Short-term employee benefit obligations*

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

8 NON-FINANCIAL ASSETS AND LIABILITIES (cont)

(b) Provisions (cont)

(ii) *Other long-term employee benefit obligations*

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currency that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the statement of financial position if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

(c) Recognised fair value measurements

The Company measures and recognises the following assets and liabilities at fair value on a recurring basis:

Land and buildings

(i) *Fair value hierarchy*

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Company's assets and liabilities measured and recognised at fair value as at 30 June 2018 and 30 June 2017.

Recurring fair value measurements

	Notes	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2017					
Non-financial assets					
Buildings	8(a)	-	-	239,289	239,289
Freehold land	8(a)	-	31,500	-	31,500
Total non-financial assets		-	31,500	239,289	270,789
30 June 2018					
Non-financial assets					
Buildings	8(a)	-	-	338,789	338,789
Freehold land	8(a)	-	79,943	-	79,943
Total non-financial assets		-	79,943	338,789	418,732

8 NON-FINANCIAL ASSETS AND LIABILITIES (cont)

(c) Recognised fair value measurements (cont)

Disclosed fair values

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

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

(ii) *Valuation techniques used to determine level 2 and level 3 fair values*

The Company obtains independent valuations for its land and buildings (classified as property, plant and equipment) at least triennially. At the end of each reporting period, management updates their assessment of the fair value of each property, taking into account the most recent independent valuations. Management determines a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. The level 2 fair value of land has been derived using the sales comparison approach. Sales prices of comparable land in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach for land and buildings is price per square metre. All resulting fair value estimates for buildings are included in level 3 as their level 2 inputs are adjusted for depreciation which is an unobservable input.

(iii) *Fair value measurements using significant unobservable inputs (level 3)*

The following table presents the changes in level 3 items for the periods ended 30 June 2018 and 30 June 2017 for recurring fair value measurements:

	Buildings $'000
Opening balance 1 July 2016	101,126
Acquisitions	141,943
Revaluation increment	2,974
Depreciation and impairment	(5,178)
Disposals	(1,615)
Transfers	39
Closing balance 30 June 2017	239,289
Opening balance 1 July 2017	239,289
Acquisitions	104,928
Revaluation increment	6,318
Depreciation and impairment	(11,746)
Disposals	-
Transfers	-
Closing balance 30 June 2018	338,789

8 NON-FINANCIAL ASSETS AND LIABILITIES (cont)

(c) Recognised fair value measurements (cont)

(iv) *Valuation inputs and relationships to fair value*

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements. See note 8(c)(ii) above for the valuation techniques adopted.

	Fair value at			Range of inputs (probability – weighted average)		
Description	**30 June 2018 $'000**	**30 June 2017 $'000**	**Unobservable inputs**	**2018**	**2017**	**Relationship of unobservable inputs to fair value**
Buildings	338,789	239,289	Depreciation rates	7.10%	7.10%	The higher the depreciation rate, the lower the fair value

(v) *Valuation processes*

With the exception of land and buildings acquired during the financial year, the Company engages an external, independent and qualified valuer to determine the fair value of the land and buildings at the end of every financial year.

9 FINANCIAL AND CAPITAL RISK MANAGEMENT

(a) Financial risk management

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

The Board has overall responsibility for the establishment and oversight of the risk management framework. The Board has tasked the Audit and Risk Committee to oversee how management monitors compliance with the Company's financial risk management policies and procedures. It also reviews the adequacy of the financial risk management framework of the Company.

	June 2018 $'000	June 2017 $'000
Financial assets		
Cash and cash equivalents	30,855	41,509
Trade and other receivables	4,834	2,545
	35,689	44,054
Financial liabilities		
Trade and other payables	11,543	362
Non-interest-bearing liabilities	15,747	15,560
	27,290	15,922

(b) Credit risk

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

(i) *Trade and other receivables*

The Company's credit exposures to customers, including outstanding receivables and committed transactions, are minimal. The Company presently has four customers, two of which are ASC Pty Ltd and its wholly owned subsidiary, ASC Shipbuilding Pty Ltd. ASC Pty Ltd is a Government Business Enterprise owned by the Commonwealth of Australia which has a "AAA" credit rating from Standard & Poor's.

A substantial portion of the Company's operations are in relation to the holding of critical infrastructure for the maintenance of the Collins Class submarines and construction of the AWDs. The Company charges both projects the depreciation of the critical infrastructure assets and a capital charge based on the depreciated historic cost of non-program funded critical infrastructure. The depreciation charge is a direct project cost which is reimbursable from the Commonwealth as the ultimate customer while the capital charge is a self-funded cost by both projects. Therefore, the Company has immaterial exposure to credit risk in its operations.

9 FINANCIAL AND CAPITAL RISK MANAGEMENT (cont)

(b) Credit risk (cont)

(ii) *Cash and cash equivalents*

The Company limits its exposure to credit risk by placing its cash with a counterparty that has a credit rating of "Aa3" from Moody's. Given the high credit rating, management does not expect the counterparty to fail to meet its obligations.

Guarantees

The Company has not issued any financial guarantees to any party during the period.

(iii) *Financial securities received*

The Company has received securities over assets under construction relating to the OSDP. The Company has not received financial securities from any other parties during the period.

(iv) *Recognised financial instruments*

The credit risk on financial assets of the Company which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts as summarised below.

	June 2018 $'000	June 2017 $'000
Financial assets		
Trade receivables	4,515	2,545
AAA (Commonwealth of Australia)		
Counterparties without an external credit rating	319	-
Group 1	4,834	2,545
AA- rated cash at bank		
Cash and cash equivalents	30,855	41,509
	30,855	41,509

Off statement of financial position financial instruments

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

9 FINANCIAL AND CAPITAL RISK MANAGEMENT (cont)

(c) Liquidity risk

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

(i) *Maturities of financial liabilities*

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

Contractual maturities of financial liabilities	Less than 6 months $'000	6 - 12 months $'000	1 - 2 years $'000	2 - 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount (assets)/ liabilities $'000
At 30 June 2018							
Non-derivatives							
Non-interest-bearing	11,543	-	18,686	-	200	30,429	27,290
Total non-derivatives	11,543	-	18,686	-	200	30,429	27,290
At 30 June 2017							
Non-derivatives							
Non-interest-bearing	-	362	-	20,323	200	20,885	15,922
Total non-derivatives	-	362	-	20,323	200	20,885	15,922

9 FINANCIAL AND CAPITAL RISK MANAGEMENT (cont)

(d) Market risk

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

(i) *Interest rate risk*

As the Company holds cash in bank and no term interest-bearing assets, its exposure to changes in market interest rates is minimal.

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

	30 June 2018		30 June 2017	
	$'000	Effective interest rate	$'000	Effective interest rate
Financial assets				
Cash and cash equivalents	30,855	1.25%	41,509	0.31%
Trade and other receivables	4,834	0%	2,545	0.00%
Total financial assets	**35,689**		**44,054**	

	30 June 2018		30 June 2017	
	$'000	Effective interest rate	$'000	Effective interest rate
Financial liabilities				
Trade and other payables	11,543	0%	362	0.00%
Non-interest-bearing liabilities	15,747	2.05%	15,560	1.76%
Total financial liabilities	**27,290**		**15,922**	

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

(ii) *Sensitivity*

There are no material changes or sensitivities related to market risk.

(iii) *Capital risk management*

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

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

10 EQUITY

(a) Share capital

Ordinary shares are classified as equity.

(i) *Movements in ordinary share*

	Number of shares	$'000
Opening balance 1 July 2016	10,000,000	10,000
Equity injection from shareholder	40,000,000	40,000
Conversion of loan to equity	236,722,826	236,723
Balance 30 June 2017	286,722,826	286,723
Opening balance 1 July 2017	286,722,826	286,723
Equity injection from shareholder	279,500,000	279,500
Balance 30 June 2018	566,222,826	566,223

(ii) *Recognition and measurement*

Issued and paid up capital is recognised at the fair value of consideration received by the Company. Transactions with the Commonwealth Government, as owner, that are designated as equity injections for the financial year are recognised directly in contributed equity and do not form part of the Company's comprehensive income in the financial year.

(iii) *Ordinary shares*

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

No dividends were declared or paid during the period (2017: Nil).

10 EQUITY (cont)

(b) Revaluation surplus

	$'000
Opening balance at 1 July 2016	24,620
Revaluation - gross	2,974
Balance adjustment	(213)
Deferred tax	(765)
Other comprehensive income	1,996
Closing balance at 30 June 2017	26,616
Opening balance at 1 July 2017	26,616
Revaluation - gross	6,318
Balance adjustment	-
Deferred tax	(1,895)
Other comprehensive income	4,423
Closing balance at 30 June 2018	31,039

(i) *Nature and purpose of other reserves*

Revaluation surplus - property, plant and equipment

The property, plant and equipment revaluation surplus is used to record increments and decrements on the revaluation of land and buildings.

	June 2018 $'000	June 2017 $'000
Revaluation surplus		
Land	7,685	7,685
Buildings	23,354	18,931
	31,039	26,616

(c) Retained earnings

Movements in retained earnings were as follows:

	June 2018 $'000	June 2017 $'000
Opening balance 1 July	(42,140)	(42,617)
Net profit (loss) for the period	(3,796)	264
Asset revaluation reserve balance adjustment	-	213
Closing balance 30 June	(45,936)	(42,140)

11 ECONOMIC DEPENDENCY

The normal trading activities of the Company depend on the access charge revenue arising from the provision of critical infrastructure assets for the maintenance of the Collins Class submarines and construction of the AWDs. The dependencies existed for all of the financial year for the maintenance of the Collins Class submarines and the construction of the AWDs.

12 EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

13 RELATED PARTY TRANSACTIONS

(a) Key management personnel compensation

Disclosures relating to ANI's key management personnel are set out below:

	June 2018 $	June 2017 $
Short-term employee benefits	2,061,956	8,182
Post-employment benefits	158,748	722
Other long-term benefits	10,478	190
	2,231,182	9,094

(b) Directors

The following were directors of ANI during the entire financial year:

- Lucio Di Bartolomeo
- David Knox
- Peter Iancov
- Jeremy Schultz
- Alan (Jim) Whalley

The following person was appointed as a director during the period:

- Janice van Reyk - appointed 14 August 2017

(c) Other related parties

(i) *Australian Government Ministers*

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

13 RELATED PARTY TRANSACTIONS (cont)

(c) Other related parties (cont)

(ii) *Shareholders*

The following transactions occurred with related parties:

	June 2018 $	June 2017 $
Equity injections		
Equity injections from the Commonwealth Government into ANI	279,500,000	40,000,000
Conversion of loan to equity	-	236,722,826
Total equity contributed	279,500,000	276,722,826

(d) Loan from the Commonwealth of Australia and its related parties

	June 2018 $	June 2017 $
Deferred purchase obligation		
Loan transferred from ASC AWD Shipbuilder Pty Ltd	15,556,824	15,158,426
Fair value adjustment	186,767	398,398
Closing balance 30 June	15,743,591	15,556,824

14 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for audit and assurance related services:

	June 2018 $	June 2017 $
Audit and assurance services		
Auditors of the Company - ANAO		
Audit and review of financial statements	84,280	84,500
Other auditors		
Provision of taxation services - KPMG	6,000	-

15 OTHER SIGNIFICANT ACCOUNTING POLICIES

(a) Goods and Services Tax (GST)

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

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

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

(b) Foreign currency translation

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Impairment of assets

Financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Significant assets are tested for impairment individually. The remaining financial assets are assessed in groups that share similar credit risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The loss is recognised in profit or loss.

(d) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period. Provision must be made in compliance with s254T of the *Corporations Act 2001*.

(e) Revised standards and interpretations applied

The Company has applied the following revised standards and interpretations for the first time in the financial year commencing 1 July 2017.

(i) *AASB 2016-1 Scope amendment to AASB 112 (effective for the 30 June 2018 financial year)*

The AASB introduced minor amendments and clarification in relation to accounting for deferred tax on assets measured at fair value. These amendments are not significant for the Company.

(ii) *AASB 2016-2 Scope amendment to AASB107 (effective for the 30 June 2018 financial year)*

The AASB introduced minor amendments and clarification in relation to disclosure of liabilities in the statement of cash flows. These amendments are not significant for the Company.

15 OTHER SIGNIFICANT ACCOUNTING POLICIES (cont)

(f) Impact of standards issued but not yet applied

Certain new accounting standards, interpretations and amendments have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

(i) *AASB 9 Financial Instruments (effective for the 30 June 2019 financial year)*

This standard addresses the classification, measurement and derecognition of financial assets that are designated at fair value through profit and loss and the change in the fair value of the financial liabilities is not due to the change in the Company's own credit risk.

The standard is not expected to have a material impact to the Company's result.

(ii) *AASB 15 Revenue from Contracts with Customers (effective for the 30 June 2019 financial year)*

This standard will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards.

The Company will have to adopt a new five-step process for the recognition of revenue:

1. Identify contract with customers
2. Determine the separate performance obligations
3. Determine the transaction price of the contract
4. Allocate the transaction price to each of the separate performance obligations
5. Recognise revenue as each performance obligation is satisfied.

The Company has completed a preliminary assessment of the impact of the new standard and has determined that it is not expected to have a material impact on the Company's financial statements.

(iii) *AASB 16 Leases (effective for the 30 June 2020 financial year)*

This standard will replace AASB 117 *Leases*. The new standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying assets are of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The Company has completed a preliminary assessment of the impact of the new standard and has determined that it is not expected to be significant for the Company.

Several other amendments to standards and interpretations will apply on or after 1 July 2019 and have not yet been applied, however they are not expected to impact the Company's financial statements.

INDEX OF REQUIREMENTS

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

Description	Page(s)
(a) the purposes of the company as included in the company's corporate plan for the period;	3-7
(b) the names of the persons holding the position of responsible Minister or responsible Ministers during the period, and the titles of those responsible Ministers;	6, 11
(c) any directions given to the entity by a Minister under the company's constitution, an Act or an instrument during the period;	11-16
(d) any government policy orders that applied in relation to the company during the period under section 93 of the Act;	11-16
(e) if, during the period, the company has not complied with a direction or order referred to in paragraph (c) or (d)—particulars of the non compliance;	N/A
(f) information on each director of the company during the period, including: (i) the name of the director; and (ii) the qualifications of the director; and (iii) the experience of the director; and (iv) the number of meetings of the board of the company attended by the director during the period; and (v) whether the director is an executive director or non executive director;	17-22
(g) an outline of the organisational structure of the company (including any subsidiaries of the company)	6
(h) an outline of the location (whether or not in Australia) of major activities or facilities of the company	6-10
(i) information in relation to the main corporate governance practices used by the company during the period	11-16
(j) the decision making process undertaken by the directors of the company for making a decision if: (i) the decision is to approve the company paying for a good or service from a Commonwealth entity or a company, or providing a grant to a Commonwealth entity or a company; and (ii) the company, and the Commonwealth entity or the company, are related entities; and (iii) the value of the transaction, or if there is more than one transaction, the aggregate value of those transactions, is more than $10,000 (GST inclusive);	11-16
(k) if the annual report includes information under paragraph (j): (i) if there is only one transaction—the value of the transaction; and (ii) if there is more than one transaction—the number of transactions and the aggregate of value of the transactions;	N/A
(l) any significant activities and changes that affected the operations or structure of the company during the period	23-25

Description	Page(s)
(m) particulars of judicial decisions or decisions of administrative tribunals made during the period that have had, or may have, a significant effect on the operations of the company	N/A
(n) particulars of any report on the company given during the period by: (i) the Auditor General; or (ii) a Committee of either House, or of both Houses, of the Parliament; or (iii) the Commonwealth Ombudsman; or (iv) the Office of the Australian Information Commissioner; or (v) the Australian Securities and Investments Commission	30, 32-32
(o) if the directors have been unable to obtain information from a subsidiary of the company that is required to be included in the annual report—an explanation of the information that was not obtained and the effect of not having the information on the annual report	N/A
(p) an index identifying where the requirements of this section and section 28F (if applicable) are to be found.	68-69
Changes in financial conditions and community service obligations (a) an assessment of: (i) significant changes in the company's overall financial structure and financial condition during the reporting period; and (ii) any events or risks that could cause financial information that is reported not to be indicative of future operations or financial condition; (b) dividends paid or recommended in relation to the reporting period; (c) details of any community service obligations the government business enterprise has, including: (i) an outline of actions the government business enterprise has taken to fulfil those obligations; and (ii) an assessment of the cost of fulfilling those obligations.	16, 23-25
Information that is commercially prejudicial Information may be excluded if the directors of the government business enterprise believe, on reasonable grounds, that the information is commercially sensitive and would be likely to result in unreasonable commercial prejudice to the government business enterprise. The annual report must state whether such information has been excluded.	16

CORPORATE DIRECTORY

Directors

- Lucio Di Bartolomeo (Chair)
- Peter Iancov
- Janice van Reyk
- Jeremy Schultz
- Alan (Jim) Whalley
- David Knox

Company secretary

- Sally McLennan

Auditors

ANAO and KPMG (as agent for ANAO)

Bankers

Westpac Banking Corporation

Registered office

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Osborne SA 5017

Head office

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Osborne SA 5017

Website

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