AUSTAL LIMITED | 2016 | ANNUAL REPORT

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Independence variant Littoral Combat Ship USS Jackson (LCS 6) completing the first of three full-ship shock trials in 2016.
(U.S. Navy photo by Mass Communication Specialist 2nd Class Michael Bevan/Released)

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Chairman's report

It is my pleasure to present the 2016 Annual Report to you on behalf of the Board of Austal Limited.

2016 has been a mixed year for the Company. On the one hand, we had to make substantial adjustments to previously recognised profits (and some forecast costs) out of the LCS program in relation to meeting the US Naval Vessel Rules and the related physical shock tests that were completed on those vessels in July 2016. This was unfortunate, however I am pleased at how the executive team has developed its response into measures that will prevent similar issues from arising in future.

On the other hand, there was a substantial number of highlights during the year – these include:

- $1.3 billion Group Revenue.
- A contract to construct two additional Cape Class Patrol Boats for charter to the Royal Australian Navy was received from the National Australia Bank in December 2015.
- Littoral Combat Ship (LCS) 6 - USS Jackson - was delivered to the US Navy and successfully completed 'Full Ship Shock Trials' post year end.
- LCS 8 – USS Montgomery – was delivered to the US Navy in June 2016.
- Two Expeditionary Fast Transport (EPF) ships were delivered to the US Navy; EPF6, USNS Brunswick and EPF7, USNS Carson City.
- Long-lead procurement items were awarded for an eleventh and twelfth Expeditionary Fast Transport (EPF) from the US Navy
- The Commonwealth of Australia awarded a $305 million contract to design and construct the Pacific Patrol Boat Replacement fleet of 19 metre vessels, to be gifted to 12 Pacific Island nations from 2018.
- The first of two 72 metre High Speed Support Vessels (HSSV) designed and constructed by Austal Australia for the Royal Navy of Oman was delivered.
- Securing new commercial passenger ferry shipbuilding contracts with 2Go of the Philippines, Seaspovill of South Korea and Mols Linien of Denmark.
- Establishment of a joint venture company, Aulong Shipbuilding Co. Ltd, with Jianglong Shipbuilding Co. Ltd of China – to actively target and win new commercial ferry and non-military vessel contracts in mainland China.

Chief Executive Officer, David Singleton will provide more detail in his report on the operational achievements for the year, and the strategic direction and outlook for Austal.

Financial results

- Austal reported a net loss after tax of $(84.182) million in FY2016, compared to a net profit of $53.156 million in FY2015. FY2016 earnings (loss) before interest, tax, depreciation and amortisation (EBITDA) was $(90.966) million for the year compared to $109.539 million in FY2015.
- Revenue for the year decreased by 5 per cent from $1,414.888 million in FY2015 to $1,339.970 million.
- USA operations were the largest contributor to revenue, delivering $1,133.024 million (FY2015: $1,119.703 million) and $(90.457) million loss before interest and tax (FY2015: $58.524 million) after recognising the write down to LCS work in progress.
- Australian operations contracted in FY2016 following the completion of the original eight Cape Class Patrol Boats for the Australian Border Force with $187.054 million in revenue (FY2015: $211.808 million) and $6.756 million EBIT (FY2015: $32.149 million). The two additional CCPB 9 & 10 supported construction activity during the year without making a contribution to revenue nor profit because of their accounting treatment as a financing arrangement.

- Philippines operations reported a $(3.766) million EBIT (FY2015: $0.992 million). Senior management changes have been executed to address the disappointing result from the Philippines shipyard and the focus will be on restoring productivity and cost efficiency during FY2017.
- Group net cash at year end was $51.707 million (FY2015: net debt $(4.169) million), after generating operating cash flow of $102.066 million (FY2015: 110.434 million).

Financial summary

Year ended 30 June		2016 '000		2015 '000
Revenue [1]	$	1,339,970	$	1,414,888
EBITDA	$	(90,966)	$	109,539
Depreciation	$	(28,461)	$	(22,736)
Amortisation		(1,438)		(1,530)
EBIT	$	(120,865)	$	85,273
Finance income	$	1,106		882
Finance cost		(6,605)		(4,992)
Profit / (loss) before income tax	$	(126,364)	$	81,163
Income tax benefit / (expense)	$	42,182	$	(28,007)
Profit / (loss) after tax	$	(84,182)	$	53,156
% EBIT [2] / Revenue		(9.0%)		6.0%
Basic earnings per share ($ per share)	$	(0.24)	$	0.16
Net assets	$	457,552	$	512,399
Return on invested capital (%)		(16.2%)		10.8%

1. Excludes other income

2. Earnings before interest and tax (EBIT)

EBIT and EBITDA are non-IFRS measures. The information is unaudited but is extracted from the audited financial statements. EBIT is used to understand segment performance and EBITDA is used by management to understand cash flows within the group.

Board and Executive management

David Singleton was appointed Chief Executive Officer in April 2016, following Andrew Bellamy's resignation after 7 years with the company, including 5 years as Chief Executive Officer.

The Executive management team was strengthened with several key appointments bringing added expertise to our operations in Australia and Philippines. Ben Marland joined us in February 2016 as Vice President Sales and Marketing and Wayne Murray was promoted from within Austal to President, Austal Philippines, after 17 years with the company.

Collectively, the Executive Leadership Team (ELT) continues to implement strategic initiatives that are delivering against our key objectives.

Strategy and governance

The Board has continued its active engagement in reviewing the development of the Group strategy proposed by Executive management.

The annual review of the Group's risk management framework was conducted with involvement by the Audit and Risk committee and Remuneration and Nomination committee to ensure that the necessary controls and governance are in place, fit for purpose and amended as required.

People

After a significant year, with many achievements to be proud of, I wish to thank and acknowledge our hardworking employees for their consistent efforts and ongoing loyalty. My sincere thanks also, to our shareholders for your ongoing support of Austal.

John Rothwell AO
Chairman

USS Montgomery (LCS 8) delivered June 2016

Chief Executive Officer's report

It is to be regretted that in a year when Austal has seen progress on many fronts, it has been necessary to reset the overall profit expectations of the Littoral Combat Ship (LCS) program in the USA. Whilst LCS remains Austal's most important and prestigious single project, the vessel modification program has increased costs beyond the allowances that the company had previously anticipated although these costs are now fully reflected in this year's results. LCS does remain profitable however, and we believe will continue to be one of the major contributors to our company for many years to come.

The importance of LCS to Austal cannot be over emphasised. It has taken the Company to a new level in warship design and production capability at a time when the Australian Navy has announced plans for its future navy ship requirements which are of a similar size and construction complexity. The US ships were designed in Australia and much of the early production activity was led by personnel from Austal's Australian operations. This experience means that Austal is ready to play its part in the Royal Australian Navy's continuous shipbuilding plans which will see Offshore Patrol Vessels and Frigates built in Australia for the next decade and more. Austal has been a highly successful shipbuilder predominantly in exports and to the Royal Australian Navy and involvement in these new programs, if successful, would further enhance the Austal brand overseas further facilitating us to continue to produce innovative and differentiated ships for our customers.

The Expeditionary Fast Transport (EPF) vessel was our first program in the USA and is now delivering in a consistent and reliable fashion and demonstrates the capability of our people and facilities in Alabama as they seek to replicate this with the LCS program. The EPF is now being used extensively by the US Navy and we continue to receive positive reports about the vessel itself and its utility in operations. This has undoubtedly supported an extension to the original block buy of 10 vessels, with long lead time material procurement contracts being received during the year for two additional vessels, EPF 11 and EPF 12.

The on-schedule completion of the eight vessel Cape Class Patrol Boat (CCPB) fleet for the Australian Border Force in August 2015 and subsequent successful operation of the vessels across Northern Australia, led to a $63 million contract for an additional two CCPB being awarded in December 2015. The two vessels will be chartered to the Royal Australian Navy in 2017 in an innovative contract structure with the Commonwealth.

Our Australian operations continued to demonstrate the company's leadership in delivering customised solutions based on proven platforms when the first of two 72 metre High Speed Support Vessels (HSSV) was delivered to the Royal Navy of Oman.

A key foundation of the company's ongoing Australian defence business was secured in April 2016 when Austal won the competitive tender to design, construct and sustain the Pacific Patrol Boat (PPB) program for the Commonwealth of Australia.

The PPB contract, comprising nineteen 40 metre steel vessels and valued at $305 million, is significant because it represents an opportunity to further demonstrate Austal's capability and capacity to deliver multiple steel vessels. This is a valuable demonstration of our steel shipbuilding capability in the lead up to both the Offshore Patrol Vessel and Future Frigate programs both of which will be steel hulled.

Our dominant position in the global high speed commercial vessel market was further enhanced through solid progress on two very sophisticated offshore crew boats for the discerning Oil and Gas sector. The larger of these ships was Austal's first 'hybrid' build with the forward end of the ship being produced in Austal's Philippine yard and the aft section, integration and commissioning being completed successfully in Henderson.

New contracts for commercial ferries received from operators in South Korea, the Philippines and Denmark reflect continued confidence in Austal as the world's leading high speed ferry builder. Austal also won a ferry contract as part of its joint venture in China post the end of the year.

Strategy

The single biggest strategic opportunity immediately ahead of Austal, is our potential involvement in the Australian government's continuous shipbuilding program through which we can reinforce its position as "The Australian Shipbuilder". A stable and reliable order book from these programs will also create the base on which Austal will continue to grow its already considerable export strength providing careers of certainty for our people and our, predominantly Australian, supplier network. Austal's credentials are strong having repeatedly proven its on cost on time delivery to the Royal Australian Navy in previous programs. In addition Austal has built a world class shipyard in the USA, put two ship classes into production there and employed more people than will be required for the entire Australian surface ship program. Make no mistake, this was done by Australians in the world's most sophisticated defence market, and if we can do that on the other side of the planet we can, for sure, do that at home.

The USA continues to be a core market for Austal and the US Navy's satisfaction with and commitment to both the LCS and the EPF programs was highlighted by the funding of another ship, LCS 26, in addition to funding the long lead time materials for EPF 11 and EPF 12. These programs are already the largest export of defence capability by any Australian company and they are likely to continue well into the next decade. The halo effect of these programs is also very important to the company and has already led to the export of two HSSV ships to Oman which are similar in concept to EPF and with further potential exports being actively pursued.

Our ability as an Original Equipment Manufacturer (OEM) to support our vessels, particularly in the defence sector, is important to our reputation and provides the potential for a long tail of income stretching 20 or 30 years through the life of the vessels. Support in defence is highly sophisticated however, requiring people with a deep knowledge not only of the ships but also of the complex requirements of our customers. We have invested heavily in these people, in the necessary computer based systems and in a presence in new support locations and will continue to do so. We have set ourselves the target to become the benchmark for service delivery of ship support in Australia and we will not rest until we are recognized for that.

Our next key strategic initiative is operational excellence with an absolute focus on Austal becoming the world's lowest cost producer for the type of ships we produce, in the markets in which we operate. We are already cost competitive as demonstrated by our remarkable export track record, but shipbuilding is a tough market and we need to get further ahead. It is our absolute determination to drive waste out of our business to reduce cost, reduce production lead times and eliminate rework. This will ensure that Austal endures and prospers, offering lifetime opportunities to our employees to develop and grow with the company.

Providing shareholder value is not a strategy in itself for us, but rather the product of high achievement in the areas described above coupled with active and sound management of our financial investments in a disciplined way. We are mindful of the need to continue to reduce debt even when we are in a net cash position so that future profits can be used to pay dividends and to invest in further developing our business as new opportunities arise.

People

There is something about the people of Austal in that they have achieved things that no other Australian company has done and what no other company in the world has done before in the USA. Unyielding and visionary leadership has been part of that but so too have Austal's values of Excellence, Customer, Integrity and Teamwork which are unchanged and remain the basis for many tangible and sustainable business successes. You can see these values at work every day in Austal and even when sometimes we get it wrong we always fix it. These are the people that built the US business from scratch, have designed and built ships for the Australian Navy from humble recent beginnings and who are focused on our strategic objectives today. Today our Alabama based operations are manned by equally committed US citizens who know they are doing great work for Austal, the US Navy and the society in which they operate.

Bet against these people at your peril.

I thank all of our employees and key stakeholders for their hard work, devotion to excellence, commitment and loyalty. We would be nothing without them, and we are a world class shipbuilder with them.

Outlook

FY2017 will be a transition year in Australia as we move from series production of the final two of the Cape Class Patrol Boats (CCPB 9 & 10) to the 109 metre Mols Linien ferry for which we start cutting metal in May 2017 and the nineteen Pacific Patrol Boats the first of which is due for delivery in late 2018. We do not intend to recognise profit on these vessels during the year whilst we fully define the cost. This approach reflects our more conservative profit recognition intent for complex programs however, workload in Henderson should stay similar to its current level, thereby maintaining a strong platform for the Offshore Patrol Vessel (OPV) program should it come to Austal.

We will continue to conservatively recognise profit on LCS in the USA during the year and focus on manufacturing stability. We also expect to undertake significant levels of activity in bidding for additional ships of both classes if they are funded by Congress. We further expect that the design work to convert LCS into a lethal Frigate class will continue as the US Navy transitions to this concept over the next few years.

Austal is actively pursuing a number of new opportunities in Australia in the long term product support area which could provide the next big step for us in this market, including the Armidale Class Patrol Boat (ACPB) Integrated Support Services (ISS) contract with the Commonwealth of Australia, a vessel for which we are the OEM. We also continue to build support momentum for our ships in the USA as they are deployed by the US Navy.

We have seen a clear change in the new build international ferry market after several poor years as lower oil prices and higher passenger numbers have increased operator profitability and also the commencement of new routes. We have already won contracts for five new vessels in CY2016 and we believe the pipeline will continue to be strong during the coming year. We are investing in Research and Development again to ensure that we can continue to design and build the best high speed aluminium vessels in the world from either Australia or the Philippines, based on the merits of the two yards. Some additional capital may be required to support the growing volume, especially in the Philippines but we will maintain our usual disciplined approach to investment.

The Middle East continues to be a region of particular interest for both commercial and defence vessels and Austal's local team, who have a history of success in the region, are pursuing a number of high value opportunities for absolutely core products. Defence contracts are notoriously difficult to predict in terms of timing so our approach is to invest where we think there are genuine programs for products in which Austal excels.

Finally, the establishment of a new joint venture company, Aulong Shipbuilding Co. Ltd, between Austal and Guandong Jianglong Shipbuilding Co. Ltd of Zhuhai, China in June 2016 supports re-entry into a large market that has been lucrative for Austal in the past. Aulong will benefit from Austal's proven commercial ferry designs and Jianglong's established shipbuilding facilities and expertise to exclusively target commercial customers in mainland China.

David Singleton
Managing Director and Chief Executive Officer

MV Rashid Behbudov (Hull 392) constructed for Caspian Marine Services of Azerbaijan

Review of operations

A financial breakdown for each business unit has been included below, including IFRS and non-IFRS information. This information has been extracted from the audited financial statements and included in order to demonstrate growth across the primary segments.

US operations

Year ended 30 June	2016 $'000	2015 $'000
Revenue	$ 1,133,024	$ 1,119,703
EBIT	(90,457)	58,524
EBIT Margin	N/A	5.2%

A segment EBIT loss of $(90.457) million was driven by a $156 million write down of work in progress after a change of estimate for the costs to completion of the LCS (6 – 26) program. The change of estimate was determined following the completion of a comprehensive review which was announced on 4 July 2016.

The USA operations had 17 vessels under construction during the year and delivered four vessels to the US Navy in FY2016 – two Littoral Combat Ships (LCS 6 and 8) and two Expeditionary Fast Transport (EPF) vessels (EPF 6 and 7).

The total USA workforce was maintained within the target range of 4,100 – 4,200 with continued focus on skills development and identifying and exploiting opportunities for productivity improvements a process which is continuing to drive Austal down the learning curve of the two vessel programs.

The order book was replenished when an option to fund LCS 26 was exercised by the US Navy, representing Austal's eleventh LCS as prime contractor (Austal constructs the Independence variant, being the even-numbered vessels) and Austal was also awarded contracts to procure long-lead items for an eleventh and twelfth Expeditionary Fast Transport (EPF) from the US Navy, providing confidence that Austal will be awarded contracts to construct the vessels.

There was significant progress in both major programs during the year from a construction perspective.

EPF 6, USNS Brunswick was delivered in January 2016 after successfully completing acceptance trials in November 2015 and EPF 7, USNS Carson City, was delivered in June 2016. Construction of EPF 8 (the future USNS Yuma) commenced in March 2016.

The EPF program continues to mature and is progressing well with a proven vessel design and a stabilised bill of materials. Exploiting productivity initiatives is the major focus to drive the business down the learning curve which will thereby take cost out of the program.

Six additional LCS are at various stages of construction at balance date; the future USS Gabrielle Giffords (LCS 10) is undergoing final fit out and preparing for sea trials, the future USS Omaha (LCS 12) was launched in November 2015 and USS Manchester (LCS 14) was launched in May 2016. Assembly is well underway on the future USS Tulsa (LCS 16) and USS Charleston (LCS 18), whilst modules for the future USS Cincinnati (LCS 20) are under construction in the modular manufacturing facility (MMF).

Austal continues to explore opportunities to further develop its LCS and EPF Sustainment business, within the United States and elsewhere around the world. Austal is identifying ways to deliver effective support as and where it is needed with EPF deployed to regions as diverse as South America, Western Africa and the Middle East.

Austal USA operations in Mobile, Alabama

Australia operations

Year ended 30 June	2016 $'000	2015 $'000
Revenue	$ 187,054	$ 211,808
EBIT	6,756	32,149
EBIT Margin	3.6%	15.2%

Austal's Australia operations were impacted by a contraction in production activity and profit generation following the conclusion of the original 8-vessel Cape Class Patrol Boat block-buy contract in August 2015 as well as a reduction in profit share associated with components supplied to Austal USA as a result of the LCS downgrade.

CCPB 8, (Cape York), the final CCPB of the original contract was delivered in August 2015 and the entire fleet is now operating across Northern Australia, supported by Austal's service centres in Darwin, Cairns and Henderson. The efficiencies extracted over the four year construction period (from FY2012 – FY2016) demonstrate the clear benefits of continuous shipbuilding with a mature vessel design.

Austal received a new order (valued at $63 million) to construct a further two CCPB (9 & 10) for the Royal Australian Navy (RAN) in December 2015. The RAN will charter the vessels from the National Australia Bank, from late FY2017.

Austal won a major competitive tender to design construct and sustain nineteen 40 metre steel Pacific Patrol Boat (PPB) vessels for the Commonwealth of Australia (CoA) in May 2016. The CoA is gifting the vessels to 12 Pacific Island nations from 2018.

The $305 million PPB contract is a significant win and a major enhancement to the company's capability going forward; positioning Austal well to bid for the upcoming Offshore Patrol Vessel (SEA1180) program, comprising 12 vessels to be built in South Australia and Western Australia. Construction of the PPBR will commence in late FY2017.

The first of two 72 metre High Speed Support Vessels (HSSV) for the Royal Navy of Oman, the Al Mubshir, was delivered in May 2016, following a naming ceremony held at Henderson for both vessels in April 2016. Final fit out alongside at Henderson and sea trials continue for the second vessel, the Al Naasir, which is on schedule for delivery in September 2016. Sustainment of both vessels will be performed by Austal's Oman service centre in Muscat.

Construction of a 70 metre fast crew boat for Caspian Marine Services of Azerbaijan commenced in October 2015, the forward hull module was fabricated in the Austal Philippines shipyard and the aft hull module and superstructure were constructed concurrently in Australia. The forward hull was transported to Henderson in March 2016 for integration with the superstructure and aft hull modules, achieving a construction period to launch of just eight months.

The vessel is scheduled for delivery in September 2016 and represents Austal's first 'hybrid' build, further integrating the Australian and Philippines shipyards and the company's global supply chain,.

Austal was successful in securing a contract (valued at approx. $100 million) to design and construct a new 109 metre high speed aluminium ferry for Mols Linien of Denmark in June 2016.

Philippines operations

Year ended 30 June		2016 $'000		2015 $'000
Revenue	$	33,899	$	38,743
EBIT		(3,766)		992
EBIT Margin		N/A		2.6%

Austal Philippines delivered two 45 metre high speed crew transfer vessels to the Abu Dhabi National Oil Company (ADNOC) of the United Arab Emirates, in August 2015 and commenced construction on a further two offshore crew transfer vessels.

Austal Philippines constructed the forward hull section for a 70 metre large crew transfer vessel for Caspian Marine Services and shipped it to Austal Australia, where the complete vessel has been assembled as described in the "Australia" section.

The Philippines commenced construction of a 57 metre offshore crew transfer vessel in FY2016 and is preparing to deliver the vessel in FY2017 H1.

Austal Philippines secured new contracts for the construction of three new high speed passenger ferries in June 2016 consisting of two 30 metre ferries for Philippines operator '2Go' and one 50 metre ferry for Seaspovill of South Korea. These two contracts, valued collectively at approximately $30 million, extend the Philippines order book through to the beginning of FY2018.

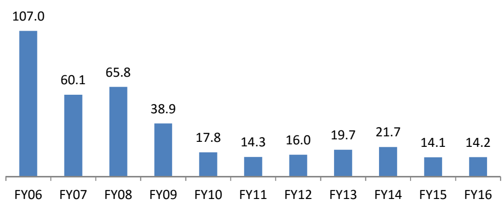
The Philippines shipyard continues to play a pivotal role in cost optimisation of manufacturing activities within the Group by supplying sub-assemblies and components to Australia, for programs such as the High Speed Support Vessels.

Safety performance

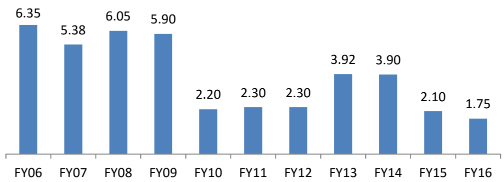
Austal's perpetual focus and leadership on safe people, safe practices and safe work environments is effective in promoting a culture that raises awareness of individual responsibility for safety and health and it instils safety as an accepted workplace practice and the way we do business.

Our goal of Zero Harm means no injuries to anyone, ever and whilst the target is aspirational, it remains a target to strive for. Our businesses typically operate at accident and injury rates well below the local average which is testament to our focus on the wellbeing of all staff.

Regrettably we had a death in our US operations during the night shift in the module manufacturing facility in FY2016. Austal and the relevant authorities have been unable to identify the cause at the time of publishing this report but we will continue to do what we can to determine this and take whatever action, if any, which may be required as a result.



Medical Treatment Injury Frequency Rate (per million hours worked)



Lost Time Injury Frequency Rate (per million hours worked)

Directors' report

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2016.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are detailed below. Directors were in office for the entire financial year unless otherwise stated.

John Rothwell AO – Non-Executive Chairman

John has played a major role in the development of the Australian aluminium shipbuilding industry with over 40 years of experience in boat and shipbuilding. He is the architect responsible for the establishment of Austal and was the Founding Managing Director. John identified markets for high speed ferries throughout Asia which resulted in Austal's rapid growth. He saw the potential for US Defense contracts for high speed aluminium naval ships and he led the formation of a new shipyard in Mobile, Alabama in 1998.

John was appointed as an Officer of the Order of Australia (AO) in January 2004 for services to the Australian shipbuilding industry, and for significant contributions to vocational education and training. He was named "Australian Entrepreneur of the Year" by Ernst and Young in 2002 and he was awarded the Western Australia Citizen of the Year in the category of Industry and Commerce in 1999.

John stepped down as Executive Chairman and Chief Executive Officer in 2008 to continue as Non-Executive Chairman after managing the Company for 20 years.

Jim McDowell – Independent Director

Jim brings a strong, relevant industry background to Austal, with more than 30 years of experience in the defence and aerospace sectors. He was most recently Chief Executive Officer at BAE Systems Saudi Arabia operations. Prior to this, Jim was Chief Executive Officer at BAE Systems Australia where he oversaw a significant expansion of its operations.

Jim joined BAE Systems in 1996 and held senior management positions prior to his CEO roles. Before commencing at BAE Systems, Jim worked for 18 years at aerospace company Bombardier Shorts in legal, commercial, and marketing positions.

Jim left BAE Systems Saudi Arabia in 2013 to return to Australia. He has taken a strong interest in the continuing education sector, and is currently Chairman of the Australian Nuclear Science and Technology Organisation. Jim is a Non-Executive Director at Codan Limited. Jim is Chancellor of the University of South Australia.

Jim holds a Bachelor of Laws from the University of Warwick in England.

Giles Everist – Independent Director

Giles has a breadth of experience with project and service based businesses gained over more than 27 years, working internationally in Australia, UK and Africa, largely in the resources, engineering and construction industries.

Giles was appointed as Non-Executive Director in November 2013. Giles is a qualified chartered accountant and was formerly the Chief Financial Officer and Company Secretary of Monadelphous Group Limited between 2003 and 2009. He has held senior financial executive roles with Rio Tinto in the United Kingdom and Australia, as well as major US design engineering group Fluor Corporation during his career.

Giles is currently a Non-Executive Director of Decmil Group Limited, Norwood Systems Ltd and Macmahon Holdings Limited.

David Singleton – Chief Executive Officer

David has spent much of his career in the defence industry around the world in roles encompassing design, heavy manufacturing, customer support and international sales. He was a Non Executive Director of Austal for four years before becoming CEO in April 2016.

David has held numerous senior roles with BAE Systems, one of the world's largest defence companies, including Group Head of Strategy and Mergers & Acquisitions in London from 1997 to 1998 and again in 2003.

In the intervening years, David was the Chief Executive Officer of Alenia Marconi Systems (AMS); a joint venture between BAE Systems and Finmeccanica that had turnover of circa Euro1.4 billion and employed 7,500 people across the UK, Italy, the USA and Germany. AMS was a European leader of naval warfare and air defence systems, C4I, ground and naval radars, naval command and control training systems and long term naval support.

With an Honours degree in Mechanical Engineering from University College London, David started his career with the UK Ministry of Defence and worked in research, development and manufacturing as well as senior management roles in Royal Ordnance, which was eventually sold to BAE. He has also served as a member of the National Defence Industries Council in the UK, and as a Board member and Vice President (Defence) of Intellect, a leading trade association for the UK technology industry.

Most recently, David was the CEO and Managing Director of Perth-based mining company Poseidon Nickel Limited. Prior to this role, he served as CEO and Managing Director of Clough Limited between 2003 and 2007.

Andrew Bellamy – Chief Executive Officer (Resigned)

Mr Bellamy commenced as CEO in February 2011, and resigned in April 2016. Mr Bellamy has been instrumental in Austal's emergence as a global defence prime contractor. Mr Bellamy was responsible for the Group's worldwide operations and was a member of the Board of Austal Limited and the Board of Austal USA.

Interests in the shares and options of the company and related bodies corporate

The interests of the Directors in the shares of Austal Limited at the date of this report were as follows:

	Number	
Director	Ordinary Shares	Share Rights^
John Rothwell	32,500,745	-
Jim McDowell	33,751	-
Giles Everist	10,000	-
David Singleton	28,600	97,360

^ This represents share rights that form part of David Singleton's Total Fixed Remuneration subject to shareholder approval at the 2016 Annual General Meeting. (refer to Note 30 of the financial statements).

Principal activities

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

Results

The net loss after tax of the consolidated entity for the financial year was $(84.182) million after income tax (FY2015: net profit after tax of $53.156 million).

Review of operations

A review of the operations and financial position of the consolidated entity is outlined in the Review of Operations on page 9.

Dividends

A dividend of 2 cents per share was paid after the FY2016 H1 results (FY2015 H1: 1 cent per share) and a further dividend of 2 cents per share has been proposed for FY2016 (FY2015 final: 3 cents per share).

Significant events after the balance date

The Directors have declared a fully franked dividend in respect of the year ended 30 June 2016. More information is available in the Dividends section above.

Likely developments and future results

A general discussion of the Group's outlook is included in the Chairman's Report on page 4 and the Review of Operations on page 9.

Significant changes in the state of the affairs

There were no significant changes to structure or operations of the Group during the financial year.

Environmental regulation and performance

The Group has a policy of at least complying with, but in most cases exceeding, environmental performance requirements. No environmental breaches have been notified by any Government agency during the year ended 30 June 2016.

Share options and performance rights

There were 1,374,196 un-issued ordinary shares under options and 1,665,407 un-vested performance rights at the date of this report. Refer to Note 30 for further details of the options outstanding. There were no options exercised during the year. There were 497,184 performance rights which vested on 8 September 2015, and 97,360 share rights granted as part of the CEO remuneration during FY2016.

Indemnification and insurance of Directors and Officers

An indemnity agreement has been entered into between the parent entity and each of the Directors named in this report. The company has agreed to indemnify those Directors against any claim for any expenses or costs which may arise as a result of work performed in their respective capacities to the extent allowed by the law.

The parent entity has paid premiums during the financial year in respect of a contract insuring the Directors and Officers of the Group in respect of liability resulting from these indemnities. The terms of the insurance arrangements and premiums payable are subject to a confidentiality clause.

Indemnification of auditors

The parent entity has agreed to indemnify its auditors, Ernst & Young, against claims by third parties arising from the audit (for an unspecified amount) to the extent permitted by law, as part of the terms of its audit engagement agreement. No payment has been made to indemnify Ernst & Young during or since the financial year.

Directors' meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Meeting		
	Austal Limited Board	Audit & Risk Committee	Nomination & Remuneration Committee
Number of meetings held	7	4	5
Number of meetings attended:			
John Rothwell	6	1 [3]	4
Jim McDowell	7	4	1
Giles Everist	7	4	5
David Singleton [1]	7	4	5
Andrew Bellamy [2]	6	3 [3]	4 [3]

1. Mr David Singleton was appointed Chief Executive Officer on 4 April 2016
2. Andrew Bellamy retired as a director of the Company (and Chief Executive Officer) on 4 April
3. Attended as a guest

Committee membership

The Company has an Audit & Risk Committee and a Nomination & Remuneration Committee of the Board of Directors.

Members acting on the committees of the Board during the year were:

Audit & Risk	Nomination & Remuneration
Jim McDowell	John Rothwell
Giles Everist [1]	Jim McDowell [1]
David Singleton	Giles Everist
	David Singleton [2]

1. Designates the Chairman of the committee
2. Chairman of Nomination & Remuneration Committee until April 2016

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the instrument applies.

Render of 40 metre Pacific Patrol Boat Replacement (PPB-R) – 19 steel vessels to be constructed by Austal Australia for 12 Pacific Island nations from 2018 - 2023

Message from the Nomination & Remuneration Committee (NRC)

Dear Shareholder,

Last year you received this letter from the Chair of the Nomination and Remuneration Committee, Mr David Singleton. Mr Singleton became Chief Executive Officer of Austal in April, 2016 and I was appointed as the new Chair of the Nomination and Remuneration Committee in May 2016.

The remarks in Mr Singleton's letter of last year with regard to the journey to fully review, recalibrate and align key management personnel remuneration governance, policies and practices remain pertinent as we worked our way through the second year of that process. The changes required have now been implemented although it may take somewhat longer for all of the changes to be evident as old practices are phased out.

As shareholders are aware from last year's letter Austal have used the services of the Godfrey Remuneration Group (GRG) to assist in the redesign of our remuneration governance practices.

We will re-engage with GRG for FY2017 in order to review the changes and their effects and to assist me as incoming Chair of the Committee.

Mr Andrew Bellamy resigned as Chief Executive Officer during FY2016 after 5 years of service in which we saw significant growth in the business, and Mr David Singleton was appointed to replace him. Mr Singleton is an experienced Chief Executive Officer across a number of industries (defence, engineering, resources) and has deep understanding and experience of complex systems engineering in the defence maritime domain in addition to having been a non-Executive Director of Austal since December 2011.

Another significant event in the past year was the write-back of profits from previous years, on one of the contracts in our US business. This was associated with the costs needed for additional testing required by the U.S. Navy on the Littoral Combat Ship. These physical shock tests have been successfully passed by the LCS and although the costs of making the vessel test ready have been shared with our U.S. Navy customer, and the necessary modifications planned into future ship builds, the profit write-back had a significant effect on our FY2016 results.

Consequently, the Board of Directors exercised its discretion not to pay any Short Term Incentive (STI) to KMP for FY2016 and has extended the measurement period of two tranches of Long Term Incentive (LTI) performance right grants that were due to vest after completion of FY2016. The extension of the measurement period will incorporate the impact of the reduction in share price that occurred after the announcement regarding LCS which was post year end.

It is pleasing to see the new remuneration practices in effect and I look forward to meeting with shareholders at the Annual General Meeting in October.

Yours sincerely,

Jim McDowell

Chairman, Nomination & Remuneration Committee

Remuneration report (audited)

This Remuneration Report for the year ended 30 June 2016 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The Remuneration Report is presented under the following sections:

Remuneration report (audited)

1. Persons covered by this report

This report covers all Key Management Personnel (KMP) as defined in the Accounting Standards, including all Directors, as well as those Executives who have specific responsibility for planning, directing, and controlling material activities of the Group.

The KMP for the year ended 30 June 2016 were:

Executive Directors

Mr David Singleton	Chief Executive Officer and Managing Director since April 2016

The following person ceased to be an executive director during FY2016:

Mr Andrew Bellamy	Chief Executive Officer and Managing Director until April 2016

Executives with no Director duties

Mr Greg Jason	Group Chief Financial Officer since January 2013
Mr Craig Perciavalle	President USA since November 2012
Mr Joselito Turano	President Philippines until July 2016

The following person ceased to be an executive KMP of Austal during FY2016:

Mr Brian Leathers	Chief Financial Officer USA until March 2016

Non-Executive Directors

Mr John Rothwell	Chairman since 1998 Member of the Nomination & Remuneration Committee since December 1998
Mr Jim McDowell	Independent non-executive director since December 2014 Chairman of the Nomination & Remuneration Committee since May 2016 Member of the Audit & Risk Committee since February 2015
Mr Giles Everist	Independent non-executive director since November 2013 Chairman of the Audit & Risk Committee since October 2014 Member of the Nomination & Remuneration Committee since February 2014

The following person ceased to be a non-executive director during FY2016:

Mr David Singleton	Independent non-executive director from December 2011 until April 2016 Chairman of Nomination & Remuneration Committee until April 2016

I. Change of CEO during the year

Mr Andrew Bellamy resigned as Chief Executive Officer (CEO) of Austal with effect from 4 April 2016. The Board oversaw a successful handover between Mr Bellamy and the incoming CEO during a period of intense activity both in the USA and Australia. In recognition of Mr Bellamy's service and effective transition, the Board approved a termination payment of $697,160 to Mr Bellamy in lieu of potential pro-rata Short Term Incentives (STI) and Long Term Incentive (LTI) payments based on projected company performance at the time of transition.

Mr David Singleton commenced in a full time executive role from February 2016 in order to ensure an effective transition and was appointed CEO and Managing Director with effect from 4 April 2016.

Mr Singleton's package was similar to that paid to Mr Bellamy, consisting of:

- A Base Remuneration as identified in this report.
- An STI and LTI package as identified in this report.

No other one-off or continuing payments were made to Mr Singleton on his commencement.

2. Remuneration governance framework and strategy

I. Nomination & Remuneration Committee Charter

The role and responsibilities of the committee are outlined in the Nomination & Remuneration Committee Charter (the Charter), which is available on the Austal website.

The role of the Nomination & Remuneration Committee is to ensure that appropriate remuneration policies are in place which are designed to meet the needs of the Company and to enhance corporate and individual performance.

The Committee also oversees the implementation of the policies in setting remuneration and performance objectives related to the STI and LTI plans.

The remit of the Nomination & Remuneration Committee also includes succession planning which was reviewed by the Board again in FY2016.

The Committee initiated a search for a new CEO and subsequently appointed Mr David Singleton as CEO and Managing Director. The Committee has also initiated a search for a new non-executive Director after David Singleton was appointed to the role of CEO and Managing Director. Andrew Bellamy resigned from the Board in April 2016.

The Charter specifies that the NRC is to be composed of at least three members with the majority being independent directors.

II. Share Trading Policy

The Share Trading Policy of Austal is available on the Austal website. The Policy contains the standard references to insider trading restrictions that are a legal requirement under the Corporations Act, as well as conditions associated with good corporate governance. The Policy specifies "Closed Periods" during which Directors and related parties, KMP, Senior Executives, and any employee in possession of inside information must not trade in the securities of the Company, unless written permission is provided by the Board following an assessment of the circumstances.

All equity based remuneration awards which have vested are subject to the Group's Share Trading Policy.

III. Executive Remuneration Consultant Engagement Policy

Austal has adopted an executive remuneration consultant (ERC) engagement policy which is intended to manage the interactions between the Company and ERC. The policy is intended to ensure independence of advice and ensure that the Nomination & Remuneration Committee has clarity regarding the extent of any interactions between management and the ERC. This policy enables the Board to state with confidence that advice received has been independent. The policy states that ERC are to be approved and engaged by the Board before any advice is received and that such advice may only be provided to a non-executive director. Any interactions between management and the ERC must be approved and overseen by the Nomination & Remuneration Committee, this includes the collection of factual internal records (e.g. superannuation paid or allowances and benefits etc.).

IV. Remuneration framework

Austal is committed to responsible remuneration practices. The need to reward the Group's employees fairly and competitively based on performance needs to be balanced with the requirement to do so within the context of principled behaviour and action, particularly in the area of safety, risk, compliance and control.

Remuneration should contribute to the Group's achievements in a way that supports the Group's culture and goals. The Remuneration Policy Framework set out below summarises the key features of the Group's remuneration approach.

Our Vision:

Maintain a responsible, performance-based Remuneration Policy that is aligned with the long-term interests of our shareholders.

Our Goal:

Strike the right balance between meeting shareholders' expectations, paying our employees competitively, and responding appropriately to the regulatory environment.

Our Approach:

Governance	Individual Remuneration	Individual Remuneration Determination	Remuneration Structure and Instruments
Principles: Clearly defined and documented governance procedure Independent NRC Independent ERC Annual assessment of Remuneration Policy	**Principles:** Reward Group annual performance measured relative to its planned key performance indicators Business performance aligned Recognise and reward teamwork and development of the culture of the organisation Award and differentiate based on individual performance and contributions	**Principles:** Total Remuneration based approach Facilitate competitiveness by paying competitive remuneration levels for comparable roles and experience, subject to performance Promote meritocracy by recognising individual performance, with a particular emphasis on contribution, ethics and safety Equal remuneration opportunity	**Principles:** Provide the appropriate balance of fixed and variable remuneration consistent with the position and role in the Group Significant portion of variable remuneration deferred and aligned with the long-term performance of the Group Promote ethical behaviour and do not create incentives to expose the Group to inappropriate risk

3. Executive KMP remuneration policy

I. Structure

The following policy applies to executive KMP and executive directors:

- Total Remuneration Packages (TRP) should be composed of:
  - Base Package (inclusive of superannuation, allowances, social security, benefits and any applicable fringe benefits tax (FBT) as well as any salary sacrifice arrangements)
  - STI which provides a reward for performance against annual objectives
  - LTI which provides an equity-based reward for performance against indicators of shareholder benefit or value creation, over a three year period
- Internal TRP relativities and external market factors should be considered
- TRP should be structured with reference to market practices and the particular circumstances of the Group where appropriate.

II. Base remuneration KMP

- Base Packages should be set with reference to the market practice of ASX listed companies at the P50* level, where 50% of the comparator group are above the level and 50% are below.
- TRP at Target bonus levels (being the Base Package plus incentive awards intended to be paid for targeted levels of performance) should be set in the P50 to P75 range of the relevant market practice to create a strong incentive to achieve targeted objectives in both the short and long term.
- Remuneration will be managed within a range to allow for the recognition of individual differences such as individual experience, knowledge or competency with which they fulfil a role (a range of +/- 20% is generally targeted in line with common market practices).
- The Base Remuneration of the KMP executives fall within or below the P50 +/- 20% of the Base Remuneration policy range.

i. Total Fixed Remuneration (TFR) – CEO

Mr David Singleton's TFR is to be paid in cash, whilst the CEO and the Board may agree at the commencement of each year for up to 30% of TFR to be unconditionally payable in share rights. The number of share rights will be based upon the volume weighted average closing price of Austal Limited (ASX Ticker: ASB) shares in the last 5 trading days of each month.

Mr Singleton and the Board of Directors agreed that 30% of Mr Singleton's TFR will be paid in share rights for his first year of employment which commenced on 8 February 2016.

ii. Peer group benchmarking

The NRC undertook a detailed benchmarking of its KMP remuneration levels and structure during FY2015 against a relevant benchmark group with the assistance of its NRC:

- The benchmark group is composed of 20 companies (listed below) with 10 companies larger and 10 companies smaller than Austal's market capitalisation.
- The group is limited to the Industrial & Service Sector (excludes, energy, resources, materials and financials which tend to have different remuneration structures to the Industrial & Service sector).
- The group is limited to companies with approximately one half to double the market capitalisation of the Austal (noting that the Australian listed market is small making it challenging to select a relevant group of companies that are similarly sized).
- Companies that are most comparable in terms of industry sector and market were preferentially included.

iii. Peer group list of companies

Company	Industry Group
McMillan Shakespeare Limited	Industrials
Monadelphous Group Limited	Industrials
APN News and Media Limited	Consumer
Transfield Services Limited	Industrials
GWA Group Limited	Industrials
iSentia Group Limited	Information Technology
Bega Cheese Limited	Consumer
Amcom Telecommunications Limited	Telecommunication Services
ERM Power Limited	Utilities
Vocus Communications Limited	Telecommunication Services
Credit Corp Group Limited	Industrials
Tassal Group Limited	Consumer Discretionary
NEXTDC Limited	Information Technology
Tox Free Solutions Limited	Industrials
UGL Limited	Industrials
Bradken Limited	Industrials
Skilled Group Limited	Industrials
Programmed Maintenance Services Ltd	Industrials
Collection House Limited	Industrials
Ruralco Holdings Limited	Consumer Discretionary

A peer group analysis for CEO remuneration was performed during FY2015, and is still considered relevant for FY2016. The FY2015 results are depicted in the table below and compared to the annualised remuneration of the Austal CEO.

Component	Peer Group Results (FY2015) Percentile			Austal CEO [1]
	25	50	75	FY2016
Base Remuneration	$ 628,000	$ 906,000	$ 1,316,000	$ 1,051,340
Total Remuneration Package (TRP) [1]	$ 1,259,000	$ 1,654,000	$ 2,102,000	$ 2,102,679

1. TRP is total fixed remuneration plus STI and LTI at Target

The NRC formed the following conclusions from the assessment of Base Packages undertaken in FY2015:

- The CEO's Base Remuneration (inclusive of salary sacrificed equity) fell within the Company's policy range of P50 +/- 20%, based on the benchmark described above.
- No change was made to the CEO's Base Remuneration in FY2016 on the basis that the Base Remuneration is at the upper end of the P50 + 20% of Base Remuneration.

III. Short Term Incentive (STI) Plan Policy

The STI policy of the Group dictates that an annual component of the KMP executives' remuneration will be aligned to the individual and Company performance. The principles of the plan are that:

- STI should be aligned with clear and measurable targets which are set at the start of the financial year, and the targets will be aligned with the achievement of the company's business plan.
- The STI should be paid in cash.
- The STI should have a weighting in the remuneration mix that is no greater than the LTI to ensure an adequate balance in focus between short and long term objectives.
- STI payments will be made after the end of the financial year and the full year accounts have been approved by the Board.

The Board undertook a review of the Austal STI policy during FY2015 through the NRC by requesting a benchmarking review to be undertaken by its NRC. The report recommended that the STI Plan should become a bigger component of both the CEO's and KMPs' annual remuneration but that performance targets at the threshold pay out level should become more challenging. These recommendations were based on rigorous benchmarking against similar companies and were adopted by the Board and are outlined in this report below.

i. Purpose

The purpose of the STI Plan is to incentivise KMP, Senior Executives and Managers to deliver and outperform key performance indicators (KPIs) and annual business plans. This is intended to lead to sustainable superior returns for shareholders and to modulate the cost of employing KMP, Senior Executives and Managers such that the cost of employment reflects the performance of the company.

ii. Measurement Period

The measurement period for STI awards is aligned with the financial year of the Group.

iii. Key Performance Indicators (KPI)

KPI are customised for each KMP, Senior Executive and Managers and reflect the nature of their roles, whilst creating shared objectives where appropriate.

Weightings are applied to the KPI selected for each participant to reflect the relative importance of each KPI.

KPI set for the KMP in FY2016 were as follows:

David Singleton - CEO

Key Performance Indicator	Relative Weight
Group EBIT	40.0%
Group New Vessel Orders	10.0%
Group Strategy Development & Execution	30.0%
Implementation of Business Improvement Initiatives	20.0%
Total	100.0%

Greg Jason - CFO

Key Performance Indicator	Relative Weight
Group EBIT	40.0%
Group New Vessel Orders	10.0%
Employee Development and Retention	10.0%
Group Strategy Development & Execution	20.0%
Implementation of Business Improvement Initiatives	10.0%
Refinancing of Syndicated Debt Facility	10.0%
Total	100.0%

Craig Perciavalle - President USA

Key Performance Indicator	Relative Weight
USA EBIT	40.0%
USA New Vessel Orders	10.0%
Group Strategy Development & Execution	30.0%
Implementation of Business Improvement Initiatives	20.0%
Total	100.0%

Joselito Turano - President Philippines [1]

Key Performance Indicator	Relative Weight
Philippines EBIT	40.0%
Group EBIT	20.0%
Employee Engagement	10.0%
Cost reduction	10.0%
Labour productivity	10.0%
Grow service orders	10.0%
Total	100.0%

1. Mr Joselito Turano resigned effective 13 July 2016

KPI set for the KMP in FY2017 are as follows:

David Singleton - CEO

Key Performance Indicator	Relative Weight
Group financial performance[1]	40.0%
Group New Vessel Orders	20.0%
- New EPF orders in USA[1]	
- Additional LCS appropriation in USA[1]	
- New commercial vessels to keep Austal Philippines at greater than 75% load	
Group Strategy Development & Execution	20.0%
- Down selection for the CoA, OPV contract as shipbuilder	
- US LCS program to plan	
- Increase value of support activities in USA & Australia defence	
Implementation of Business Improvement Initiatives	20.0%
- Achieve Key Defence Supplier status in Australia	
- Target and reduce procurement & shipbuilding costs by 3% to 5% respectively	
- Drive people development plan	
Total	100.0%

Greg Jason - CFO

Key Performance Indicator	Relative Weight
Group financial performance[1]	40.0%
Deliver IT strategy to support KDS and business improvement	10.0%
Group cash	30.0%
Group Strategy Development & Execution	10.0%
Implementation of Business Improvement Initiatives	10.0%
Total	100.0%

Craig Perciavalle - President USA

Key Performance Indicator	Relative Weight
USA financial performance	40.0%
USA New Vessel and support Orders	10.0%
Sign new EPF contracts [1]	10.0%
Increase support contracts [1]	10.0%
Down select additional LCS contracts [1]	10.0%
Implementation of Business Improvement Initiatives	20.0%
- LCS shipbuilding and profitability, predictability in 1	
- Reduce vessel shipbuilding and procurement costs [1]	
Total	100.0%

Wayne Murray - President Philippines

Key Performance Indicator	Relative Weight
Philippines financial performance	40.0%
Cost reduction	30.0%
- Procurement and labour cost reductions [1]	
Ontime vessel delivery for 3 ferries	30.0%
Total	100.0%

1. Figures not released due to commercial confidentiality.

iv. Determination of award

The Board reviews and approves performance targets and objectives annually for the CEO and the executive management team. The final STI award is determined subsequent to year end, with the payment made in September of the following financial year.

The Board has the discretion to not grant STI performance awards in the event of substandard Group performance, notwithstanding that individuals may have achieved their agreed performance targets. The board exercised its discretion and no STI was payable to KMP in FY2016, in light of the unfavourable profit performance.

v. Target and maximum award

Target and maximum awards are applied to base remuneration.

		FY2016			FY2017	
Position	Incumbent	Target	Maximum	Estimated[1]	Target	Maximum
CEO	Mr David Singleton [2]	50%	100%	-	50%	100%
Chief Financial Officer	Mr Greg Jason	30%	60%	-	30%	60%
President USA	Mr Craig Perciavalle	30%	60%	-	30%	60%
President Philippines	Mr Joselito Turano [3]	15%	30%	-	-	-
President Philippines	Mr Wayne Murray [4]	0%	0%	-	15%	30%

1. The Board exercised its discretion and no STI was deemed payable to KMP for FY2016
2. Mr David Singleton was appointed as Chief Executive Officer on 4 April 2016,
   upon Mr Andrew Bellamy's resignation on that same date and will be issued performance rights for 15 months.
   Performance rights relating to the FY2016 service period as CEO will form part of the FY2017 grant and are subject to shareholder approval at the 2016 Annual General Meeting.
3. Mr Joselito Turano resigned effective 13 July 2016
4. Mr Wayne Murray was appointed as President Philippines on 13 July 2016, upon the resignation of Mr Joselito Turano

IV. Long Term Incentive (LTI) Plan Policy

The long term incentive plan policy of the Company is for a component of annual remuneration of executives to be at-risk and based on equity in the Company.

The board implemented a number changes in FY2016 after undertaking a review of the LTI plan during FY2015 that were described in the FY2015 Annual Report. These changes have been maintained in the FY2017 plan. The purpose of the changes was to ensure that the scheme continued to drive long term executive performance as well as meet normal industry practice.

i. Purpose

The purpose of the LTI Plan is to incentivise Senior Executives to deliver Group performance that will lead to sustainable superior returns for shareholders and to modulate the cost of employing Senior Executives.

ii. Form of incentive

The LTI should be based on Performance Rights that vest based on an assessment of performance against objectives. No dividends are payable or accrued on Performance Rights which are unvested.

iii. Measurement period

The standard measurement period is three years from FY2016 onwards, however the Board has discretion to modify the duration of the measurement period if it deems an extension to be appropriate.

iv. Measures of long term performance

The Company uses two long term performance measures:

- iTSR which the Board believes best reflects an external measure of performance
- Return on Invested Capital (ROIC) which the Board believes best reflects an internal measure of performance

v. Total Shareholder Return Measure (TSR)

The Board believes that TSR is the measure that has the strongest alignment with shareholders. It is recognised that absolute TSR is influenced by overall economic movements, and therefore the FY2016 grant of LTI was offered to executives based on iTSR.

iTSR determines the shareholders returns of Austal relative to the market rather than capturing the absolute performance of the Group.

A relative peer group TSR was considered however it was not possible to identify a comparator group of companies that was statistically significant enough to be meaningful. The Board was concerned that this would undermine the link between executive performance and reward outcomes and therefore decided to adopt the iTSR measure.

iTSR applies to all grants of LTI from FY2016 based on a comparison of Austal's TSR against the S&P All Ordinaries Accumulation index "XAOA".

vi. Return on Invested Capital Measure (ROIC)

Senior Executives are faced with significant and long term business development and project based challenges. Therefore, the LTI is also linked to the achievement of ROIC growth objectives that will lead to value creation for shareholders. This measure is considered to be the best measure of long term performance from an internal perspective by recognising the long term nature of investment in fixed assets necessary in a shipbuilding business.

ROIC is calculated by dividing the Net operating profit after tax by Net Assets (excluding Cash, Debt, Derivatives and Tax accounts).

Actual ROIC results are compared against internal targets set by the Board, but are not stated here for confidentiality reasons.

vii. Vesting of Performance Rights

The Performance Rights for each employee vest at the end of the measurement period, subject to meeting the performance hurdles, unless the Board exercises its discretion to extend the original measurement period.

Participants are not required to make any payments in respect of Performance Rights at grant or at vesting.

viii. Holding period

A one year holding period applies to shares that are awarded as a result of Performance Rights vesting.

ix. Target and maximum award

Target and maximum awards are applied to base remuneration.

		FY2016 Grant Vesting		FY2017 Grant Vesting	
Position	**Incumbent**	**Target**	**Maximum**	**Target**	**Maximum**
CEO	Mr David Singleton [1]	50%	100%	50%	100%
Chief Financial Officer	Mr Greg Jason	35%	70%	35%	70%
President USA	Mr Craig Perciavalle	35%	70%	35%	70%
President Philippines	Mr Joselito Turano [2]	20%	40%	-	-
President Philippines	Mr Wayne Murray [3]	-	-	20%	40%

1. Mr David Singleton was appointed as Chief Executive Officer on 4 April 2016, upon Mr Andrew Bellamy's resignation on that same date, and will be issued performance rights for 15 months. Performance rights relating to the FY2016 service period as CEO will form part of the FY2017 grant and are subject to shareholder approval at the 2016 Annual General Meeting.
2. Mr Joselito Turano resigned effective 13 July 2016
3. Mr Wayne Murray was appointed as President Philippines on 13 July 2016, upon Mr Joselito Turano's resignation

4. Non-Executive Director remuneration

I. Application

The Non-executive Director Remuneration Policy applies to non-executive directors (NED) of the Company in their capacity as directors and as members of committees.

II. Remuneration structure

Remuneration is composed of:

- Board fees
- Committee fees

III. Fees

i. Fee cap

The Remuneration for both Executive and Non-Executive Directors will be managed within the aggregate fee limit (AFL) of $3,000,000 approved by shareholders of the Company. Remuneration of Non-Executive Directors will be managed within the AFL , less the Remuneration of the CEO. The cap has remained unchanged since listing on the ASX in 1998.

ii. Chairman

Remuneration for the current Chairman of the Board reflects his continued high level of contribution to the company and the Board. The fee level is reviewed every year and has been reduced by $50,000 to $200,000 per annum from 1 August 2016.

iii. Non-executive director fees

Board fees paid for membership of the Board, inclusive of superannuation and exclusive of committee fees have been set with reference to the 50th percentile of the market of comparable ASX listed companies (as previously described for executive remuneration). No changes to Non-executive Director fees are planned for FY2017.

iv. Committee fees

Committee fees recognise additional contributions to the work of the Board by members of committees. They are similarly referenced to the benchmark group as above.

IV. No termination benefits

Termination benefits are not paid to NED by the Company.

5. Remuneration of KMP

Year ended 30 June 2016

	Short-Term Benefits			Post Employment Benefits	Long Term Benefits		Share Based Payments Expense					STI	
	Salary & Fees	FY2016 STI Accrued	Other Monetary Benefits	Super-annuation / Social Security	Leave Accrued	Termination Benefits	Fixed	Long Term Incentive	Total	% Share Based Payments Expense	% Performance Related	FY2015 STI Paid [5]	FY2016 Unpaid STI
Non-executive directors													
John Rothwell	$ 250,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 250,000	-	-	$ -	$ -
Giles Everist	122,500	-	-	-	-	-	-	-	122,500	-	-	-	-
Jim McDowell	107,500	-	-	-	-	-	-	-	107,500	-	-	-	-
Executive directors													
David Singleton [1]	$ 327,333	$ -	$ -	$ 13,712	$ 27,387	$ -	$ 108,070	$ 86,628	$ 563,130	34.6	15.4	$ -	$ -
Andrew Bellamy [2]	798,176	-	-	19,308	74,725	697,160	-	(44,005)	1,545,364	(2.8)	(2.8)	363,922	-
Other key management personnel													
Greg Jason	$ 364,091	$ -	$ -	$ 19,308	$ 41,356	$ -	$ -	$ 50,682	$ 475,437	10.7	10.7	$ 96,451	$ -
Craig Perciavalle	639,662	-	27,451	83,294	-	-	-	84,207	834,614	10.1	10.1	32,239	-
Brian Leathers [3]	319,010	-	27,946	50,715	-	141,969	-	(11,099)	528,541	(2.1)	(2.1)	15,582	-
Joselito Turano [4]	287,107	-	31,211	5,091	-	-	-	32,274	355,683	9.1	9.1	-	-
	$ 3,215,379	$ -	$ 86,608	$ 191,428	$ 143,468	$ 839,129	$ 108,070	$ 198,687	$ 4,782,769			$ 508,194	$ -

1 Mr David Singleton was appointed Chief Executive Officer on 4 April 2016. Salary & Fees include Non-executive Director fees paid up until 4 April 2016
2 Mr Andrew Bellamy resigned on 4 April 2016
3 Mr Brian Leathers resigned on 11 March 2016
4 Mr Joselito Turano resigned on 13 July 2016
5 Final STI paid is based on whether the KMP is still in employement at the end of the financial year, and have met their respective KPI

Year ended 30 June 2015

	Short-Term Benefits			Post Employment Benefits	Long Term Benefits		Share Based Payments Expense					STI	
	Salary & Fees	FY2015 STI Accrued	Other Monetary Benefits	Super-annuation / Social Security	Leave Accrued	Termination Benefits	Fixed	Long Term Incentive	Total	% Share Based Payments Expense	% Performance related	FY2014 STI Paid	FY2015 Unpaid STI
Non-executive directors													
John Rothwell	$ 279,167	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 279,167	-	-	-	-
Dario Amara [2]	31,000	-	-	-	-	-	-	-	31,000	-	-	-	-
David Singleton	90,000	-	-	-	-	-	-	-	90,000	-	-	-	-
Giles Everist	98,300	-	-	-	-	-	-	-	98,300	-	-	-	-
Jim McDowell [3]	42,500	-	-	-	-	-	-	-	42,500	-	-	-	-
Executive directors													
Andrew Bellamy	$ 733,522	$ 363,922	$ -	$ 18,783	$ 70,291	$ -	$ 209,560	$ 63,316	1,459,394	18.7	29.3	$ 263,040	$ 363,922
Other key management personnel													
Greg Jason	$ 314,269	$ 96,447	$ -	$ 18,783	$ 33,225	$ -	$ -	$ 66,840	$ 529,564	12.6	30.8	$ 75,840	$ 96,447
Craig Perciavalle	515,500	32,239	22,038	84,143	-	-	-	57,748	711,668	8.1	12.6	54,972	32,239
Brian Leathers	341,906	15,582	8,580	57,375	-	-	-	46,939	470,382	10.0	13.3	44,454	15,582
Graham Backhouse [4]	217,651	74,186	-	15,164	16,742	77,992	-	-	401,735	-	18.5	86,427	74,186
Joselito Turano	253,270	23,379	26,002	1,692	-	-	-	15,827	320,170	4.9	12.2	27,421	23,379
	$ 2,917,085	$ 605,755	$ 56,620	$ 195,940	$ 120,258	$ 77,992	$ 209,560	$ 250,670	$ 4,433,880			$ 552,154	$ 605,755

1 Represents the amount accrued for but not paid by the Group for services performed in FY2015.
2 Mr Dario Amara resigned on 30 October 2014
3 Mr Jim McDowell joined the Board of Directors on 31 December 2014
4 Mr Graham Backhouse resigned on 21 April 2015

6. Equity instruments held by KMP

I. FY2014 Performance Rights Vesting

i. FY2014 Performance Rights Grant

193,773 performance rights were granted to KMP in FY2014, who were still employed by Austal at 30 June 2016 and unvested at 30 June 2016.

Mr Andrew Bellamy forfeited 143,658 performance rights and Mr Brian Leathers forfeited 57,119 performance rights upon resignation.

ii. Measurement Periods

There were two measurement periods for the performance rights granted in FY2014 as outlined in the LTI transition plan that was depicted in the FY2014 Annual Report:

- 1 July 2013 – 30 June 2015 for 50% of the Performance Rights
- 1 July 2013 – 30 June 2016 for 50% of the Performance Rights

The Board decided post year end to extend the measurement period of 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. No further extensions to the validity of these rights will be considered.

iii. FY2014 Grant Performance Criteria

The original ROIC and TSR performance criteria relating to the FY2014 grant of performance rights to KMP are detailed below.

Measure	Weight	Threshold	Vesting %	Performance
Austal Absolute TSR (CAGR)	30%	<= 15%	0%	At or below Threshold
			Pro-rata	
		15% < TSR < 25%	50%	Target
			Pro-rata	
		>= 25%	100%	Stretch or Above
ROIC	70%	6.0%	0%	At or below Threshold
			Pro-rata	
		8.0%	50%	Target
			Pro-rata	
		10.0%	100%	Stretch or Above
Total	100%			

iv. Vesting of Performance Rights from the FY2014 Grant

The actual TSR performance for the original measurement period from 1 July 2013 – 30 June 2016 was calculated to be 108%.

The actual ROIC performance for the original measurement period from 1 July 2013 – 30 June 2016 vesting of performance will be calculated using the FY2016 audited accounts. The estimated ROIC performance for the original measurement period from 1 July 2013 – 30 June 2016 is 1.5%.

The estimated number of performance rights from the second measurement period for the FY2014 grant that would have vested and lapsed as a result of the actual Group performance in the original measurement period is detailed below. The final number of performance rights that will vest and lapse will be calculated at the end of FY2017 as described earlier.

		Measurement Period 2					
		Rights Granted	Maximum Vesting		Estimated Vesting		
			%	Rights	ROIC	TSR	Total
Actual Result					2%	108%	
Award					-	100%	30%
Weight					70%	30%	100%
Vesting %					-	30%	30%
Employee							
Greg Jason	CFO	125,345	50%	62,672	-	18,802	18,802
Craig Perciavalle	President USA	168,675	50%	84,337	-	25,301	25,301
Joselito Turano [1]	President Philippines	93,517	50%	46,758	-	14,028	14,028
Total		387,537	50%	193,767	-	58,131	58,131

1. Mr Joselito Turano resigned on 13 July 2016 and forfeited all of his performance rights

II. FY2015 Performance Rights Grant

i. FY2015 Performance Rights Grant

325,110 performance rights were granted to KMP in FY2015, who were still employed by Austal at 30 June 2016 and unvested at 30 June 2016. Mr Andrew Bellamy forfeited 379,390 performance rights and Mr Brian Leathers forfeited 99,885 performance rights upon resignation.

ii. Measurement Periods

There are two measurement periods for the performance rights granted in FY2015 as outlined in the LTI transition plan that was depicted in the FY2014 Annual Report:

- 1 July 2014 – 30 June 2016 for 25% of the Performance Rights
- 1 July 2014 – 30 June 2017 for 75% of the Performance Rights

Performance rights can vest in two tranches at the completion of each of the measurement periods unless extended at the discretion of the Board.

The Board decided post year end to extend the measurement period of 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. No further extensions to the validity of these rights will be considered.

iii. FY2015 Grant Performance Criteria

The original ROIC and TSR performance criteria relating to the FY2015 grant of performance rights to KMP are detailed below.

Measure	Weight	Threshold	Vesting %	Performance
Austal Absolute TSR (CAGR)	30%	<= 15%	0%	At or below Threshold
			Pro-rata	
		15% < TSR < 25%	50%	Target
			Pro-rata	
		>= 25%	100%	Stretch or Above
ROIC	70%	6.9%	0%	At or below Threshold
			Pro-rata	
		7.8%	50%	Target
			Pro-rata	
		8.8%	100%	Stretch or Above
Total	100%			

iv. Vesting of Performance Rights from the FY2015 Grant

The actual TSR performance for the original measurement period from 1 July 2014 – 30 June 2016 was calculated to be 32%.

The actual ROIC performance for the original measurement period from 1 July 2014 – 30 June 2016 vesting of performance will be calculated using the FY2016 audited accounts. The estimated ROIC performance in the original measurement period from 1 July 2014 – 30 June 2016 is (2)%.

The estimated number of performance rights from the first measurement period for the FY2015 grant that would have vested and lapsed as a result of the actual Group performance in the original measurement period is detailed below. The final number of performance rights that will vest and lapse will be calculated at the end of FY2017 as described earlier.

		Measurement Period 1					
		Rights Granted	Maximum Vesting		Estimated Vesting		
			%	Rights	ROIC	TSR	Total
Actual Result					(2%)	32%	
Award					-	-	-
Weight					70%	30%	100%
Vesting %					-	30%	30%
Employee							
Greg Jason	CFO	109,288	25%	27,322	-	8,196	8,196
Craig Perciavalle	President USA	142,692	25%	35,673	-	10,701	10,701
Joselito Turano [1]	President Philippines	73,130	25%	18,282	-	5,484	5,484
Total		325,110	25%	81,277	-	24,381	24,381

1. Mr Joselito Turano resigned on 13 July 2016 and forfeited all of his performance rights

III. FY2016 Performance Rights Grant

Performance rights granted to KMP in FY2016 are depicted in the table below.

Name	Grant date	Performance rights granted	Fair value per performance right TSR	Fair value per performance right ROIC	Value of awards at grant date
Andrew Bellamy [1]	30 Oct 2015	594,513	$ 1.71	$ 2.16	$ 1,177,136
Greg Jason	13 Oct 2015	152,244	1.52	2.00	275,257
Craig Perciavalle	23 Sep 2015	233,211	1.63	2.06	440,302
Brian Leathers [2]	23 Sep 2015	85,881	1.63	2.06	162,143
Joselito Turano [3]	13 Oct 2015	61,921	1.52	2.00	111,953
Total		1,127,770			$ 2,166,791

1. Mr Andrew Bellamy forfeited 594,513 FY2016 Performance rights upon his resignation in April 2016.
2. Mr Brian Leathers forfeited 85,881 FY2016 Performance rights upon his resignation in March 2016.
3. Mr Joselito Turano forfeited 61,921 FY2016 Performance rights upon his resignation in July 2016.

i. FY2016 Grant Performance Criteria

The ROIC and iTSR performance criteria relating to the FY2016 grant of performance rights to KMP are detailed below.

Measure	Weight	Threshold[1]	Vesting %	Performance
Indexed TSR	40%	<= 100%	0%	At or below Threshold
			Pro-rata	
		100% < iTSR < 200%	50%	Target
			Pro-rata	
		>= 200%	100%	Stretch or Above
ROIC	60%	<= 8.0%	0%	At or below Threshold
			Pro-rata	
		10.0%	50%	Target
			Pro-rata	
		>= 12.0%	100%	Stretch or Above
Total	100%			

1. 100% is equal to the average TSR of companies included in the XAOAI Index as defined above.

ii. Measurement Period

100% of the performance rights granted in FY2016 have a 3 year measurement period, being
1 July 2015 – 30 June 2018.

IV. FY2017 Performance Rights Grant

i. FY2017 Grant Performance Criteria

The ROIC and iTSR performance criteria relating to the prospective FY2017 grant of performance rights to KMP are detailed below.

Measure	Weight	Threshold[1]	Vesting %	Performance
Indexed TSR	40%	<= 100%	0%	At or below Threshold
			Pro-rata	
		100% < iTSR < 200%	50%	Target
			Pro-rata	
		>= 200%	100%	Stretch or Above
ROIC	60%	< 6.6%	0%	At or below Threshold
			Pro-rata	
		6.6%	25%	Threshold
			Pro-rata	
		7.4%	50%	Target
			Pro-rata	
		> 8.3%	100%	Stretch or Above
Total	100%			

1. 100% is equal to the average TSR of companies included in the XAOAI Index as defined above.

ii. Estimated FY2017 CEO Performance Rights Grant for FY2016 Service Period

Name	Grant date	Performance rights granted	Fair value per performance right TSR		Fair value per performance right ROIC		Value of award at grant date	
David Singleton	28 Oct 2016	88,428	$	0.80	$	1.10	$	86,628
Total		88,428					$	86,628

The CEO is entitled to a grant of performance rights for the service period 4 April 2016 – 30 June 2016. The granting of these performance rights is subject to shareholder approval at the Annual General Meeting (AGM) The performance rights associated with the FY2016 service period will form part of the FY2017 performance rights grant. It is estimated that 88,428 performance rights will be included in the FY2017 grant for the FY2016 service period.

Share based payments expense relating to the performance rights associated with the FY2016 service period that will be granted in FY2017 has been recognised in the FY2016 Financial Accounts. All FY2017 performance rights for the CEO will be subject to shareholder approval at the AGM in October 2016.

V. Share rights earned during the period

Details of share rights provided as fixed remuneration to key management personnel are shown below.

Further information is set out in Note 30. These share rights are in lieu of TFR normally paid in cash and are not bonus or performance based. The share rights are subject to shareholder approval at the 2016 Annual General Meeting.

Name	Period earned	Measurement date	Earned	Fair value per right	Fair value	
David Singleton	FY2016	30 Jun 2016	97,360	1.11	$	108,070

VI. Rights holdings

	Balance at 30 June 2015	Granted as Remuneration	Forfeited	Expired	Exercised	Other Movement [3]	Balance at 30 June 2016	Vested and Exercisable	Unvested
	Rights holdings								
30 June 2016									
Directors									
David Singleton [1]									
Share Rights	-	97,360	-	-	-	-	97,360	-	97,360
Performance Rights	-	-	-	-	-	-	-	-	-
Andrew Bellamy [2]									
Share Rights	68,598	-	-	-	-	(68,598)	-	-	-
Performance Rights	666,703	594,513	(1,117,561)	-	(143,655)	-	-	-	-
Executives									
Greg Jason									
Performance Rights	234,633	152,244	-	-	(62,671)	-	324,206	-	324,206
Craig Perciavalle									
Performance Rights	311,367	233,211	-	-	(84,336)	-	460,242	-	460,242
Brian Leathers [4]									
Performance Rights	214,120	85,881	(242,885)	-	(57,116)	-	-	-	-
Joselito Turano [5]									
Performance Rights	166,647	61,921	-	-	(46,757)	-	181,811	-	181,811

1 Mr David Singleton was appointed Chief Executive Officer on 4 April 2016, all rights are subject to shareholder approval at the 2016 Annual General Meeting
2 Mr Andrew Bellamy resigned on 4 April 2016
3 Denotes the shares rights held by Mr Andrew Bellamy at the time of his resignation on 4 April 2016
4 Mr Brian Leathers resigned on 11 March 2016
5 Mr Joselito Turano resigned on 13 July 2016

No options were held by KMP in FY2015 and FY2016

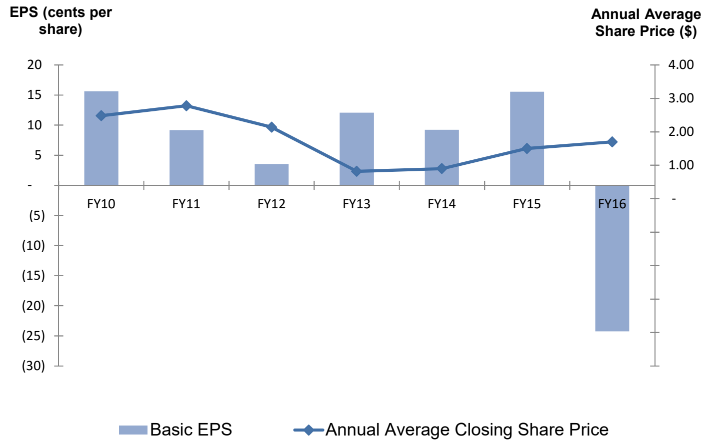
VII. Shareholdings

30 June 2016	Balance at 30 June 2015	Share Rights Exercised	Performance rights vested	Acquired / (Disposed)	Other Movement [1]	Net Movement	Balance at 30 June 2016
		FY2016 Movements					
Non - Executive Directors							
John Rothwell	32,200,745	-	-	300,000	-	300,000	32,500,745
Jim McDowell	-	-		33,751	-	33,751	33,751
Giles Everist	20,000	-	-	(10,000)	-	(10,000)	10,000
David Singleton	28,600	-	-	-	-	-	28,600
Executives							
Andrew Bellamy	478,474	-	143,655	(158,238)	(463,891)	(478,474)	-
Greg Jason	-	-	62,671	-	-	62,671	62,671
Craig Perciavalle	-	-	84,336	-	-	84,336	84,336
Brian Leathers	-	-	57,116	-	(57,116)	-	-
Joselito Turano	-	-	46,757	-	-	46,757	46,757
Total	32,727,819	-	394,535	165,513	(521,007)	39,041	32,766,860

1 Denotes the shares held by Mr Andrew Bellamy and Mr Brian Leathers at the time of their resignations, 4 April 2016 and 11 March 2016 respectively

None of the shares held by key management personnel are held nominally.

7. Group performance



8. Other related matters

I. Board composition

The Nomination & Remuneration Committee reviews the structure, size and composition of the Board annually, taking inputs from investors and other independent advisors received during the year into account. The NRC has recommended that the current practice of maintaining 3 independent Non-Executive Directors on the Board should remain following the FY2016 review.

The Committee also undertook an annual review of the position of Chairman at Austal, in part because he is now aged over 70 years. The Board (excluding the Chairman) unanimously agreed that the Chairman's intimate knowledge of the shipbuilding industry, of Austal and its major customers, together with his demonstrated high level of commitment, meant that he remains a significant asset to the Group and he was requested to remain as Chairman, to which he has agreed.

II. Details of contractual provisions for KMP

Name	Employing company	Contract Duration	Termination Notice Period Group	Termination Notice Period KMP
David Singleton	Austal Limited	Unlimited	3 months	3 months
Greg Jason	Austal Limited	Unlimited	12 weeks	12 weeks
Craig Perciavalle	Austal USA LLC	Unlimited	0 months	0 months
Joselito Turano	Austal Philippines Pty Limited	Unlimited	3 months	3 months

1. Termination provisions – Austal may choose to terminate the contract immediately by making a payment equal to the Group Notice Period fixed remuneration in lieu of notice. Executives are not entitled to this termination payment in the event of termination for serious misconduct or other nominated circumstances.
2. Executives will be entitled to the payment of any fixed remuneration calculated up to the termination date, any leave entitlement accrued at the termination date and any payment or award permitted under the remuneration policy upon termination of employment.

III. Loans to KMP

There were no loans to Directors or other key management personnel at any time during the year ended 30 June 2016.

IV. Other transactions with KMP

There were no transactions involving key management personnel other than compensation and transactions concerning shares and performance rights as discussed in other sections of the Remuneration Report.

V. Use of Independent remuneration consultants

The Company established policies and procedures governing engagements with external remuneration consultants to ensure that KMP remuneration recommendations were free from undue influence from the KMP to whom they relate.

No remuneration consultants were engaged by the NRC during FY2016.

End of Remuneration Report

Auditor independence

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

Building a better working world

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Auditor's Independence Declaration to the Directors of Austal Limited

As lead auditor for the audit of Austal Limited for financial year ended 30 June 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 audit; and

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

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

Ernst & Young

Robert A Kirkby

Partner

27 August 2016

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Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2016

	Notes	2016 '000	*Restated 2015 '000
Continuing operations			
Revenue	4	$ 1,339,970	$ 1,414,888
Cost of sales		(1,396,921)	(1,296,439)
Gross Profit		$ (56,951)	$ 118,449
Other Income and expenses	5	$ 13,289	$ 31,504
Administration expenses	5	(61,488)	(52,970)
Marketing expenses	5	(14,609)	(10,828)
Finance costs	5	(6,605)	(4,992)
Profit / (loss) before income tax		$ (126,364)	$ 81,163
Income tax benefit / (expense)	9	$ 42,182	$ (28,007)
Profit / (loss) after tax		$ (84,182)	$ 53,156
Profit attributable to:			
Owners of the parent		$ (84,281)	$ 53,225
Non-controlling interests		99	(69)
Total		$ (84,182)	$ 53,156
Other comprehensive income (OCI)			
Amounts that may subsequently be reclassified to profit and loss:			
Cash flow hedges			
- Gain / (loss) taken to equity		$ 2,829	$ (31,886)
- (Gain) / loss recycled out of equity		13,789	(9,183)
- Income tax benefit / (expense)		(3,800)	12,622
- Net		$ 12,818	$ (28,447)
Foreign currency translations			
- Gain taken to equity		$ 14,323	$ 57,922
- Income tax benefit / (expense)		(21)	(1,851)
- Net		$ 14,302	$ 56,071
Other comprehensive income not to be reclassified to profit and loss in subsequent periods			
Asset Revaluation Reserve			
- Gain taken to equity		$ 29,667	$ -
- Income tax expense		(10,710)	-
- Net		$ 18,957	$ -
Other comprehensive income net of tax for the period		$ 46,077	$ 27,624
Total comprehensive income for the year		$ (38,105)	$ 80,780
Total comprehensive income attributable to:			
Owners of the parent		$ (38,204)	$ 80,849
Non-controlling interests		99	(69)
Total		$ (38,105)	$ 80,780
Earnings per share ($ per share)			
- basic for profit for the year attributable to ordinary equity holders of the parent	6	$ (0.24)	$ 0.16
- diluted for profit for the year attributable to ordinary equity holders of the parent	6	(0.24)	0.15

*Certain amounts shown here do not correspond to the FY2015 financial statements and reflect adjustments made, refer to Note 2.vi.a.

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

Consolidated statement of financial position as at 30 June 2016

	Notes	2016 '000	2015 '000
Assets			
Current Assets			
Cash and cash equivalents	10	$ 224,318	$ 138,413
Restricted cash	10	-	10,055
Trade and other receivables	14	128,340	104,315
Inventories	16	108,974	339,703
Prepayments		5,408	6,321
Derivatives	23 & 24	147	106
Assets held for sale		2,908	-
Total		$ 470,095	$ 598,913
Non - Current Assets			
Other financial assets	20	$ 7,638	$ 3,784
Derivatives	23 & 24	340	9
Property, plant and equipment	18	490,798	442,522
Intangible assets and goodwill	19	9,296	9,637
Deferred tax assets	9	34,959	14,089
Total		$ 543,031	$ 470,041
Total Assets		$ 1,013,126	$ 1,068,954
Liabilities			
Current Liabilities			
Trade and other payables	17	$ (229,774)	$ (223,497)
Derivatives	23 & 24	(10,690)	(21,337)
Interest-bearing loans and borrowings	11	(2,545)	(144,979)
Provisions	21	(42,291)	(33,830)
Deferred grant income	13	(8,543)	(3,244)
Income tax payable	9	(98)	(7,493)
Progress payments received in advance	15	(12,812)	(26,177)
Total		$ (306,753)	$ (460,557)
Non - Current Liabilities			
Derivatives	23 & 24	$ (5,712)	$ (14,737)
Interest-bearing loans and borrowings	11	(170,066)	(7,658)
Provisions	21	(1,052)	(1,139)
Deferred grant income	13	(71,991)	(63,722)
Deferred tax liabilities	9	-	(8,742)
Total		$ (248,821)	$ (95,998)
Total Liabilities		$ (555,574)	$ (556,555)
Net Assets		$ 457,552	$ 512,399
Equity			
Contributed equity	12	$ 114,738	$ 112,523
Reserves		100,672	55,846
Retained earnings		242,142	343,798
Equity attributable to owners of the parent		$ 457,552	$ 512,167
Non - controlling interests		$ -	$ 232
Total Equity		$ 457,552	$ 512,399

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

Consolidated statement of changes in equity for the year ended 30 June 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 Revaluation Reserve '000	Total '000	Non Controlling Interest '000	Total Equity '000
Equity at 1 July 2014	**$ 121,210**	**$ (9,612)**	**$ 294,041**	**$ 7,605**	**$ 5,086**	**$ 8,769**	**$ (15,925)**	**$ 21,757**	**$ 432,931**	**$ 301**	**$ 433,232**
Comprehensive Income											
Profit for the year	$ -	$ -	$ 53,225	$ -	$ -	$ -	$ -	$ -	$ 53,225	$ (69)	$ 53,156
Other Comprehensive Income	-	-	-	56,071	-	(28,447)	-	-	27,624	-	27,624
Total	$ -	$ -	$ 53,225	$ 56,071	$ -	$ (28,447)	$ -	$ -	$ 80,849	$ (69)	$ 80,780
Other equity transactions											
Shares issued	$ 543	$ 382	$ -	$ -	$ (443)	$ -	$ -	$ -	$ 482	$ -	$ 482
Dividends declared	-	-	(3,468)	-	-	-	-	-	$ (3,468)	$ -	$ (3,468)
Share based payments expense	-	-	-	-	1,373	-	-	-	1,373	-	1,373
Total	$ 543	$ 382	$ (3,468)	$ -	$ 930	$ -	$ -	$ -	$ (1,613)	$ -	$ (1,613)
Equity 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											
Loss for the year	$ -	$ -	$ (84,281)	$ -	$ -	$ -	$ -	$ -	$ (84,281)	$ 99	$ (84,182)
Other Comprehensive Income	-	-	-	14,302	-	12,818	-	18,957	46,077	-	46,077
Total	$ -	$ -	$ (84,281)	$ 14,302	$ -	$ 12,818	$ -	$ 18,957	$ (38,204)	$ 99	$ (38,105)
Other equity transactions											
Shares issued	$ 1,608	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,608	$ -	$ 1,608
Dividends declared	-	-	(17,375)	-	-	-	-	-	(17,375)	-	(17,375)
Repayment of shareholder loans	-	229	-	-	-	-	-	-	229	-	229
Acquisition of minority stake	-	-	-	-	-	-	(1,669)	-	(1,669)	(331)	(2,000)
Vesting performance rights	378	-	-	-	(378)	-	-	-	-	-	-
Share based payments expense	-	-	-	-	796	-	-	-	796	-	796
Total	$ 1,986	$ 229	$ (17,375)	$ -	$ 418	$ -	$ (1,669)	$ -	$ (16,411)	$ (331)	$ (16,742)
Equity at 30 June 2016	**$ 123,739**	**$ (9,001)**	**$ 242,142**	**$ 77,978**	**$ 6,434**	**$ (6,860)**	**$ (17,594)**	**$ 40,714**	**$ 457,552**	**$ -**	**$ 457,552**

1. Reserved shares are in relation to the Austal Group Management Share Plan

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

Consolidated statement of cash flows for the year ended 30 June 2016

	Notes	2016 '000	2015 '000
Cash flows from operating activities			
Receipts from customers		$ 1,536,356	$ 1,420,738
Payments to suppliers and employees		(1,425,455)	(1,287,677)
Interest received	4	1,106	882
Interest paid	5	(5,098)	(4,992)
Income tax refunded / (paid)		(4,843)	(18,517)
Net cash from / (used in) operating activities	7	$ 102,066	$ 110,434
Cash flows from investing activities			
Receipts of infrastructure government grants		$ 14,463	$ 4,986
Proceeds from sale of property, plant and equipment		2,469	2,355
Purchase of property, plant and equipment		(12,793)	(28,126)
Purchase of intangible assets		(995)	(1,053)
Construction of Cape Class Patrol Boats 9 & 10		(18,023)	-
Construction of vessel completion yard		(10,098)	-
Net cash from / (used in) investing activities		$ (24,977)	$ (21,838)
Cash flows from financing activities			
Repayment of borrowings		$ (11,992)	$ (40,575)
Loans received		23,046	9,449
Dividends paid		(15,767)	(3,468)
Net cash from / (used in) financing activities		$ (4,713)	$ (34,594)
Net increase / (decrease) in cash and cash equivalents		$ 72,376	$ 54,002
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		$ 148,468	$ 83,960
Net foreign exchange differences		3,474	10,506
Net increase / (decrease) in cash and cash equivalents		72,376	54,002
Cash and cash equivalents at end of year	10	$ 224,318	$ 148,468

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

Notes to the financial statements

Basis of preparation

Note 1. Corporate information

The financial report of the Austal Limited Group of Companies (the Group) for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the Directors on 27 August 2016.

Austal Limited is a limited liability company incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The principal activities of the Group during the year were the design, manufacture and sustainment of high performance vessels. These activities are unchanged from the previous year.

Note 2. Basis of preparation

i. Introduction

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards (AASB).

The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and land and buildings that have been measured at fair value.

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.

The financial report presents the figures of the consolidated entity, unless otherwise stated. Austal Limited is a for profit entity.

ii. Reporting structure

The notes to the consolidated financial statements have been divided into 8 main sections which are summarised as follows:

Current year performance

This section focuses on the results and performance of the Group, including profitability, earnings per share, cash generation, and the return of cash to shareholders via dividends.

Capital structure

This section focuses on the long term funding of the Group including cash, interest bearing loans and borrowings, contributed equity and reserves and government grants.

Working capital

This section focuses on shorter term working capital concepts such as trade and other receivables and payables, construction contracts in progress, inventories including work in progress.

Infrastructure & other assets

This section focuses on property, plant & equipment as well as intangible assets of the Group.

Other liabilities

This section focuses on provisions such as employee benefits and future warranty costs.

Financial risk management

This section focuses on the Group's approach to financial risk management, fair value measurements and foreign exchange hedging and the associated derivative financial instruments.

Unrecognised items

This section focuses on commitments and contingencies that are not recognised in the financial statements and events occurring after the balance date.

The Group, management and related parties

This section focuses on the corporate structure of the Group, parent entity data, key management personnel compensation and related party transactions.

iii. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group for the year ended
30 June 2016.

Subsidiaries are all of those entities over which the Group has power over the entity, exposure or rights to variable returns from its involvement with the entity and the ability to use its power over the entity to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Financial statements of foreign controlled entities presented in accordance with overseas accounting principles are adjusted to comply with Group policy and generally accepted accounting principles in Australia for consolidation purposes. All intercompany balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends have been eliminated in preparing the consolidated financial statements.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Austal Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment. The parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist upon receipt of dividend payments from subsidiaries. An impairment loss is recognised to the extent that the carrying value of the investment exceeds its recoverable amount where such indicators exist.

iv. Foreign currency transactions and translation

Both the functional and presentation currency of Austal Limited and its Australian subsidiaries are Australian dollars (AUD). The Company determines the functional currency for each entity within the Group and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date. All exchange differences arising from the above procedures are taken to the statement of comprehensive income.

The functional currency of the USA and the Philippines operations is United States dollars (USD).

The assets and liabilities of the overseas subsidiaries are translated into the presentation currency of Austal Limited at the closing foreign exchange rate for the reporting date. The statement of comprehensive income is translated at the average exchange rates for the period. The exchange differences arising on translation are taken directly to a separate reserve in equity. The deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income on disposal of a foreign entity.

v. Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

vi. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

Accounting for research and development tax incentive

The Group changed its accounting policy in relation to research and development (R&D) tax incentives in excess of the statutory rate. The change in policy has been applied retrospectively in accordance with Australian Accounting Standards.

R&D tax incentives are accounted under the new policy as a government grant under AASB 120. A $1.311 million credit was booked to cost of sales in FY2016 because the R&D claim related to the Royal Navy of Oman program. The Group's accounting policy for R&D credits to cost of sales is set out in Note 5.

R&D tax incentives were previously accounted for as an income tax benefit under AASB 112 as a reduction of the current income tax expense. The new policy results in the financial statements being both further simplified, and more relevant and no less reliable to the users by matching the benefit of the credit in excess of the statutory tax rate against the expenditure which initially generated the offset.

The impact on the income statement is as follows:

	2016	2015		
	Impact	As reported	Impact	Restated
	'000	'000	'000	'000
Reversal of cost of sales / (cost of sales)	$ 1,311	$ (1,296,909)	$ 470	$ (1,296,439)
Profit before income tax	$ 1,311	$ 80,693	$ 470	$ 81,163
Income tax benefit / (expense)	$ (1,311)	$ (27,537)	$ (470)	$ (28,007)
Profit after tax	$ -	$ 53,156	$ -	$ 53,156

There has been no impact to retained earnings at 30 June 2014, profit after tax or earnings per share for the years ended 30 June 2015 and 2016, or the consolidated statement of cash flows and consolidated statement of financial position for the years ended 30 June 2015 and 2016.

New and amended standards adopted by the Group

The Group has applied all new and amended accounting standards and interpretations effective from 1 July 2015:

- Australian Accounting Standards Board (AASB) 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments. The Standard contains three main parts and makes amendments to a number Standards and Interpretations.
    - Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.
    - Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.
- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality. The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

The adoption of these standards did not have any effect on the financial position or performance of the Group.

vii. Pronouncements issued and not effective

A number of Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective. A full assessment of the impact of all the new or amended Accounting Standards and interpretations issued but not effective has not yet been completed.

The pronouncements relevant to the Group which have not been adopted by the Group are as follows:

AASB 9: Financial Instruments [AASB 9] (effective 1 July 2018):

AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2018. The Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

Classification and measurement

AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.

The main changes are described below.

Financial assets

a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.

b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

Financial liabilities

Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option.

The change in fair value is to be accounted for as follows, where the fair value option is used for financial liabilities: The change attributable to changes in credit risk are presented in other comprehensive income (OCI). The remaining change is presented in profit or loss.

AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity’s own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.

Impairment

The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

Hedge accounting

Amendments to AASB 9 (December 2009 & 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.

AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.

AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11] (effective 1 July 2016):

AASB 2014-3 amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:

(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and
(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

This Standard also makes an editorial correction to AASB 11.

AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138) (effective date 1 July 2016):

AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

The International Accounting Standards Board (IASB) has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.

AASB 15 Revenue from Contracts with Customers (effective date 1 July 2018):

AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).

AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

(a) Step 1: Identify the contract(s) with a customer

(b) Step 2: Identify the performance obligations in the contract

(c) Step 3: Determine the transaction price

(d) Step 4: Allocate the transaction price to the performance obligations in the contract

(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.

AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.

AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15. AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.

AASB 1057 Application of Australian Accounting Standards (effective date 1 July 2016):

This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible.

The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.

AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements (effective date 1 July 2016):

AASB 2014-9 amends AASB 127 Separate Financial Statements, and consequentially amends AASB 1 First-time Adoption of Australian Accounting Standards and AASB 128 Investments in Associates and Joint Ventures, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.

AASB 2014-9 also makes editorial corrections to AASB 127.

AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.

AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date 1 July 2018):

AASB 2014-10 amends AASB 10 Consolidated Financial Statements and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.

The amendments require:

(a) a full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not); and

(b) a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

AASB 2014-10 also makes an editorial correction to AASB 10.

AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.

AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle (effective date 1 July 2016):

The subjects of the principal amendments to the Standards are set out below:

AASB 5 Non-current Assets Held for Sale and Discontinued Operations:

Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or vice versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.

AASB 7 Financial Instruments: Disclosures

Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.

Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure–Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134.

AASB 119 Employee Benefits

Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. It also clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.

AASB 134 Interim Financial Reporting

Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 (effective date 1 July 2016)

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057] (effective date 1 July 2016):

This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133.

AASB 16 Leases (effective date 1 July 2019):

The key features of AASB 16 are as follows:

Lessee accounting

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

Lessor accounting

- AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
- AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

AASB 16 supersedes:

(a) AASB 117 Leases

(b) Interpretation 4 Determining whether an Arrangement contains a Lease

(c) SIC-15 Operating Leases—Incentives

(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.

2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112] (effective date 1 July 2019):

This Standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.

2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 (effective date 1 July 2019):

This Standard amends AASB 136 to remove references to depreciated replacement cost as a measure of value in use for not-for-profit entities and clarify that not-for-profit entities holding non-cash-generating specialised assets at fair value in accordance with AASB 13 [under the revaluation model in AASB 116 and AASB 138] no longer need to consider AASB 136.

Not-for-profit entities holding such assets at cost will determine recoverable amounts using current replacement cost in AASB 13.

IFRS 2 (Amendments) Classification and Measurement of Share-based Payment Transactions [Amendments to IFRS 2] (effective date 1 July 2018):

This standard amends to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- Share-based payment transactions with a net settlement feature for withholding tax obligations
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Current year performance

Note 3. Operating segments

	Australia '000	USA '000	Philippines '000	Unallocated '000	Elimination / Adjustments '000	Total '000
Year ended 30 June 2016						
Revenues						
External customers	$ 173,593	$ 1,133,024	$ 27,160	$ 6,083	$ (996)	$ 1,338,864
Inter-segment	13,461	-	6,739	-	(20,200)	-
Finance income	-	-	-	1,106	-	1,106
Total	$ 187,054	$ 1,133,024	$ 33,899	$ 7,189	$ (21,196)	$ 1,339,970
Profit / (loss) before tax						
Earnings before interest and tax	$ 6,756	$ (90,457)	$ (3,766)	$ (32,038)	$ (1,360)	$ (120,865)
Finance income	-	-	-	1,106	-	1,106
Finance expenses	-	-	-	(6,605)	-	(6,605)
Profit / (loss) before income tax	$ 6,756	$ (90,457)	$ (3,766)	$ (37,537)	$ (1,360)	$ (126,364)
Depreciation and amortisation	$ (878)	$ (24,246)	$ (1,633)	$ (3,142)	$ -	$ (29,899)
Balance sheet						
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)

	Australia '000	USA '000	Philippines '000	Unallocated '000	Elimination / Adjustments '000	Total '000 *Restated
Year ended 30 June 2015						
Revenues						
External customers	$ 191,373	$ 1,119,703	$ 30,584	$ 72,189	$ 157	$ 1,414,006
Inter-segment	20,435	-	8,159	-	(28,594)	-
Finance income	-	-	-	882	-	882
Total	$ 211,808	$ 1,119,703	$ 38,743	$ 73,071	$ (28,437)	$ 1,414,888
Profit / (loss) before tax						
Earnings before interest and tax	$ 32,149	$ 58,524	$ 992	$ (4,106)	$ (2,286)	$ 85,273
Finance income	-	-	-	882	-	882
Finance expenses	-	-	-	(4,992)	-	(4,992)
Profit / (loss) before income tax	$ 32,149	$ 58,524	$ 992	$ (8,216)	$ (2,286)	$ 81,163
Depreciation and amortisation	$ (1,057)	$ (18,692)	$ (1,449)	$ (3,068)	$ -	$ (24,266)
Balance sheet						
Segment assets	$ 130,101	$ 816,745	$ 42,376	$ 108,960	$ (29,228)	$ 1,068,954
Segment liabilities	(78,731)	(437,017)	(21,435)	(58,322)	38,950	(556,555)

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

* Certain amounts shown here do not correspond to the FY2015 financial statements and reflect adjustments made, refer to Note 2.vi.a.

		2016 '000		2015 '000
Analysis of Unallocated				
Revenue				
Support / sustainment	$	4,425	$	8,606
Sale of stock vessel H270		-		61,500
Charter vessel revenue		1,658		2,083
Finance income		1,106		882
Total	$	7,189	$	73,071
Profit / (loss) before tax				
Foreign exchange gains / (losses)	$	923	$	13,461
Net profit / (loss) on sale of vessel		(208)		-
Write down of charter vessels		(1,630)		-
Warranty Provision		(10,966)		-
Administration expenses		(10,489)		(10,654)
Marketing expenses		(7,009)		(5,561)
Design and Support		(1,550)		(1,595)
Charter vessel profit / (loss)		(1,109)		243
Finance income		1,106		882
Finance expenses		(6,605)		(4,992)
Total	$	(37,537)	$	(8,216)
Segment assets				
Cash and restricted cash	$	87,917	$	48,312
Property, plant and equipment		38,698		44,057
Inventories		31		181
Derivatives		13		741
Deferred tax assets		33,765		14,162
Income tax receivable		945		-
Assets held for sale		2,908		-
Other		2,009		1,507
Total	$	166,286	$	108,960
Segment liabilities				
Deferred tax liabilities	$	(27)	$	(8,717)
Income tax payable		(1,039)		(7,493)
Derivatives		(4,379)		(36,074)
Progress payments received in advance		(62)		-
Creditors & provisions		(4,274)		(6,038)
Total	$	(9,781)	$	(58,322)

One customer in the USA segment generated revenue of $1,133.024 million during FY2016 (FY2015: $1,119.703 million).

		2016 $'000		2015 $'000
Revenue from external customers by geographical location of customers				
North America	$	1,155,769	$	1,141,457
Europe		66,157		69,701
Australia		32,431		112,375
Middle East		84,507		85,251
Other		-		5,222
Total	$	1,338,864	$	1,414,006

		2016 $'000		2015 $'000
Non-current assets, other than financial instruments, prepayments and deferred tax assets				
Geographical location				
North America	$	411,399	$	375,450
Asia		22,157		22,237
Europe		4,430		13,296
Australia		62,108		41,175
Total	$	500,094	$	452,158
Composition				
Property, plant and equipment	$	490,798	$	442,521
Intangible assets		9,296		9,637
Total	$	500,094	$	452,158

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 the allocation of resources and 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 Group's reportable segments are Australia, USA and Philippines:

Australia

The Australia business manufactures high performance defence vessels for markets worldwide, excluding the USA and provides training and on-going support and maintenance for high performance vessels. The segment includes the chartering of a vessel to the US Navy's Military Sealift Command, which concluded before the end of the financial year.

USA

The USA business 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.

Philippines

The Philippines business manufactures high performance aluminium commercial vessels for global markets excluding the USA. The Philippines segment also provides support to other segments not just manufacturing for external buyers.

iii. Aggregation of segments

No operating segments are aggregated.

iv. 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.

v. Unallocated

The following items and associated assets and liabilities are not allocated to operating segments because they are not considered to be part of the core operations of any segment:

- Cost of Group services
- Corporate overheads
- Finance revenue and costs
- Taxation
- Assets held for sale
- Commercial vessel charter contracts
- Certain property, plant and equipment relating to the parent entity

Note 4. Revenue

	2016 '000		2015 '000	
Revenue				
Vessel construction and support	$	1,313,465	$	1,390,326
Charter vessel revenue		25,399		23,680
Interest income		1,106		882
Total	$	1,339,970	$	1,414,888

i. Recognition and measurement

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and that the revenue can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised:

Construction and support contract revenue

Construction and support contract revenue is brought to account based on percentage of completion which is calculated on actual costs incurred as a proportion of estimated total contract costs.

Contract costs are recognised as an expense as incurred and revenue is recognised only to the extent of the costs incurred where it is probable that the costs will be recovered and the contract outcome cannot be measured reliably during the term of the contract.

The estimated total contract costs are determined prior to commencement and re-evaluated every month thereafter for the purposes of recognising construction contract revenue. Construction contract revenue is adjusted in the event of a change to the cost of completion during the life of the contract and revenue is recognised for the remaining life of the contract based upon the adjusted value.

Charter vessel revenue

Charter revenue is operating rentals received on charter of vessels and is recognised when the control over the right to revenue is achieved.

Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

ii. Significant accounting judgements and estimates

Contract revenue and expected construction profits at completion

The assessment of contract revenue in accordance with the Group's accounting policies requires certain estimates to be made of total contract revenues, total contract costs and the current percentage of completion.

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date ("percentage-of-completion method") when the outcome of a contract can be estimated reliably. Contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable when the outcome of a contract cannot be estimated reliably.

Management has made estimates in this area, which if ultimately inaccurate will impact the level of revenue recognised in the Consolidated Statement of Comprehensive Income of FY2016 and future years.

The percentage of completion is calculated on actual project costs to date, divided by the sum of projected costs to complete the contract. Profit is recognised from commencement of the project.

Certain estimates were made by management with respect to total contract revenues, and total contract costs, which had a resulting impact on the percentage of completion, in line with the Group's accounting policy for contract revenue.

A US$115 million (A$156 million) write back of work in progress (WIP) is included in the FY2016 consolidated statement of profit or loss resulting in a loss before tax for the year. The adjustment resulted from the completion of a comprehensive review of the estimated cost of construction for the ~ US$4 billion LCS program (LCS 6 - 26).

The review followed the delivery of LCS 6 & 8 and preliminary results of the first two physical shock trials of LCS 6. The third and final shock trial was completed post balance date.

The shock trials are a contractual obligation that require LCS to survive the effects of a local explosive blast. The LCS is the first aluminium trimaran in the world to undergo such an analysis and test. The test regime qualifies the entire LCS class and no further shock trials are expected for subsequent vessels.

Initial findings of the shock trials are that the implementation of these design modifications have been successful, providing Austal with greater certainty about the baseline LCS design and estimated cost of construction, and how that applies across the LCS program.

The extensive review of the LCS program gained greater clarity on the costs associated with building to the revised baseline design and to quantify the impact across the life of the LCS program and concluded the following:

- The cost of building the LCS to meet the shock rating standard and US Naval Vessel Rules is materially more than what was previously estimated.
- The cost of modifying vessels and components already constructed to meet the shock standard and US Naval Vessel Rules is materially more than what was previously estimated;

The cost of modifying vessels and components already built has been exacerbated by the concurrent construction schedule with 10 LCS of a total of 11 LCS under contract at various stages of construction since April 2015. Modifications to vessels at an advanced construction phase will be more expensive and difficult to implement than pre-launch modifications or modifications to vessels not yet under construction.

All other projects' revenue and cost estimates at completion were updated with no material impact to the Group.

Note 5. Other Profit and Loss Disclosures

	2016 '000	2015 '000
Other income and expenses		
Government infrastructure grants	$ 4,853	$ 3,373
Training reimbursement grants	5,351	7,915
Gain / (loss) on disposal of property, plant and equipment	(200)	(371)
Net foreign exchange gains	834	12,994
Sale of scrap materials	3,558	5,167
Other income	1,896	2,426
Write down of charter vessels	(1,903)	-
Write down of other inventory	(1,100)	-
Total	$ 13,289	$ 31,504
Finance costs		
Interest to unrelated parties	$ (6,605)	$ (4,992)
Total	$ (6,605)	$ (4,992)
Depreciation and amortisation		
Depreciation excluding impairment	$ (28,461)	$ (22,736)
Amortisation of Intangible assets	(1,438)	(1,530)
Total	$ (29,899)	$ (24,266)
Employee benefits		
Wages and salaries	$ (415,183)	$ (337,501)
Superannuation	(4,766)	(4,822)
Share based payments expense	(796)	(1,373)
Workers' compensation costs	(10,450)	(10,085)
Annual leave expense	(20,062)	(14,553)
Long service leave expense	(1,265)	(45)
Total	$ (452,522)	$ (368,379)

Employee benefits listed above includes expenses that are disclosed in cost of sales.

	2016 '000	2015 '000
Research & development credit recognised in cost of sales		
Research & development credit	$ 1,311	$ 470

Auditor's remuneration	2016 $	2015 $
Amounts received or due and receivable by Ernst & Young Australia for:		
An audit or review of the financial report of the entity and any other entity in the Group	$ (297,404)	$ (293,409)
Amounts received or due and receivable by related practices of Ernst & Young for:		
An audit or review of the financial report of the entity and any other entities in the Group	$ (892,079)	$ (550,900)

Prior year comparative re-statement of Administration & Marketing expenses

	2016	2015
The prior year comparative for Administration expenses has increased by:	$ -	$ (3,846)
The prior year comparative for Marketing expenses has decreased by:	-	3,846

The purpose of the prior year comparative re-statement is to provide more meaningful information by aligning the cost classification with FY2016.

i. Recognition & measurement

The following recognition and measurement criteria must be met before the following specific items are recognised in profit or loss:

Grants relating to expense items

Grants include US Government infrastructure grants and training reimbursement grants.

Grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

All grants are recognised as income when it relates to an expense item. The grants are recognised over the periods necessary to match the grant to the costs that it is intended to compensate.

Research and Development (R&D) Tax Credit

R&D tax incentives in excess of the statutory tax rate are accounted for as a government grant under AASB 120. A $1.311 million credit was booked to cost of sales in FY2016 because the R&D claim related to the Royal Navy of Oman program.

The excess R&D tax credits are recognised as a reduction to each vessel's cost estimate at completion when there is reasonable assurance that the credits will be received and utilised. The profit recognition process is applied and the credit is recognised to cost of sales in full and revenue for the project is recognised on a percentage of completion basis.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. There are no qualifying assets in FY2016. All other finance costs are expensed in the period they occur.

Finance costs include interest payments, amortisation of capitalised loan origination costs and other costs that an entity incurs in connection with the borrowing of funds.

Depreciation and amortisation

Refer to accounting policies for depreciation disclosed in Note 18, and to accounting policies related to amortisation of Intangible assets in Note 19.

Employee benefits

Refer to accounting policies for employee benefits in Note 21.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Sale of scrap materials

Revenue for the sale of scrap is recognised when the significant risks and rewards of ownership of the materials have passed to the buyer. Risk and rewards of ownership are considered to have passed to the buyer at the time of delivery of the goods to the customer.

ii. Foreign exchange gains and losses included in profit and loss

Foreign exchange gains and losses included in profit and loss comprise:

- Fair value adjustments on non-derivative financial assets such as foreign currency denominated loans.
- Foreign currency gains and losses on cash flow hedges that were deemed to be ineffective during the accounting period.

iii. Significant accounting judgements and estimates

Research & development tax credits

The Group engages in research and development activities over new vessel designs. Certain judgements are required in assessing whether the research and development tax offset has been recognised in accordance with the Group's accounting policies.

Research and development credits in excess of the statutory tax rate are recognised as a government grant, to the extent that expenditure is of a kind eligible for the research and development tax incentive, and the credit is assessed as recoverable. A $1.311 million credit was booked to cost of sales in FY2016 because the R&D claim related to the Royal Navy of Oman program.

Management has made judgements regarding which expenditure is classified as eligible for the credit, including assessing activities to determine whether they are conducted for the purposes of generating new knowledge, and whose outcome cannot be known or determined in advance.

Note 6. Earnings per share

		2016	2015
Net profit / (loss) after tax			
Net profit attributable to ordinary equity holders of the parent from continuing operations	$'000	$ (84,281)	$ 53,225
Weighted average number of ordinary shares			
Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share	Number	347,665,088	342,383,958
Effect of dilution			
Options	Number	-	1,339,540
Performance Rights	Number	-	1,831,326
Weighted average number of ordinary shares (excluding reserved shares) adjusted for the effect of dilution	Number	347,665,088	345,554,824
Earnings per share			
Basic earnings per share	$ / share	$ (0.24)	$ 0.16
Diluted earnings per share	$ / share	$ (0.24)	$ 0.15

i. Measurement

Basic earnings per share amounts are calculated by dividing net profit/(loss)for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

ii. Information concerning the classification of securities

Performance rights

Performance rights granted to executives under the Group's Long Term Incentive Plan are included in the calculation of diluted earnings per share where the conditions would have been met at balance sheet date. The rights are not included in the determination of basic earnings per share. There are 1,665,407 performance rights which are not considered dilutive.

Further information about the performance rights is provided in Note 30.

Options

Austal Limited issued three tranches of options to the sellers of KME Engineering (NT) Pty Ltd & Hydraulink when they were acquired by Austal Service Darwin Pty Ltd in FY2013. The options are not included in the determination of basic earnings per share. There are 1,374,196 options which are not considered dilutive.

Further information about the options is provided in Note 30.

Share rights

Share rights may be provided to the CEO as part of his total fixed remuneration. The share rights are subject to a 12 month holding period from the date at which the shares are released to the CEO, and no performance condition exists because it is considered to be part of his base remuneration subject to shareholder approval at the 2016 Annual General Meeting. The share rights are included in the calculation of basic earnings per share. 97,360 shares were issued during the year.

Further information about the share rights is provided in Note 30.

Other equity transactions

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Note 7. Reconciliation of net profit after tax to net cash flows from operations

	2016 '000	2015 '000
Net (loss) / profit after tax	$ (84,182)	$ 53,156
Adjustments for:		
Depreciation and amortisation	$ 29,899	$ 24,266
Write down of charter vessels	1,903	-
Net (gain) / loss on disposal of property, plant and equipment	200	457
Share based payments expense	796	1,373
Net exchange differences	(834)	(15,067)
Government infrastructure grants income	(4,877)	(4,986)
Total	$ 27,087	$ 6,043
Changes in assets and liabilities:		
Increase / (decrease) in provisions for:		
Income tax (current and deferred)	$ (52,370)	$ 5,753
Workers' compensation insurance	515	6,225
Warranty	9,736	(1,863)
Employee benefits	4	(1,015)
Other provisions	(1,821)	(3,105)
(Increase) / decrease in trade & other receivables	(26,922)	4,483
(Increase) / decrease in inventories	230,729	(11,561)
(Increase) / decrease in prepayments	913	(2,224)
(Increase) / decrease in other financial assets	(3,854)	-
Increase / (decrease) in trade and other payables	15,111	56,506
Increase / (decrease) in progress payments in advance	(13,365)	(2,885)
Increase / (decrease) in derivative assets & liabilities	(1,799)	(393)
Increase / (decrease) in government grants	2,284	1,314
Total	$ 159,161	$ 51,235
Net cash (outflow) / inflow from operating activities	$ 102,066	$ 110,434

Note 8. Dividends paid and proposed

i. Dividends on ordinary shares

	2016 '000		2015 '000	
Dividends paid on Ordinary Shares				
Fully franked final dividend for the prior year, 3 cents per share (2015: nil)	$	(10,422)	$	-
Fully franked interim dividend for the current year, 2 cents per share (2015: 1 cent per share)		(6,953)		(3,468)
Dividend declared subsequent to the reporting period end (not recorded as liability)				
Fully franked final dividend, 2 cents per share (2015: 3 cents per share)	$	(6,968)	$	(10,422)

ii. Franking credit balance

	2016 '000		2015 '000	
Opening Balance	$	5,871	$	933
Franking credits that arose from the payment of income tax instalments during the year	$	12,680	$	6,425
Franking credits distributed		(7,447)		(1,487)
Movement	$	5,233	$	4,938
Closing Balance	$	11,104	$	5,871

Note 9. Income and other taxes

i. Income tax expense

	2016 '000	2015 '000 *Restated
Major components of tax (expense) / benefit for the years ended 30 June 2016 and 2015 are:		
Consolidated Profit & Loss		
Current Income Tax		
Current income tax charge	$ (2,987)	$ (22,912)
Adjustments in respect of current income tax of the previous year	(765)	3,577
Total	$ (3,752)	$ (19,335)
Deferred Income Tax		
Relating to origination and reversal of temporary differences	$ 44,861	$ (3,916)
Adjustments in respect of deferred income tax of the previous year	1,073	(4,756)
Total	$ 45,934	$ (8,672)
Total income tax (expense) / benefit	$ 42,182	$ (28,007)
Other Comprehensive Income (OCI)		
Current and deferred income tax related items charged or credited directly to OCI		
Current and deferred gains and losses on foreign currency contracts and consolidation adjustments	$ (3,800)	$ 12,622
Current gains and losses in FCTR	(21)	(1,851)
Deferred gains on revaluation of property, plant and equipment	(10,710)	-
Total (expense) / benefit charged to OCI	$ (14,531)	$ 10,771

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:

	2016 '000	2015 '000 *Restated
Accounting profit / (loss) before income tax from continuing operations	$ (126,364)	$ 81,163
Income Tax at the Group's statutory income tax rate of 30% (2015: 30%)	$ 37,909	$ (24,349)
Adjustment for USA statutory income tax rate of 36.9% (2015: 36.9%)	$ 5,182	$ (2,876)
Other foreign tax rate differences	126	(462)
Philippines, UAE and Trinidad profit / (loss) not assessable	(847)	2
US section 199 domestic manufacturing deduction	-	351
Unrealised foreign exchange losses on intercompany loans	-	(83)
Adjustments in respect of current and deferred income tax of the previous year	308	(709)
Non-deductible share based payments expense	(684)	(281)
Other non-assessable or non-deductible items	188	400
Total Adjustments	$ 4,273	$ (3,658)
Income tax (expense) / benefit reported in Consolidated statement of profit or loss	$ 42,182	$ (28,007)
Income tax payable		
Income tax payable	$ (98)	$ (7,493)

* Certain amounts shown here do not correspond to the FY2015 financial statements and reflect adjustments made, refer to note Note 2.vi.a.

ii. Analysis of temporary differences

	Statement of Financial Position 2016 '000	Statement of Financial Position 2015 '000	Consolidated Profit & Loss 2016 '000	Consolidated Profit & Loss 2015 '000
Deferred income tax - USA				
Deferred tax assets				
Trade & other receivables	$ -	$ 585	$ 1,214	$ -
Payables	10,572	7,418	3,824	(12,393)
Provisions	4,615	3,317	385	(2,568)
Deferred grant income	28,925	21,150	(1,644)	(1,264)
Losses available for offset against future taxable income	47,527	-	44,899	(5,655)
Research and development tax credits	-	-	-	(23)
Work opportunity tax credits	215	1,558	-	1,410
Charitable donations	42	40	-	-
Inventories	72	168	(565)	168
Deferred gains and losses on foreign currency contracts	3,461	-	-	-
Total	$ 95,429	$ 34,236	$ 48,113	$ (20,325)
Deferred tax liabilities				
Property, plant and equipment	$ (65,897)	$ (42,978)	$ (2,699)	$ 2,113
Inventories	-	-	-	276
Deferred gains and losses on foreign currency contracts	(33)	-	-	-
Total	$ (65,930)	$ (42,978)	$ (2,699)	$ 2,389
Net deferred tax asset / (liability)	$ 29,499	$ (8,742)	$ 45,414	$ (17,936)
Deferred income tax - Australia				
Deferred tax assets				
Trade & other receivables	$ 36	$ 1,774	$ (1,738)	$ (2,055)
Payables	166	800	(607)	515
Provisions	6,428	3,918	2,510	(938)
Deferred gains and losses on foreign currency contracts	2,100	10,609	(6)	-
Undeducted s.40-880 costs	184	358	(176)	(176)
Losses available for offset against future taxable income	180	231	(51)	13
Inventories	320	-	238	11,660
Total	$ 9,414	$ 17,690	$ 170	$ 9,019
Deferred tax liabilities				
Property, plant and equipment	$ (3,841)	$ (3,350)	$ 542	$ 53
Deferred gains and losses on foreign currency contracts	(113)	(251)	(192)	192
Total	$ (3,954)	$ (3,601)	$ 350	$ 245
Net deferred tax asset / (liability)	$ 5,460	$ 14,089	$ 520	$ 9,264
Net deferred tax asset / (liability)	$ 34,959	$ 5,347		
Deferred tax (expense) / benefit			$ 45,934	$ (8,672)

iii. Recognition and measurement

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences are associated with investments in subsidiaries, associates and interests in joint ventures in which case a deferred tax asset is only recognised to the extent that taxable profits will be available in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Deferred tax assets are recognised because management believes it is probable that the Group will be in a position to generate future profits to utilise the deferred tax asset. An assessment of the Group's future profits has been undertaken based on contracted revenue and this supports the recoverability of the deferred tax asset.

iv. Tax consolidation

Austal Limited (the Company) is the head entity in a Tax Consolidated Group comprising the Company and its 100% owned Australian resident subsidiaries. The implementation date of the tax consolidated system for the Tax Consolidated Group was 1 July 2002. Members of the Group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis.

The agreement provides for the allocation of income tax liabilities between the entities in the event that the head entity defaults on its tax payment obligations. The possibility of default was assessed to be remote at the balance date.

The current and deferred tax amounts for the Tax Consolidated Group are allocated amongst the entities in the Tax Consolidated Group using a stand-alone taxpayer approach whereby each entity in the Tax Consolidated Group measures its current and deferred taxes as if it had continued to be a separately taxable entity in its own right. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in each entity's statement of financial position and their tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the Tax Consolidated Group are recognised in conjunction with any tax funding arrangement amounts (refer below).

The Tax Consolidated Group recognises deferred tax assets arising from unused tax losses of the Tax Consolidated Group to the extent that it is probable that future taxable profits of the Tax-Consolidated Group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

The members of the Tax Consolidated Group have entered into a tax funding arrangement which sets out the funding obligations of members of the Tax Consolidated Group in respect of tax amounts. The tax funding arrangements require payments to / from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity.

No amounts have been recognised as tax consolidation contribution/distribution adjustments in preparing the accounts for the parent company for the current year.

v. Significant accounting judgements and estimates

Deferred tax assets are recognised for deductible temporary differences because management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements.

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.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

vi. Other taxes

Revenues, expenses and assets are recognised net of the amount of Goods Services Tax (GST) except:

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross profit basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Capital structure

Note 10. Cash and cash equivalents

		2016 '000		2015 '000
Current				
Cash at bank and in hand	$	224,318	$	138,413
Restricted cash [1]		-		10,055
Total Cash per Cash Flow Statement	$	224,318	$	148,468

1. Restricted cash was unutilised Go Zone Bonds that could only be spent on projects specifically identified in the GZB documentation issued to investors. These funds were applied to the reduction of the GZB debt in FY2016.

i. Recognition and measurement

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Cash and cash equivalents for the purposes of the Consolidated statement of cash flows consists of cash and cash equivalents as defined above, net of cash held as a guarantee.

Note 11. Interest bearing loans and borrowings

		2016 '000		2015 '000
Current				
Finance Leases	$	(2,545)	$	(1,791)
Go Zone Bonds		-		(143,188)
Total	$	(2,545)	$	(144,979)
Non - Current				
Finance Leases	$	(8,110)	$	(7,658)
Go Zone Bonds		(136,113)		-
Vessel finance for Cape Class Patrol Boats 9 & 10		(25,843)		-
Total	$	(170,066)	$	(7,658)
Total	$	(172,611)	$	(152,637)

i. Recognition and measurement

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised.

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 the USA between FY2008 and FY2013.

GZB bondholders were secured by letters of credit issued by Austal's former banking syndicate with a maturity date of 31 December 2015. Austal's syndicated facility agreement was refinanced during the period, and replacement letters of credit were issued under the new facility with a maturity date in October 2018 and therefore the Go Zone Bond debt has been reclassified as a non-current liability. The average cost of the letters of credit in FY2016 was 1.85%. The Go Zone Bonds are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 0.12% in FY2016.

Austal has redeemed (repaid) a cumulative amount of ~ US$120 million of GZB funds since inception and owes US$104.500 million at 30 June 2016 (FY2015: $112.000 million).

iii. 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 FY2016:

- mobile equipment 1.75%
- land 1.50%

iv. Vessel finance for Cape Class Patrol Boats 9 & 10

Austal has entered into a finance arrangement with National Australia Bank and the Australian Border Finance for the construction of two more Cape Class Patrol Boats (9 & 10). The arrangement is such that National Australia Bank finances the construction of the vessels and will lease them to the Australian Border Force for an initial 3 year term. Whilst extensions or a future sale of the two vessels is probable the contract contains an option for NAB to sell the vessels back to Austal at an option price equal to the residual value of $21.843M per vessel at the end of the 3 year term. The effective interest rate incurred in FY2016 was 3.5%.

v. Re-financing of Syndicated Facility Agreement

Austal re-financed its Syndicated Facility Agreement for a three year period to October 2018. The new agreement includes US$104.500 million for letters of credit to secure the Go Zone Bonds and a A$170.000 million revolving credit facility. The entire revolving credit facility can be used for contingent non-financial instruments, up to $50.000 million of any unused part of the facility can be used for cash advances and up to $20.000 million of any unused part of the facility can be used for contingent financial instruments.

vi. Banking facilities

		2016 '000		2015 '000
Facilities used at reporting date				
Finance Leases (1)	$	(10,655)	$	(9,449)
Go Zone Bonds (2)		(140,373)		(145,113)
Contingent Instrument Facility (3)		(133,602)		(79,965)
Total	$	(284,630)	$	(234,527)
Facilities unused at reporting date				
Finance Leases (1)	$	-	$	(3,220)
Contingent Instrument & Cash Loan Facility (3&4)		(36,398)		(70,035)
Total	$	(36,398)	$	(73,255)
Total Facilities Available				
Finance Leases (1)	$	(10,655)	$	(12,669)
Go Zone Bonds (2)		(140,373)		(145,113)
Contingent Instrument & Cash Loan Facility (3&4)		(170,000)		(150,000)
Total	$	(321,028)	$	(307,782)

1. The Finance leases are used to fund mobile equipment and a plot of land in Austal USA, incurring interest at an average rate of 1.75% and 1.50% respectively. The leases have a term of 5 years each.
2. The Go Zone Bonds of US$104.577 million are variable rate demand bonds that are secured by Letters of Credit that are provided under the SFA. The Go Zone Bonds mature on 1 May 2041 whilst the Letters of Credit mature on 7 October 2018. The Bonds are payable in US dollars with an average effective interest rate of approximately 0.12% in FY2016.
3. The Contingent Instrument Facility is used to support letters of credit (excluding the letters of credit supporting the Go Zone Bonds), performance bonds and other financial and non-financial guarantees (refer to Note 25).
4. The Cash Loan Facility is a working capital facility that can be used for both cash requirements and additional Contingent Instruments. The Group has not utilised the Cash Loan Facility during FY2016 and 2015.

vii. Fair value of borrowings

The fair values of all classes of borrowings are not materially different to their carrying amounts since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. The interest rates on Go Zone Bonds are reset on a weekly basis.

Note 12. Contributed equity and reserves

	Shares		'000	
	2016	2015	2016	2015
Ordinary Shares on Issue				
1 July	346,923,451	346,544,933	$ 121,753	$ 121,210
Shares issued during the year	1,469,998	378,518	1,986	543
30 June	348,393,449	346,923,451	$ 123,739	$ 121,753
Reserved Shares				
1 July	(4,015,539)	(4,350,601)	$ (9,230)	$ (9,612)
Movement in Reserved Shares [1]	-	335,062	229	382
30 June	(4,015,539)	(4,015,539)	$ (9,001)	$ (9,230)
Net	344,377,910	342,907,912	$ 114,738	$ 112,523

1. The movement in Reserved Shares relates to the offset to accrued interest on employee shareholder loans in the Austal Group Management Share Plan (AGMSP) via dividend payments. Refer to Note 30 for further information regarding the AGMSP.

i. Recognition and measurement

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of the new shares or options.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Reserved shares

Own equity instruments which are issued and held by a trustee under the Austal Group Management Share Plan are classified as reserved shares and are deducted from equity. No gain or loss is recognised in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Refer to Note 30 for more information in relation to the Austal Group Management Share Plan.

ii. Movements in ordinary share capital

	Shares 2016	Shares 2015
Ordinary Shares on Issue		
1 July	346,923,451	346,544,933
CEO - Mr Andrew Bellamy - fixed share based remuneration	-	320,236
Dividend reinvestment plan	972,814	58,282
Performance rights exercised	497,184	-
30 June	348,393,449	346,923,451

The movement in ordinary shares during year ended 30 June 2016 is comprised of shares issued as part of dividends declared and paid during the year, and the exercising of performance rights.

The Group announced a 3 cents per share dividend with an option for dividend reinvestment of $2.20 per share on 26 August 2015, followed by an interim dividend of 2 cents per share with an option for dividend reinvestment of $1.47 per share, which was announced on 23 February 2016.

497,184 performance rights relating to the first tranche of the FY2014 Performance Rights vested in accordance with the rules of the Group's Long Term Incentive Plan on 8 September 2015.

iii. Nature & purpose of reserves

Foreign currency translation reserve (FCTR)

The FCTR is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Employee benefits reserve

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to Note 30 for further details of share based payment plans for the Group.

Cash flow hedge reserve

This reserve records the portion of the gain or loss on hedging instruments in cash flow hedges that are determined to be an effective hedge.

Common control reserve

This reserve represents the premium paid on the acquisition of the minority interest in a controlled entity.

Asset revaluation reserve

This reserve is used to record increases in the fair value of land and buildings.

Note 13. Government grants relating to assets

Deferred Grant Income	2016 '000	2015 '000
Current		
Infrastructure Development	$ (8,543)	$ (3,244)
Total	$ (8,543)	$ (3,244)
Non - Current		
Infrastructure Development	$ (71,991)	$ (63,722)
Total	$ (71,991)	$ (63,722)
Total	$ (80,534)	$ (66,966)
Movements in Grants		
Opening Balance	$ (66,966)	$ (53,442)
Grants received during the year	$ (16,746)	$ (4,986)
Amortised to the profit and loss	4,876	3,673
Exchange rate adjustment	(1,697)	(12,210)
Closing Balance	$ (80,534)	$ (66,966)

i. Recognition and measurement

Austal has received grants from various government bodies in the USA to fund the infrastructure required for the expansion of the Group's USA operations in Mobile, Alabama.

The fair value of grants related to assets is credited to a deferred income liability account and is released to profit and loss over the expected useful life of the relevant asset.

The fair value of grants related to expense items is recognised as income over the periods necessary to match the grants on a systematic basis to the costs that it is intended to compensate.

Government grants are only recognised when received or when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Working capital

Note 14. Trade and other receivables

		2016 '000		2015 '000
Current				
Trade amounts owing by unrelated entities	$	128,505	$	104,404
Allowance for doubtful debts		(165)		(89)
Total	$	128,340	$	104,315

i. Recognition and measurement

Trade receivables which are within the normal credit terms are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

ii. Impaired trade receivables

Individual receivables which are known to be uncollectible are written off by directly reducing the carrying amount. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. The estimated impairment losses for these receivables are recognised in a separate impairment allowance account. The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (more than 90 days overdue).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses.

Refer to Note 23 for an analysis of the Group's credit risk.

iii. Allowance for doubtful debts

Trade receivables of an initial value of $0.165 million (FY2015: $0.089 million) were impaired and provided for at 30 June 2016. Movements in impairment allowance account are detailed below:

	2016 $'000	2015 $'000
Provision for Doubtful Debts		
1 July	$ (89)	$ (89)
Arising during the year	$ (110)	$ (60)
Unused amounts reversed	34	60
Movement	$ (76)	$ -
30 June	$ (165)	$ (89)

The allowance for doubtful debts has been created in relation to specific debtors whose debts were past due. The Group is currently negotiating payment arrangements with these debtors, however there is objective evidence that these debts are impaired.

iv. Ageing analysis of current trade & other receivables at 30 June

		Days					
		0-30	31-60	61-90	90+	Impaired	Total
2016	'000	$ 122,506	$ 3,171	$ 1,501	$ 1,327	$ (165)	$ 128,340
2015	'000	98,971	1,623	177	3,633	(89)	104,315

Receivable balances are monitored on an ongoing basis. A major percentage of the trade and other receivables comprises Government institutions and the credit quality is deemed to be of a high quality.

The full trade and other receivables excluding the impairment is deemed to be recovered within the next
12 months.

Any trade and other receivable which is aged greater than 30 days is considered to be overdue.

v. Fair values of current trade and other receivables

The carrying amount of the receivables is assumed to be the same as their fair value due to their short term nature.

Note 15. Vessel construction and support contracts in progress

	2016 '000	2015 '000
Work in Progress		
Construction and support revenue recognised to date	$ 6,983,610	$ 5,636,779
less Progress payments received & receivable	(6,876,021)	(5,299,051)
Total due from customers	$ 107,589	$ 337,728
Progress Payments Received in Advance		
Construction and support revenue recognised to date	$ 22,572	$ 266,437
less Progress payments received & receivable	(35,384)	(292,614)
Total due to customers	$ (12,812)	$ (26,177)
Total due from / (to) customers	$ 94,777	$ 311,551

i. Recognition and measurement

Construction and support work in progress is valued at contract revenue recognised to date, less any provision for anticipated future losses and progress billings. Construction and support profits are recognised on the percentage of completion basis. Percentage of completion is determined by reference to actual costs to date as a proportion of estimated total contract costs.

Refer to Note 23 for an analysis of the Group's credit risk.

ii. Significant accounting judgements and estimates

Refer to Note 4 for details of estimates made regarding construction and support contracts.

Note 16. Inventories and work in progress

	Notes	2016 '000	2015 '000
Current			
Work in progress	15	$ 107,589	$ 337,728
Other inventory		1,385	1,975
Total		$ 108,974	$ 339,703

i. Recognition and measurement

Stock and finished goods are valued at the lower of cost and net realisable value. Cost of stock is determined on the weighted average cost basis.

No inventories are expected to be realised more than 12 months after balance sheet date.

Note 17. Trade and other payables

		2016 '000		2015 '000
Current				
Trade & other payables owed to unrelated entities [1]	$	(229,774)	$	(223,497)
Total	$	(229,774)	$	(223,497)

1. Trade payables are unsecured, non-interest bearing and are normally settled on 45 day terms.

i. Recognition and measurement

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

ii. Fair value of trade and other payables

The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

Infrastructure & other assets

Note 18. Property, plant and equipment

i. Net carrying amount

	Freehold Land & Buildings '000	Leasehold Improvements '000	Plant & Equipment '000	Capital WIP '000	Total '000
Balance 30 June 2015					
Gross carrying amount at fair value	$ 382,078	$ -	$ -	$ -	$ 382,078
Gross carrying amount at cost	-	21,822	154,646	11,704	188,172
Accumulated Depreciation & Impairment	(43,225)	(2,040)	(82,462)	-	(127,727)
Net Carrying Amount	$ 338,853	$ 19,782	$ 72,184	$ 11,704	$ 442,523
Balance 30 June 2016					
Gross carrying amount at fair Value	$ 396,169	$ -	$ -	$ -	$ 396,169
Gross carrying amount at cost	-	23,582	158,659	18,066	200,307
Accumulated Depreciation & Impairment	(7,733)	(3,113)	(94,832)	-	(105,678)
Net Carrying Amount	$ 388,436	$ 20,469	$ 63,827	$ 18,066	$ 490,798

ii. Reconciliation of movement for the year

	Freehold Land & Buildings '000	Leasehold Improvements '000	Plant & Equipment '000	Capital WIP '000	Total '000
Balance 1 July 2014	**$ 289,553**	**$ 14,266**	**$ 61,859**	**$ 822**	**$ 366,500**
Additions	$ 3,776	$ 2,124	$ 11,872	$ 10,355	$ 28,126
Transfer in / (out)	(1,154)	-	2,118	(964)	-
Disposals	(2,139)	-	(658)	(15)	(2,812)
Depreciation charge for the year	(8,740)	(725)	(13,271)	-	(22,736)
Exchange Adjustment	57,557	4,117	10,264	1,506	73,444
Total	$ 49,300	$ 5,516	$ 10,325	$ 10,882	$ 76,021
Balance 1 July 2015	**$ 338,853**	**$ 19,782**	**$ 72,184**	**$ 11,704**	**$ 442,523**
Additions	$ 910	$ 1,022	$ 13,400	$ 28,815	$ 44,147
Transfer in / (out)	23,166	-	242	(23,408)	-
Transfer to Assets Held for Sale	-	-	(2,908)	-	(2,908)
Disposals	-	-	(3,598)	-	(3,598)
Depreciation charge for the year	(12,302)	(924)	(15,235)	-	(28,461)
Impairment	-	-	(1,903)	-	(1,903)
Revaluation	29,667	-	-	-	29,667
Exchange Adjustment	8,142	589	1,645	955	11,331
Total	$ 49,583	$ 687	$ (8,357)	$ 6,362	$ 48,275
Balance 30 June 2016	**$ 388,436**	**$ 20,469**	**$ 63,827**	**$ 18,066**	**$ 490,798**

iii. Recognition and measurement

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings are measured at fair value less accumulated depreciation on buildings and any impairment losses recognised after the date of revaluation. Valuations are performed on a regular basis to ensure that the fair value of a revalued asset does not differ materially from its carrying value.

The carrying amount would be as detailed in the table below, if land and buildings were measured using the cost model.

Land & Buildings valued using cost model	2016 '000	2015 '000
Cost	$ 391,399	$ 379,023
Accumulated Depreciation & Impairment	(69,169)	(57,933)
Net Carrying Amount	$ 322,229	$ 321,090

Any revaluation surplus is recorded in other comprehensive income and hence credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case, the increase is recognised in the profit and loss.

A revaluation deficit is recognised in the statement of comprehensive income except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

iv. De-recognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss in the year the asset is derecognised.

v. Key judgements and accounting estimates

Impairment of non-financial assets

The Group assesses whether there is an indication that an asset may be impaired at each reporting date. The Group considered impairment triggers including observable indications, significant market, technological, economic or legal changes that have occurred, significant decreases in market interest rates or market rates of return, the market capitalisation of the Group compared to the net assets of the Group, evidence that any major asset or process is obsolete or damaged and other evidence from internal reporting. Refer to Note 19 ii. for impairment testing of goodwill and non-current assets.

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate the carrying value of the asset may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset in assessing value in use.

The recoverable amount for an asset that does not generate largely independent cash inflows is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Impairment losses on plant and equipment are recognised in the statement of comprehensive income.

The asset or cash-generating unit that suffered an impairment is tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

The key assumptions used to determine the recoverable amount for cash-generating units (CGU) are disclosed and further explained in Note 19.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

Depreciation is calculated on a straight-line or diminishing value basis over the estimated useful life of the asset.

The following useful lives have been adopted as follows:

- Buildings – 20 to 40 years
- Plant and equipment – 2 to 10 years
- Leasehold improvements – 25 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted at the end of each financial year if appropriate.

Revaluation of land and buildings

	Australia '000	USA '000	Total '000
Asset revaluation reserve at 30 June 2015	$ 8,246	$ 13,511	$ 21,757
Revaluations during period	$ 3,443	$ 26,224	$ 29,667
Tax-effect on revaluation	(1,033)	(9,677)	(10,710)
Movement in OCI	$ 2,410	$ 16,547	$ 18,957
Asset revaluation reserve at 30 June 2016	$ 10,656	$ 30,058	$ 40,714

The following revaluations occurred during the year ended 30 June 2016:

- Australian assets were revalued upwards by $3.443 million, resulting in a net increase in the reserve of $2.410 million; and
- USA assets were revalued upwards by $26.224 million, resulting in a net increase in the reserve of $16.547 million.

The revaluations were performed by independent valuers, with valuation dates of 31 December 2015. The valuation methodology utilised a market comparison approach based on highest and best use, which is consistent with the Group's current use of the assets. This valuation method is classified as level 3, under the fair value hierarchy.

Further information about the valuation of land and buildings is provided in Note 22.

Note 19. Intangible assets

	Computer Software '000		Goodwill '000		Total '000
Balance 1 July 2014	**$ 3,010**	**$**	**6,463**	**$**	**9,473**
Additions	$ 1,053	$	-	$	1,053
Amortisation for the year	(1,530)		-		(1,530)
Exchange Adjustment	641		-		641
Total	$ 164	$	-	$	164
Balance 30 June 2015	**$ 3,174**	**$**	**6,463**	**$**	**9,637**
Balance 1 July 2015	**$ 3,174**	**$**	**6,463**	**$**	**9,637**
Additions	$ 994	$	-	$	994
Amortisation for the year	(1,438)		-		(1,438)
Exchange Adjustment	103		-		103
Total	$ (341)	$	-	$	(341)
Balance 30 June 2016	**$ 2,833**	**$**	**6,463**	**$**	**9,296**
Balance 1 July 2015					
Cost	$ 15,767	$	6,463	$	22,230
Accumulated Amortisation & Impairment	(12,593)		-		(12,593)
Net Carrying Amount	**$ 3,174**	**$**	**6,463**	**$**	**9,637**
Balance 30 June 2016					
Cost	$ 17,233	$	6,463	$	23,696
Accumulated Amortisation & Impairment	(14,400)		-		(14,400)
Net Carrying Amount	**$ 2,833**	**$**	**6,463**	**$**	**9,296**

i. Recognition and measurement

Intangible assets acquired separately are initially measured at cost and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least once per financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

A summary of the policies applied to the Group's intangible assets is as follows:

Computer software

Computer software is initially measured at cost and amortised on a straight-line basis over the estimated useful life of each asset. Impairment testing is conducted annually.

Computer software is amortised on a straight-line basis over 2.5 years.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed in a business combination.

Goodwill is measured at cost less any accumulated impairment losses after initial recognition. Goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination from the acquisition date for the purpose of impairment testing, irrespective of whether other assets or liabilities acquired are assigned to those units.

Goodwill is tested annually for impairment regardless of whether impairment triggers are identified. The Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or Group of CGU) to which the goodwill relates. An impairment loss is recognised when the recoverable amount of the CGU is less than its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill allocated to a cash-generating unit that has a partial disposal of the operation within that unit is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

ii. Impairment testing of goodwill and non-current assets

Non-current assets are reviewed on an annual basis in accordance with the Group's accounting policies, to determine whether there is an impairment indicator. An estimate of the recoverable amount is made where an impairment indicator exists.

Management has identified an impairment trigger, based on the market capitalisation of the Group being less than the reported net assets.

The recoverable amounts have been assessed at the CGU level. The following CGU have been identified by management:

- Australia
- USA
- Philippines

Corporate assets have been allocated to CGUs to the extent that they relate to the CGU under review.

Goodwill acquired through business combinations has been allocated to the Australia segment (refer to Note 3 for details).

The recoverable amounts for each CGU have been determined based on value in use calculations using cash flow projections from financial budgets approved by senior management covering a five-year period.

It was concluded that the recoverable amount is greater than the carrying amount. Management has concluded that no impairment charge is required as a result of this analysis.

iii. Significant accounting judgement and estimates

Recoverable amount of the CGU

The following table sets out the key assumptions:

CGU	Australia	USA	Philippines
Growth assumptions	Award of Projected vessels	Award of Projected vessels	Award of Projected vessels
Perpetuity growth rate	0.0%	0.0%	0.0%
Pre-tax discount factor	13.9%	15.8%	12.9%
Inflation on costs	2.0%	1.5%	2.5%

Pre-tax discount factor

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates.

The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from the Group's weighted average cost of capital (WACC).

Inflation on costs

Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publically available, otherwise past actual raw material price movements are used as an indicator of future price movements.

iv. Sensitivity to changes in assumptions

Any change in the key assumptions used to determine the recoverable amount would result in a change in the assessed recoverable amount. An impairment of assets may result if the variation in assumption has a negative impact on the recoverable amount.

The estimated recoverable amounts of each of the CGU are significantly greater than the carrying value of the assets within the respective CGU. No reasonably foreseeable changes in any of the key assumptions are likely to result in an impairment loss.

Note 20. Other financial assets

	2016 '000	2015 '000
Other financial assets		
Collateral [1]	$ 7,476	$ 3,600
Security deposits	162	184
	$ 7,638	$ 3,784

1. Legal requirement in the USA to provide cash collateral to ensure that workers' compensation claims will be paid if they eventuate.

i. Recognition and measurement

Collateral in the statement of financial position comprises cash at bank with an original maturity of twelve months or more.

Other liabilities

Note 21. Provisions

		Employee Benefits '000		Workers' Compensation '000		Warranty '000		Other '000		Total '000
Provisions at 30 June 2015	$	(23,189)	$	(3,076)	$	(4,712)	$	(3,992)	$	(34,969)
Arising during the year	$	(73,949)	$	(10,450)	$	(18,798)	$	(59,310)	$	(162,507)
Utilised		72,829		9,986		7,538		59,966		150,319
Unused amounts reversed		1,579		-		1,580		1,263		4,422
Effects of foreign exchange		(463)		(51)		4		(98)		(608)
Movement	$	(4)	$	(515)	$	(9,676)	$	1,821	$	(8,374)
Provisions at 30 June 2016	$	(23,193)	$	(3,591)	$	(14,388)	$	(2,171)	$	(43,343)

		Employee Benefits '000		Workers' Compensation '000		Warranty '000		Other '000		Total '000
2015										
Current	$	(22,050)	$	(3,076)	$	(4,712)	$	(3,992)	$	(33,830)
Non-Current		(1,139)		-		-		-		(1,139)
Total	$	(23,189)	$	(3,076)	$	(4,712)	$	(3,992)	$	(34,969)
2016										
Current	$	(22,141)	$	(3,591)	$	(14,388)	$	(2,171)	$	(42,291)
Non-Current		(1,052)		-		-		-		(1,052)
Total	$	(23,193)	$	(3,591)	$	(14,388)	$	(2,171)	$	(43,343)

i. Recognition and measurement

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability if the effect of the time value of money is material.

The increase in the provision due to the passage of time is recognised as a finance cost when discounting is used.

ii. Information about individual provisions and significant accounting estimates

Wages, salaries, vested sick leave, work safe bonus and other short term benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave expected to be wholly settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Long service and annual leave

The Group does not expect its long service leave and annual leave benefits provision to be settled wholly within 12 months of each reporting date. The Group recognises a liability for long service and annual leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Dividends

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date. A dividend of 2 cents per share was issued for the half year 31 December 2015 (FY2015 H1: 1 cent).

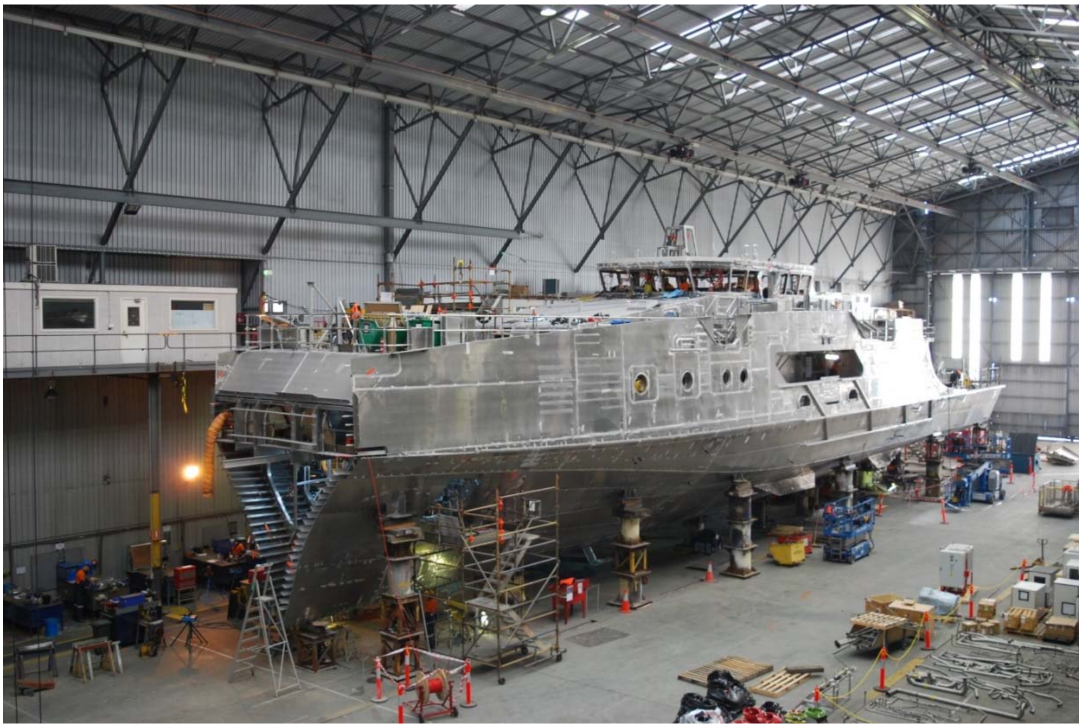
A final dividend of 2 cents per share is proposed and not recognised as a liability for the year ended 30 June 2016 (FY2015 final proposed and not recognised: 3 cents).

Warranties

Provision for warranty is made upon delivery of the vessels based on the estimated future costs of warranty repairs on vessels. The estimated future costs are based on the Group's history of warranty claims on similar vessels of currently and known vessels that are in warranty periods.

Workers' compensation insurance

A provision for workers' compensation insurance is recognised for the expected costs of current claims and claims incurred but not reported at the balance date.



The ninth Cape Class Patrol Boat (Hull 380) under construction at Austal Australia

Financial risk management

Note 22. Fair value measurements

i. Financial assets and financial liabilities

The Group holds the following financial instruments:

Financial Assets	Notes	Derivatives used for hedging at fair value '000	Assets at amortised cost '000	Total '000
2016				
Cash and cash equivalents	10	$ -	$ 224,318	$ 224,318
Trade & other receivables	14	-	128,340	128,340
Forward exchange contracts	23	487	-	487
Total		$ 487	$ 352,658	$ 353,145
2015				
Cash and cash equivalents	10	$ -	$ 138,413	$ 138,413
Restricted cash	10	-	10,055	10,055
Trade & other receivables	14	-	104,315	104,315
Forward exchange contracts	23	115	-	115
Total		$ 115	$ 252,783	$ 252,898

Financial Liabilities	Notes	Derivatives used for hedging at fair value '000	Liabilities at amortised cost '000	Total '000
2016				
Trade & other payables	17	$ -	$ (229,774)	$ (229,774)
Forward exchange contracts	23	(16,402)	-	(16,402)
Interest bearing borrowings	11	-	(172,611)	(172,611)
Total		$ (16,402)	$ (402,385)	$ (418,787)
2015				
Trade & other payables	17	$ -	$ (223,497)	$ (223,497)
Forward exchange contracts	23	(36,074)	-	(36,074)
Interest bearing borrowings	11	-	(152,637)	(152,637)
Total		$ (36,074)	$ (376,134)	$ (412,208)

The Group's exposure to various risks associated with the financial instruments is discussed in Note 23. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial asset mentioned above.

The fair value of assets and liabilities held at amortised cost is described in the associated note referenced in the table above.

Fair value measurements - fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. The Group has classified its financial instruments into the three levels prescribed under the accounting standards to provide an indication about the reliability of the inputs used in determining fair value. An explanation of each level follows underneath the table.

Fair value measurement	Notes	Level 1 '000	Level 2 '000	Level 3 '000	Total '000
Balance 30 June 2016					
Financial assets					
Derivatives used for hedging	23	$ -	$ 487	$ -	$ 487
Financial liabilities					
Derivatives used for hedging	23	$ -	$ (16,402)	$ -	$ (16,402)
Balance 30 June 2015					
Financial assets					
Derivatives used for hedging	23	$ -	$ 115	$ -	$ 115
Financial liabilities					
Derivatives used for hedging	23	$ -	$ (36,074)	$ -	$ (36,074)

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

Level 1

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. The instrument is included in level 2 if all significant inputs required to fair value an instrument are observable.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employs the use of 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 commodity. All derivative contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own non-performance risk. The fair value of derivative asset positions at 30 June 2016 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.

Level 3

The instrument is included in level 3 if one or more of the significant inputs is not based on observable market data.

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

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

All of the resulting fair value estimates are included in level 2.

ii. Impairment – Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it 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.

An impairment loss in respect of a financial asset which is measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows, discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in Groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal is recognised in profit or loss for financial assets measured at amortised cost.

Impairment testing of trade receivables is described in Note 14.

iii. Non-financial assets and liabilities

This section explains the judgements and estimates made in determining the fair values of the non-financial instruments that are recognised and measured at fair value in the financial statements. The Group has classified its non-financial assets and liabilities measured at fair value into the three levels prescribed under the accounting standards to provide an indication about the reliability of the inputs used in determining fair value.

Balance 30 June 2016	Notes	Level 1 '000	Level 2 '000	Level 3 '000	Total '000
Land & buildings	18	$ -	$ -	$ 388,436	$ 388,436
Balance 30 June 2015					
Land & buildings	18	$ -	$ -	$ 338,853	$ 338,853

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

Valuation techniques used to determine fair values

The Group engages independent accredited valuation specialists on a periodic basis to determine the fair values of these assets. The Group reviews market indicators in the interim periods to ensure that the carrying value of revalued property is not materially different from fair value.

The revaluations were performed by independent valuers, with valuation dates of 31 December 2015. The valuation methodology utilised a market comparison approach for land and property, and a depreciated replacement cost approach for buildings based on highest and best use, which is consistent with the Group's current use of the assets. This valuation method is classified as level 3, under the fair value hierarchy.

Balance 30 June 2016	Date of valuation	Level 1 '000	Level 2 '000	Level 3 '000	Total '000
Financial assets					
Land and buildings	31 Dec 2015	$ -	$ -	$ 392,419	$ 392,419
Total		$ -	$ -	$ 392,419	$ 392,419
Balance 30 June 2015					
Financial assets					
Land and buildings	30 Jun 2012	-	-	382,078	382,078
Total		$ -	$ -	$ 382,078	$ 382,078

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.

Description	Fair value at 30 June 2016 '000	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Land - Mobile	US$30,700	Selection of land with similar approximate utility	US$3.89 - US$4.67 (US$4.25) per ft^2	Higher value of similar land increases estimated fair value
Buildings - Mobile	US$223,491	Cost per square foot floor area (ft^2)	US$100 - $212.36 ($189.58) per ft^2	Higher cost per ft^2 increases fair value.
Land - Henderson	$ 12,250	Selection of land with similar approximate utility	$225-275 ($250) per m^2	Higher value of similar land increases estimated fair value
Buildings - Henderson	$ 19,206	Consumed economic benefit/ obsolescence of asset	2.50%	Greater consumption of economic benefit or increased obsolescence lowers fair value.
		Cost per square meter floor area (m^2)	$500 - $1,750 ($998) per m^2	Higher cost per m^2 increases fair value.

iv. Impairment

Significant accounting judgements

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. The recoverable amount of an asset is determined if an impairment trigger exists. The recoverable amount of the asset is the higher of fair value less costs to sell and value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset in assessing value in use.

The recoverable amount is determined for the cash-generating unit to which an asset belongs for an asset that does not generate largely independent cash inflows, unless the asset's value in use can be estimated to be close to its fair value.

Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Impairment testing of property, plant and equipment, goodwill and other intangible assets is described in Note 18 and Note 19 respectively.

Note 23. Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect the Group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Monitoring	Management
Market risk - interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Sustainable mix of variable and fixed rates
Market risk - interest rate	Cash	Sensitivity analysis	Excess cash investment within high interest deposit accounts
Market risk - foreign currency	Future commercial transactions, recognised financial assets and liabilities not denominated in functional currency	Cash flow forecast, Sensitivity analysis	Forward foreign exchange contracts, Forward currency options
Credit risk	Cash, short term deposits, trade receivables and derivative financial instruments	Ageing analysis, credit ratings	Monitoring credit allowances
Liquidity	Borrowings, trade payables and derivative financial instruments	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

Objectives and policy

The objective of the Group's financial risk management policy is to reduce the impacts of external threats to the Group, and to afford the opportunity to seek further investments.

Ultimate responsibility for identification and control of financial risks rests with the Board of Directors. The Board reviews and agrees policies for managing each of the risks identified below, including hedging cover of foreign currency, credit allowances, and future cash flow forecast projections.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liabilities and equity instrument are disclosed in the relevant notes to the financial statements.

Market risk

i. Capital management

The Group undertakes capital management to ensure that secure and flexible funding resources are available to meet all operating and capital expenditure requirements.

The Group's policy is to maintain a strong and flexible capital base to provide investor, creditor and market confidence to sustain future development of the business. The Group monitors the return on capital, which the Group defines as total shareholders' equity attributable to members of Austal Limited. The Board determines the level of dividends to shareholders.

The Group monitors statement of financial position strength and flexibility using cash flow forecast analysis and detailed budgeting processes. The gross gearing ratio is monitored and maintained at a level that does not limit the Group's growth opportunities and is in line with peers and industry norms.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Group nor any of its subsidiaries are subject to externally imposed capital requirements, other than normal banking requirements.

ii. Interest rate risk exposure

Interest rate risk management is undertaken by the Group in order to reduce the potential volatility towards its financial position due to fluctuations in prevailing market interest rates.

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations and investment in cash funds.

The Group constantly analyses its interest rate exposure. Consideration is given to potential renewals of existing positions and alternative financing structures.

The Group had the following variable rate borrowings outstanding at the end of the reporting period.

	2016 '000	2015 '000
Financial Assets		
Cash and cash equivalents		
Australian variable rate interest	$ 79,165	$ 54,909
US variable rate interest	137,713	93,559
Other variable rate interest	7,440	-
Total	$ 224,318	$ 148,468
Financial Liabilities		
Interest bearing loans and borrowings		
US variable rate interest	$ (151,028)	$ (154,562)
Total	$ (151,028)	$ (154,562)
Net Exposure	$ 73,290	$ (6,094)

Profit or loss is sensitive to higher / lower interest income from cash and cash equivalents and interest expenses on borrowings as a result of changes in interest rates. There would be no material impact on other components of equity as a result of changes in interest rates. The sensitivity analysis below shows the impact on post tax profit had a 25 basis point movement in interest rates occurred. 25 basis points was deemed to be a reasonable level of volatility based on FY2016 observations.

	2016 '000	2015 '000
Post tax gain / (loss)		
AUD		
+0.25% (25 basis points)	$ 383	$ 244
-0.25% (25 basis points)	(383)	(244)
USD		
+0.25% (25 basis points)	$ (83)	$ (451)
-0.25% (25 basis points)	83	451

iii. Interest rate risk strategies, policies and procedures

The cash, debt, bank covenants and interest cover ratio of the Group are forecasted and monitored on a monthly basis in order to forecast and monitor the interest rate risk. A variable interest rate is maintained because repayments are carried out as soon as practicable, where a fixed interest rate is less flexible. The interest rate exposure is currently immaterial.

iv. Foreign currency risk

Refer to Note 24 for Derivatives.

The Group is exposed to currency risk on sales, purchases or components for construction that are denominated in a currency other than the respective functional currencies of the Group entities, primarily Australian Dollars (AUD) for the Australian operation and US Dollars (USD) for the USA operation. These transactions are primarily denominated are AUD, USD and EUR.

The Group's objective in relation to foreign currency risk is to minimise the risk of a variation in the rate of exchange used to convert foreign currency revenues and expenses and assets or liabilities to the functional currency of each cash generating unit.

The Group limits the exposure to adverse movement in exchange rates in the following ways:

- negotiation of contracts to adjust for adverse exchange rate movements
- use of natural hedges
- using financial instruments (refer to Note 24).

Sales contracts are negotiated based at the current market rate on the contract signing date. The Group seeks to mitigate significant foreign currency exposures in contract tenders by incorporating rise and fall clauses for exchange rate movements between the date of price calculation to the date the contract becomes effective.

The Group's financial assets and liabilities at the end of the reporting period were as follows:

	All values are stated in AUD equivalents			
	AUD	USD [1]	Other	Total
Balance 30 June 2016	'000	'000	'000	'000
Financial assets				
Cash and cash equivalents	$ 79,165	$ 137,713	$ 7,440	$ 224,318
Trade and other receivables	20,553	107,674	113	128,340
Derivatives	377	110	-	487
Total	$ 100,095	$ 245,497	$ 7,553	$ 353,145
Financial liabilities				
Trade and other payables	$ (30,206)	$ (199,537)	$ (31)	$ (229,774)
Derivatives	(6,984)	(9,418)	-	(16,402)
Interest bearing borrowings	(24,473)	(148,138)	-	(172,611)
Total	$ (61,663)	$ (357,093)	$ (31)	$ (418,787)

	All values are stated in AUD equivalents			
	AUD	USD [1]	Other	Total
Balance 30 June 2015	'000	'000	'000	'000
Financial assets				
Cash and cash equivalents	$ 34,844	$ 102,235	$ 1,334	$ 138,413
Restricted cash	-	10,055	-	10,055
Trade and other receivables	5,475	98,283	557	104,315
Derivatives	115	-	-	115
Total	$ 40,434	$ 210,573	$ 1,891	$ 252,898
Financial liabilities				
Trade and other payables	$ (23,282)	$ (200,275)	$ 60	$ (223,497)
Derivatives	(36,074)	-	-	(36,074)
Interest bearing borrowings	520	(153,157)	-	(152,637)
Total	$ (58,836)	$ (353,432)	$ 60	$ (412,208)

1. Spot USD / AUD rate for FY2016 was 0.7450 (FY2015: 0.7673)

Known foreign exchange transaction exposures which result from normal operational business activities, are hedged utilising financial instruments.

Net profit after tax and equity would have been affected as illustrated below had the AUD, USD and EUR moved relative to one another at balance date with all other variables held constant:

	Post tax profit higher / (lower)				Equity higher / (lower)			
	2016		2015		2016		2015	
Judgement of reasonable possible movements	'000		'000		'000		'000	
USD / AUD								
+10%	$	971	$	(854)	$	1,408	$	3,679
-10%		(971)		854		(1,639)		(5,011)
EUR / AUD								
+10%	$	-	$	1	$	(4,037)	$	868
-10%		-		(1)		4,934		(1,061)
USD / EUR								
+10%	$	-	$	-	$	6,193	$	5,420
-10%		-		-		(6,193)		(5,420)

Derivative financial instruments such as forward currency contracts and currency options are utilised to eliminate foreign currency exposures. Timing gaps are mitigated using foreign currency accounts or financial instruments such as swaps.
The Group's policy is to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Trading is specifically prohibited. The financial impact of the derivative instrument is incorporated into the cost of goods acquired or the sales proceeds. General hedges are not undertaken.

Foreign currency contracts designated as cash flow hedges to mitigate the movements in foreign exchange rates are outlined in Note 24.

v. Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which are conducted internally. The Group, while exposed to credit related losses in the event of non-performance by counterparties to financial instruments, does not expect counterparties to fail to meet their obligations given their credit ratings.

The Group minimises concentrations of credit risk and the risk of default of counterparties in relation to cash and cash equivalents and financial instruments by spreading them amongst a number of financial institutions.

The Group's policy is to minimise the risk that the principle amount will not be recovered and the risk that funds will not be available when required whilst at the same time obtaining the maximum return relative to the risk. The Group's policy is to restrict its investment of surplus cash funds to financial institutions with a Standard and Poor credit rating of at least A-2, and for a period not exceeding 180 days to manage this risk. The Group undertakes investments in short term deposits, term deposits or negotiable certificates of deposit in order to achieve this objective.

Vessel sales contracts are structured to ensure that the Group will be paid on delivery of the vessel through the following measures:

- obtaining progress payments from the client to cover the cost of the construction; or
- obtaining a letter of credit from a credible bank to cover payment of the contract; or
- obtaining a minimum payment of 20% of the contract price and a letter from the bank or financial institution providing finance to the customer that funding has been arranged for the balance of the purchase price.

The Group's exposure to counter party credit default risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, is equal to the carrying amount of these instruments. The maximum exposure to credit risk at the reporting date is disclosed in Note 10 and Note 24.

Cash and term deposits are predominantly held with two tier one Australian and US financial institutions, which are considered to be low concentrations of credit risk.

vi. Liquidity risk

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet financial commitments in a timely and cost-effective manner.

The Group's policy is to continually review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. Austal finalised a new syndicated banking facility during the financial year. The new SFA matures in October 2018, and hence all liabilities relating to the SFA agreement have been disclosed as non-current at the reporting date.

The contractual maturities of financial liabilities, including interest payments are as follows:

Balance 30 June 2016	Carrying Amount '000	Years to maturity 0 - 1 '000	1 - 2 '000	2 - 5 '000	> 5 '000	Contractual Cash Flows (ii) '000
Derivative financial assets / (liabilities)						
Outflow	$ (257,952)	$ (104,852)	$ (153,088)	$ (4,228)	$ -	$ (262,168)
Inflow	242,817	94,230	148,640	4,034	-	246,904
Net derivative financial assets / (liabilities)	$ (15,135)	$ (10,622)	$ (4,448)	$ (194)	$ -	$ (15,264)
Non Derivative financial liabilities						
Trade & other payables	$ (229,774)	$ (229,774)	$ -	$ -	$ -	$ (229,774)
Go Zone Bond facility (i)	(136,113)	(4,210)	(4,210)	(141,725)	-	(150,145)
Finance lease	(10,655)	(2,544)	(2,631)	(7,769)	(333)	(13,277)
Vessel finance for Cape Class Patrol Boats 9 & 10	(25,843)	-	(11,221)	(15,478)	-	(26,699)
Total	$ (402,385)	$ (236,528)	$ (18,062)	$ (164,972)	$ (333)	$ (419,895)

(i) Go Zone Bonds are classified with 2 to 5 years to maturity because the letters of credit securing the bonds mature in October 2018.

(ii) Contractual cash flows include interest

Balance 30 June 2015	Carrying Amount '000	Years to maturity 0 - 1 '000	1 - 2 '000	2 - 5 '000	> 5 '000	Contractual Cash Flows '000
Derivative financial assets / (liabilities)						
Outflow	$ (251,112)	$ (160,799)	$ (76,004)	$ (21,362)	$ -	$ (258,165)
Inflow	215,243	139,341	63,872	17,957	-	221,170
Net derivative financial assets / (liabilities)	$ (35,869)	$ (21,458)	$ (12,132)	$ (3,405)	$ -	$ (36,995)
Non Derivative financial liabilities						
Trade & other payables	$ (223,497)	$ (223,497)	$ -	$ -	$ -	$ (223,497)
Go Zone Bond facility	(143,188)	(145,525)	-	-	-	(145,525)
Finance lease	(9,449)	(1,785)	(3,597)	(3,297)	-	(8,679)
Total	$ (376,134)	$ (370,807)	$ (3,597)	$ (3,297)	$ -	$ (377,701)

The Group had $36.398 million (FY2015: $50.000 million) of unused credit facilities available for immediate use at balance date (Note 11) and $224.318 million (FY2015: $138.413 million) in cash and cash equivalents, which can be used to meet its liquidity needs.

Note 24. Derivative financial instruments and hedging

The Group is exposed to the risk of adverse movements in the Australian Dollar, US Dollar and Euro relative to each other arising from receipts from export sales and the purchase of components for construction.

The Group uses derivative financial instruments such as forward exchange contracts and forward currency options to hedge its risks associated with foreign currency fluctuations. These contracts are matched to highly probable receipts and payments and they are timed to mature when the receipts and payments are scheduled to be received and made.

i. Recognition and measurement

Derivative financial instruments are stated at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken to the statement of profit and loss, except for those that qualify as cash flow hedges, which are taken to cash flow hedge reserve in other comprehensive income.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Credit risk has been included in foreign currency contracts.

The Group's derivatives are categorised in level 2 of the valuation hierarchy, because their fair value has been calculated using valuation techniques where the inputs that have a significant effect on the valuation are directly or indirectly based on market observable data.

ii. Hedge designation

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment other than foreign currency risk; or
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or foreign exchange risks on firm commitments.

The Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge at the inception of a hedge relationship.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

iii. Fair value hedge accounting

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment other than foreign exchange rate risk, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss. The carrying amount of a hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured to fair value and gains and losses from both are taken to the statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the statement of comprehensive income. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

iv. Cash flow hedge accounting

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and the foreign exchange risks on firm commitments and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised in the profit and loss.

Amounts taken to other comprehensive income are transferred to the profit and loss when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a committed and future sale or the asset is consumed. The amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability when the hedged item is the cost of a non-financial asset or liability.

Amounts previously recognised in equity are transferred to the profit and loss if the forecast transaction is no longer expected to occur. Amounts previously recognised in equity will remain in equity until the forecast transaction occurs if the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked.

v. Summary of forward foreign exchange contracts

The following table summarises the AUD value of the significant forward foreign exchange agreements by currency. Foreign currency amounts are translated at rates current at the reporting date. The 'buy' amounts represent the Australian dollar equivalent of commitments to purchase foreign currencies, and the 'sell' amount represents the Australian dollar equivalent of commitments to sell foreign currencies.

	2016				2015			
	Average Forward Rate	Buy '000	Average Forward Rate	Sell '000	Average Forward Rate	Buy '000	Average Forward Rate	Sell '000
USD / AUD		AUD		AUD		AUD		AUD
less than 3 months	0.8047	$ 8,456	0.7655	$ (261)	0.8398	$ 2,843	0.8286	$ (607)
3 - 12 months	0.8214	24,853	0.7246	(6,070)	0.8847	85,792	0.7720	(1,008)
> 12 months	0.8228	13,832	0.7259	(565)	0.8661	29,081	0.7644	(262)
Total		$ 47,141		$ (6,896)		$ 117,716		$ (1,877)
EUR / AUD		AUD		AUD		AUD		AUD
less than 3 months	-	$ -	0.5930	$ (349)	0.7343	$ 477	0.6664	$ (424)
3 - 12 months	-	-	0.6271	(2,676)	0.6904	445	0.6111	(10,850)
> 12 months	0.6355	69,333	0.6351	(103)	-	-	0.5933	(5,069)
Total		$ 69,333		$ (3,128)		$ 922		$ (16,343)
USD / EUR		EUR		EUR		EUR		EUR
less than 3 months	-	$ -	1.1328	$ (253)	-	$ -	1.2313	$ (1,138)
3 - 12 months	-	-	1.2789	(50,831)	-	-	1.3407	(30,913)
> 12 months	-	-	1.2831	(67,222)	-	-	1.3772	(45,486)
Total		$ -		$ (118,306)		$ -		$ (77,537)

vi. Offsetting financial instruments

The Group presents its assets and liabilities on a gross basis. Derivative financial instruments entered into by the Group are subject to enforceable master netting arrangements such as International Swaps and Derivatives Associations (ISDA) master netting agreement. All outstanding transactions under an ISDA agreement are terminated in certain circumstances, for example, when a credit event such as a default occurs. The termination value is assessed and only a single net amount is payable in settlement of all transactions.

The amounts set out in the table above represent the derivative financial assets and liabilities of the group that are subject to the above arrangements and are presented on a gross basis.

Unrecognised items

Note 25. Commitments and contingencies

i. Commitments and contingencies

The Group entities may have potential financial liabilities that could arise from historical commercial contracts. No material losses are anticipated in respect of any of those contingencies. The fair value disclosed (if any) is the Directors' best estimate of amounts that would be payable by the Group to settle those financial liabilities.

	2016 '000	2015 '000
Operating lease commitments		
Future minimum rentals payable under non-cancellable leases as at 30 June are as follows		
Within one year	$ (2,947)	$ (2,153)
After one year but not more than five years	(6,291)	(478)
Total	$ (9,238)	$ (2,631)
Capital commitments		
Mobile Equipment - USA	$ -	$ (2,088)
Total	$ -	$ (2,088)
Guarantees		
Bank performance guarantees [1]	$ (133,602)	$ (79,965)

1. The bank performance guarantees are secured by a mortgage over the land and buildings and floating charges over cash, receivables, work in progress and plant and equipment.

ii. Other contingent liabilities excluded from the above include:

The parent company has guaranteed the performance of certain contract obligations of a subsidiary.

Austal received notice of arbitration proceedings initiated by a commercial customer in FY2013. The claim is in respect of consequential damages arising from a warranty defect. The company is fully provided with an estimate for rectifying the warranty defect. The shipbuilding contract between the parties specifically excludes consequential damages in relation to warranty defects. The company intends to defend the claim.

Note 26. Events after the balance date

A fully franked final dividend of 2 cents per share (FY2015 final: 3 cents) has been proposed.

The Group, management and related parties

Note 27. Parent interests in subsidiaries

The consolidated financial statements include the financial statements of Austal Limited and the subsidiaries listed in the following table.

Company	Country of Incorporation	Equity Interest 2016	Equity Interest 2015
Austal Ships Pty Ltd	Australia	100%	100%
Austal Cyprus Ltd	Cyprus	100%	100%
Austal Egypt LLC	Egypt	100%	100%
Austal Muscat LLC	Oman	100%	100%
Austal Service Pty Ltd	Australia	100%	100%
Austal Service Darwin Pty Ltd [1]	Australia	100%	80%
Hydraulink (NT) Pty Ltd [1]	Australia	100%	80%
KM Engineering (NT) Pty Ltd [1]	Australia	100%	80%
Austal Systems Pty Ltd	Australia	100%	100%
Austal UK Ltd	United Kingdom	100%	100%
Austal Holdings Inc	USA	100%	100%
Austal USA LLC	USA	100%	100%
Austal Hull 130 Chartering LLC	USA	100%	100%
Austal Philippines Pty Ltd	Australia	100%	100%
Austal Middle East Pty Ltd	Australia	100%	100%
Austal China Holdings Pty Ltd	Australia	100%	-
Austal China Pty Ltd [2]	Australia	100%	100%
Oceanfast Pty Ltd	Australia	100%	100%
Seastate Pty Ltd	Australia	100%	100%

1. Refer to Note 28.
2. This entity was renamed from Oceanfast Luxury Yachts Pty Ltd during the year

Note 28. Related party disclosure

The Group received notification that the minority shareholders of Austal Service Darwin Pty Ltd were exercising their option to sell of all their shares to Austal for $2.000 million, in line with the Shareholders' agreement signed on 3 October 2012. The non-controlling interest ceased to exist from 30 November 2015.

Group policy is 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 29. Key management personnel compensation

	2016 '000	2015 '000
Short-term employee benefits	$ 3,303	$ 3,580
Post-employment benefits	191	196
Termination benefits	839	78
Long term benefits	143	120
Share-based payment	307	460
Total	$ 4,783	$ 4,434

Detailed remuneration disclosures are provided in the Remuneration Report commencing on page 17.

Note 30. Share based payments

i. Long Term Incentive Plan

The long term incentive plan policy of the Company is that an annual component of remuneration of executives should be at risk and based on equity in the Company to ensure that executives hold a stake in the Company and to align their interests with those of shareholders.

The board implemented a number changes in FY2016 after undertaking a review of the LTI plan during FY2015 that were described in the FY2015 Annual Report. The purpose of the changes was to ensure that the scheme continued to drive long term executive performance as well as meet normal industry practice. Notable changes were made to award levels which are depicted in the below sections. The Total Shareholder Return (TSR) measure has been changed from an absolute TSR to an indexed TSR (iTSR) for the FY2016 grant and all other future awards following market feedback, and amended weighting of performance measures from TSR 30% / ROIC 70% to iTSR 40% / ROIC 60%.

Purpose

The purpose of the LTI Plan is to incentivise senior executives to deliver Group performance that will lead to sustainable superior returns for shareholders and to modulate the cost of employing Senior Executives.

Form of incentive

The LTI should be based on Performance Rights that vest based on an assessment of performance against objectives

Measurement period

The Company instituted a transitional arrangement for the LTI scheme for FY2014 and FY2015 which was explained in the FY2014 Annual Report.

The standard measurement period from FY2016 onwards is three years, however the Board has the discretion to modify the duration of the measurement period if it deems an extension to be appropriate.

Measures of long term performance

The Company uses two long term performance measures:

- iTSR which the board believes best reflects internal measures of performance
- ROIC which the board believes best reflects external measures of performance

Performance hurdles

The granting of performance rights is tied exclusively to overall Group performance, measured against ROIC and TSR targets set periodically by the Board. The targets will be based on Group performance, rather than business unit performance in order to maximise alignment with shareholder interests; Performance rights will not vest unless these hurdles, are met. Performance hurdles will be measured over a prescribed period determined by the Board.

The performance hurdles for rights granted in FY2014, FY2015 and FY2016 are as follows:

Return on Invested Capital (ROIC) measure

Senior Executives are faced with significant and long term business development and project based challenges, therefore the LTI should also be linked to the achievement of ROIC growth objectives that will lead to value creation for shareholders. This measure is considered the best measure of long term performance from an internal perspective by the Board and by major stakeholders.

ROIC is calculated by dividing the Net operating profit after tax exclusive / Net Assets (excluding cash, debt, derivatives and tax accounts).

Actual ROIC results are compared against internal targets.

The number of performance rights expected to vest is adjusted based on current and future Group ROIC estimates.

ROIC: 60% of the FY2016 LTI Plan is determined by ROIC

Performance Level	ROIC	Vesting %
Below Threshold	<= 8.0%	0%
Threshold	8%	25%
Between Threshold and Target	8.0% < ROIC < 10.0%	Pro-rata
Target	10%	50%
Between Target and Stretch	8.0% < ROIC < 10.0%	Pro-rata
Stretch	>= 12.0%	100%

Total Shareholder Return (TSR) measure

Indexed Total Shareholder Return (iTSR): 40% of the FY2016 LTI plan performance rights issued are 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 Ordinaries Accumulation Index (XAOAI) for the same period to determine the number of performance rights that vest. The fair value is determined by an external valuer using a Monte Carlo model.

Performance Level	TSR v iTSR	Vesting %
Below Threshold	<= 100%	0%
Threshold	100%	25%
Between Threshold and Target	100% < iTSR < 150%	Pro-rata
Target	150%	50%
Between Target and Stretch	More than 150% but less than 200%	Pro-rata
Stretch	>= 200%	100%

Vesting of Performance Rights

The Performance Rights for each employee vest at the end of the performance period, subject to meeting the performance hurdles and continued service with the Group at the time of vesting.

Performance rights that do not vest will lapse.

Holding period

A one year holding period applies to shares that are awarded as a result of Performance Rights vesting.

Rights issued and valuation

1,566,127 (FY2015: 1,173,455) performance rights were issued during the year.

Grant	Balance at start of the year	Rights issued during the year	Exercised	Forfeited / Lapsed	Balance at end of year	Tranche 1 Expiry date	Tranche 2 Expiry date
FY2014	994,390	-	(497,184)	(200,777)	296,429	30 Jun 2015	30 Jun 2016
FY2015	1,069,428	-	-	(521,583)	547,845	30 Jun 2016	30 Jun 2017
FY2016	-	1,566,127	-	(744,994)	821,133	30 Jun 2018	-
Total	**2,063,818**	**1,566,127**	**(497,184)**	**(1,467,354)**	**1,665,407**		

1. Closing share price at
2. Performance rights are issued at a zero exercise price.

The board has the discretion to decide if performance rights will lapse or vest.

The Group uses the Monte Carlo model to value the performance rights. The following table lists the inputs to the valuation model used:

	Assumptions		
FY2016	Tranche A	Tranche B	Tranche C
Monte Carlo simulation method assumptions:			
Discount Rate	1.8% p.a.	1.8% p.a.	1.9% p.a.
Share Price Volatility	40% p.a.	40% p.a.	40% p.a.
Grant Date	30 October 2015	13 October 2015	23 September 2015
Expected life of option (years)	3	3	3
The fair values of the rights at grant date were as follows:			
Fair value per performance right - TSR	$1.71	$1.52	$1.63
Fair value per performance right - ROIC	$2.16	$2.00	$2.06
Share price at grant date	$2.28	$2.11	$2.18

FY2015	Tranche A		Tranche B	
	Measurement Period 1	Measurement Period 2	Measurement Period 1	Measurement Period 2
Monte Carlo simulation method assumptions:				
Discount Rate	1.8% p.a.	1.8% 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	30 October 2014	30 October 2014	21 October 2014	21 October 2014
Expected life of option (years)	2	3	2	3
The fair values of the rights at grant date were as follows:				
Fair value per performance right - TSR	$0.86	$0.90	$0.77	$0.81
Fair value per performance right - ROIC	$1.30	$1.30	$1.24	$1.24
Share price at grant date	$1.30	$1.30	$1.23	$1.23

The Board has decided to extend the measurement period of 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. No further extensions to the validity of these rights will be considered.

ii. Employee Share Option Plan (ESOP)

The ESOP was wound up during the year because:

- the measurement period was completed, and
- the relevant performance conditions were not met.

Therefore, there are no options under the ESOP that remain exercisable at 30 June 2016.

iii. Acquisition of KM Engineering (NT) Pty Ltd & Hydraulink (NT) Pty Ltd Option Plan (KME)

Austal Limited issued three tranches of options to the sellers of KME Engineering (NT) Pty Ltd & Hydraulink when they were acquired by Austal Service Darwin Pty Ltd in FY2013. The third tranche did not vest. The remaining two tranches were as follows:

- 687,098 of zero priced options as part of the equity consideration. The number of options was adjusted based on EBIT targets for the 3 years post acquisition. The options expire on 5 October 2018.
- 687,098 options to acquire shares as an executive incentive to the owners who remained employed on as managers. The number of options was adjusted based on EBIT targets for the 3 years post acquisition. The options expire on 4 March 2019.

The total number of options vested and exercisable is 1,374,196.

iv. Austal Group Management Share Plans (AGMSP)

The trustee holds a total of 4,015,539 shares at balance date on behalf of the AGMSP plans represented by:

- 683,539 shares allocated under Plan 1 and Plan 2 with a weighted average price of $1.33 each, with no contractual life, and
- 3,332,333 shares that are unallocated.

Plan 1

The Group established the first Austal Group Management Share Plan (Plan 1) in 1998 so that Directors and key managers could participate in owning shares in the Company. The features of the Plan are:

- Austal offered loans to participants for up to 100% of the purchase consideration for their shares on a limited recourse basis.
- The shares were made available to the participants at market value.
- The Board determined the number of shares that are made available to each participant.
- The shares are required to be held by a trustee on behalf of the participant. Shares may not be transferred to a participant for at least 12 months. 20% of a participant's shares will become eligible to be transferred after this period provided that any loan in respect of these shares has been repaid. An additional 20% will become eligible to be transferred to the participant at the end of each
12 month period thereafter on the same terms, so that a participant may hold 100% of the shares at the end of 5 years.
- Dividends on shares held under the Plan must be applied to pay interest on the loans. Participants with an interest in shares under the Plan have full voting rights.
- Interest on the loans is charged at a fixed rate of 6%, or such other rate as determined by the Board.
- The shares must be sold and the loan (if any) repaid upon termination of employment or contract arrangements.

Plan 2 & 3

Two additional share plans were established by the Group in 2000. (Plan 2 and Plan 3)

All three plans are fundamentally similar in terms of operation with two main points of distinction being:

- The interest on loans offered under Plan 1 is calculated as 6% per annum, whilst the interest on loans offered under Plan 2 and Plan 3 is calculated as 60% of any dividends paid on any shares acquired by the person to whom the loan was made.
- The definition of an 'Eligible Person' differs across the three plans. Plan 2 specifies an Eligible Person as a person who is employed as a Manager and Plan 3 specifies an Eligible Person is a person who is a contractor supplying services as a 'Contract Worker'. As a point of distinction, Plan 3 does not require the Contract Worker to be in a management position whilst Plan 1 (which covers contractors and employees) and Plan 2 (employee only) specifies that an Eligible Person is a person who is a manager within the Austal Group.

Although they are described as shares offered to the Director or employee, they are in substance 'options' due to the limited recourse nature of the loan provided. Refer below for a description of the accounting for equity settled share based payments.

Details of the movement in the number of options issued under the Austal Group Management Share Plan are shown below:

	2016 '000	2015 '000
Summary of options granted under AGMSP		
Outstanding at the beginning of the year	684	1,019
Exercised during the year	-	(335)
Outstanding at the end of the year	684	684

All remaining options were fully vested and exercisable throughout the year

v. CEO fixed remuneration share rights issue

The structure of Base Remuneration for the incoming CEO, David Singleton, for the period ended 30 June 2016 is as follows:

- Fixed cash remuneration is 70% of Total Fixed Remuneration (TFR)
- Fixed share based remuneration equal to 30% of TFR. The number of shares are based on the volume weighted average closing price of ASB shares in the last 5 trading days of each month.

Name	Period earned	Measurement date	Earned	Fair value per right	Fair value
David Singleton	FY2016	28 Oct 2016	97,360	1.11	$ 108,070

30% of the CEO's fixed remuneration is provided in shares which are subject to a 12 month holding period from the date at which the shares are released to the CEO and no performance condition exists because it is considered part of his base remuneration. 97,360 share rights were accounted for at 30 June 2016. The number of share rights are based upon the volume weighted average closing price of Austal Limited (ASX Ticker: ASB) shares in the last 5 trading days of each month. The fair value per share is based on the closing share price for the year. The share rights are subject to shareholder approval at the 2016 Annual General Meeting (AGM). The AGM is expected to occur on 28 October 2016.

vi. Recognition- equity settled transactions

The Group provides benefits to employees (including executive Directors and key management personnel) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

Equity settled benefits have been provided to senior management and Directors under the following plans in the current and prior years:

- The Austal Group Management Share Plan (AGMSP)
- The Long Term Incentive Plan (LTI Plan)
- CEO shares

No account is taken of any performance conditions, other than conditions linked to the price of the shares of Austal Limited (market conditions) if applicable in valuing equity-settled transactions.

The cost of these equity-settled transactions with employees is recorded by reference to the fair value at the date at which they are granted. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met because the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

An expense is recognised as if the terms had not been modified. An expense also is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

An equity settled award that is cancelled is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately, however, cancelled awards and new awards are treated as if they were a modification of the original award if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, as described in the previous paragraph.

Shares in the Group held by the AGMSP are classified and disclosed as reserved shares and deducted from equity.

vii. Recognised share-based payment expenses

The expense recognised for share based payments during the year is shown in the table below:

	2016 '000	2015 '000
Share Based Payments Expense		
Expense arising from equity-settled share-based payment transactions	$ (796)	$ (1,373)

Note 31. Parent entity

Information relating to Austal Limited, the Parent entity, is detailed below:

Balance sheet	2016 '000	2015 '000
Assets		
Current	$ 80,583	$ 108,498
Non - Current	289,944	297,056
Total	$ 370,527	$ 405,554
Liabilities		
Current	$ (7,786)	$ (46,392)
Non - Current	(3,996)	(18,307)
Total	$ (11,782)	$ (64,699)
Net Assets	$ 358,745	$ 340,855
Equity		
Contributed equity	$ 114,738	$ 112,523
Employee benefits reserve	5,688	7,685
Asset revaluation reserve	10,656	8,246
Cash flow hedge reserve	(1,577)	(20,184)
Retained earnings	229,241	232,585
Total	$ 358,746	$ 340,855

Income	2016 '000	2015 '000
Net Profit / (Loss) after tax	$ 14,031	$ 2,928
Total Comprehensive Income	35,048	(25,519)

Austal Limited provides guarantees to its subsidiaries as the parent. Austal Limited provided a parent guarantee to Austal Philippines at 30 June 2016.

Directors' declaration

I state in accordance with a resolution of the Directors of Austal Limited, 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 consolidated entity's financial position at 30 June 2016 and of its performance for the year ended on that date; and
  - Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- The financial Statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

In the opinion of the Directors, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable at the date of this declaration.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2016.

John Rothwell AO
Chairman

On behalf of the Board.

27 August 2016

Launch of EPF 6 USNS Brunswick at Austal USA, Mobile Alabama

Independent audit report to the members of Austal Limited

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Report on the financial report

We have audited the accompanying financial report of Austal Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit 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.

Opinion

In our opinion:
1. the financial report of Austal Limited is in accordance with the *Corporations Act 2001*, including:
a. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
2. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Austal Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

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

Ernst & Young

Robert A Kirkby

Partner

27 August 2016

Shareholder information

The following information was extracted from the Company's register at 18 August 2016.

Distribution of shares

	Number of holders	Number of shares	% of Total issued capital
1 - 1000	1,785	867,052	0.25%
1,001 - 5,000	2,457	6,845,468	1.96%
5,001 - 10,000	1,006	7,877,724	2.26%
10,001 - 100,000	1,071	28,386,312	8.15%
100,001 and over	84	304,416,893	87.38%
Total	6,403	348,393,449	100.00%

Twenty largest shareholders

Rank	Shareholder	Number of shares	% of Total issued capital	Substantial shareholder
1	HSBC Custody Nominees (Australia) Limited	97,805,780	28.07%	Yes
2	J P Morgan Nominees Australia Limited	46,810,330	13.44%	Yes
3	Citicorp Nominees Pty Ltd	40,773,586	11.70%	Yes
4	Austro Pty Ltd	32,500,745	9.33%	Yes
5	National Nominees Limited	29,369,634	8.43%	Yes
6	Onyx (WA) Pty Ltd	7,317,570	2.10%	
7	Zero Nominees Pty Ltd	6,184,041	1.78%	
8	BNP Paribas Noms Pty Ltd	5,911,902	1.70%	
9	Austal Group Management Share Plan Pty Ltd	4,016,036	1.15%	
10	Mr William Robert Chambers	3,600,000	1.03%	
11	RBC Investor Services Australia Nominees Pty Limited	3,164,242	0.91%	
12	Garry Heys & Dorothy Heys	2,844,670	0.82%	
13	Sandhurst Trustees Ltd	2,326,784	0.67%	
14	Lavinia Shipping Ltd	2,120,000	0.61%	
15	Mossisberg Pty Ltd	1,922,000	0.55%	
16	Mirrabooka Investments Limited	1,500,000	0.43%	
17	CS Fourth Nominees Pty Limited	1,374,701	0.39%	
18	Lujeta Pty Ltd	1,300,000	0.37%	
19	Kenny Nominees (NT) Pty Ltd	870,783	0.25%	
20	ACE Property Holdings Pty Ltd	860,000	0.25%	
	Total	292,572,804	83.98%	

Voting rights

All ordinary shares issued by Austal Limited carry one vote per share without restriction.

Corporate governance statement

The Company has elected to post its Corporate Governance Statement on its website in accordance with ASX Listing Rule 4.10.3. The Corporate Governance Statement can be found at the following URL: www.austal.com/corporategovernance.

Corporate directory

High Speed Support Vessel (HSSV) under construction at Austal Australia

Render of 109 metre vehicle passenger ferry to be constructed for Mols Linien of Denmark, by Austal Australia

Austal Philippines shipyard at Balamban, Cebu

Directors

Executive Directors

David Singleton

Non-Executive Directors

Giles Everist
Jim McDowell
John Rothwell

Auditors

Ernst & Young

The Ernst & Young Building
11 Mounts Bay Road
Perth 6000
Western Australia

Company Secretary

Adrian Strang

Registered office

100 Clarence Beach Road
Henderson 6166
Western Australia
Telephone: +61 8 9410 1111

Share registry

Advanced Share Registry Services

110 Stirling Highway
Nedlands 6009
Western Australia
Telephone: +61 8 9389 8033