APPENDIX 4D AND HALF YEAR REPORT

AUSTAL LIMITED
A.B.N. 73 009 250 266

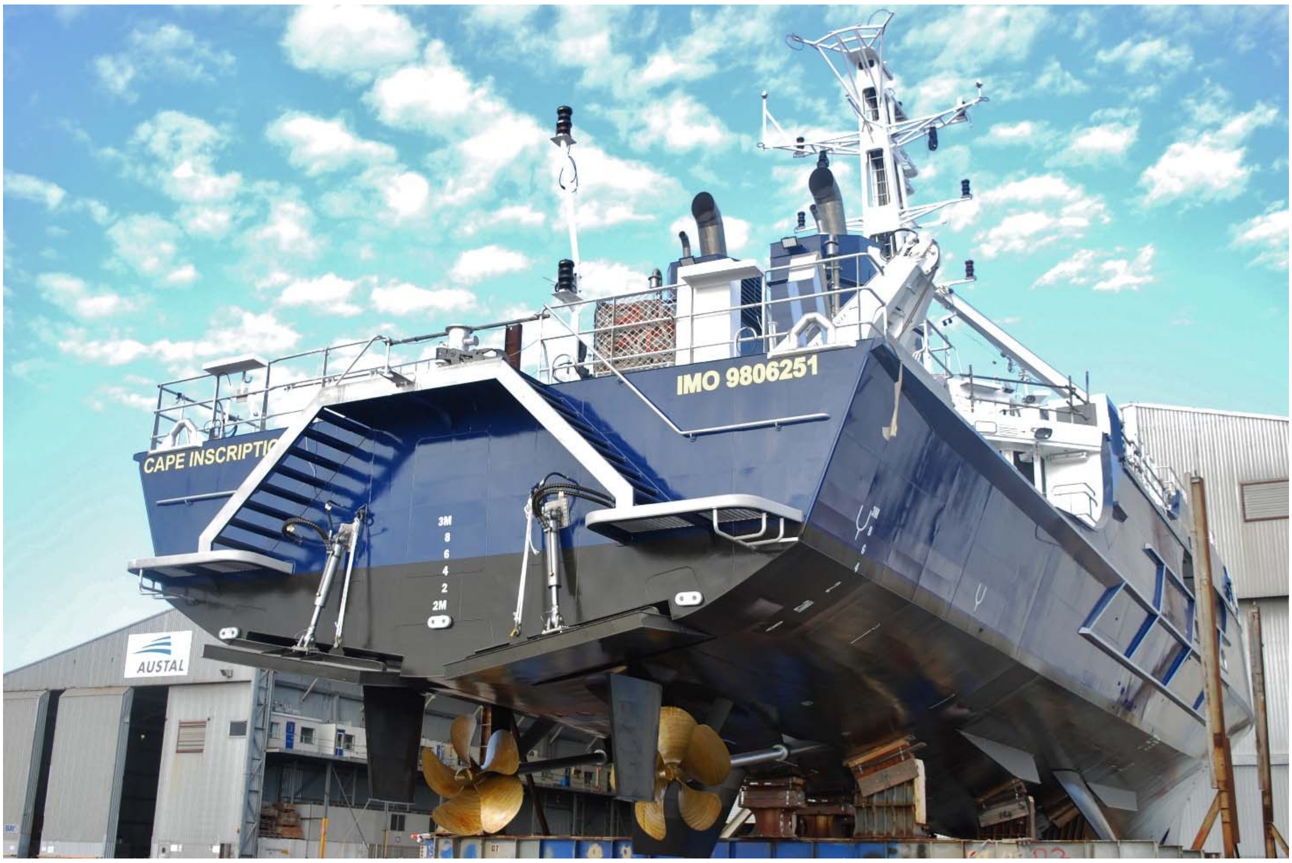
FOR THE PERIOD ENDED 31 DECEMBER 2016

APPENDIX 4D

1. The reporting period is 1 July 2016 to 31 December 2016. The previous corresponding period is 1 July 2015 to 31 December 2015. Both of these periods were prepared in accordance with AASB 134 Interim Financial Reporting. The information contained in this document should be read in conjunction with the Austal Limited FY2016 Annual Report.

2.	Results for announcement to the market.		A$'000
2.1	Revenue from ordinary activities	down 13.1% to	649,234
2.2	Profit (loss) from ordinary activities after tax attributable to members	down 44.1% to	9,345
2.3	Net profit (loss) for the period attributable to members	down 44.1% to	9,345
2.4	Dividend distributions The directors declared a fully franked dividend of 2 cents per share		6,968
2.5	Record date for determining entitlements to the dividends:		14 September 2016
2.6	Explanation of figures in 2.1 to 2.4 that may be required. Refer to attached half year report page 2.		
3.	Net tangible assets per ordinary security:		
	Current period (cents / share)		135.3
	Previous corresponding period (cents / share)		160.1
4.	Control gained or lost over entities during the period		N/A
5.	Details of dividends or distributions:		As per Appendix 3A.1 lodged 28 August 2016.
6.	Details of dividend or distribution reinvestment plans:		As per announcement to ASX lodged on 28 August 2016.

7. Details of associates and joint venture entities:
   Austal Holdings China Pty Ltd, a subsidiary of Austal Limited, acquired a 40% ownership interest in a joint venture with Jianglong Shipbuilding Company in Aulong Shipbuilding Co. Ltd during the period ended 31 December 2016. The aim of the joint venture is to pursue commercial passenger and non-military vessel opportunities in mainland China.
8. Accounting standards used by foreign entities
   The financial statements of subsidiaries are prepared using consistent accounting policies for the same reporting period as the parent company. The foreign entities including Austal USA prepare their accounts under accounting standards that are equivalent to International Financial Reporting Standards.
9. Qualifications of review — No qualifications



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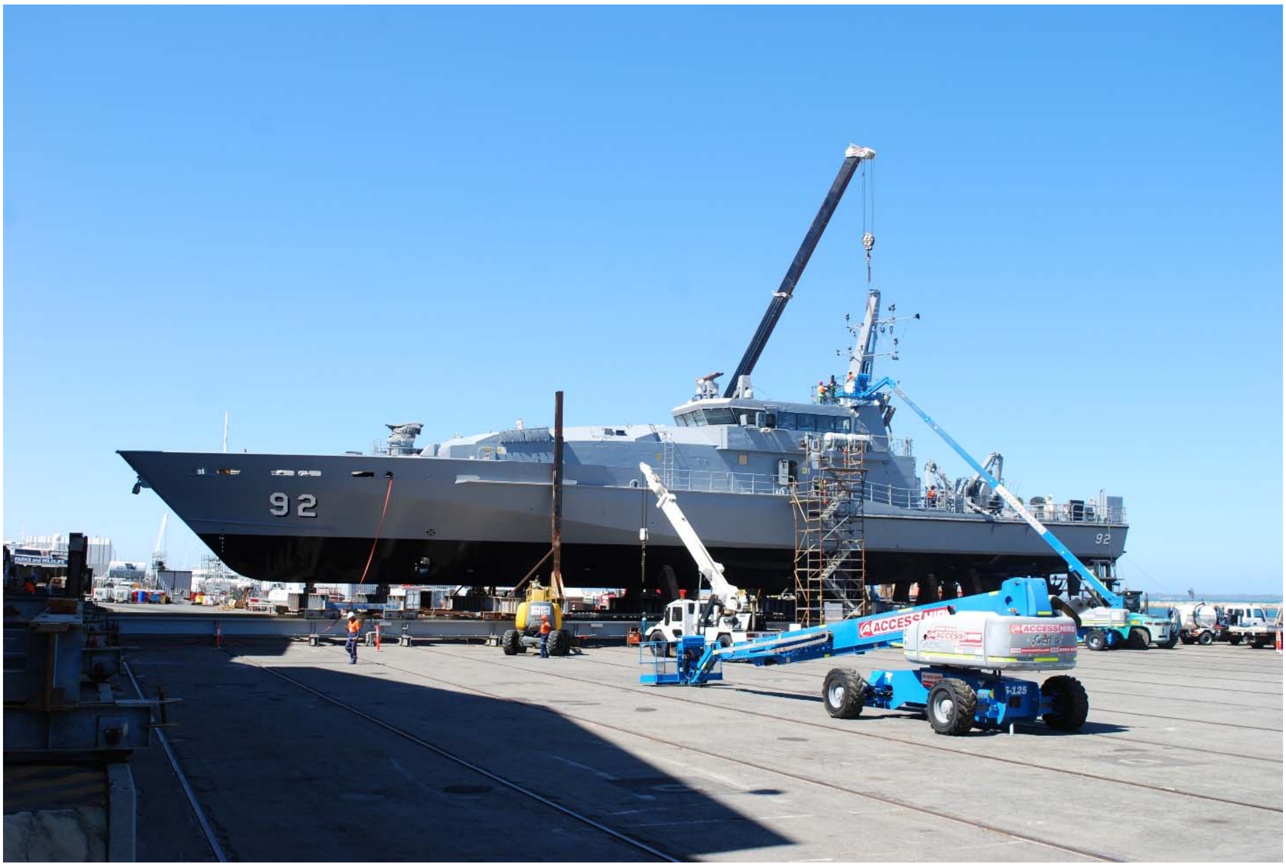

Directors' report

It is my pleasure to present the financial report for the half-year ended 31 December 2016 to you on behalf of the Board of Austal Limited.

Directors

The directors in office during the half-year and until the date of this report were:

John Rothwell (Chairman)
David Singleton (Chief Executive Officer)
Giles Everist
Jim McDowell

Principal Activities

The principal activities of entities within the consolidated entity during the financial half-year were the design, manufacture and support of high performance vessels. These activities are unchanged from the previous reporting period.

Results

Austal reported a Net Profit After Tax (NPAT) of $9.345 million for the half-year ended 31 December 2016 compared with a NPAT for the prior corresponding period (PCP – half-year ended 31 December 2015) of $16.810 million.

FY2017 H1 revenue was $649.234 million which is 13.1 per cent lower than the PCP (FY2016 H1: $747.396 million).

The Group Profit Before Tax (PBT) for FY2017 H1 was $15.045 million compared with $26.758 million for the PCP.

Earnings Before Interest and Tax (EBIT) was $18.079 million (FY2016 H1: $29.041 million). The primary driver of the reduction in EBIT from the PCP was the inclusion of a $(13.154) million non-recurring provision for full and final settlement of arbitration relating to a latent defect in a vessel delivered in CY2010 that was booked in FY2017 H1.

$(43.844) million of Operating cash flow was recognised in the period (FY2016 H1: $51.773 million). The negative operating cash flow was primarily driven by working capital movements in the USA. A reduction in Debtors more than offset a pay down of Creditors whilst there was a significant build-up of work in progress in the USA as major projects were advanced and one vessel was delivered just prior to the end of the half.

$5.895 million cash (net of participation in the dividend reinvestment plan) was returned to shareholders via a fully franked dividend and US$7.500 million of cash was applied to the repayment of Go Zone Bonds. Austal finished the period in a net debt position of $(32.627) million which included $(45.465) million of debt related to the Cape Class Patrol Boats 9 & 10 financing arrangement.

Reconciliation of EBIT and EBITDA (unaudited)

	31 December 2016 $'000		31 December 2015 $'000	
Profit before income tax	$	15,045	$	26,758
Finance costs	$	3,762	$	2,581
Finance income		(728)		(298)
EBIT	$	18,079	$	29,041
Depreciation	$	14,694	$	12,099
Amortisation		555		647
EBITDA	$	33,328	$	41,787

Non-IFRS measures

Austal uses a number of non-IFRS measures to assess performance. Non-IFRS measures are defined as follows:

- EBIT – earnings before interest and tax
- EBITDA – earnings before interest, tax, depreciation and amortisation

The information is unaudited but is extracted from the financial statements which have been reviewed by the auditors of the Group. EBIT and EBITDA are used by management to understand operating performance of the Group.

Review of Operations

USA Operations

USA Revenue decreased across the period with a 6.9 per cent decrease from the PCP to $594.277 million (FY2016 H1: $638.435 million).

The decrease in revenue was driven by lower production activity resulting from the decline in order intake from 2 LCS up to FY2015 to 1 LCS in FY2016.

USA EBIT was $41.115 million (FY2016 H1: $26.867 million) and total segment EBIT margin was 6.9 per cent (FY2016 H1: 4.2 per cent). The segment result is a weighted average of shipbuilding, systems and support activities.

Construction progressed on two Expeditionary Fast Transports (EPF 8 and 9) in FY2017 H1, following the delivery of EPF 7, USNS Carson City, on 24 June 2016. EPF 2, USNS Choctaw County was deployed to the US Fifth Fleet in Bahrain during FY2017 H1.

EPF 8 USNS Yuma was christened in August and subsequently launched in September 2016. Full contracts and orders were received from the US Navy for EPF 11 (the future USNS Puerto Rico) and EPF 12 (to be named) in September 2016.

Seven Independence-variant LCS were under construction during FY2017 H1, LCS 10, 12, 14, 16, 18, 20 and 22. USS Montgomery (LCS 8) was commissioned on 10 September 2016, following its delivery on 23 June 2016, whilst USS Gabrielle Giffords (LCS 10) was delivered on 24 December 2016. LCS 12 and 14 are being prepared for sea trials in CY2017. USS Coronado (LCS 4) was deployed to the US Seventh Fleet and arrived in Singapore during FY2017 H1.

Funding for LCS 26, to be named USS Mobile was appropriated in CY2016, which was added as an option to the original contract for 10-vessels in FY2016.

Austal USA was awarded a US$11.239 million cost-plus-fixed-fee contract from the US Navy in July 2016 to provide emergent availability planning and full ship shock trials (FSST) support for tests to be conducted on LCS USS Jackson (LCS 6). The ship successfully completed the third FSST during FY2017 H1, including a series of rigorous tests designed to demonstrate the ship's ability to withstand the effects of nearby underwater explosions and retain required capability. Austal USA is currently tendering for a further 13 LCS, with the award of at least one LCS expected during CY2017.

Australia Operations

Revenue in the Australia operations was 55.1 per cent lower than the PCP at $47.386 million (FY2016 H1: $105.631 million). EBIT was $1.744 million (FY2016 H1 EBIT profit: $11.304 million) and the EBIT margin was 3.7 per cent (FY2016 H1: 10.7 per cent) which was consistent with expectations.

The down turn in profit was a result of:

- The ramp down of production activities for the two Royal Navy of Oman High Speed Support Vessels with the first vessel delivered during FY2016 H2 and the second vessel delivered in FY2017 H1.
- Construction of Cape Class Patrol Boats 9 & 10 without any profit contribution due to the financing arrangement whereby charter income will be recognised over an initial term of 3 years.
- The Pacific Patrol Boat and Mols Linien ferry projects being in the design phase and hence not contributing to EBIT generation.

Major production activity during the period included progress on Cape Class Patrol Boats (CCPB) 9 and 10 for the Royal Australian Navy, the completion and delivery of the second of two 72 metre High Speed Support Vessels (HSSV), the RNOV Al Naasir, for the Royal Navy of Oman and the completion of a 70 metre high speed crew transfer vessel for Caspian Marine Services in Azerbaijan.

Construction of the Danish Mols Linien vessel is due to commence during FY2017 H2 at the Henderson shipyard. The contract for the new 109 metre high speed vehicle passenger ferry, valued at ~ A$100 million, was awarded on 24 June 2016, following a competitive, international tender.

Sustainment activity included the continuation of servicing and support for the 8 vessel CCPB fleet, operated by the Australian Border Force and Royal Australian Navy throughout Northern Australia. Austal was also awarded a contract in October 2016 to deliver mid-life remediation works for up to seven Armidale Class Patrol Boats for the Royal Australian Navy; works commenced in October and continue through CY2017.

Philippines Operations

The Philippines Operations generated revenue of $12.724 million (FY2016 H1: $16.290 million) and an EBIT loss of $(2.819) million (FY2016 H1: $0.574 million).

A 57 metre offshore crew transfer vessel for Swire Pacific Offshore was completed and delivered in November 2016. The contract was onerous and hence did not contribute to profit generation during the half.

Construction of one 50 metre high speed passenger ferry for Seaspovill of South Korea, and two 30 metre high speed passenger ferries for 2Go of the Philippines commenced during FY2017 H1 however the production level generated from order intake was below full capacity and inadequate to generate a profit.

The pipeline of opportunities in target markets has been stronger in the past twelve months than in the previous 7 years and hence a return to profitability is anticipated over the next twelve months.

A $22 million contract to design and build one 56 metre high speed passenger ferry for FRS of Germany was awarded to Austal in December 2016. Construction is due to commence in FY2017 H2, with delivery scheduled for March 2018.

Dividend

The Board declared a fully franked dividend of 2 cents per share on 28 August 2016, compared to a dividend of 3 cents per share on 27 August 2015 in the previous corresponding period. The dividend was paid to shareholders on 7 October 2016. A further fully franked interim dividend of 2 cents per share has been declared.

Rounding of Amounts

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the instrument applies.

Auditor's Declaration of Independence

Austal has obtained an independence declaration from its auditors, Ernst & Young, which is on page 6 and forms part of the Directors' Report.

This report has been made in accordance with a resolution of directors.

John Rothwell

Chairman

24 February 2017

Auditor independence

The Directors received the following declaration from the auditor of Austal Limited.

EY
Building a better working world

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Auditor's Independence Declaration to the Directors of Austal Limited

As lead auditor for the review of Austal Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Austal Limited and the entities it controlled during the financial period.

Ernst & Young

Robert A Kirkby
Partner
24 February 2017

Consolidated statement of profit and loss and other comprehensive income for the half-year ended 31 December 2016

	Notes	31 December 2016 '000	31 December 2015 '000
Profit and loss			
Revenue	4	$ 649,234	$ 747,396
Cost of sales	4	(592,653)	(691,431)
Gross Profit		$ 56,581	$ 55,965
Other income and expense	4	$ (4,078)	$ 10,646
Administration expenses		(26,379)	(30,486)
Marketing expenses		(7,317)	(6,786)
Finance costs		(3,762)	(2,581)
Profit before income tax		$ 15,045	$ 26,758
Income tax expense	11	$ (5,700)	$ (9,948)
Profit after tax		$ 9,345	$ 16,810
Profit attributable to:			
Owners of the parent		$ 9,345	$ 16,711
Non-controlling interests		-	99
Total		$ 9,345	$ 16,810
Other comprehensive income			
Amounts that may subsequently be reclassified to profit and loss:			
Cash flow hedges:			
- (Loss) / gain on cash flow hedges taken to equity		$ 556	$ (6,330)
- Loss / (gain) recycled out of equity		2,680	9,825
- Income tax benefit / (expense)		(959)	(1,162)
- Net		$ 2,277	$ 2,333
Foreign currency translations:			
- Gain taken to equity		$ 11,999	$ 21,045
- Income tax benefit / (expense)		(46)	(19)
- Net		$ 11,953	$ 21,026
Asset Revaluation Reserve:			
- Gain taken to equity		$ -	$ 29,667
- Income tax benefit / (expense)		-	(10,710)
- Net		$ -	$ 18,957
Other comprehensive income for the period, net of tax		$ 14,230	$ 42,316
Total comprehensive income for the period		$ 23,575	$ 59,126
Total comprehensive income attributable to:			
Owners of the parent		$ 23,575	$ 59,027
Non-controlling interests		-	99
Total		$ 23,575	$ 59,126
Earnings per share (cents per share)		cents / share	cents / share
- basic for the period attributable to ordinary equity holders of the parent		2.7	4.8
- diluted for the period attributable to ordinary equity holders of the parent		2.6	4.7

The Consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position as at 31 December 2016

	Notes		31 December 2016 '000		30 June 2016 '000
Assets					
Current Assets					
Cash and cash equivalents	12	$	153,468	$	224,318
Trade and other receivables			37,427		128,340
Inventories			232,095		108,974
Prepayments			5,852		5,408
Income tax receivable			14,686		-
Derivatives	6		316		147
Assets held for sale			2,908		2,908
Total		$	446,752	$	470,095
Non - Current Assets					
Other financial assets		$	9,190	$	7,638
Investment in joint venture	7		280		-
Derivatives	6		1,944		340
Property, plant and equipment			522,064		490,798
Intangible assets and goodwill			8,946		9,296
Deferred tax assets			19,003		34,959
Total		$	561,427	$	543,031
Total Assets		$	1,008,179	$	1,013,126
Liabilities					
Current Liabilities					
Trade and other payables		$	(168,611)	$	(229,774)
Derivatives	6		(7,528)		(10,690)
Interest bearing loans and borrowings	8		(2,662)		(2,545)
Provisions			(58,548)		(42,291)
Deferred grant income			(8,637)		(8,543)
Income tax payable			(3,437)		(98)
Progress payments received in advance			(22,589)		(12,812)
Total		$	(272,012)	$	(306,753)
Non - Current Liabilities					
Derivatives	6	$	(5,827)	$	(5,712)
Interest bearing loans and borrowings	8		(183,433)		(170,066)
Provisions			(1,082)		(1,052)
Deferred grant income			(70,008)		(71,991)
Total		$	(260,350)	$	(248,821)
Total Liabilities		$	(532,362)	$	(555,574)
Net Assets		$	475,817	$	457,552
Equity					
Contributed equity	9	$	115,890	$	114,738
Reserves			111,303		100,672
Retained earnings			248,624		242,142
Total Equity		$	475,817	$	457,552

The Consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity for the half-year ended 31 December 2016

	Issued Capital '000	Reserved Shares [1] '000	Retained Earnings '000	Foreign Currency Translation Reserve '000	Employee Benefits Reserve '000	Cash flow Hedge Reserve '000	Common Control Reserve '000	Asset Reval'n Reserve '000	Total '000	Non Controlling Interest '000	Total Equity '000
Equity as at 1 July 2015	**$ 121,753**	**$ (9,230)**	**$ 343,798**	**$ 63,676**	**$ 6,016**	**$ (19,678)**	**$ (15,925)**	**$ 21,757**	**$ 512,167**	**$ 232**	**$ 512,399**
Comprehensive income											
Profit for the period	$ -	$ -	$ 16,711	$ -	$ -	$ -	$ -	$ -	$ 16,711	$ 99	$ 16,810
Other comprehensive income	-	-	-	21,026	-	2,333	-	18,957	42,316	-	42,316
Total	$ -	$ -	$ 16,711	$ 21,026	$ -	$ 2,333	$ -	$ 18,957	$ 59,027	$ 99	$ 59,126
Other equity transactions											
Shares issued	$ 541	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 541	$ -	$ 541
Dividends declared	-	-	(10,423)	-	-	-	-	-	(10,423)	-	(10,423)
Acquisition of minority stake	-	-	-	-	-	-	(1,669)	-	(1,669)	(331)	(2,000)
Vesting performance rights	378	-	-	-	(378)	-	-	-	-	-	-
Share based payments expense	-	-	-	-	132	-	-	-	132	-	132
Total	$ 919	$ -	$ (10,423)	$ -	$ (246)	$ -	$ (1,669)	$ -	$ (11,419)	$ (331)	$ (11,750)
Equity as at 31 December 2015	**$ 122,672**	**$ (9,230)**	**$ 350,086**	**$ 84,702**	**$ 5,770**	**$ (17,345)**	**$ (17,594)**	**$ 40,714**	**$ 559,775**	**$ -**	**$ 559,775**
Equity as at 1 July 2016	**$ 123,739**	**$ (9,001)**	**$ 242,142**	**$ 77,978**	**$ 6,434**	**$ (6,860)**	**$ (17,594)**	**$ 40,714**	**$ 457,552**	**$ -**	**$ 457,552**
Comprehensive income											
Profit for the period	$ -	$ -	$ 9,345	$ -	$ -	$ -	$ -	$ -	$ 9,345	$ -	$ 9,345
Other comprehensive income	-	-	-	11,953	-	2,277	-	-	14,230	-	14,230
Total	$ -	$ -	$ 9,345	$ 11,953	$ -	$ 2,277	$ -	$ -	$ 23,575	$ -	$ 23,575
Other equity transactions											
Shares issued	$ 1,073	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,073	$ -	$ 1,073
Dividends	-	-	(6,968)	-	-	-	-	-	(6,968)	-	(6,968)
Repayment of shareholder loans	-	79	-	-	-	-	-	-	79	-	79
Transfer of reserves [2]	-	-	4,105	-	(4,105)	-	-	-	-	-	-
Share based payments expense	-	-	-	-	506	-	-	-	506	-	506
Total	$ 1,073	$ 79	$ (2,863)	$ -	$ (3,599)	$ -	$ -	$ -	$ (5,310)	$ -	$ (5,310)
Equity as at 31 December 2016	**$ 124,812**	**$ (8,922)**	**$ 248,624**	**$ 89,931**	**$ 2,835**	**$ (4,583)**	**$ (17,594)**	**$ 40,714**	**$ 475,817**	**$ -**	**$ 475,817**

1. Reserved Shares are in relation to the Austal Group Management Share Plan
2. Transfer of completed unvested equity benefit schemes, which had not met their respective performance criteria, to Retained Earnings.

The Consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows for the half-year ended 31 December 2016

	Notes	31 December 2016 '000	31 December 2015 '000
Cash flows from operating activities			
Receipts from customers		$ 627,186	$ 815,584
Payments to suppliers and employees		(671,528)	(744,435)
Interest received	4	728	298
Interest paid		(2,322)	(2,067)
Income tax refunded / (paid)		2,092	(17,607)
Net cash from operating activities		$ (43,844)	$ 51,773
Cash flows from investing activities			
Receipts of Infrastructure government grants		$ -	$ 9,149
Proceeds from sale of property, plant and equipment		155	234
Purchase of property, plant and equipment		(2,533)	(11,052)
Purchase of intangible assets		(133)	(740)
Construction of Cape Class Patrol Boats 9 & 10		(30,003)	-
Investment in joint venture	7	(280)	-
Net cash used in investing activities		$ (32,794)	$ (2,409)
Cash flows from financing activities			
Repayment of borrowings		$ (11,657)	$ (9,707)
Loan origination fees		-	(2,624)
Loans received		18,900	-
Dividends paid		(5,895)	(9,882)
Net cash used in financing activities		$ 1,348	$ (22,213)
Net increase / (decrease) in cash and cash equivalents		$ (75,290)	$ 27,151
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		$ 224,318	$ 148,468
Net foreign exchange differences		4,440	5,852
Net increase in cash and cash equivalents		(75,290)	27,151
Cash and cash equivalents at end of the period	12	$ 153,468	$ 181,471

The Consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements for the half-year ended 31 December 2016

Note 1 Corporate information

The Half-Year Financial Report of Austal Limited and its controlled entities (the Company or Group) for the period ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors on 24 February 2017.

Austal Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian stock exchange.

Note 2 Basis of preparation

The Half-Year Financial Report is a general purpose condensed financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 "Interim Financial Reporting".

The Half-Year Financial Report does not include all of the notes of the type normally included within the Annual Financial Report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the Annual Financial Report.

The Half-Year Financial Report should be read in conjunction with the Annual Financial Report of Austal Limited at 30 June 2016 and considered together with any public announcements made by Austal Limited and its controlled entities during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

The Half-Year Financial Report has been prepared using the same accounting policies as used in the Annual Financial Report for the year ended 30 June 2016. The Group has adopted all of the mandatory Standards and Interpretations for annual reporting periods beginning 1 July 2016. The new standards applied during the period are set out below.

The Group has adopted all of the mandatory Standards and Interpretations for annual reporting periods beginning 1 July 2016. The new standards applied during the period had no impact on the Group's financial position or performance.

Note 3 Operating segments

	Australia '000	USA '000	Philippines '000	Unallocated '000	Elimination / Adjustments '000	Total '000
Half-Year ended 31 December 2016						
Revenues						
External customers	$ 40,065	$ 594,277	$ 12,724	$ 1,395	$ 45	$ 648,506
Inter-segment	7,321	-	-	-	(7,321)	-
Finance income	-	-	-	728	-	728
Total	$ 47,386	$ 594,277	$ 12,724	$ 2,123	$ (7,276)	$ 649,234
Segment result						
EBIT	$ 1,744	$ 41,115	$ (2,819)	$ (21,912)	$ (49)	$ 18,079
Finance income	-	-	-	728	-	728
Finance expenses	-	-	-	(3,762)	-	(3,762)
Total	$ 1,744	$ 41,115	$ (2,819)	$ (24,946)	$ (49)	$ 15,045
Balance Sheet						
Segment Assets	$ 113,587	$ 736,511	$ 30,535	$ 142,016	$ (14,470)	$ 1,008,179
Segment Liabilities	(77,192)	(394,239)	(15,292)	(21,985)	(23,654)	(532,362)

	Australia '000	USA '000	Philippines '000	Unallocated '000	Elimination / Adjustments '000	Total '000
Half-Year ended 31 December 2015						
Revenues						
External customers	$ 95,761	$ 638,435	$ 11,813	$ 3,490	$ (2,401)	$ 747,098
Inter-segment	9,870	-	4,477	-	(14,347)	-
Finance income	-	-	-	298	-	298
Total	$ 105,631	$ 638,435	$ 16,290	$ 3,788	$ (16,748)	$ 747,396
Segment result						
EBIT	$ 11,304	$ 26,867	$ 574	$ (7,283)	$ (2,421)	$ 29,041
Finance income	-	-	-	298	-	298
Finance expenses	-	-	-	(2,581)	-	(2,581)
Total	$ 11,304	$ 26,867	$ 574	$ (9,566)	$ (2,421)	$ 26,758
Balance Sheet as at 30 June 2016						
Segment Assets	$ 87,054	$ 770,286	$ 24,509	$ 166,286	$ (35,009)	$ 1,013,126
Segment Liabilities	(47,738)	(456,563)	(6,599)	(9,781)	(34,893)	(555,574)

Inter-segment revenues, investments, receivables and payables are eliminated on consolidation.

i Identification of reportable segments

The Group is organised into three business segments for management purposes based on the location of the production facilities, related sales regions and types of activity.

The Chief Executive Officer, who is the Chief Operating Decision Maker (CODM), monitors the performance of the business segments separately for the purpose of making decisions about resources to be allocated and of assessing performance. Segment performance is evaluated based on operating profit or loss. Finance costs, finance income and income tax are managed on a Group basis.

ii Reportable segments

The reportable segments are Australia, USA and Philippines.

1. Australia

The Australia business manufactures high performance vessels for markets worldwide, excluding the USA and provides training and on-going support and maintenance for high performance vessels.

2. USA

The USA manufactures high performance aluminium defence vessels for the US Navy and provides training and on-going support and maintenance of these performance vessels for the US Navy.

3. Philippines

The Philippines business manufactures high performance aluminium commercial vessels for global markets excluding the USA.

iii Accounting policies and inter-segment transactions

The accounting policies used for reporting segments internally are the same as those utilised for reporting the accounts of the Group.

Inter-entity sales are recognised based on an arm's length pricing structure.

iv Unallocated

The key assets included in unallocated are Cash $64.312 million, Property Plant & Equipment $38.187 million, Deferred Tax Assets $18.780 million, and Income Tax Receivable $14.686 million.

The key liabilities included in unallocated are Provisions ($15.755) million and Income Tax Payable ($3.437) million.

The key profit before income tax items in unallocated are Corporate Overheads of ($14.208) million, and the commercial settlement of arbitration proceedings arising from warranty defects by payment of ($13.154) million (denominated in Euro) including legal costs. Refer to Note 13 for further information.

Note 4 Revenue and expenses

Profit before income tax expense from continuing operations includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

	31 December 2016 '000	31 December 2015 '000
(i) Revenue		
Vessel construction and support	$ 647,955	$ 731,973
Charter vessels	551	15,125
Finance income	728	298
Total	$ 649,234	$ 747,396
(ii) Cost of sales		
Vessel construction and support	$ (592,227)	$ (679,537)
Charter vessels	(426)	(11,894)
Total	$ (592,653)	$ (691,431)
(iii) Other income and expenses		
Net foreign exchange gains	$ 682	$ 2,232
Government grants	6,495	6,063
Settlement of warranty defects	(13,154)	-
Sale of scrap	1,948	1,930
Other income	244	422
Other expenses	(293)	(1)
Total	$ (4,078)	$ 10,646
(iv) Depreciation and amortisation		
Depreciation	$ (14,694)	$ (12,099)
Amortisation	(555)	(647)
Total	$ (15,249)	$ (12,746)

Note 5 Dividends

	31 December 2016 '000	31 December 2015 '000
Dividends		
Fully franked dividend: 2 cents per share (FY2016 H1: 3 cents per share)	$ 6,968	$ 10,423

The dividend has been declared and paid on ordinary shares only.

Note 6 Financial instruments

An overview of financial instruments other than cash and short-term deposits held by the Group at 31 December 2016 is set out below:

	31 December 2016 Loans and receivables $'000	31 December 2016 Fair value in other comprehensive income $'000	30 June 2016 Loans and receivables $'000	30 June 2016 Fair value in other comprehensive income $'000
Financial assets				
Current				
Trade and other receivables	$ 37,427	$ -	$ 128,340	$ -
Derivatives	-	316	-	147
Total	$ 37,427	$ 316	$ 128,340	$ 147
Non-current				
Derivatives	$ -	$ 1,944	$ -	$ 340
Total	$ -	$ 1,944	$ -	$ 340
Total	$ 37,427	$ 2,260	$ 128,340	$ 487
Financial liabilities				
Current				
Finance leases	$ (2,662)	$ -	$ (2,545)	$ -
Trade and other payables	(168,611)	-	(229,774)	-
Derivatives	-	(7,528)	(10,690)	(10,690)
Total	$ (171,273)	$ (7,528)	$ (243,009)	$ (10,690)
Non-current				
Finance leases	$ (7,035)	$ -	$ (8,110)	$ -
Go Zone Bonds	(130,933)	-	(136,113)	-
Vessel finance for Cape Class Patrol Boats 9 & 10	(45,465)	-	(25,843)	-
Derivatives	-	(5,827)	-	(5,712)
Total	$ (183,433)	$ (5,827)	$ (170,066)	$ (5,712)
Total	$ (354,706)	$ (13,355)	$ (413,075)	$ (16,402)

Instruments allocated to the column 'fair value in other comprehensive income' are derivative financial instruments designated as cash flow hedges, and represents the full value of those derivative financial instruments. No other financial instruments have their movement in fair value recognised within the profit and loss.

i Cash flow hedges for currency risks

Austal designated foreign currency forward contracts as hedges of highly probable purchases and receipts in USD, EUR, NOK, SEK, DKK, GBP and CNH from suppliers and customers in the United States, Europe, Norway, the United Kingdom and Denmark, respectively. The forecast purchases and receipts are expected to occur from the date of this report through to June 2020.

ii Fair values

A comparison of the carrying amounts and fair values of financial instruments as at 31 December 2016 is set out below:

	31 December 2016 Carrying amount $'000	31 December 2016 Fair value $'000	30 June 2016 Carrying amount $'000	30 June 2016 Fair value $'000
Financial assets				
Current				
Cash and cash equivalents	$ 153,468	$ 153,468	$ 224,318	$ 224,318
Trade and other receivables	37,427	37,427	128,340	128,340
Derivatives	316	316	147	147
Total	$ 191,211	$ 191,211	$ 352,805	$ 352,805
Non-current				
Other financial assets	$ 9,190	$ 9,190	$ 7,638	$ 7,638
Derivatives	1,944	1,944	340	340
Total	$ 11,134	$ 11,134	$ 7,978	$ 7,978
Total	$ 202,345	$ 202,345	$ 360,783	$ 360,783
Financial liabilities				
Current				
Finance leases	$ (2,662)	$ (2,662)	$ (2,545)	$ (2,545)
Trade and other payables	(168,611)	(168,611)	(229,774)	(229,774)
Derivatives	(7,528)	(7,528)	(10,690)	(10,690)
Total	$ (178,801)	$ (178,801)	$ (243,009)	$ (243,009)
Non-current				
Finance leases	$ (7,035)	$ (7,035)	$ (8,110)	$ (8,110)
Go Zone bonds	(130,933)	(130,933)	(136,113)	(136,113)
Vessel finance for Cape Class Patrol Boats 9 & 10	(45,465)	(45,465)	(25,843)	(25,843)
Derivatives	(5,827)	(5,827)	(5,712)	(5,712)
Total	$ (189,260)	$ (189,260)	$ (175,778)	$ (175,778)
Total	$ (368,061)	$ (368,061)	$ (418,787)	$ (418,787)

iii Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.

Level 2 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).

Level 3 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation for financial instruments that are recognised at fair value on a recurring basis (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between any of the levels for recurring fair value measurements during the year.

The Group held the following classes of financial instruments measured at fair value at 31 December 2016:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2016				
Financial assets				
Derivatives	$ -	$ 2,260	$ -	$ 2,260
Total	$ -	$ 2,260	$ -	$ 2,260
Financial liabilities				
Derivatives	$ -	$ (13,355)	$ -	$ (13,355)
Total	$ -	$ (13,355)	$ -	$ (13,355)
30 June 2016				
Financial assets				
Derivatives	$ -	$ 487	$ -	$ 487
Total	$ -	$ 487	$ -	$ 487
Financial liabilities				
Derivatives	$ -	$ (16,402)	$ -	$ (16,402)
Total	$ -	$ (16,402)	$ -	$ (16,402)

iv Valuation techniques

The Group enters into derivative financial instruments including forward exchange contracts and currency swaps, with counterparty banks with investment grade credit ratings. Derivatives are valued using techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying currency.

The fair value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

Note 7 Investment in joint venture

	31 December 2016 '000	31 December 2015 '000
Investment in joint venture		
Investment in Aulong joint venture	$ 280	$ -

The investment in Aulong joint venture represents the Group's 40% interest in the Chinese joint venture, Aulong Shipbuilding Co Ltd. The remaining 60% of the joint venture is held by Chinese company Jianglong Shipbuilding Co Ltd.

Note 8 Interest bearing loans and borrowings

	31 December 2016 '000		30 June 2016 '000	
Current				
Finance leases	$	(2,662)	$	(2,545)
Total	$	(2,662)	$	(2,545)
Non - Current				
Finance leases	$	(7,035)	$	(8,110)
Go Zone Bonds		(130,933)		(136,113)
Vessel finance for Cape Class Patrol Boats 9 & 10		(45,465)		(25,843)
Total	$	(183,433)	$	(170,066)
Total	$	(186,095)	$	(172,611)

i Finance leases

Austal USA entered into finance leases to fund mobile equipment and a plot of land in Mobile, Alabama, USA. The leases entered into in late FY2015 have a term of 5 years each, and the following average interest rates were incurred in FY2017 H1:

- mobile equipment 1.75%
- land 1.50%

ii Go Zone Bonds

The Gulf Opportunity Zone Bonds (Go Zone Bonds or GZB) are a form of indebtedness that was authorised by the US Federal Government to incentivise private investment in infrastructure in geographical areas that were affected by Hurricane Katrina in 2005. Austal qualified to borrow US$225.000 million with a 30 year maturity to invest in the development of shipbuilding infrastructure in Austal USA between FY2008 & FY2013.

Go Zone Bonds are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 0.62% in FY2017. GZB bondholders are secured by letters of credit issued by Austal's banking syndicate with a maturity date of 18 November 2018. The average cost of the letters of credit in FY2017 H1 was 1.57%.

Austal has redeemed (repaid) a cumulative amount of ~ US$128 million of GZB funds and owes US$97.1 million at 31 December 2016.

Austal has the option of redeeming the outstanding GZB balance, in whole or in part, at any time during the term of the indebtedness with a 30 day notice to bondholders.

Austal re-financed the Syndicated Facility in November 2015 and extended the letters of credit securing the GZB by a minimum term of three years.

iii Vessel finance for Cape Class Patrol Boats 9 & 10

Austal entered into a finance arrangement with National Australia Bank (NAB) and the Australian Border Force for the construction of two Cape Class Patrol Boats (9 & 10) in December 2015. The arrangement is such that NAB finances the construction of the vessels and will lease them to the Australian Border Force for an initial 3 year term. The contract contains an option for NAB to sell the vessels back to Austal at the end of the 3 year term at an option price equal to the residual value of $21.843 million per vessel, however extensions or a future sale of the two vessels are probable. The notional effective interest rate incurred in FY2017 H1 for accounting purposes was 3.5%. No cash interest was or is actually payable on the debt.

Note 9 Contributed equity

	Shares		'000	
	31 December 2016	30 June 2016	31 December 2016	30 June 2016
Ordinary Shares on Issue				
Opening	348,393,449	346,923,451	$ 123,739	$ 121,753
Shares issued during the year (i)	705,814	1,469,998	1,073	1,986
Closing	349,099,263	348,393,449	$ 124,812	$ 123,739
Reserved Shares				
Opening	(4,015,539)	(4,015,539)	$ (9,001)	$ (9,230)
Movement in Reserved Shares (ii)	-	-	79	229
Closing	(4,015,539)	(4,015,539)	$ (8,922)	$ (9,001)
Net	345,083,724	344,377,910	$ 115,890	$ 114,738

(i) The following shares were issued during the period ended 31 December 2016:

a. 705,814 shares were issued as part of the Group's Dividend Reinvestment Plan on 21 October 2016.

(ii) The movement in Reserved Shares relates to the payment of dividends to the Austal Group Management Share Plan (AGMSP). Refer to Note 30 in the FY2016 Annual Report for further information regarding the AGMSP.

Note 10 Share based payments

i FY2014 and FY2015 Long Term Incentive (LTI) measurement period extension

The Board decided during FY2017 H1 to extend the measurement period of LTI performance rights due to vest at 30 June 2016 by one year. The decision was taken due to the trading halt that was initiated on 30 June 2016 pending the release of the FY2016 earnings guidance, and the subsequent reduction in share price on 4 July 2016 which was outside of the original measurement period. The vesting criteria for the performance rights have been adjusted pro-rata for the one year extension in the measurement period. This has resulted in the Total Shareholder Return (TSR) vesting criteria being compounded (increased) for an additional year, the new vesting criteria for the two impacted awards are detailed in the below table; there was no change to the Return on Invested Capital (ROIC) vesting criteria of the FY2014 and FY2015 LTI. The participants were notified of the changes to the LTI in writing on 1 September 2016.

	FY2014	FY2015	Vesting
TSR measure			
Below Threshold	<=20.5%	<=15.0%	0%
Threshold	20.5%	15.0%	25%
Below Threshold and Target	20.5% < TSR < 27.6%	15.0% < TSR < 20.0%	Pro-rata
Target	27.6%	20.0%	50%
Between Target and Stretch	27.6% <TSR < 34.7%	20.0% <TSR < 25.0%	Pro-rata
Stretch	>= 34.7%	>= 25.0%	100%

The decision impacted 296,425 performance rights relating to the FY2014 Long Term Incentive (LTI) plan and 136,961 performance rights relating to the FY2015 LTI, which were due to be measured at 30 June 2016. The following table lists the inputs and outputs to the original valuation model used in each award:

	FY2014 - Tranche A	FY2014 - Tranche B	FY2015 - Tranche A	FY2015 - Tranche B
Monte Carlo simulation method assumptions:				
Discount Rate	2.9% p.a.	2.8% p.a.	1.8% p.a.	1.8% p.a.
Share Price Volatility	40% p.a.	40% p.a.	40% p.a.	40% p.a.
Grant Date	18 November 2013	13 December 2013	30 October 2014	21 October 2014
Measurement date	30 June 2016	30 June 2016	30 June 2016	30 June 2016
The fair values of the rights at grant date were as follows:				
Fair value per performance right - TSR	$0.32	$0.47	$0.86	$0.77
Fair value per performance right - ROIC	$0.70	$0.84	$1.30	$1.24
Share price at grant date	$0.70	$0.84	$1.30	$1.23

The affected rights were required to be revalued as a result of the extension. The following table outlines the inputs to the updated valuation model used for each award:

	FY2014	FY2015
Monte Carlo simulation method assumptions:		
Discount Rate	1.4% p.a.	1.4% p.a.
Share Price Volatility	45% p.a.	45% p.a.
Grant Date	1 September 2016	1 September 2016
Measurement date	30 June 2017	30 June 2017
The fair values of the rights at grant date were as follows:		
Fair value per performance right - TSR	$1.26	$1.10
Fair value per performance right - ROIC	$1.43	$1.43
Share price at grant date	$1.45	$1.45

ii FY2017 Performance Rights Grant

1. Rights issued and valuation

Two tranches of performance rights were granted under the LTI in September and October 2016, comprised of the following allocations:

- Tranche A – 1,908,990 rights were granted to Corporate, Australia, USA and Filipino senior executives, and
- Tranche B – 1,194,121 rights were granted to the Chief Executive Officer.

Indexed Total Shareholder Return (iTSR) and Return on Invested Capital (ROIC) measured over a three year period will be used to determine performance rights under the LTI Plan to determine whether or not the rights will vest.

2. Indexed Total Shareholder Return (iTSR)

Indexed Total Shareholder Return (iTSR): 40% of the LTI plan performance rights issued will be determined by iTSR. This is calculated by comparing the actual shareholder return of Austal Limited, measured over the three year measurement period, to the All Ordinary Share Cumulative Index (ASX XAOA) for the same period.

Performance Level	Company TSR v iTSR	Vesting %
Below Threshold	Less than 100%	0%
Threshold	100%	25%
Between Threshold and Target	More than 100% but less than 150%	Pro-rata
Target	150%	50%
Between Target and Stretch	More than 150% but less than 200%	Pro-rata
Stretch	200% or greater	100%

3. Return on Invested Capital (ROIC)

Return on Invested Capital (ROIC): 60% of the LTI Plan will be determined by ROIC (calculated as – net operating profit after tax (NOPAT) / net assets (excluding cash, debt, derivatives and tax accounts)).

Performance Level	Company TSR v iTSR	Vesting %
Below Threshold	Less than 6.6%	0%
Threshold	6.6%	25%
Between Threshold and Target	More than 6.6% but less than 7.4%	Pro-rata
Target	7.4%	50%
Between Target and Stretch	More than 7.4% but less than 8.3%	Pro-rata
Stretch	8.3% or greater	100%

4. Fair value of performance rights

The fair value of the rights with iTSR vesting conditions is estimated at the date of grant using the Monte Carlo simulation method for iTSR, taking into accounts the terms and conditions upon which the rights were granted. The share price at the grant date was adopted as the fair value for rights with ROIC vesting conditions. ROIC is accounted for based on estimating the amount of grants that will vest using company forecasted ROIC through the measurement period.

The contractual life for each right granted for all the three tranches is three years. The fair value for iTSR was estimated on the date of grant for the rights granted using the following assumptions:

	Tranche A	Tranche B
Monte Carlo simulation method assumptions:		
Discount Rate	1.4% p.a.	1.7% p.a.
Share Price Volatility	45% p.a.	45% p.a.
Grant Date	1 September 2016	28 October 2016
Expected life of options (years)	3	3
The fair values of the rights at grant date were as follows:		
Fair value per performance right - TSR	$0.97	$1.11
Fair value per performance right - ROIC	$1.37	$1.45
Share price at grant date	$1.45	$1.53

Note 11 Income tax

	31 December 2016 '000		31 December 2015 '000	
Major components of income tax expense for the half years ended 31 December 2016 and 31 December 2015 are:				
Consolidated Profit & Loss				
Current Income Tax				
Current income tax charge	$	(544)	$	(6,362)
Adjustments in respect of current income tax of the previous year		1,092		(429)
Deferred Income Tax				
Relating to origination and reversal of temporary differences	$	(7,179)	$	(3,157)
Adjustments in respect of deferred income tax of the previous year		932		-
Total income tax (expense)	$	(5,700)	$	(9,948)
Other comprehensive income (OCI)				
Current and deferred income tax related items charged or credited directly to OCI				
Current and deferred gains and losses on derivatives and consolidation adjustments	$	(959)	$	(1,162)
Current gains and losses in FCTR		(46)		(19)
Deferred gains on revaluation of property, plant and equipment		-		(10,710)
Total (expense) charged to OCI	$	(1,005)	$	(11,891)

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	31 December 2016 '000		31 December 2015 '000	
Accounting profit before income tax from continuing operations	$	15,045	$	26,758
Income Tax at the Group's statutory income tax rate of 30% (FY2016 H1: 30%)	$	(4,514)	$	(8,027)
Adjustment for Austal USA statutory income tax rate of 36.9% (FY2016 H1: 36.9%)	$	(2,677)	$	(941)
Other foreign tax rate differences		(988)		(351)
US section 199 domestic manufacturing deduction		-		426
Adjustments in respect of current and deferred income tax of the previous year		2,024		(487)
Other non-assessable or non-deductible items		455		(568)
Total Adjustments	$	(1,186)	$	(1,921)
Income tax (expense) reported in the statement of comprehensive income	$	(5,700)	$	(9,948)

i ATO Audit

The Group establishes a provision based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

An ongoing Australian Taxation Office (ATO) audit of Austal Limited has resulted in differing interpretations of technical items. Independent advice has been received which supports the Group's position. The matters under dispute are currently undergoing an ATO independent review process.

Management has taken a conservative position which has increased the income tax position and effective tax rate for the Group to take into account an adverse outcome following the conclusion of the independent review process.

Note 12 Cash and cash equivalents

Cash and cash equivalents comprise the following at 31 December:

		31 December 2016 '000		30 June 2016 '000
Current				
Cash at bank and cash equivalents	$	153,468	$	224,318
Total cash per the cash flow statement	$	153,468	$	224,318

Cash at bank earns interest at variable on daily bank deposit rates. Cash equivalents include term deposits, which earn interest at fixed rates for terms of up to 90 days.

Note 13 Commitments and contingencies

The US Government has announced proposed legislation to reduce the federal income tax rate from 35% to 15%, however proceedings to enact the legislation had not commenced during the reporting period.

These changes do not impact the measurement of current tax liabilities and deferred tax assets and liabilities in respect of the USA operations at 31 December 2016 on the basis that the proposed rate changes have not been enacted or substantively enacted during the period.

Management estimates that restated balances for the period taking into account the proposed tax rate would give rise to a net reduction of approximately $14.896 million (US$10.747 million) in deferred tax asset balances in the statement of financial position and a corresponding debit to income tax expense.

The proposed change would have no immediate cash impact although US tax payments would be lower in future years due to the reduction in tax rate. Group Net Profit After Tax would increase in future years as a result of a lower US tax charge.

There is no impact on the Australian tax position.

The Group had recognised a contingent liability in relation to consequential damages arising from a warranty defect at 30 June 2016. The liability has been extinguished during the FY2017 H1 period, and hence does not exist at 31 December 2016. Agreement was reached on the basis that no liability is admitted by the Company however the precise terms of the settlement are subject to confidentiality restrictions.

There have been no other material changes in commitments and contingencies since the last annual reporting date.

Note 14 Related party disclosure

The Group has a policy that all transactions with related parties are conducted on commercial terms and conditions.

No related party transactions occurred with the consolidated entity other than the remuneration of Directors and Key Management Personnel and the matters disclosed in this report.

Note 15 Events after the reporting date

The directors declared an interim dividend for FY2017 of 2 cents per ordinary share on 24 February 2017. The dividend has not been provided for in the 31 December 2016 financial statements.

Directors' Declaration

In accordance with a resolution of the Directors of Austal Limited, I state that in the opinion of the Directors:

- The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - Giving a true and fair view of the financial position as at 31 December 2016 and the performance for the half-year ended on that date of the consolidated entity
    - Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001
- There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

John Rothwell
Chairman
24 February 2017

Independent review report to the members of Austal Limited

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

To the members of Austal Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Austal Limited, which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Austal Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Austal Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Robert A Kirkby
Partner
Perth
24 February 2017