AUSTAL

AUSTAL LIMITED | 2015 | ANNUAL REPORT

# Contents




GHAGHA-1 – ONE OF TWO 45M FAST CREW BOATS BUILT FOR ABU DHABI NATIONAL OIL COMPANY (ADNOC)

# Index to the notes to the financial statements

# Chairman's report

It is my pleasure to present the 2015 Annual Report to you on behalf of the Board of Austal Limited.

The past 12 months represented another year of embedding sustainable operational improvements from FY2014 and further strengthening of the balance sheet through the generation of cash and repayment of debt.

Highlights from the year are as follows:

- $1.4 billion Group Revenue exceeded initial guidance of $1.2 billion and subsequent guidance of $1.35 billion.
- Concluded the sale of the 102 metre stock trimaran to Condor ferries and used part of the proceeds to repay debt.
- Maintained a strong focus on cash generation which was also used to repay debt.
- Littoral Combat Ship (LCS) 6 completed acceptance trials with the US Navy and delivery occurred post balance date. LCS 6 is the first LCS that Austal has built as prime contractor.
- Confirmed funding for the final two Littoral Combat Ships under the original contract with the US Navy.
- The US Navy added an option for an additional LCS (LCS 26) under the existing contract.
- Secured new shipbuilding contracts with an undisclosed Asian operator and Caspian Marine Services from Azerbaijan.
- Increased the EBIT contribution and EBIT margin of the Service and Sustainment business in the USA.

The Chief Executive Officer, Andrew Bellamy, 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 profit after tax of $53.156 million in FY2015, compared to $31.859 million in FY2014. FY2015 earnings before interest, tax, depreciation and amortisation were (EBITDA) $109.069 million for the year compared to $79.338 million in FY2014.
- The improvement in earnings was driven by stronger shipbuilding margins in Australia and one off non-cash foreign exchange gains relating to inter-company loans. These loans have now been converted to equity.
- Revenue for the year grew by 26 per cent from $1,122.863 million in FY2014 to $1,414.888 million.
- US operations were the largest contributor to revenue, delivering $1,119.703 million (FY2014: $933.615 million) and $58.429 million in earnings before interest and tax (EBIT) (FY2014: $61.682 million) as Austal continued to perform work on its major LCS and Joint High Speed Vessels (JHSV) contracts for the US Navy.
- Australian operations delivered another improvement in results as construction of the Cape Class Patrol Boat fleet nears completion with $211.808 million in revenue (FY2014: $241.912 million) and $31.774 million EBIT (FY2014: $16.684 million).
- Philippines Operation reported a $0.992 million EBIT (FY2014: $2.703 million).
- Group net debt was reduced to $6.094 million (FY2014: $71.496 million) after generating operating cash flow of $110.434 million.

## Financial summary

| Year ended 30 June | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Revenue* | $ 1,414,888 | $ 1,122,863 |
| EBITDA | $ 109,069 | $ 79,338 |
| Depreciation | $ (22,736) | $ (21,593) |
| Amortisation | (1,530) | (2,180) |
| EBIT | $ 84,803 | $ 55,565 |
| Net Interest (Expense) / Income | (4,110) | (8,421) |
| Operating Profit Before Tax | $ 80,693 | $ 47,144 |
| Tax (Expense)/Benefit | $ (27,537) | $ (15,285) |
| Operating Profit After Tax | $ 53,156 | $ 31,859 |
| % EBIT/Revenue | 6.0% | 4.9% |
| Basic Earnings Per Share ($ per share) | $ 0.16 | $ 0.09 |
| Net Assets | $ 512,399 | $ 433,232 |
| Return on Invested Capital (%) | 10.8% | 9.1% |

*Excludes other income

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

Jim McDowell joined the Board as an Independent Director in December 2014 and brings extensive defence industry experience to the team.

The Executive management team has remained stable and focussed on executing strategic initiatives.

## Strategy and governance

The Board has continued its active engagement in reviewing the development of 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.

Austal has demonstrated success in leveraging its intellectual property in high speed ferries and defence vessels to penetrate adjacent markets, with the recent contracts for high speed crew transfer vessels into UAE and Azerbaijan exemplifying the initiative.

## People

Finally I would like to thank and acknowledge our employees for their consistent loyalty and hard work during the year that has made our achievements possible. I extend my thanks to shareholders for your ongoing support of Austal. It is immensely pleasing to continue to deliver improved operational and financial performance to drive shareholder value.

John Rothwell AO
Chairman

AUSTAL USA

# Chief Executive Officer's report

## Record Revenue and Profit

Austal delivered record NPAT of $53.156 million from record revenue of $1.4 billion in FY2015, which was underpinned by significant profit generation in the USA and Australia segments.

A major milestone was achieved in the USA with LCS 6 completing acceptance trials in June and delivery to the US Navy being completed post balance date in August 2015.

LCS 6 is the first of the LCS that Austal has delivered as prime contractor to the US Navy.

Completion of LCS 6 was more difficult than planned, which will also impact LCS 8 and 10, and this has been reflected in a reduction in USA EBIT margin in FY2015. Substantial knowledge has been garnered from the completion of LCS 6 that will deliver improved performance in the construction of future ships.

Strong generation of cash has further strengthened the balance sheet and supported the return to dividends (1 cent interim dividend and a final dividend of 3 cents, bringing the year to a total of 4 cents) after a three year hiatus.

## Strategy

The strong profit is testament to sustained focus on the core strategy.

Balance sheet gearing was reduced year on year with a substantial reduction in net debt from $71.496 million to $6.094 million. This was achieved through strong operational cash generation and the sale of the 102 m trimaran ferry to Condor Ferries in the UK.

The USA is a core market for Austal and the US Navy's commitment to the LCS program is articulated by the shipbuilding plan for a total fleet of 52 LCS (to be renamed fast frigate after LCS 32) and is being realised with the appropriation of funds for LCS 22 & 24 by US Congress and a contract extension to include an eleventh ship (LCS 26) which is expected to be funded in FY2016.

The confirmation of LCS 22 & 24 added ~ US$700 million to the order book which secures work through CY2020.

The USA segment has achieved significant milestones in the development of a substantial vessel sustainment business with maintenance planning and execution contracts awarded and $1,119.703 million of revenue being generated in FY2015.

Efficient and hence productive completion of the Cape Class Patrol Boat fleet for the Australian Border Force demonstrates the benefits that can flow from continuous shipbuilding activities. This perfectly aligns with the Federal Government's recent Shipbuilding Policy announcement (August 2015) to transition into a continuous surface shipbuilding procurement pattern with > $40 billion of new shipbuilding projects scheduled over the next decade.

Austal's growth has been underpinned by the core skill of its people to innovate and to apply new technologies in the commercial world to generate an economic return.

This skill is a critical enabler to our strategy of expanding into new or adjacent products and customer markets.

The benefits of this strategy are already being realised and are exemplified by projects such as the High Speed Support Vessel (HSSV) contract for the Royal Navy of Oman, and the award of contracts to three customers for high speed crew transfer vessels for the oil and gas industry.

Technology transfer to the Philippines Operation and integration of the Philippines into the supply chain for the Group has increased the competitiveness of the Group.

Prudent cash management is embedded in decision making to ensure a balanced approach to operational activities, investment in future growth and capital management. This will enhance Austal's ability to deliver on the record amount of work in progress and strategic objectives.

Strategic objectives for the year ahead are productivity enhancements and cost reduction initiatives across the Group, growing the Sustainment business and growth in the Australian market.

## People

Our Values of Excellence, Customer, Integrity and Teamwork are unchanged and continue to be the basis for many tangible and sustainable business successes throughout the year.

There has been an increased focus on Human Resources Strategy with succession planning reviewed and developed across the top 3 tiers of management and critical skill areas, and capability development and recruitment to deepen the talent pool. This has presented a new round of opportunities for many employees to grow and the organisation is stronger and more sustainable as a result.

There will be focus on increased female participation in the workplace as a core diversity initiative in the year ahead.

I thank all of our employees and other stakeholders for their hard work, devotion to excellence, commitment and loyalty.

## Outlook

The order book stands at $3.1 billion at 30 June 2015 which sustains work through CY2020.

The longevity of the LCS and JHSV shipbuilding programs in the USA is clear with confirmation of orders, award of contract extensions, Congressional funding for the confirmation / award of contracts in future years, investment in fleet sustainment capability, and US Navy investment in research and development to increase the capability of both the LCS and JHSV platforms to meet future requirements.

The Australian Federal Government's recent policy announcement to sustain Australian shipbuilding capability through continuous shipbuilding procurement and acceleration of the Offshore Patrol Vessel contract, and future frigate program to replace the ANZAC fleet, represent substantial opportunities for Austal in Australia.

Austal's demonstrated pedigree in penetrating domestic and export markets and evolution into a successful prime contractor for two major US Navy programs (LCS & JHSV) that will represent approximately 15% of the US Navy fleet, place the Group in good stead to compete for the Offshore Patrol Vessel and ANZAC fleet replacement programs.

The lower Australian dollar has increased the competitiveness of the Australian business by reducing the cost of Australian content in export markets.

A weaker AUD also improves the translation and repatriation of earnings from the USA and Philippines business units.

The Middle East is a third core market and we continue to pursue several credible initiatives.

Austal maintains a watching brief on the commercial ferry market in Europe and Asia with several sales leads in established markets. Austal has committed a modest investment to applying clean fuel technologies to further innovate our product offering. The low cost base in the Philippines means that Austal is well positioned to seize upon opportunities if they eventuate.

Austal is pursuing many opportunities in core markets, which reflects a healthy outlook and the low Australian dollar places the Group in a highly competitive position.

The strength of the order book and the sustained operational improvements will translate into greater cash generation which enable prudent capital management, investment in strategic growth initiatives and returns to shareholders.

Andrew Bellamy
Managing Director and Chief Executive Officer

LCS 6 – USS *JACKSON*


Aremiti Ferry 2 – built in the Philippines

# 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 | 2015 $'M | 2014 $'M |
| --- | --- | --- |
| Revenue | $ 1,119.703 | $ 933.615 |
| EBIT | 58.429 | 61.682 |
| EBIT Margin | 5.2% | 6.6% |

Austal's US operations were the most significant contributor to the Group result again in FY2015.

EBIT was ~ $2 million lower and EBIT margin reduced year over year from 6.6% to 5.2% as a result of issues arising from LCS 6, which is the first LCS Austal is building as prime contractor. There will be a flow on impact to LCS 8 and 10 due to the staggered but concurrent production of the three vessels.

The ability to generate a substantial business unit EBIT whilst absorbing lower margin results on LCS 6 demonstrates the resilience of the business and the benefit of having a broad portfolio of projects under construction at any one point in time. 17 vessel construction projects contributed to profit generation in FY2015.

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

Stringent cash management is embedded in management decision making and capital expenditure was restricted to sustaining activities in FY2015.

Two more vessels were added to the order book after funds for LCS 22 & 24 - the ninth and tenth LCS under the US$3.5 billion contract – were appropriated by Congress in March 2015.  These projects added a further ~ US$700 million to the order book and secured funding for the LCS program through CY2020.

The US Navy also extended the existing block buy contract to include an additional option for LCS 26 which is expected to be funded by Congress in FY2016.

The addition of the option for LCS 26; an eleventh ship under the block buy contract; demonstrates the US Navy's strong support for the high performance, low cost LCS and is consistent with their stated plans to build a total fleet of 52 ships across two variants.

US Congress also appropriated funds for an eleventh JHSV during FY2015 which is expected to result in an extension of the original block buy contract for 10 ships. It is anticipated that a contract modification for the award of JHSV 11 will occur during FY2016.

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

JHSV 4, USNS *Fall River* was delivered in September 2014 after successfully completing acceptance trials in July 2014, JHSV 5, USNS *Trenton* was launched in September 2014 and delivered in April 2015, JHSV 6, USNS *Brunswick* was christened and launched in May 2015.

The JHSV programme is progressing well with a mature vessel design and a stabilised bill of materials. Exploiting productivity initiatives is the major focus to drive the business along the learning curve which takes cost out of the programme.

USS *Jackson* (LCS 6) – the first LCS being built by Austal as the prime contractor under the 10-vessel contract, completed US Navy acceptance trials in June 2015 and delivery to the US Navy was completed post balance date in August 2015.

Six additional LCS are at various stages of construction. USS *Montgomery* (LCS 8) is preparing for sea trials later this year while USS *Gabrielle Giffords* (LCS 10) was recently christened.
USS *Omaha* (LCS 12) is preparing for launch in CY2015 and final assembly is well underway on USS *Manchester* (LCS 14). Modules for USS *Tulsa* (LCS 16) and USS *Charleston* (LCS 18) are both under construction. The first cutting of metal for USS *Cincinnati* (LCS 20) is scheduled for later this year.

Austal has grown revenue and earnings from Sustainment activities with the award of the LCS Planning Yard Contract in FY2015 H1 to the Bath Iron Works / Austal team. Austal is already delivering work packages under new contracts, is negotiating teaming agreements for additional scopes of work and is developing its strategy for increased global reach of Austal vessels deployed by the US Navy.

## Australian operations

| Year ended 30 June | 2015 $'M | 2014 $'M |
| --- | --- | --- |
| Revenue | $ 211.808 | $ 241.912 |
| EBIT | 31.774 | 16.684 |
| EBIT Margin | 15.0% | 6.9% |

Austal's Australian operations delivered another significant increase in EBIT and EBIT margin in FY2015.

This result was again driven by efficient construction of the $330 million Cape Class Patrol Boat (CCPB) fleet in the Henderson shipyard for Australian Border Force. The efficiencies extracted over the four year construction period demonstrate the benefits from continuous shipbuilding with a mature vessel design.

CCPB 3 – 6 were all delivered to the Australian Border Force during FY2015. CCPB 7 was delivered subsequent to balance date and the final vessel is due to be delivered in August 2015.

CCPB 1 and 2 returned to the Henderson shipyard for their first major dockings since delivery to the customer in FY2013 and FY2014 respectively, as part of the 5 years in service support contract for the entire CCPB fleet.

Design and construction of the two 72 metre High Speed Support Vessels (HSSV) for the Royal Navy of Oman continued to advance and will sustain construction activity into late CY2016.

Austal entered into a contract with Caspian Marine Services from Azerbaijan to construct a 70 metre fast crew boat to service oil and gas exploration and production platforms operated by the State Oil Company of Azerbaijan and British Petroleum (BP).

The 30 knot, 150 passenger catamaran will be jointly built in Austal's Philippines and Henderson shipyards with delivery expected in Australia in CY2016. The project will support deeper integration of supply chain and production activities between the two shipyards.

## Philippines operations

| Year ended 30 June | 2015 $'M | 2014 $'M |
|---|---|---|
| Revenue | $ 38.743 | $ 33.767 |
| EBIT | 0.992 | 2.703 |
| EBIT Margin | 2.6% | 8.0% |

The Philippines Operations completed the customisation of the 102 m trimaran ferry that was sold to Condor ferries in August 2014, completed construction of a 26 metre wind farm vessel which was delivered to the United Kingdom in the second quarter of FY2015 and substantially constructed two high speed crew transfer vessels for an oil and gas customer in the United Arab Emirates. Both vessels were contractually delivered to the customer post balance date.

The award of another two high speed crew transfer vessels added ~ US$25 million to the Philippines order book and provides contracted work through FY2016.

The award of four orders for high speed crew transfer vessels across the last two financial years demonstrates further diversification of Austal's customer markets and application of intellectual property to new products.

Philippines Operations continued to support Sustainment activities by providing personnel to undertake docking of Austal vessels in Europe.

The Philippines Operations are playing a pivotal role in cost optimisation of manufacturing activities within the Group by supplying sub-assemblies and components to Australia.

Components were manufactured and shipped from the Philippines to Australia during FY2015 and this approach is now a core element of the construction strategy for current vessel orders.

Austal is pursuing several credible leads with existing high speed vessel operators in Europe for large vehicle passenger ferries with a focus on green energy systems. The Philippines Operations is well established to exploit these market opportunities if they are realised.

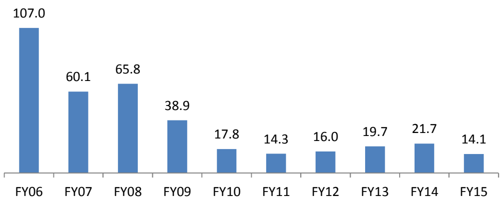
## Safety performance

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.

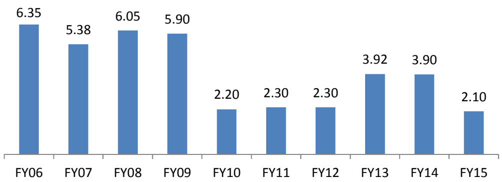
Our goal of Zero Harm means no injuries to anyone, ever and whilst the target is aspirational, it remains a target to strive for.

The Shipbuilders Council of America (SCA) recognised Austal USA's ongoing commitment to safety with an *Award for Improvement in Safety* for CY2014 recognising a year on year reduction in the total recordable incident rate of 10% or more.

The SCA is a US national trade association that represents 41 companies that own and operate over 120 shipyards across the USA.Austal reports safety performance in accordance with AS1885.1.



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 2015.

## Directors

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

### John Rothwell AO – Non-Executive Chairman

With 40 years of experience in boat and shipbuilding, John has played a major role in the development of the Australian aluminium shipbuilding industry. 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. In 1998 he saw the potential for US Defence contracts for high speed aluminium naval ships and he led the formation of a new shipyard in Mobile, Alabama.

John was appointed 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 WA Citizen of the Year in the category of Industry and Commerce in 1999.

John stepped down as Executive Chairman and Chief Executive Officer on 22 August 2008 to continue as Non-Executive Chairman after managing the Company for 20 years.

### Dario Amara – Independent Director

Dario is a construction and engineering executive with extensive industry experience and networks gained over 33 plus years in the Australian and international markets, spanning the infrastructure, industrial and property sectors.

He has successfully operated as a CEO for over 16 years with John Holland Asia Limited, GRDMINPROC Limited (now of part AMEC plc), Emerson Stewart Group Limited which he founded and listed on the ASX within 30 months of launching and more recently as CEO of the POSCO-BGC E&C Joint Venture, an initiative to capture billion dollar plus resources projects.

Concurrent with his executive leadership roles he has successfully served as a Project Director or as Project Board Chairman on large and complex projects delivered by a variety of commercial models.

In addition Dario has served on several arts and cultural boards as Chairman on a pro bono basis for over 22 years and currently serves on the Murdoch University Art Collection Board.

He is a Civil Engineer with a Bachelor of Engineering (Distinction), a Fellow of the Institution of Engineers Australia, a Chartered Professional Engineer, on the National Professional Engineers Register and a Registered Building Practitioner and Contractor (Western Australia.)

Dario resigned as a Director on the 30 October 2014.

### 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 elect of the University of South Australia.

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

### David Singleton – Independent Director

David brings a wealth of highly relevant business expertise and experience to Austal in both the defence and manufacturing and product support sectors.

David has held numerous senior roles with BAE Systems (formerly British Aerospace), which is one of the world's largest defence companies. He served as Group Head of Strategy and Mergers & Acquisitions in London from 1997 to 1998 and again in 2003. In the intervening years, David was BAE's Managing Director of Asset Management before spending three years in Rome as the Chief Executive Officer of Alenia Marconi Systems (AMS).

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.

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 by then was part of 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.

David is the CEO and Managing Director of Perth-based mineral exploration company Poseidon Nickel Limited. Prior to this role, he served as CEO and Managing Director of Clough Limited between 2003 and 2007. David is also a Non-Executive Director of Quickstep Holdings.

David was appointed to the Board of Directors of Austal Limited on 21 December 2011.

### Giles Everist – Independent Director

Giles has a breadth of experience with project and service based businesses gained over more than 25 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 Corp during his career.

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

### Andrew Bellamy BSc (Hons) Material Science, MA (Marketing) – Chief Executive Officer

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

As CEO, Mr Bellamy has overseen the successful expansion of Austal's largest shipyard in Mobile, Alabama, and developed and implemented strategies to ensure the efficient delivery of the Group's multi-billion defence contracts for the US Navy – the Littoral Combat Ship and Joint High Speed Vessels.

Under Mr Bellamy's leadership, Austal has successfully transitioned its Henderson, Western Australia shipyard away from commercial vessels to defence vessels, which has included the award of contracts such as the Cape Class Patrol Boat program for the Australian Government and high speed defence vessels for a naval customer in the Middle-East. He has also overseen the growth of Austal's commercial vessel shipyard in the Philippines into a profitable operation and the positioning of Austal's global service footprint.

Separately, Mr Bellamy has taken steps to strengthen Austal's balance sheet, including a reduction in the Group's debt and a focus on capital management across the business. This has provided Austal with the capacity to successfully and profitably deliver on its existing vessel programs and the ability to win additional work.

Mr Bellamy joined Austal in September 2008 as Head of Global Sales and Marketing. In this role, Mr Bellamy had responsibility for the Sales and Marketing function across all Austal's international businesses, including the strategically significant US operations. In 2010, Mr Bellamy was appointed Chief Operating Officer of Austal's Australian businesses and oversaw the growth and expansion of Austal's international network of locations at a time of significant turbulence in global markets.

Previously, Mr Bellamy held senior positions within the Oil and Gas industry with Honeywell and ICI in North America, Europe, Middle East and Asia.

Mr Bellamy holds a BSc (Hons) in Materials Science from the University of Sunderland and an MA (Marketing) from the University of Lincoln and Humberside.

## 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:

| Director | Number | | |
|---|---|---|---|
| | Ordinary Shares | Options^ | Performance Rights^^ |
| John Rothwell | 32,200,745 | - | - |
| Andrew Bellamy | 478,474 | 280,000 | 666,703 |
| Dario Amara | - | - | - |
| David Singleton | 28,600 | - | - |
| Giles Everist | 20,000 | - | - |
| Jim McDowell | - | - | - |

^This represents options granted from the Employee Option Share Plan (ESOP) (refer to Note 30 of the financial statements). There were no additional ordinary shares issued or options granted to Directors and exercised between the balance date and the date of this report.

^^This represents performance rights granted from the Long Term Incentive Plan (LTIP) (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 aluminium vessels.  These activities are unchanged from the previous year.

## Results

The net profit after tax of the consolidated entity for the financial year was $53.156 million after income tax (FY2014: $31.859 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 7.

## Dividends

A dividend of 1 cent per share was paid after the FY2015 half year results (FY2014 Half year: Nil) and a further dividend of 3 cents per share has been proposed for FY2015 (FY2014: Nil).

## Significant events after the balance date

A fully franked dividend of 3 cents per share (FY2014: Nil) has been proposed.

## Likely developments and future results

A general discussion of the Group outlook is included in the Chairman's Report on page 3 and the Review of Operations on page 7.

## 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 2015.

## Share options and performance rights

There were 9,392,329 un-issued ordinary shares under options and 1,049,022 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 or performance rights that had vested during the year.

## 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. Under the agreement, the company has agreed to indemnify those Directors against any claim to the extent allowed by the law, for any expenses or costs which may arise as a result of work performed in their respective capacities.

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, to the extent permitted by law, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). 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** | 6 | 4 | 3 |
| **Number of meetings attended:** | | | |
| John Rothwell | 6 | - | 3 |
| Andrew Bellamy | 6 | - | - |
| Dario Amara [1] | 2 | 1 | - |
| David Singleton | 6 | 3 | 3 |
| Giles Everist | 6 | 4 | 3 |
| Jim McDowell [2] | 3 | 2 | - |

1. Dario Amara retired as a director of the Company (and Chairman of the Audit & Risk Committee) on 30 October 2014. Giles Everist replaced him as Chairman of the Audit & Risk Committee.
2. Jim McDowell was appointed as a director on 31 December 2014 and has attended all Board meetings since his appointment. He joined the Audit & Risk Committee in February 2015 and has attended all Audit & Risk Committee meetings since his appointment.

## Committee membership

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

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

| Audit and Risk | Nomination and Remuneration |
|---|---|
| Dario Amara [2] | David Singleton [1] |
| Giles Everist [1] | Giles Everist |
| David Singleton | John Rothwell |
| Jim McDowell | |

1. Designates the Chairman of the committee.
2. Designates resigned during the year

## 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 Class Order 98/0100. The Company is an entity to which the Class Order applies.

Cape Class Patrol Boats

# Remuneration Report

This Remuneration Report for the year ended 30 June 2015 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:

## 1. Message from the Nomination & Remuneration Committee (NRC)

Dear Shareholder,

Austal has embarked upon a two year journey to fully review, recalibrate and align key management personnel (KMP) remuneration governance, policies and practices. This process began in FY2015, and is expected to be completed in FY2016, although it may take somewhat longer for all the changes to be evident as old practices are phased out.

The NRC has been focussed on reviewing a number of areas of policy implementation in the company during the last financial year. The focus has been primarily on executive and non-executive remuneration, reviewing outcomes from the implementation of the Long Term Incentive (LTI) and Short Term Incentive plans and ensuring that all of these are properly aligned to positive shareholder outcomes using clear and challenging objectives. In order to carry out this activity, the Committee has taken inputs from several parties, including from proxy advisers and major institutional investors following the publication of last year’s remuneration report. The Committee has also commissioned detailed analysis from an Independent Remuneration Expert which further built on the inputs from last year.

The NRC recognises that Austal is a sophisticated business that operates from Australia across a global footprint and in one of the most technically demanding industries in the world. The company, in the last few years, has used its considerable intellectual property predominantly in aluminium multi hulled vessels, to build on its position in the fast ferry and work boat industry in to the worldwide Defence industry. Austal has been a reliable and on time deliverer of vessels to the Australian federal government producing, most recently, the new Cape Class vessels on time and to specification. These capabilities have created the platform on which Austal has become the only foreign owned designer and constructor of frontline and support vessels for the US Navy, a matter which is commented on at length in this report. The significance of this is that the Austal business now operates globally, in demanding markets with highly sophisticated customers and therefore its leadership must be drawn from equally high quality individuals who are selected, supported and remunerated accordingly.

The focus for Austal is to ensure that executive pay and incentive schemes tread a fine line between the demands of global roles and shareholder expectations increasingly set by a comparison to the broader market. Our policy is to judge base pay against a peer group of industrial and service sector companies of a similar size, accepting that the Australian market has few peers to Austal. Whilst we have set a base pay guideline at the 50th percentile of this group, we have also deemed it appropriate to move towards a structure where the long and short term incentive element of pay is calibrated at the 75th percentile of the peer group. We believe that this structure ensures that a focus on achieving stretching short term targets is achieved whilst ensuring that critical positioning for the longer term success of the company is maintained.

The remuneration report describes the progressive changes that have been reviewed during the last financial year and are being implemented during the FY2016 year. We now believe that much of the structural change has been implemented and the Committee’s attention will focus on the targets being set and measured for its executives and the impact this is having on the company performance.

The Committee is also responsible for nominations which include for the Board and the Chairman. This year the Committee welcomes Jim McDowell to the Board. Jim was most recently the CEO of BAE Systems in Saudi Arabia and prior to that was the CEO of BAE Systems, Australia which includes its shipbuilding and support business. The appointment recognises the continued and increased emphasis of Defence in Austal’s business both now and in the future. The Committee continues to support the company Chairman who, as a founder of the business, has a unique, detailed and essential insight into the business and continues to make a significant contribution beyond that which would be deemed as normal.

The Board appreciates the continued and strong support of shareholders at the 2014 AGM. Given the significant efforts of the Board to review and improve remuneration governance and practices, and to consult with stakeholders and engage with their views, as well as noting the excellent performance of the Company, the Board looks forward to the continued support of shareholders for the Remuneration Report resolution at the 2015 AGM.

Yours sincerely,

David Singleton

Chairman, Nomination and Remuneration Committee

## Remuneration report (audited)

## 2. 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 2015 were as follows:

### Executive Directors

| | |
|---|---|
| Mr Andrew Bellamy | Chief Executive Officer and Managing Director since February 2011 |

### Executives with no Director duties

| | |
|---|---|
| Mr Greg Jason | Group Chief Financial Officer since January 2013 |
| Mr Brian Leathers | Chief Financial Officer USA since February 2008 |
| Mr Craig Perciavalle | President USA since November 2012 |
| Mr Joselito Turano | President Philippines since December 2012 |

The following person ceased to be executive KMP of Austal during FY2015:

| | |
|---|---|
| Mr Graham Backhouse | President Australia until April 2015 |

### Non-Executive Directors

| | |
|---|---|
| Mr John Rothwell | Chairman since 1998<br>Member of the Nomination & Remuneration Committee since December 1998 |
| Mr David Singleton | Independent non-executive director since December 2011<br>Chairman of the Nomination & Remuneration Committee since September 2012<br>Member of the Audit & Risk Committee since February 2012 |
| Mr Giles Everist | Independent non-executive director since November 2013<br>Chairman of the Audit & Risk Committee since October 2014<br>Member of the Nomination & Remuneration Committee since February 2014 |
| Mr Jim McDowell | Independent non-executive director since December 2014<br>Member of the Audit & Risk Committee since February 2015 |

The following person ceased to be a non-executive director during FY2015:

| | |
|---|---|
| Mr Dario Amara | Independent, non-executive director until October 2014 |

## 3. Remuneration governance framework and strategy

### I. Nomination & Remuneration Committee Charter

The role and responsibilities of the committee are outlined in the Austal 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 and a significant development in this area has been led by the CEO and overseen by the Board.

The Committee has overseen a significant renewal of the Board as the company enters into a new phase of its development with two new non-executive Directors appointed over the last 19 months.

Under the Charter, the Nomination & Remuneration Committee 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. It 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. To this end the policy specifies "Closed Periods" during which "Restricted Persons" 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 ERCs. This 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 ERCs 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 Company'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, particular 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:**<br>Clearly defined and documented governance procedure<br>Independent Remuneration Committee<br>Independent Remuneration Consultant<br>Annual assessment of Remuneration Policy | **Principles:**<br>Reward Group annual performance measured relative to its planned key performance indicators<br>Business performance aligned<br>Recognize and reward teamwork and development of the culture of the organisation<br>Award and differentiate based on individual performance and contributions. | **Principles:**<br>Total Remuneration based approach<br>Facilitate competitiveness by paying competitive remuneration levels for comparable roles and experience, subject to performance<br>Promote meritocracy by recognizing individual performance, with a particular emphasis on contribution, ethics and safety<br>Equal remuneration opportunity | **Principles:**<br>Provide the appropriate balance of fixed and variable remuneration consistent with the position and role in the Group<br>Significant portion of variable remuneration deferred and aligned with the long-term performance of the Group<br>Promote ethical behaviour and do not create incentives to expose the Group to inappropriate risk |

## 4. Executive KMP remuneration policy

### I. Structure

The following outlines the policy that applies to executive KMP and executive directors:

- Total Remuneration Packages (TRP) should be composed of:
  - Base Package (inclusive of superannuation, allowances, benefits and any applicable fringe benefits tax (FBT) as well as any salary sacrifice arrangements)
  - Short term incentive (STI) which provides a reward for performance against annual objectives
  - Long term incentive (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
- TRPs should be structured with reference to market practices and the particular circumstances of the Company 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.
- TRPs 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 Packages of the KMP executives fall within or below the P50 +/- 20% policy range. Adjustments to some individuals will be made over a 2 year period to bring them into line in some cases where remuneration of the KMP falls below the target.

* The term P50 refers to the median where 50% of the comparator group are above the level and 50% are below.

#### i. Base Remuneration – CEO

The structure of Base Remuneration for the CEO has been changed during FY2015.

The previous structure provided for the following base remuneration for the CEO:

- Fixed cash remuneration
- Fixed share based remuneration equal to 30% of the Fixed cash remuneration payable twice per annum based on the volume weighted average closing price of ASB shares in each 6 month period.

The Board resolved to amend the previous structure with effect from 1 January 2015 to simplify the Fixed remuneration structure. These changes reflect general market practice and more effectively align the CEO's remuneration with stakeholder comments received last year.

A new base remuneration consisting solely of cash was set post year end for the period 1 January 2015 to 30 June 2015 which is equal to the previous Fixed cash remuneration plus the cash equivalent of the Fixed share based remuneration. This structure will be maintained in the FY2016 financial year.

#### ii. Peer group benchmarking

Austal has undertaken a detailed benchmarking of its remuneration levels and structure throughout the KMP comparing to a relevant benchmark group with the assistance of its ERC:

- 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 shall be 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 |

The results of the FY2015 peer group analysis for CEO remuneration as presented by Austal's ERC is depicted in the table below and compared to that actually paid to the Austal CEO.

| Component | Peer Group Results Percentile 25 | Peer Group Results Percentile 50 | Peer Group Results Percentile 75 | Austal CEO FY2015 |
|---|---|---|---|---|
| Base Remuneration | $ 628,000 | $ 906,000 | $ 1,316,000 | $ 1,051,347 |
| Total Remuneration Package | $ 1,259,000 | $ 1,654,000 | $ 2,102,000 | $ 1,492,451 |

The Remuneration and Nomination Committee formed the following conclusions from the assessment of Base Packages undertaken in FY2015:

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

## III. Short Term Incentive (STI) Plan Policy

The short term incentive policy of the Company 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. 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 at the end of the financial year and after the full year accounts have been approved by the Board.

The Board undertook a review of the Austal STI policy during FY2015 through the Remuneration and Nomination Committee by requesting a benchmarking review to be undertaken by its ERC. The report recommended that the STI scheme should become a bigger component of both the CEO's and KMPs' annual remuneration but that performance targets at the threshold payout 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 Senior Executives 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 Senior Executives, 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

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

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

KPIs set for the CEO in FY2015 were as follows:

| Key Performance Indicator | Relative Weight | Performance Achieved | STI Estimated |
|---|---|---|---|
| FY2015 Group EBIT | 23.3% | 100.0% | 23.3% |
| FY2015 Group Net Cash Flow | 23.3% | 100.0% | 23.3% |
| FY2015 Group New Vessel Orders | 23.3% | 100.0% | 23.3% |
| Group Strategy Development & Execution | 20.0% | 66.7% | 13.3% |
| Implementation of Business Improvement Initiatives | 10.0% | 66.7% | 6.7% |
| Total | 100.0% | 90.0% | 90.0% |

### iv. Target and maximum award

Target and maximum awards are applied to base remuneration. The Board retains discretion in the application of the STI scheme to ensure that outcomes match overall Group achievement and can defer payments where it believes this to be appropriate.

| | | FY2015 | | | | FY2016 | |
|---|---|---|---|---|---|---|---|
| Position | Incumbent | Target | Maximum | Estimated[1] | Forfeited | Target | Maximum |
| CEO | Mr Andrew Bellamy | 33% | 50% | 45% | 5% | 50% | 100% |
| Group Chief Financial Officer | Mr Greg Jason | 20% | 30% | 27% | 3% | 30% | 60% |
| President USA | Mr Craig Perciavalle | 40% | 60% | 5% | 55% | 30% | 60% |
| Chief Financial Officer USA | Mr Brian Leathers | 30% | 45% | 4% | 41% | 30% | 60% |
| President Australia | Mr Graham Backhouse [2] | 20% | 30% | 30% | 0% | N/A | N/A |
| President Philippines | Mr Joselito Turano | 20% | 30% | 8% | 22% | 15% | 30% |

1. The final STI for FY2015 will be paid to KMP in FY2016.
2. Mr Graham Backhouse resigned on 21 April 2015

## IV. Long Term Incentive (LTI) Plan Policy

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. This is intended to ensure that executives hold a stake in the Company and to align their interests with those of shareholders.

The board undertook a review of the LTI plan following its initial 2 years of operation and implemented a number of changes. The purpose 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 section ix on page 24 and the Total Shareholder Return (TSR) measure has been changed from an absolute TSR to an indexed TSR (iTSR) following market feedback as described in section v on page 23 and amended weighting of performance measures from TSR 30% / ROIC 70% to iTSR 40% / ROIC 60%.

### 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 Company instituted a transitional arrangement for the LTI scheme for FY2014 and FY2015 performance rights grants which was explained in the FY2014 Annual Report.

The standard measurement period from FY2016 onwards will be three years.

### iv. Measures of long term performance

The Company will use two long term performance measures:

- TSR which the Board believes best reflects internal measures of performance
- ROIC which the Board believes best reflects external measures 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 however that absolute TSR is influenced by overall economic movements, and therefore future grants of LTI will be offered to executives that vest based on indexed TSR (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 robust 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 will apply to future grants of LTI from FY2016 based on a comparison of Austal's TSR against the S&P All Ordinaries Accumulation index "XAOAI".

### 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 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.

### 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.

### 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.

| | | FY2015 Grant Vesting | | FY2016 Grant Vesting | |
|---|---|---|---|---|---|
| **Position** | **Incumbent** | **Target** | **Maximum** | **Target** | **Maximum** |
| CEO | Mr Andrew Bellamy | 25.0% | 50.0% | 50.0% | 100.0% |
| Group Chief Financial Officer | Mr Greg Jason | 17.5% | 35.0% | 35.0% | 70.0% |
| President USA | Mr Craig Perciavalle | 17.5% | 35.0% | 35.0% | 70.0% |
| Chief Financial Officer USA | Mr Brian Leathers | 17.5% | 35.0% | 20.0% | 40.0% |
| President Australia | Mr Graham Backhouse [1] | 17.5% | 35.0% | N/A | N/A |
| President Philippines | Mr Joselito Turano | 17.5% | 35.0% | 20.0% | 40.0% |

1. Mr Graham Backhouse resigned on 21 April 2015

## 5. Non-Executive Director remuneration

### I. Application

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

### II. Remuneration structure

Remuneration is composed of:

- Board fees
- Committee fees
- Superannuation
- Other benefits (if appropriate)

### III. Fees

#### i. Fee cap

Remuneration will be managed within the aggregate fee limit (AFL) or fee pool approved by shareholders of the Company which is currently $3,000,000.

#### 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 from $300,000 to $250,000 per annum effective from 1 February 2015.

#### iii. Non-executive director fees

Board fees paid for membership of the Board, inclusive of superannuation and exclusive of committee fees will be set with reference to the 50$^{th}$ percentile of the market of comparable ASX listed companies (as previously described for executive remuneration).

#### 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 NEDs by the Company.

# 6. Remuneration of KMP

**Year ended 30 June 2015**

| | Short-Term Benefits | | | Post Employment Benefits | Long Term Benefits | | Share Based Payments | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary & Fees | Short Term Incentive [1] | Other Monetary Benefits | Super-annuation / Social Security | Leave | Termination Benefits | Fixed | Long Term Incentive | Total | % Share Based Payments | % Performance related |
| **Non-executive directors** | | | | | | | | | | | |
| John Rothwell | $ 279,167 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 279,167 | - | - |
| Dario Amara [2] | 28,311 | - | - | 2,689 | - | - | - | - | 31,000 | - | - |
| David Singleton | 82,192 | - | - | 7,808 | - | - | - | - | 90,000 | - | - |
| Giles Everist | 98,300 | - | - | - | - | - | - | - | 98,300 | - | - |
| Jim McDowell [3] | 38,813 | - | - | 3,687 | - | - | - | - | 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 |
| **Other key management personnel** | | | | | | | | | | | |
| Greg Jason | $ 314,269 | $ 96,447 | $ - | $ 18,783 | $ 33,225 | $ - | $ - | $ 66,840 | $ 529,564 | 12.6 | 30.8 |
| Craig Perciavalle | 515,500 | 32,239 | 22,038 | 84,143 | - | - | - | 57,748 | 711,668 | 8.1 | 12.6 |
| Brian Leathers | 341,906 | 15,582 | 8,580 | 57,375 | - | - | - | 46,939 | 470,382 | 10.0 | 13.3 |
| Graham Backhouse [4] | 217,651 | 74,186 | - | 15,164 | 16,742 | 77,992 | - | - | 401,735 | - | 18.5 |
| Joey Turano | 253,270 | 23,379 | 26,002 | 31,333 | - | - | - | 15,827 | 349,811 | 4.5 | 11.2 |
| | $ 2,902,901 | $ 605,755 | $ 56,620 | $ 239,765 | $ 120,258 | $ 77,992 | $ 209,560 | $ 250,670 | $ 4,463,521 | | |

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

**Year ended 30 June 2014**

| | Short-Term Benefits | | | Post Employment Benefits | Long Term Benefits | | Share Based Payments | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Salary & Fees | Short Term Incentive [1] | Other Monetary Benefits | Super-annuation / Social Security | Leave | Termination Benefits | Fixed | Long Term Incentive | Total | % Share Based Payments | % Performance related |
| **Non-executive directors** | | | | | | | | | | | |
| John Rothwell | $ 290,577 | $ - | $ - | $ 27,605 | $ - | $ - | $ - | $ - | $ 318,182 | - | - |
| Dario Amara | 84,932 | - | - | 8,068 | - | - | - | - | 93,000 | - | - |
| David Singleton | 86,758 | - | - | 8,242 | - | - | - | - | 95,000 | - | - |
| Giles Everist [2] | 50,989 | - | - | 4,844 | - | - | - | - | 55,833 | - | - |
| **Executive directors** | | | | | | | | | | | |
| Andrew Bellamy | $ 726,842 | $ 263,040 | $ - | $ 17,774 | $ 69,208 | $ - | $ 271,369 | $ 56,658 | 1,404,891 | 23.3 | 22.8 |
| **Other key management personnel** | | | | | | | | | | | |
| Greg Jason | $ 286,763 | $ 75,840 | $ - | $ 17,774 | $ 29,391 | $ - | $ - | $ 45,819 | $ 455,587 | 10.1 | 26.7 |
| Craig Perciavalle | 430,591 | 54,972 | 14,021 | 28,764 | - | - | - | 30,250 | 558,598 | 5.4 | 15.3 |
| Brian Leathers | 298,379 | 44,454 | 3,370 | 24,421 | - | - | - | 26,714 | 397,338 | 6.7 | 17.9 |
| Graham Backhouse | 249,204 | 86,427 | - | 25,460 | 26,229 | - | - | 6,288 | 393,608 | 1.6 | 23.6 |
| Joey Turano | 226,151 | 27,421 | 7,877 | 853 | - | - | - | 5,388 | 267,690 | 2.0 | 12.3 |
| | $ 2,731,186 | $ 552,154 | $ 25,268 | $ 163,805 | $ 124,828 | $ - | $ 271,369 | $ 171,117 | $ 4,039,727 | | |

1 Represents the amount accrued for but not paid by the Group for services performed in FY2014.
2 Mr Giles Everist joined the Board of Directors in November 2013

## 7. Equity instruments held by KMP

### I. FY2012 Options vesting during the period

#### i. FY2012 Options Grant

280,000 options were granted to KMP in FY2012, who were still employed by Austal at 30 June 2015.

Further information on the options is set out in Note 30

#### ii. Options vesting

KMP Options from the FY2012 grant that vested in FY2015 are detailed below.

| Name | Award year | Options granted | Grant date | Fair value per option at award date | Vesting date | No. vested during year | No. forfeited during year |
|---|---|---|---|---|---|---|---|
| Greg Jason | 2012 | 140,000 | 20 Dec 2011 | $ 0.618 | 20 Dec 2014 | 140,000 | - |
| Craig Perciavalle | 2012 | 70,000 | 20 Dec 2011 | 0.618 | 20 Dec 2014 | 70,000 | - |
| Brian Leathers | 2012 | 70,000 | 20 Dec 2011 | 0.618 | 20 Dec 2014 | 70,000 | - |

### II. FY2014 Performance Rights Vesting

#### i. FY2014 Performance Rights Grant

789,085 performance rights were granted to KMP in FY2014, who were still employed by Austal at 30 June 2015.

#### 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

#### iii. FY2014 Grant Performance Criteria

The 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 first measurement period from 1 July 2013 – 30 June 2015 vesting of performance has been calculated to be 167%.

The actual ROIC performance for the first measurement period from 1 July 2013 – 30 June 2015 vesting of performance will be calculated using the FY2015 audited accounts. The estimated ROIC performance in the first measurement period from 1 July 2013 – 30 June 2015 is 10.0%.

The estimated number of performance rights from the first measurement period for the FY2014 grant that will vest and lapse as a result of the actual Group performance is detailed below. The final number of performance rights that will vest and lapse will be calculated using the FY2015 audited accounts. Auditor sign off of the accounts occurs after the accounts are prepared and approved by the Board of directors, hence the actual calculation cannot be prepared before the Auditor sign off occurs.

| | | Measurement Period 1 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Rights Granted | Maximum Vesting | | Estimated Vesting | | |
| | | | % | Rights | ROIC | TSR | Total |
| **Actual Result** | | | | | 10.0% | 167% | |
| **Award** | | | | | 100% | 100% | 100% |
| **Weight** | | | | | 70% | 30% | 100% |
| **Vesting %** | | | | | 70% | 30% | 100% |
| **Employee** | | | | | | | |
| Andrew Bellamy | CEO | 287,313 | 50% | 143,656 | 100,559 | 43,096 | 143,655 |
| Greg Jason | CFO | 125,345 | 50% | 62,672 | 43,870 | 18,801 | 62,671 |
| Craig Perciavalle | President USA | 168,675 | 50% | 84,337 | 59,035 | 25,301 | 84,336 |
| Brian Leather | CFO USA | 114,235 | 50% | 57,117 | 39,981 | 17,135 | 57,116 |
| Joselito Turano | President Philippines | 93,517 | 50% | 46,758 | 32,730 | 14,027 | 46,757 |
| Total | | 789,085 | 50% | 394,540 | 276,175 | 118,360 | 394,535 |

1. Graham Backhouse forfeited 108,130 Performance rights upon his resignation in April 2015.

## III. FY2015 Performance Rights Grant

### i. FY2015 Performance Rights Grant

Performance rights granted to KMP in FY2015 are depicted in the table below.

| Name | Grant date | Performance rights granted | Fair value per performance right | Value of awards at grant date |
|---|---|---|---|---|
| Andrew Bellamy | 30 Oct 2014 | 379,390 | $ 0.46 | $ 176,383 |
| Greg Jason | 21 Oct 2014 | 109,288 | 0.43 | 47,371 |
| Craig Perciavalle | 21 Oct 2014 | 142,692 | 0.43 | 61,850 |
| Brian Leathers | 21 Oct 2014 | 99,885 | 0.43 | 43,295 |
| Graham Backhouse [1] | 21 Oct 2014 | 104,027 | 0.43 | 45,090 |
| Joey Turano | 21 Oct 2014 | 73,130 | 0.43 | 31,698 |
| Total | | 908,412 | | $ 405,687 |

1. Graham Backhouse forfeited 104,027 Performance rights upon his resignation in April 2015.

### 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 two measurement periods.

### iii. FY2015 Grant Performance Criteria

The 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. FY2016 Performance Rights Grant

### i. FY2016 Grant Performance Criteria

The ROIC and iTSR performance criteria relating to the prospective 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.

## V. Share rights granted 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.

| Name | Period earned | Grant date | Granted | Fair value per share | Fair value |
|---|---|---|---|---|---|
| Andrew Bellamy | FY2015 H1 | 30 Oct 2014 | 92,602 | $ 1.30 | $ 120,383 |
| Andrew Bellamy | FY2015 H2 | 30 Oct 2014 | 68,598 | 1.30 | 89,177 |
| Total | | | 161,200 | | $ 209,560 |

## VI. Options and rights holdings

| | Options and rights holdings | | | | | | |
|---|---|---|---|---|---|---|---|
| | Balance at 30 June 2014 | Granted as Remuneration | Forfeited | Exercised | Balance at 30 June 2015 | Vested and Exercisable | Unvested |
| **30 June 2015** | | | | | | | |
| **Directors** | | | | | | | |
| Andrew Bellamy | | | | | | | |
| Options | 280,000 | - | - | - | 280,000 | 280,000 | - |
| Share Rights | 227,634 | 161,200 | - | (320,236) | 68,598 | 68,598 | - |
| Performance Rights | 287,313 | 379,390 | - | - | 666,703 | - | 666,703 |
| **Executives** | | | | | | | |
| Greg Jason | | | | | | | |
| Options | 437,500 | - | - | - | 437,500 | 437,500 | - |
| Performance Rights | 125,345 | 109,288 | - | - | 234,633 | - | 234,633 |
| Craig Perciavalle | | | | | | | |
| Options | 250,000 | - | - | - | 250,000 | 250,000 | - |
| Performance Rights | 168,675 | 142,692 | - | - | 311,367 | - | 311,367 |
| Brian Leathers | | | | | | | |
| Options | 239,000 | - | - | - | 239,000 | 239,000 | - |
| Performance Rights | 114,235 | 99,885 | - | - | 214,120 | - | 214,120 |
| Graham Backhouse [1] | | | | | | | |
| Options | - | - | - | - | - | - | - |
| Performance Rights | 108,130 | 104,027 | (212,157) | - | - | - | - |
| Joey Turano | | | | | | | |
| Options | - | - | - | - | - | - | - |
| Performance Rights | 93,517 | 73,130 | - | - | 166,647 | - | 166,647 |

## VII. Shareholdings

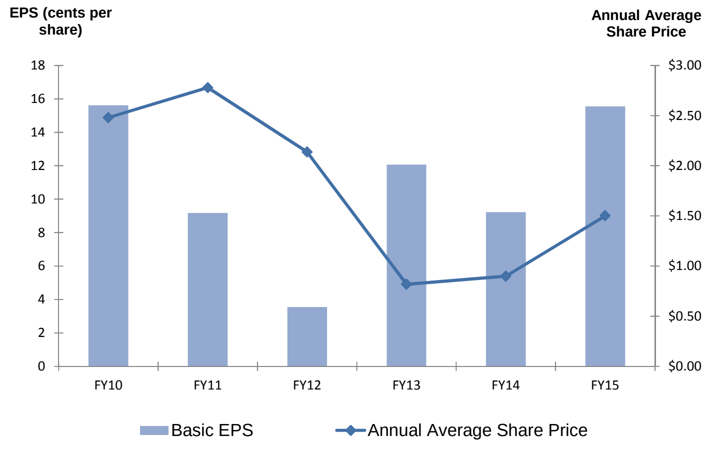
| | | FY2015 Movements | | | | | |
|---|---|---|---|---|---|---|---|
| **30 June 2015** | Balance at 30 June 2014 | Share Rights Exercised | Options exercised | Performance rights vested | Disposed | Net Movement | Balance at 30 June 2015 |
| **Non - Executive Directors** | | | | | | | |
| John Rothwell | 32,200,745 | - | - | - | - | - | 32,200,745 |
| Dario Amara [2] | 50,000 | - | - | - | (50,000) | (50,000) | - |
| David Singleton | 28,600 | - | - | - | - | - | 28,600 |
| Giles Everist | 50,000 | - | - | - | (30,000) | (30,000) | 20,000 |
| **Executives** | | | | | | | |
| Andrew Bellamy | 566,928 | 320,236 | - | - | (408,690) | (88,454) | 478,474 |
| Greg Jason | - | - | - | - | - | - | - |
| Craig Perciavalle | - | - | - | - | - | - | - |
| Brian Leathers | - | - | - | - | - | - | - |
| Graham Backhouse [1] | - | - | - | - | - | - | - |
| Joey Turano | - | - | - | - | - | - | - |
| **Total** | 32,896,273 | 320,236 | - | - | (488,690) | (168,454) | 32,727,819 |

1 Mr Graham Backhouse resigned on 21 April 2015

2 Mr Dario Amara sold his share on the 11 May 2015 and resigned on 30 October 2014

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

## 8. Group Performance




## 9. Other related matters

### I. Board composition

The Nomination and Remuneration sub-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 sub-committee has recommended that the current practice of maintaining 3 independent Non-Executive Directors on the Board should remain following the FY2015 review.

The process to ensure that the skills at Board level are appropriate to the business needs has continued with the appointment of Jim McDowell. The sub-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 Company | Termination Notice Period Executive |
|---|---|---|---|---|
| Andrew Bellamy | 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 |
| Brian Leathers | Austal USA LLC | Unlimited | 3 months | 0 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. On termination of employment, 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.

### III. Loans to KMP

There were no loans to Directors or other key management personnel at any time during year ended 30 June 2015.

## IV. Other transactions with KMP

There were no transactions involving key management personnel other than compensation and transactions concerning shares, performance rights and options 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.

The NRC engaged Godfrey Remuneration Group Pty Limited as a remuneration consultant for the year ended 30 June 2015 to provide recommendations in relation to KMP remuneration.

| | |
|---|---|
| KMP Remuneration | $34,000 +GST |
| Review of long term incentive plan, procedures, rules etc. in light of regulatory changes and assistance with drafting the Remuneration Report and advice regarding stakeholder engagement on remuneration matters. | $12,000 + GST |

End of Remuneration Report

## Auditor independence and non-audit services

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

EY
Building a better working world

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

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

### Auditor's Independence Declaration to the Directors of Austal Limited

**In relation to our audit of the financial report of Austal Limited for the financial year ended 30 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.**

**Ernst & Young**

**Robert A Kirkby**
**Partner**
**25 August 2015**



### Non-audit services

Non-audit services provided by the entity's auditor, Ernst & Young, during the year, are disclosed in Note 5. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Signed in accordance with a resolution of Directors.

John Rothwell
Chairman

Andrew Bellamy
Executive Director and Chief Executive Officer

25 August 2015

# Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2015

| | Notes | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Revenue | 4 | $ | 1,414,888 | $ | 1,122,863 |
| Cost of sales | | | (1,296,909) | | (1,028,599) |
| **Gross Profit** | | $ | 117,979 | $ | 94,264 |
| Other Income and expenses | 5 | $ | 31,504 | $ | 21,913 |
| Administration expenses | | | (49,124) | | (51,895) |
| Marketing expenses | | | (14,674) | | (8,396) |
| Finance costs | 5 | | (4,992) | | (8,742) |
| **Profit before income tax** | | $ | 80,693 | $ | 47,144 |
| Income tax benefit / (expense) | 9 | $ | (27,537) | $ | (15,285) |
| **Profit after tax** | | $ | 53,156 | $ | 31,859 |
| **Profit attributable to:** | | | | | |
| Owners of the parent | | $ | 53,225 | $ | 31,548 |
| Non-controlling interests | | | (69) | | 311 |
| Total | | $ | 53,156 | $ | 31,859 |
| **Other comprehensive income** | | | | | |
| **Amounts that may subsequently be reclassified to profit and loss:** | | | | | |
| Cash flow hedges | | | | | |
| - Gain / (loss) on cash flow hedges taken to equity | | $ | (31,886) | $ | 17,231 |
| - (Gain) / loss recycled out of equity | | | (9,183) | | (20,705) |
| - Income tax benefit / (expense) | | | 12,622 | | 865 |
| - Net | | $ | (28,447) | $ | (2,609) |
| Foreign currency translations | | | | | |
| - Gain / (loss) taken to equity | | $ | 57,922 | $ | (4,075) |
| - Income tax benefit / (expense) | | | (1,851) | | 217 |
| - Net | | $ | 56,071 | $ | (3,858) |
| **Other comprehensive income for the period, net of tax** | | $ | 27,624 | $ | (6,467) |
| **Total comprehensive income for the year** | | $ | 80,780 | $ | 25,392 |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of the parent | | $ | 80,849 | $ | 25,081 |
| Non-controlling interests | | | (69) | | 311 |
| Total | | $ | 80,780 | $ | 25,392 |
| **Earnings per share ($ per share)** | | | | | |
| - basic for profit for the year attributable to ordinary equity holders of the parent | 6 | $ | 0.16 | $ | 0.09 |
| - diluted for profit for the year attributable to ordinary equity holders of the parent | 6 | | 0.15 | | 0.09 |

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 2015

| | Notes | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 10 | $ | 138,413 | $ | 74,428 |
| Restricted cash | 10 | | 10,055 | | 9,532 |
| Trade and other receivables | 14 | | 104,342 | | 95,753 |
| Inventories | 16 | | 339,703 | | 328,142 |
| Prepayments | | | 6,321 | | 4,054 |
| Derivatives | 23 & 24 | | 106 | | 2,701 |
| Total | | $ | 598,940 | $ | 514,610 |
| **Non - Current Assets** | | | | | |
| Collateral | 20 | $ | 3,600 | $ | 2,917 |
| Trade and other receivables | 14 | | 157 | | 1,020 |
| Prepayments | | | 1,925 | | 1,968 |
| Derivatives | 23 & 24 | | 9 | | 5,787 |
| Property, plant and equipment | 18 | | 442,522 | | 366,500 |
| Intangible assets and goodwill | 19 | | 9,637 | | 9,473 |
| Deferred tax assets | 9 | | 14,089 | | 9,022 |
| Total | | $ | 471,939 | $ | 396,687 |
| **Total Assets** | | $ | 1,070,879 | $ | 911,297 |
| **Liabilities** | | | | | |
| **Current Liabilities** | | | | | |
| Trade and other payables | 17 | $ | (223,497) | $ | (183,570) |
| Derivatives | 23 & 24 | | (21,337) | | (1,972) |
| Interest-bearing loans and borrowings | 11 | | (146,904) | | (13,192) |
| Provisions | 21 | | (33,830) | | (33,704) |
| Government grants | 13 | | (3,244) | | (3,550) |
| Income tax payable | 9 | | (7,493) | | (10,980) |
| Progress payments received in advance | 15 | | (26,177) | | (29,062) |
| Total | | $ | (462,482) | $ | (276,030) |
| **Non - Current Liabilities** | | | | | |
| Derivatives | 23 & 24 | $ | (14,737) | $ | (2,229) |
| Interest-bearing loans and borrowings | 11 | | (7,658) | | (142,264) |
| Provisions | 21 | | (1,139) | | (1,023) |
| Government grants | 13 | | (63,722) | | (49,892) |
| Deferred tax liabilities | 9 | | (8,742) | | (6,627) |
| Total | | $ | (95,998) | $ | (202,035) |
| **Total Liabilities** | | $ | (558,480) | $ | (478,065) |
| **Net Assets** | | $ | 512,399 | $ | 433,232 |
| **Equity** | | | | | |
| Contributed equity | 12 | $ | 112,523 | $ | 111,598 |
| Reserves | | | 55,846 | | 27,292 |
| Retained earnings | | | 343,798 | | 294,041 |
| **Equity attributable to owners of the parent** | | $ | 512,167 | $ | 432,931 |
| Non - controlling interests | | $ | 232 | $ | 301 |
| **Total Equity** | | $ | 512,399 | $ | 433,232 |

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 2015

| | 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 2013** | **$ 120,940** | **$ (9,612)** | **$ 258,560** | **$ 8,455** | **$ 6,211** | **$ 11,077** | **$ (15,925)** | **$ 27,491** | **$ 407,197** | **$ (10)** | **$ 407,187** |
| **Comprehensive Income** | | | | | | | | | | | |
| Profit for the year | $ - | $ - | $ 31,548 | $ - | $ - | $ - | $ - | $ - | $ 31,548 | $ 311 | $ 31,859 |
| Other Comprehensive Income | - | - | - | (3,858) | - | (2,609) | - | - | (6,467) | - | (6,467) |
| Total | $ - | $ - | $ 31,548 | $ (3,858) | $ - | $ (2,609) | $ - | $ - | $ 25,081 | $ 311 | $ 25,392 |
| **Transfers between reserves** | $ - | $ - | $ 3,933 | $ 3,008 | $ (1,508) | $ 301 | $ - | $ (5,734) | $ - | $ - | $ - |
| **Other equity transactions** | | | | | | | | | | | |
| Shares issued | $ 270 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 270 | $ - | $ 270 |
| Cost of share-based payments | - | - | - | - | 383 | - | - | - | 383 | - | 383 |
| Total | $ 270 | $ - | $ - | $ - | $ 383 | $ - | $ - | $ - | $ 653 | $ - | $ 653 |
| **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 | - | - | (3,468) | - | - | - | - | - | (3,468) | - | (3,468) |
| Cost of share-based payments | - | - | - | - | 1,373 | - | - | - | 1,373 | - | 1,373 |
| Total | $ 543 | $ 382 | $ (3,468) | $ - | $ 930 | $ - | $ - | $ - | $ (1,613) | $ - | $ (1,613) |
| **Equity at 30 June 2015** | **$ 121,753** | **$ (9,230)** | **$ 343,798** | **$ 63,676** | **$ 6,016** | **$ (19,678)** | **$ (15,925)** | **$ 21,757** | **$ 512,167** | **$ 232** | **$ 512,399** |

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 2015

| | Notes | 2015 '000 | 2014 '000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | $ 1,420,738 | $ 1,112,844 |
| Payments to suppliers and employees | | (1,287,677) | (1,046,868) |
| Interest received | 4 | 882 | 321 |
| Interest paid | 5 | (4,992) | (8,742) |
| Income tax received / (paid) | | (18,517) | (15,927) |
| Net cash from / (used in) operating activities | 7 | $ 110,434 | $ 41,628 |
| **Cash flows from investing activities** | | | |
| Receipts of infrastructure government grants | | $ 4,986 | $ 4,506 |
| Proceeds from sale of property, plant and equipment | | 2,355 | 24,611 |
| Purchase of property, plant and equipment | | (28,126) | (11,884) |
| Purchase of intangible assets | | (1,053) | (1,263) |
| Proceeds from sale of intangible assets | | - | 3,002 |
| Net cash from / (used in) investing activities | | $ (21,838) | $ 18,972 |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | | $ (40,575) | $ (114,238) |
| Loans received | | 9,449 | 24,917 |
| Equity dividends paid | | (3,468) | - |
| Net cash from / (used in) financing activities | | $ (34,594) | $ (89,321) |
| **Net increase / (decrease) in cash and cash equivalents** | | $ 54,002 | $ (28,721) |
| **Cash and cash equivalents** | | | |
| Cash and cash equivalents at beginning of year | | $ 83,960 | $ 107,703 |
| Net foreign exchange differences | | 10,506 | 4,978 |
| Net increase / (decrease) in cash and cash equivalents | | 54,002 | (28,721) |
| Cash and cash equivalents at end of year | 10 | $ 148,468 | $ 83,960 |

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 2015 was authorised for issue in accordance with a resolution of the Directors on 25 August 2015.

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

The principal activities of the Group during the year were the design, manufacture and support of high performance aluminium 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.

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 Class Order 98 / 0100. The Group is an entity to which the class order applies.

The financial report presents the figures of the consolidated entity only, 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 and 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 Groups 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 Austal Limited and its subsidiaries (the Group) for the year ended 30 June 2015.

Subsidiaries are all of those entities over which the Group has power over the investee, exposure or rights to variable returns from its involvement with its investee and the ability to use its power over the investee to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a 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 full 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 rate of exchange ruling at the reporting date and the statement of comprehensive income is translated at the average exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of 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. **New and amended standards adopted by the Group**

The accounting policies adopted are consistent with those of the previous financial year except for changes in accounting policies due to implementation of new and amended standards adopted by the Group as discussed below.

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

The Group has applied all new and amended accounting standards and interpretations effective from 1 July 2014:

- AASB 2012-3 AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.
- Interpretation 21 Levies - This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.
- AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets. AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.
- AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]. AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.
- AASB 1031 Materiality. The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality.
- AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014*.
- 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 2014-1 Part A -Annual Improvements 2010–2012 Cycle AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle.
  - Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:
  - AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.
  - AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.
  - AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.
  - AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.

- AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

- Amendments to Australian Accounting Standards - Part B AASB 2014-Part B makes amendments in relation to the requirements for contributions from employees or third parties that are set out in the formal terms of the benefit plan and linked to service.
  - Defined Benefit Plans: Employee Contributions (Amendments to AASB 119) The amendments clarify that if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the related service is rendered, instead of attributing the contributions to the periods of service.
- Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements [AASB 1053] The Standard makes amendments to AASB 1053 Application of Tiers of Australian Accounting Standards to:
  - clarify that AASB 1053 relates only to general purpose financial statements;
  - make AASB 1053 consistent with the availability of the AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors option in AASB 1 First-time Adoption of Australian Accounting Standards;
  - clarify certain circumstances in which an entity applying Tier 2 reporting requirements can apply the AASB 108 option in AASB 1; permit an entity applying Tier 2 reporting requirements for the first time to do so directly using the requirements in AASB 108 (rather that applying AASB 1) when, and only when, the entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent previous annual special purpose financial statements; and
  - specify certain disclosure requirements when an entity resumes the application of Tier 2 reporting requirements.

### 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 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal 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. However, 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.

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.

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.

AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The main changes are described below.

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.

d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

   - 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 on such liabilities are no longer recognised in profit or loss.

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 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 2017):**

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue—Barter Transactions Involving Advertising Services).

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

Early application of this standard 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 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements:**

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:**

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 2014-10 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.

**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. Further it 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 January 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 judgment 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 judgment in determining where and in what order information is presented in the financial disclosures.

**AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality (effective date 1 July 2015)**

The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

# Current year performance

## Note 3. Operating segments

| | Australia '000 | USA '000 | Philippines '000 | Unallocated '000 | Elimination / Adjustments '000 | Total '000 |
|---|---|---|---|---|---|---|
| **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 |
| **Segment result** | | | | | | |
| EBIT | $ 31,774 | $ 58,429 | $ 992 | $ (4,106) | $ (2,286) | $ 84,803 |
| Finance income | - | - | - | 882 | - | 882 |
| Finance expenses | - | - | - | (4,992) | - | (4,992) |
| Total | $ 31,774 | $ 58,429 | $ 992 | $ (8,216) | $ (2,286) | $ 80,693 |
| Depreciation and amortisation | $ (1,057) | $ (18,692) | $ (1,449) | $ (3,068) | $ - | $ (24,266) |
| **Balance sheet** | | | | | | |
| Segment assets | $ 130,101 | $ 818,670 | $ 42,376 | $ 108,960 | $ (29,228) | $ 1,070,879 |
| Segment liabilities | (78,731) | (438,942) | (21,435) | (58,322) | 38,950 | (558,480) |

| | Australia '000 | USA '000 | Philippines '000 | Unallocated '000 | Elimination / Adjustments '000 | Total '000 |
|---|---|---|---|---|---|---|
| **Year ended 30 June 2014** | | | | | | |
| **Revenues** | | | | | | |
| External customers | $ 153,886 | $ 933,615 | $ 32,758 | $ 2,609 | $ (326) | $ 1,122,542 |
| Inter-segment | 88,026 | - | 1,009 | - | (89,035) | - |
| Finance income | - | - | - | 321 | - | 321 |
| Total | $ 241,912 | $ 933,615 | $ 33,767 | $ 2,930 | $ (89,361) | $ 1,122,863 |
| **Segment result** | | | | | | |
| EBIT | $ 16,684 | $ 61,682 | $ 2,703 | $ (27,211) | $ 1,707 | $ 55,565 |
| Finance income | - | - | - | 321 | - | 321 |
| Finance expenses | - | - | - | (8,742) | - | (8,742) |
| Total | $ 16,684 | $ 61,682 | $ 2,703 | $ (35,632) | $ 1,707 | $ 47,144 |
| Depreciation and amortisation | $ (1,606) | $ (17,937) | $ (972) | $ (3,258) | $ - | $ (23,773) |
| **Balance sheet** | | | | | | |
| Segment assets | $ 192,119 | $ 662,948 | $ 22,261 | $ 151,467 | $ (117,498) | $ 911,297 |
| Segment liabilities | (174,198) | (456,424) | (15,263) | (43,809) | 211,629 | (478,065) |

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

| | 2015 '000 | 2014 '000 |
|---|---|---|
| **Analysis of Unallocated** | | |
| **Revenue** | | |
| Construction and service | $ 8,606 | $ - |
| Sale of stock vessel H270 | 61,500 | - |
| Charter vessel revenue | 2,083 | 2,419 |
| Finance income | 882 | 321 |
| Other | - | 190 |
| Total | $ 73,071 | $ 2,930 |
| **Segment result** | | |
| Profit / (loss) on foreign exchange | $ 13,461 | $ (1,888) |
| Net profit / (loss) on sale of shipyard | - | 3,582 |
| Write down of inventory | - | (13,361) |
| Corporate overheads | (10,654) | (8,618) |
| Sales & marketing costs | (7,156) | (7,312) |
| Charter vessel profit | 243 | 386 |
| Finance income | 882 | 321 |
| Finance expenses | (4,992) | (8,742) |
| Total | $ (8,216) | $ (35,632) |
| **Segment assets** | | |
| Cash and restricted cash | $ 48,312 | $ 26,777 |
| Property, plant and equipment | 44,057 | 45,914 |
| Inventories | 181 | 59,159 |
| Derivatives | 741 | 8,388 |
| Deferred tax assets | 14,162 | 9,293 |
| Other | 1,507 | 1,936 |
| Total | $ 108,960 | $ 151,467 |
| **Segment liabilities** | | |
| Deferred tax liabilities and income tax payable | $ (16,210) | $ (17,203) |
| Interest bearing loans | - | (12,062) |
| Derivatives | (36,074) | (4,201) |
| Intercompany payables | - | 282 |
| Deferred Income | - | (6,490) |
| Creditors & provisions | (6,038) | (4,135) |
| Total | $ (58,322) | $ (43,809) |

One customer in the USA segment generated revenue of $1,119.703 million during FY2015 (FY2014: $933.615 million) and one customer in the Australia segment generated revenue of $97.485 million during FY2015 (FY2014: $100.814 million).

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Revenue from external customers by geographical location of customers** | | |
| North America | $ 1,141,457 | $ 938,618 |
| Europe | 69,701 | 20,150 |
| Asia | - | 15,034 |
| Australia | 112,375 | 124,842 |
| Middle East | 85,251 | - |
| Other | 5,222 | 23,898 |
| Total | $ 1,414,006 | $ 1,122,542 |

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Non-current assets, other than financial instruments, prepayments and deferred tax assets** | | |
| **Geographical location** | | |
| North America | $ 375,450 | $ 300,842 |
| Asia | 22,237 | 17,744 |
| Europe | 13,296 | 15,187 |
| Australia | 41,175 | 42,200 |
| Total | $ 452,158 | $ 375,973 |
| **Composition** | | |
| Property, plant and equipment | $ 442,521 | $ 366,500 |
| Intangible assets | 9,637 | 9,473 |
| Total | $ 452,158 | $ 375,973 |

## 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 USA, Philippines and Australia:

### Australia

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

### USA

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

### 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 as they are not considered part of the core operations of any segment:

- Cost of Group services
- Corporate overheads
- Finance revenue and costs
- Taxation
- Assets held for sale
- Derivatives
- Commercial vessel charter contracts

The Group sold Hull 270, a 102 metre trimaran ferry to Condor Ferries during the period. The vessel was sold for $61.500 million and is presented in the Unallocated segment. The vessel was included in Unallocated segment assets at 30 June 2014.

## Note 4. Revenue

| | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Construction contract revenue | $ | 1,390,326 | $ | 1,105,089 |
| Charter revenue | | 23,680 | | 17,453 |
| Interest from other unrelated parties | | 882 | | 321 |
| Total | $ | 1,414,888 | $ | 1,122,863 |

### 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 service contract revenue

Construction and service contract revenue is brought to account based on percentage of completion which is calculated based 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 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

#### Construction contract revenue and expected construction profits at completion.

The assessment of construction 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 construction 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 construction contract cannot be estimated reliably.

Management have made estimates in this area, which if ultimately inaccurate will impact the level of revenue recognised in the Consolidated Statement of Comprehensive Income of FY2015 and beyond.

The percentage of completion is calculated on actual costs over the sum of actual costs plus projected costs to complete the contract and profit is recognised from commencement of the project.

## Note 5. Other income and expenses

| | 2015 '000 | 2014 '000 |
|---|---|---|
| **Other income and expenses** | | |
| Government infrastructure grants | $ 3,373 | $ 3,643 |
| Training reimbursement grants | 7,915 | 8,079 |
| (Loss) / gain on disposal of property, plant and equipment | (371) | 3,582 |
| Gain on disposal of intangible assets | - | 903 |
| Net foreign exchange gains | 12,994 | (495) |
| Sale of scrap | 5,167 | 3,802 |
| Rental income | - | 198 |
| Other income | 2,426 | 2,201 |
| Total | $ 31,504 | $ 21,913 |
| **Finance costs** | | |
| Interest paid to unrelated parties | $ (4,992) | $ (8,742) |
| Total | $ (4,992) | $ (8,742) |
| **Depreciation and amortisation** | | |
| Depreciation excluding impairment | $ (22,736) | $ (21,593) |
| Amortisation | (1,530) | (2,180) |
| Total | $ (24,266) | $ (23,773) |
| **Employee benefits** | | |
| Wages and salaries | $ (337,501) | $ (284,218) |
| Superannuation | (4,822) | (3,840) |
| Share based payments | (1,373) | (383) |
| Workers' compensation costs | (10,085) | (7,640) |
| Annual leave expense | (14,553) | (8,294) |
| Long service leave expense | (45) | (239) |
| Total | $ (368,379) | $ (304,614) |

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

| **Auditor's remuneration** | 2015 $ | 2014 $ |
|---|---|---|
| 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 | $ (293,409) | $ (317,270) |
| Total | $ (293,409) | $ (317,270) |
| 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 entity in the Group | $ (550,900) | $ (320,220) |
| Other services in relation to the entity and any other entity in the Group | - | (1,302) |
| Total | $ (550,900) | $ (321,522) |

### i. Recognition & measurement

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

#### Government grants relating to expense items

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

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

#### Impairment of assets

No impairment charge was recognised by the Group during the period. Refer to Note 19 for details regarding impairment testing of goodwill and intangible assets with indefinite useful lives.

#### Finance costs

Finance costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. 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 goods and scrap

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

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

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

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

## Note 6. Earnings per share

| | | 2015 | 2014 |
|---|---|---|---|
| **Net profit after tax** | | | |
| Net profit attributable to ordinary equity holders of the parent from continuing operations | $'000 | $ 53,225 | $ 31,548 |
| **Weighted average number of ordinary shares** | | | |
| Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share | Number | 342,383,958 | 342,042,581 |
| Effect of dilution | | | |
| Options | Number | 310,571 | 294,589 |
| Performance Rights | Number | 1,831,326 | 399,105 |
| Weighted average number of ordinary shares (excluding reserved shares) adjusted for the effect of dilution | Number | 344,525,855 | 342,736,275 |
| **Earnings per share** | | | |
| Basic earnings per share | $ / share | $ 0.16 | $ 0.09 |
| Diluted earnings per share | $ / share | $ 0.15 | $ 0.09 |

### i. Measurement

Basic earnings per share amounts are calculated by dividing net profit 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

#### Options

Options granted to employees under the Austal Group Management Share Plan and Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 30.

5,870,500 options granted under the aforementioned plans are not included in the calculation of diluted earnings per share because they are not considered to be dilutive. (FY2014: 9,097,740). These options could potentially dilute basic earnings per share in the future.

#### 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 as the conditions would have been met at balance sheet date. The rights are not included in the determination of basic earnings per share. Further information about the performance rights is provided in Note 30.

There have been no other 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

| | 2015 '000 | 2014 '000 |
|---|---|---|
| **Net profit after tax** | $ 53,156 | $ 31,859 |
| **Adjustments for:** | | |
| Depreciation and amortisation | $ 24,266 | $ 23,776 |
| Net (gain) / loss on disposal of property, plant and equipment | 457 | (3,582) |
| Net (gain) / loss on disposal of intangible assets | - | (903) |
| Share based payments | 1,373 | 383 |
| Net exchange differences | (15,067) | 254 |
| Government grants income | (4,986) | - |
| Total | $ 6,043 | $ 19,928 |
| **Changes in assets and liabilities:** | | |
| (Decrease) / increase in provisions for: | | |
| Income tax (current and deferred) | $ 5,753 | $ (7,905) |
| Workers' compensation insurance | 6,225 | (1,222) |
| Warranty | (1,863) | 65 |
| Employee benefits | (1,015) | 2,530 |
| Other provisions | (3,105) | 3,092 |
| (Increase) / decrease in trade & other receivables | 4,483 | 5,970 |
| (Increase) / decrease in inventories | (11,561) | (58,646) |
| (Increase) / decrease in prepayments | (2,224) | 2,703 |
| (Increase) / decrease in other financial assets | - | 4,141 |
| (Decrease) / increase in trade and other payables | 56,506 | 49,757 |
| (Decrease) / increase in progress payments in advance | (2,885) | 7,272 |
| (Decrease) / increase in derivative assets & liabilities | (393) | (17,916) |
| (Decrease) / increase in government grants | 1,314 | - |
| Total | $ 51,235 | $ (10,159) |
| **Net cash (outflow) / inflow from operating activities** | $ 110,434 | $ 41,628 |

## Note 8. Dividends paid and proposed

### i. Dividends on ordinary shares

| | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|
| **Dividends on Ordinary Shares** | | | | |
| Declared and paid during the year (Fully franked dividend (1 cents per share)) | $ | (3,468) | $ | - |
| Proposed and not recognised as a liability (Fully franked dividend (3 cents per share)) | $ | (10,408) | $ | - |

### ii. Franking credit balance

| | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|
| **Opening Balance** | $ | 933 | $ | 583 |
| Franking credits that arose from the payment of income tax instalments during the year | $ | 6,425 | $ | 350 |
| Franking credits distributed | | (1,487) | | - |
| Movement | $ | 4,938 | $ | 350 |
| **Closing Balance** | $ | 5,871 | $ | 933 |

## Note 9. Income and other taxes

### i. Income tax expense

| | 2015 '000 | 2014 '000 |
|---|---|---|
| **Major components of tax expense for the years ended 30 June 2015 and 2014 are:** | | |
| **Consolidated Profit & Loss** | | |
| **Current Income Tax** | | |
| Current income tax charge | $ (22,912) | $ (13,224) |
| Adjustments in respect of current income tax of the previous year | 4,047 | 7,863 |
| Total | $ (18,865) | $ (5,361) |
| **Deferred Income Tax** | | |
| Relating to origination and reversal of temporary differences | $ (3,916) | $ (1,549) |
| Adjustments in respect of deferred income tax of the previous year | (4,756) | (8,375) |
| Total | $ (8,672) | $ (9,924) |
| **Total income tax (expense) / benefit** | $ (27,537) | $ (15,285) |
| **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 | $ 10,771 | $ 1,082 |
| **Total (expense) / benefit charged to OCI** | $ 10,771 | $ 1,082 |
| **Other equity items** | | |
| **Current and deferred income tax related items charged or credited directly to other equity items** | | |
| Capital raising costs | $ - | $ - |
| Deferred gains on revaluation of property, plant and equipment | - | - |
| **Total (expense) / benefit charged to other equity** | $ - | $ - |

**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:**

| | 2015 '000 | 2014 '000 |
|---|---|---|
| **Accounting profit / (loss) before income tax from continuing operations** | $ 80,693 | $ 47,144 |
| **Income tax at the Group's statutory income tax rate of 30% (2014: 30%)** | $ (24,208) | $ (14,142) |
| Adjustment for Austal USA statutory income tax rate of 36.9% (2014: 36.9%) | $ (2,876) | $ (2,289) |
| Other foreign tax rate differences | (462) | 1,145 |
| Branch (profit) / loss | 2 | (865) |
| US section 199 domestic manufacturing deduction | 351 | 1,313 |
| Utilisation of research and development and other tax offsets and credits | 227 | 543 |
| Unrealised foreign exchange losses on intercompany loans | (83) | 306 |
| Adjustments in respect of current and deferred income tax of the previous year | (709) | (513) |
| Other non-assessable or non-deductible items | 220 | (783) |
| Total Adjustments | $ (3,329) | $ (1,143) |
| **Income tax (expense) / benefit reported in the statement of comprehensive income** | $ (27,537) | $ (15,285) |

## ii. Analysis of temporary differences

| | Statement of Financial Position | | | | Consolidated Profit & Loss | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | '000 | | '000 | | '000 | | '000 | |
| **Deferred income tax - USA** | | | | | | | | |
| **Deferred tax assets** | | | | | | | | |
| Trade & other receivables | $ | 585 | $ | 477 | $ | - | $ | (150) |
| Payables | | 7,418 | | 17,205 | | 12,393 | | 8,518 |
| Provisions | | 3,317 | | 5,014 | | 2,568 | | (865) |
| Grant liabilities | | 21,150 | | 18,374 | | 1,264 | | 2,027 |
| Losses available for offset against future taxable income | | - | | 5,092 | | 5,655 | | 3,771 |
| Research and development tax credits | | - | | 19 | | 23 | | 3,879 |
| Work Opportunity tax credits | | 1,558 | | - | | (1,410) | | 413 |
| Charitable donations | | 40 | | 33 | | - | | - |
| Inventories | | 168 | | - | | (168) | | - |
| Total | $ | 34,236 | $ | 46,214 | $ | 20,325 | $ | 17,593 |
| **Deferred tax liabilities** | | | | | | | | |
| Property, plant and equipment | $ | (42,978) | $ | (36,916) | $ | (2,113) | $ | (2,291) |
| Inventories | | - | | (276) | | (276) | | (1,571) |
| Total | $ | (42,978) | $ | (37,192) | $ | (2,389) | $ | (3,862) |
| **Deferred tax assets / (liabilities) - Net** | $ | (8,742) | $ | 9,022 | $ | 17,936 | $ | 13,731 |
| **Deferred income tax - Australia** | | | | | | | | |
| **Deferred tax assets** | | | | | | | | |
| Trade & other receivables | $ | 1,774 | $ | 3,827 | $ | 2,055 | $ | (581) |
| Payables | | 800 | | 284 | | (515) | | (176) |
| Provisions | | 3,918 | | 4,859 | | 938 | | (915) |
| Deferred gains and losses on foreign currency contracts | | 10,609 | | - | | - | | 2,306 |
| Undeducted s.40-880 costs | | 358 | | 539 | | 176 | | (83) |
| Losses available for offset against future taxable income | | 231 | | 218 | | (13) | | (218) |
| Research and development and other tax offsets | | - | | - | | - | | 204 |
| Total | $ | 17,690 | $ | 9,727 | $ | 2,641 | $ | 537 |
| **Deferred tax liabilities** | | | | | | | | |
| Property, plant and equipment | $ | (3,350) | $ | (3,404) | $ | (53) | $ | (318) |
| Inventories | | - | | (11,655) | | (11,660) | | (3,644) |
| Deferred gains and losses on foreign currency contracts | | (251) | | (1,295) | | (192) | | (382) |
| Total | $ | (3,601) | $ | (16,354) | $ | (11,905) | $ | (4,344) |
| **Deferred tax assets / (liabilities) - Net** | $ | 14,089 | $ | (6,627) | $ | (9,264) | $ | (3,807) |
| **Deferred tax expense / (income) booked to Consolidated Profit & Loss** | | | | | **$** | **8,672** | **$** | **9,924** |

## 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 the 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.

Deferred income tax liabilities are recognised for all taxable temporary differences 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 is 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 it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary

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.

### 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 should the head entity default on its tax payment obligations. The possibility of default was assessed to be remote at the balance date.

### v. Tax effect by members of the tax consolidated Group

The current and deferred tax amounts for the tax-consolidated Group are allocated among the entities in the Group using a stand-alone taxpayer approach whereby each entity in the tax-consolidated Group measures its current and deferred taxes as if it 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 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.

### vi. Significant accounting judgements and estimates

Deferred tax assets are recognised for deductible temporary differences as 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. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, 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. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties 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.

### vii. Other taxes

Revenues, expenses and assets are recognised net of the amount of 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

| | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|
| **Current** | | | | |
| Cash at bank and in hand | $ | 138,413 | $ | 74,428 |
| Restricted cash [1] | | 10,055 | | 9,532 |
| **Total Cash per Cash Flow Statement** | $ | 148,468 | $ | 83,960 |

1. Unutilised Go Zone Bond funds may only be spent on those capital works projects that were specifically identified in the documentation issued to investors.

### 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 consist of cash and cash equivalents as defined above, net of cash held as a guarantee for the purposes of the Cash Flow Statement.

## Note 11. Interest bearing loans and borrowings

| | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|
| **Current** | | | | |
| Revolving Credit Facility | $ | - | $ | (12,000) |
| Finance Leases (3) | | (1,791) | | - |
| Bank Loan (unsecured) (1) | | - | | (1,192) |
| Go Zone Bonds (2) | | (145,113) | | - |
| Total | $ | (146,904) | $ | (13,192) |
| **Non - Current** | | | | |
| Go Zone Bonds (2) | $ | - | $ | (142,264) |
| Finance Leases (3) | | (7,658) | | - |
| Total | $ | (7,658) | $ | (142,264) |
| **Total** | $ | (154,562) | $ | (155,456) |

1. The Bank loan was payable by instalments until October 2014, with an average variable interest rate of 4.3% in FY2015.
2. The Go Zone Bonds of US$111.740 million are variable rate demand bonds that are wrapped 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 31 December 2015. The Bonds are payable in US dollars with an average effective interest rate of approximately 2.8% in FY2015.
3. The Finance leases are used to fund mobile equipment and a plot of land in Austal USA. The leases have a term of 5 years and incurred interest at an average rate of 1.7% in FY2015.

### 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 Austal USA between FY2008 & FY2013.

Go Zone Bonds are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 0.043% in FY2015. GZB bondholders are secured by letters of credit issued by Austal's banking syndicate with a maturity date of 31 December 2015 and hence all liabilities relating to the SFA agreement have been disclosed as current at the reporting date. The average cost of the letters of credit in FY2015 was 2.30%.

Austal has redeemed (repaid) a cumulative amount of ~ US$112 million of GZB funds and owes US$111.740 million at 30 June 2015.

Austal has the option of redeeming the outstanding GZB balance, in whole or in part, at any time during the term of the indebtedness with a 30 day notice to bondholders. Austal may choose to redeem these bonds at or before 31 December 2015 or may extend the debt by obtaining an extension to the letters of credit prior to that date.

Austal is in the process of re-financing the Syndicated Facility with the intention of extending / renewing the letters of credit securing the GZB by a minimum term of three years. A mandated lead arranger has been appointed and a term sheet has been signed. Full documentation is being prepared and financial close is expected to occur early in FY2016.

## iii. Banking facilities

| | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|
| **Facilities used at reporting date** | | | | |
| Revolving Credit Facility (1) | $ | - | $ | (12,000) |
| Finance Leases (2) | | (9,449) | | - |
| Bank Loan (unsecured) (3) | | - | | (1,192) |
| Go Zone Bonds (4) | | (145,113) | | (142,264) |
| Contingent Instrument Facility (5) | | (79,965) | | (41,605) |
| Total | $ | (234,527) | $ | (197,061) |
| **Facilities unused at reporting date** | | | | |
| Revolving Credit Facility (1) | $ | (50,000) | $ | (38,000) |
| Finance Leases (2) | | (3,220) | | - |
| Bank Loan (unsecured) (3) | | - | | - |
| Go Zone Bonds (4) | | - | | - |
| Contingent Instrument Facility (5) | | (20,035) | | (58,395) |
| Total | $ | (73,255) | $ | (96,395) |
| **Total Facilities Available** | | | | |
| Revolving Credit Facility (1) | $ | (50,000) | $ | (50,000) |
| Finance Leases (2) | | (12,669) | | - |
| Bank Loan (unsecured) (3) | | - | | (1,192) |
| Go Zone Bonds (4) | | (145,113) | | (142,264) |
| Contingent Instrument Facility (5) | | (100,000) | | (100,000) |
| Total | $ | (307,782) | $ | (293,456) |

1. The Revolving Credit Facility is provided under a Syndicated Facility Agreement (SFA) which was executed on 19 July 2013. The maturity of the SFA is 31 December 2015. Funds borrowed under the Revolving Credit Facility in FY2015 incurred an average variable interest rate of 4.5%.
2. The Finance leases are used to fund mobile equipment and a plot of land in Austal USA. The leases have a term of 5 years and incurred interest at an average rate of 1.7% in FY2015
3. The Bank loan was payable by instalments until October 2014, with an average variable interest rate of 4.3% in FY2015
4. The Go Zone Bonds of US$111.740 million are variable rate demand bonds that are wrapped 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 31 December 2015. The Bonds are payable in US dollars with an average effective interest rate of approximately 2.8% in FY2015.
5. 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).

## iv. 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.

## Note 12. Contributed equity and reserves

| | Shares 2015 | Shares 2014 | '000 2015 | '000 2014 |
|---|---|---|---|---|
| **Ordinary Shares on Issue** | | | | |
| 1 July | 346,544,933 | 346,173,195 | $ 121,210 | $ 120,940 |
| Shares issued during the year | 378,518 | 371,738 | $ 543 | $ 270 |
| 30 June | 346,923,451 | 346,544,933 | $ 121,753 | $ 121,210 |
| **Reserved Shares** | | | | |
| 1 July | (4,350,601) | (4,350,601) | $ (9,612) | $ (9,612) |
| Movement in Reserved shares | 335,062 | - | $ 382 | $ - |
| 30 June | (4,015,539) | (4,350,601) | $ (9,230) | $ (9,612) |
| **Net** | 342,907,912 | 342,194,332 | $ 112,523 | $ 111,598 |

### 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 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 2015 | Shares 2014 |
|---|---|---|
| **Ordinary Shares on Issue** | | |
| 1 July | 346,544,933 | 346,173,195 |
| CEO - Mr Andrew Bellamy | 320,236 | 371,738 |
| Dividend reinvestment plan | 58,282 | - |
| 30 June | 346,923,451 | 346,544,933 |

The movement in ordinary shares during year ended 30 June 2015 is comprised of shares issued as part of Mr Andrew Bellamy's contract of employment as well as a Dividend Reinvestment plan.

Mr Andrew Bellamy's FY2014 employment contract shares were issued on 17 November 2014 and FY2015 H1 shares were issued on 2 February 2015. (Refer to the Remuneration Report on page 15). The volume weighted average price (VWAP) on which the shares were issued was $1.04 for 227,634 shares and $1.31 for 92,602 shares. A dividend reinvestment plan (DRP) was introduced during FY2015. 58,282 additional shares were issued under the DRP during FY2015 at a price of $1.72 per share.

### iii. Nature & purpose of reserves

#### Foreign currency translation reserve (FCTR)

This reserve 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 a hedging instrument in a cash flow hedge that is 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 | 2015 '000 | 2014 '000 |
|---|---|---|
| **Current** | | |
| Infrastructure Development | $ (3,244) | $ (3,550) |
| Total | $ (3,244) | $ (3,550) |
| **Non - Current** | | |
| Infrastructure Development | $ (63,722) | $ (49,892) |
| Total | $ (63,722) | $ (49,892) |
| **Total** | $ (66,966) | $ (53,442) |
| **Movements in Grants** | | |
| Opening Balance | $ (53,442) | $ (57,015) |
| Grants received during the year | $ (4,986) | $ - |
| Amortised to the P&L | 3,673 | 3,643 |
| Exchange rate adjustment | (12,210) | (70) |
| Closing Balance | $ (66,966) | $ (53,442) |

### i. Recognition and measurement

Austal has received grants from various government bodies in Alabama 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 are 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 grant related to expense items, are recognised as income over the periods necessary to match the grant 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

| | 2015 '000 | 2014 '000 |
|---|---|---|
| **Current** | | |
| Trade amounts owing by unrelated entities | $ 104,431 | $ 95,842 |
| Allowance for doubtful debts | (89) | (89) |
| Total | $ 104,342 | $ 95,753 |
| **Non - Current** | | |
| Trade amounts owing by unrelated entities | $ 157 | $ 1,020 |
| Total | $ 157 | $ 1,020 |
| **Total** | $ 104,499 | $ 96,773 |

### 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 reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses 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.

### iii. Allowance account for doubtful debts

Trade receivables of an initial value of $0.089 million (FY2014: $0.089 million) were impaired and fully provided for at 30 June 2015. Movements in impairment allowance account are detailed below:

| | 2015 $'000 | | 2014 $'000 | |
|---|---|---|---|---|
| **Provision for Doubtful Debts** | | | | |
| 1 July | $ | (89) | $ | (1,387) |
| Charge for the Year | $ | (60) | $ | (89) |
| Utilised | | 60 | | 1,387 |
| Movement | $ | - | $ | 1,298 |
| 30 June | $ | (89) | $ | (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 |
| **2015** | '000 | $ 99,155 | $ 1,623 | $ 177 | $ 3,633 | $ (89) | $ 104,499 |
| 2014 | '000 | $ 89,580 | $ 4,430 | $ 435 | $ 2,417 | $ (89) | $ 96,773 |

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.

### 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. Construction contracts in progress

| | 2015 '000 | 2014 '000 |
|---|---|---|
| **Work in Progress** | | |
| Construction revenue recognised to date | $ 5,636,779 | $ 3,603,494 |
| less Progress payments received & receivable | (5,299,051) | (3,275,969) |
| Total due from customers | $ 337,728 | $ 327,525 |
| **Progress Payments Received in Advance** | | |
| Construction revenue recognised to date | $ 266,437 | $ 204,322 |
| less Progress payments received & receivable | (292,614) | (233,384) |
| Total due to customers | $ (26,177) | $ (29,062) |
| **Total due from / (to) customers** | $ 311,551 | $ 298,463 |

### i. Recognition and measurement

Construction work in progress is valued at contract cost incurred to date, plus profit recognised to date, less any provision for anticipated future losses and progress billings. Construction 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.

### ii. Significant accounting judgements and estimates

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

## Note 16. Inventories and work in progress

| | Notes | 2015 '000 | 2014 '000 |
|---|---|---|---|
| **Inventories** | | | |
| Work in progress | 15 | $ 337,728 | $ 327,525 |
| Other stock | | 1,975 | 617 |
| Total | | $ 339,703 | $ 328,142 |

### i. Recognition and measurement

Stock and finished goods are valued at the lower of cost and net realisable value, where costs include production overheads. Cost of stock is determined on the weighted average cost basis.

## Note 17. Trade and other payables

| | Notes | 2015 '000 | 2014 '000 |
|---|---|---|---|
| **Current** | | | |
| Trade & other payables owed to unrelated entities [1] | | $ (223,497) | $ (183,570) |
| Total | | $ (223,497) | $ (183,570) |

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 | Plant & Equipment '000 | Capital WIP '000 | Total '000 |
|---|---|---|---|---|
| **Balance 1 July 2014** | | | | |
| Gross carrying amount | | | | |
| at fair value | $ 316,786 | $ - | $ - | $ 316,786 |
| at cost | 16,404 | 122,974 | 822 | 140,200 |
| Accumulated Depreciation & Impairment | (29,370) | (61,114) | - | (90,486) |
| Net Carrying Amount | $ 303,819 | $ 61,859 | $ 822 | $ 366,500 |
| **Balance 30 June 2015** | | | | |
| Gross carrying amount | | | | |
| at fair Value | $ 389,026 | $ - | $ - | $ 389,025 |
| at cost | 13,838 | 155,590 | 11,704 | 181,132 |
| Accumulated Depreciation & Impairment | (45,173) | (82,461) | - | (127,635) |
| Net Carrying Amount | $ 357,690 | $ 73,128 | $ 11,704 | $ 442,522 |

### ii. Reconciliation of movement for the year

| | Freehold Land & Buildings '000 | Plant & Equipment '000 | Capital WIP '000 | Total '000 |
|---|---|---|---|---|
| **Balance 1 July 2013** | **$ 323,878** | **$ 71,894** | **$ 4,145** | **$ 399,917** |
| Additions | $ 2,269 | $ 5,230 | $ 4,385 | $ 11,884 |
| Transfer in / (out) | 7,930 | (205) | (7,725) | - |
| Disposals | (16,766) | (1,611) | - | (18,377) |
| Depreciation charge for the year | (8,707) | (12,886) | - | (21,593) |
| Exchange Adjustment | (4,785) | (563) | 17 | (5,331) |
| Total | $ (20,059) | $ (10,035) | $ (3,323) | $ (33,417) |
| **Balance 1 July 2014** | **$ 303,819** | **$ 61,859** | **$ 822** | **$ 366,500** |
| Additions | $ 4,955 | $ 12,816 | $ 10,355 | $ 28,126 |
| Transfer in / (out) | (1,154) | 2,118 | (964) | - |
| Disposals | (2,139) | (658) | (15) | (2,812) |
| Depreciation charge for the year | (9,465) | (13,271) | - | (22,736) |
| Exchange Adjustment | 61,674 | 10,264 | 1,506 | 73,444 |
| Total | $ 53,871 | $ 11,269 | $ 10,882 | $ 76,022 |
| **Balance 30 June 2015** | **$ 357,690** | **$ 73,128** | **$ 11,704** | **$ 442,522** |

### 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 frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying value.

The carrying amount would be as follows if land and buildings were measured using the cost model.

| Land & Buildings valued using cost model | 2015 '000 | 2014 '000 |
|---|---|---|
| Cost | $ 379,023 | $ 297,012 |
| Accumulated Depreciation & Impairment | (57,933) | (40,311) |
| Net Carrying Amount | $ 321,090 | $ 256,701 |

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. Depreciation

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 – over 20 to 40 years
- Plant and equipment – over 2 to 10 years

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

### v. Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with 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.

For an asset that does not generate largely independent cash inflows, recoverable amount 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.

### vi. 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.

### vii. Key judgements and accounting estimates

#### Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. As part of the assessment, 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. There were no impairment triggers which were identified and therefore no specific impairment test was required for assets excluding goodwill.

Goodwill is tested annually for impairment regardless of whether impairment triggers are identified. The key assumptions used to determine the recoverable amount for the Australia cash-generating unit (CGU) are disclosed and further explained in Note 19.

### viii. Key judgements and accounting estimates

#### Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience.  In addition, 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.

#### Revaluation of land and buildings

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) |
| Disposals | - | - | - |
| Exchange Adjustment | 641 | - | 641 |
| Total | $ 164 | $ - | $ 164 |
| **Balance 30 June 2015** | **$ 3,174** | **$ 6,463** | **$ 9,637** |
| **Balance 1 July 2014** | | | |
| Cost | $ 13,195 | $ 6,463 | $ 19,658 |
| Accumulated Amortisation & Impairment | (10,185) | - | (10,185) |
| Net Carrying Amount | **$ 3,010** | **$ 6,463** | **$ 9,473** |
| **Balance 30 June 2015** | | | |
| Cost | $ 15,767 | $ 6,463 | $ 22,230 |
| Accumulated Amortisation & Impairment | (12,593) | - | (12,593) |
| Net Carrying Amount | **$ 3,174** | **$ 6,463** | **$ 9,637** |

### 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:

#### Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- its intention to complete and its ability to use or sell the asset
- how the asset will generate future economic benefits
- the availability of resources to complete the asset
- the ability to measure reliably the expenditure during development

The asset is carried at cost less any accumulated amortisation and accumulated impairment losses following initial recognition of the development expenditure as an asset. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in costs of sales. The asset is tested for impairment annually during the period of development.

### Other intangibles

Other intangible assets are initially measured at cost and amortised on a straight-line basis over the estimated useful life of the asset. Impairment testing is conducted annually.

The following useful lives have been adopted as follows:

- Computer software – straight-line over 2.5 years
- Development costs – straight line over 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.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or Group of CGUs) 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 intangible assets with indefinite useful lives

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

The Group tests whether goodwill is recoverable on an annual basis. The recoverable amount of Austal Australia CGU has been determined based on a value in use calculation 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 Australia CGU

The recoverable amount of the Australia CGU is determined based on value in use calculations using five year cash projections from financial budgets that are approved by senior management. The following table sets out the key assumptions:

| | Budget period gross margins [1] | | Growth rate beyond budget period [2] | | Discount rate [3] | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Australia | 17-20% | 10-15% | 0.0% | 5.0% | 13.0% | 15.0% |

1. Budgeted gross margin
2. Weighted average growth rate used to extrapolate cash flows beyond the budget period
3. The Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows in performing the value-in-use calculations for the Australia CGU. The equivalent pre-tax discount rates are disclosed above.

Management determined budgeted gross margin based on past performance and its expectation for the future. The growth rate beyond the budgeted period is consistent with the long term average growth rate of the ship building industry. The discount rate used reflects specific risks relating to the Australian ship building industry.

## iv. Sensitivity to changes in assumptions

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

## Note 20. Collateral

| | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|
| **Collateral** | | | | |
| Collateral [1] | $ | 3,600 | $ | 2,917 |

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.

### ii. Prior year restatement

The $2.917 million was disclosed as cash and cash equivalents in the FY2014 annual report.

# Other liabilities

## Note 21. Provisions

| | | Employee Benefits '000 | | Workers' Compensation '000 | | Warranty '000 | | Other '000 | | Total '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Provisions at 30 June 2014** | $ | (13,723) | $ | (8,144) | $ | (6,575) | $ | (6,285) | $ | (34,727) |
| Arising during the year | $ | (59,204) | $ | (14,604) | $ | (4,924) | $ | (132,368) | $ | (211,100) |
| Utilised | | 56,627 | | 19,799 | | 4,829 | | 129,403 | | 210,658 |
| Unused amounts reversed | | 688 | | 942 | | 2,010 | | 710 | | 4,350 |
| Effects of foreign exchange | | 2,904 | | (12,362) | | (52) | | 5,360 | | (4,150) |
| Movement | $ | 1,015 | $ | (6,225) | $ | 1,863 | $ | 3,105 | $ | (242) |
| **Provisions at 30 June 2015** | $ | (12,708) | $ | (14,369) | $ | (4,712) | $ | (3,180) | $ | (34,969) |

| | | Employee Benefits '000 | | Workers' Compensation '000 | | Warranty '000 | | Other '000 | | Total '000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | | |
| Current | $ | (12,700) | $ | (8,144) | $ | (6,575) | $ | (6,285) | $ | (33,704) |
| Non-Current | | (1,023) | | - | | - | | - | | (1,023) |
| Total | $ | (13,723) | $ | (8,144) | $ | (6,575) | $ | (6,285) | $ | (34,727) |
| **2015** | | | | | | | | | | |
| Current | $ | (11,569) | $ | (14,369) | $ | (4,712) | $ | (3,180) | $ | (33,830) |
| Non-Current | | (1,139) | | - | | - | | - | | (1,139) |
| Total | $ | (12,708) | $ | (14,369) | $ | (4,712) | $ | (3,180) | $ | (34,969) |

### 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 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 1 cent per share was issued for the half year 31 December 2014 and a dividend of 3 cents is proposed and not recognised as a liability for the year ended 30 June 2015 (FY2014: nil).

### Warranties

Provision for warranty is made upon delivery of the vessels based on the estimated future costs of warranty repairs on vessels.

### 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.

### Other

Other includes a provision for refitting a military vessel that is chartered to the US Military Sealift Command, to return the vessel to a passenger ferry specification. This is consistent with the comparative period.

LCS 2 – USS *INDEPENDENCE*

# 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 |
|---|---|---|---|---|
| **2015** | | | | |
| Cash and cash equivalents | 10 | $ - | $ 138,413 | $ 138,413 |
| Restricted cash | 10 | - | 10,055 | 10,055 |
| Trade & other receivables | 14 | - | 104,499 | 104,499 |
| Forward exchange contracts | 23 | 115 | - | 115 |
| Total | | $ 115 | $ 252,967 | $ 253,082 |
| **2014** | | | | |
| Cash and cash equivalents | 10 | $ - | $ 74,428 | $ 74,428 |
| Restricted cash | 10 | - | 9,532 | 9,532 |
| Trade & other receivables | 14 | - | 96,773 | 96,773 |
| Forward exchange contracts | 23 | 8,488 | - | 8,488 |
| Total | | $ 8,488 | $ 180,733 | $ 189,221 |

| Financial Liabilities | Notes | Derivatives used for hedging at fair value '000 | Assets at amortised cost '000 | Total '000 |
|---|---|---|---|---|
| **2015** | | | | |
| Trade & other payables | 17 | $ - | $ (223,497) | $ (223,497) |
| Forward exchange contracts | 23 | (36,074) | - | (36,074) |
| Interest bearing borrowings | 11 | - | (154,562) | (154,562) |
| Total | | $ (36,074) | $ (378,059) | $ (414,133) |
| **2014** | | | | |
| Trade & other payables | 17 | $ - | $ (183,570) | $ (183,570) |
| Forward exchange contracts | 23 | (4,201) | - | (4,201) |
| Interest bearing borrowings | 11 | - | (155,456) | (155,456) |
| Total | | $ (4,201) | $ (339,026) | $ (343,227) |

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.

## Recognised 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.

| Recurring fair value measurement | Notes | Level 1 '000 | Level 2 '000 | Level 3 '000 | Total '000 |
|---|---|---|---|---|---|
| **Balance 30 June 2015** | | | | | |
| **Financial assets** | | | | | |
| Derivatives used for hedging | 23 | $ - | $ 115 | $ - | $ 115 |
| **Financial liabilities** | | | | | |
| Derivatives used for hedging | 23 | $ - | $ (36,074) | $ - | $ (36,074) |
| **Balance 30 June 2014** | | | | | |
| **Financial assets** | | | | | |
| Derivatives used for hedging | 23 | $ - | $ 8,488 | $ - | $ 8,488 |
| **Financial liabilities** | | | | | |
| Derivatives used for hedging | 23 | $ - | $ (4,201) | $ - | $ (4,201) |

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 2015 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

#### Recognised fair value measurements - fair value hierarchy

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 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 2015 | Notes | Level 1 '000 | Level 2 '000 | Level 3 '000 | Total '000 |
|---|---|---|---|---|---|
| Land & buildings | 18 | $ - | $ - | $ 357,690 | $ 357,690 |
| **Balance 30 June 2014** | | | | | |
| Land & buildings | 18 | $ - | $ - | $ 303,819 | $ 303,819 |

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.

For the revaluation of Land & Buildings in June 2012, the Group changed its accounting policy for the measurement of land and buildings to the revaluation model. The Group engaged CB Richard Ellis and Knight Frank to determine the fair value of its land and buildings for USA and Australia respectively. Both firms are accredited independent valuers.

The last independent revaluation was performed on 29 June 2012.

### 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-Jun-15 '000 | Unobservable inputs | Range of inputs (probability-weighted average) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|
| Land - Mobile | US$11,000 | Selection of land with similar approximate utility | US$1.69 - US$2.04 (US$1.70) per $ft^2$ | Higher value of similar land increases estimated fair value |
| Buildings - Mobile | US$304,242 | Consumed economic benefit/ obsolescence of asset | 2.22% | Greater consumption of economic benefit or increased obsolescence lowers fair value. |
| | | Cost per square foot floor area ($ft^2$) | US$100 - $211 ($185) per $ft^2$ | Higher cost per $ft^2$ increases fair value. |
| Land - Henderson | A$8,800 | Selection of land with similar approximate utility | $200-220 ($210) per $m^2$ | Higher value of similar land increases estimated fair value |
| Buildings - Henderson | A$22,900 | Consumed economic benefit/ obsolescence of asset | 2.50% | Greater consumption of economic benefit or increased obsolescence lowers fair value. |
| | | Cost per square meter floor area ($m^2$) | $500 - $1,750 ($998) per $m^2$ | Higher cost per $m^2$ increases fair value. |

## iv. Impairment – non-financial assets

### 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-general 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 | Interest rate swaps |
| Market risk - interest rate | Cash | Sensitivity analysis | Interest rate swaps |
| 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 cred lines and borrowing facilities |

### Objectives and policy

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'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

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 and interest rate swap contracts outstanding at the end of the reporting period.

| Financial Assets | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|
| **Cash and cash equivalents** | | | | |
| Australian variable rate interest | $ | 54,909 | $ | 35,325 |
| US variable rate interest | | 93,559 | | 48,635 |
| Total | $ | 148,468 | $ | 83,960 |
| **Financial Liabilities** | | | | |
| **Interest bearing loans and borrowings** | | | | |
| Australian variable rate interest | $ | - | $ | (13,192) |
| US variable rate interest | | (154,562) | | (142,264) |
| Total | $ | (154,562) | $ | (155,456) |
| **Net Exposure** | $ | (6,094) | $ | (71,496) |

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 1 percentage point movement in interest rates occurred. 1 percentage point was deemed to be a reasonable level of volatility based on FY2015 observations.

| | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|
| **Post tax gain / (loss)** | | | | |
| +1% (100 basis points) | $ | (198) | $ | (686) |
| -1% (100 basis points) | | 198 | | 686 |

## 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 movement 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 US operation. The currencies in which these transactions primarily are 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 attempts to limit 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 hedging techniques
- 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.

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

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

| Judgement of reasonable possible movements | Post tax profit higher / (lower) 2015 '000 | Post tax profit higher / (lower) 2014 '000 | Equity higher / (lower) 2015 '000 | Equity higher / (lower) 2014 '000 |
|---|---|---|---|---|
| **USD / AUD** | | | | |
| +10% | $ (854) | $ (4,727) | $ 3,679 | $ 17,106 |
| -10% | 854 | 4,727 | (5,011) | (17,106) |
| **EUR / AUD** | | | | |
| +10% | $ 1 | $ 2 | $ 868 | $ (1,769) |
| -10% | (1) | (2) | (1,061) | 1,769 |
| **EUR / USD** | | | | |
| +10% | $ - | $ 4,515 | $ 5,420 | $ 4,515 |
| -10% | - | (4,515) | (5,420) | (4,515) |

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.

It is the Group's policy 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.

It is the Group's policy 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. It is the Group's policy 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 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.

It is the Group's policy to continually review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. Austal is in the process of finalising a new syndicated banking facility. The Syndicated Facility Agreement (SFA) matures 31 December 2015 and hence all liabilities relating to the SFA agreement have been disclosed as current at the reporting date.

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

| 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 (i) | (145,113) | (145,525) | - | - | - | (145,525) |
| Finance lease | (9,449) | (1,785) | (3,597) | (3,297) | - | (8,679) |
| Total | $ (378,059) | $ (370,807) | $ (3,597) | $ (3,297) | $ - | $ (377,701) |

(i) Go Zone Bonds are classified with 0 to 1 year to maturity because the letters of credit wrapping the bonds mature on 31 December 2015.

| Balance 30 June 2014 | 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 | $ (377,752) | $ (154,468) | $ (161,766) | $ (81,962) | $ (172) | $ (398,368) |
| Inflow | 381,863 | 155,193 | 165,183 | 82,129 | 172 | 402,677 |
| Net derivative financial assets / (liabilities) | $ 4,111 | $ 725 | $ 3,417 | $ 167 | $ - | $ 4,309 |
| **Non Derivative financial liabilities** | | | | | | |
| Trade & other payables | $ (183,570) | $ (183,570) | $ - | $ - | $ - | $ (183,570) |
| Bank loan (unsecured) | (1,192) | (1,217) | - | - | - | (1,217) |
| Go Zone Bond facility | (142,264) | - | (150,171) | - | - | (150,171) |
| Revolving credit facility | (12,000) | (12,019) | - | - | - | (12,019) |
| Total | $ (339,026) | $ (196,806) | $ (150,171) | $ - | $ - | $ (346,977) |

The Group had $50.000 million (FY2014: $38.000 million) of unused credit facilities available for its immediate use at balance date (refer to Note 11). The Group also has a total of $138.413 million (FY2014: $74.427 million) in cash and cash equivalents, which it is able to use 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 and forward currency options 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.

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Average Forward Rate | Buy '000 | Average Forward Rate | Sell '000 | Average Forward Rate | Buy '000 | Average Forward Rate | Sell '000 |
| **USD / AUD** | | | | | | | | |
| less than 3 months | 0.8398 | $ 2,843 | 0.8286 | $ (607) | 0.9603 | $ 897 | 1.0012 | $ (249) |
| 3 - 12 months | 0.8847 | 85,792 | 0.7720 | (1,008) | 0.9167 | 80,868 | 0.9599 | (3,436) |
| > 12 months | 0.8661 | 29,081 | 0.7644 | (262) | 0.8775 | 131,794 | 0.9713 | (86) |
| Total | | $ 117,716 | | $ (1,877) | | $ 213,559 | | $ (3,771) |
| **EUR / AUD** | | | | | | | | |
| less than 3 months | 0.7343 | $ 477 | 0.6664 | $ (424) | 0.6608 | $ 1,809 | - | $ - |
| 3 - 12 months | 0.6904 | 445 | 0.6111 | (10,850) | 0.7403 | 203 | 0.6400 | (1,382) |
| > 12 months | - | - | 0.5933 | (5,069) | 0.7343 | 477 | 0.6089 | (22,285) |
| Total | | $ 922 | | $ (16,343) | | $ 2,489 | | $ (23,667) |
| **USD / EUR** | | | | | | | | |
| less than 3 months | - | $ - | 1.2313 | $ (1,138) | - | $ - | 1.3322 | $ (782) |
| 3 - 12 months | - | - | 1.3407 | (30,913) | - | - | 1.3709 | (59,448) |
| > 12 months | - | - | 1.3772 | (45,486) | - | - | 1.3941 | (85,849) |
| Total | | $ - | | $ (77,537) | | $ - | | $ (146,079) |
| **GBP / AUD** | | | | | | | | |
| less than 3 months | - | $ - | 0.5223 | $ (74) | - | $ - | 0.6222 | $ (36) |
| 3-12 months | 0.5263 | 1,820 | 0.5563 | (165) | 0.5640 | 1,637 | 0.6126 | (115) |
| > 12 months | 0.5533 | 1,580 | 0.5056 | (77) | 0.5511 | 3,265 | 0.5548 | (552) |
| Total | | $ 3,400 | | $ (316) | | $ 4,902 | | $ (703) |

## 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

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.

| | 2015 '000 | 2014 '000 |
|---|---|---|
| **Operating lease commitments** | | |
| **Future minimum rentals payable under non-cancellable leases as at 30 June are as follows** | | |
| Within one year | $ (2,153) | $ (1,395) |
| After one year but not more than five years | (478) | (1,744) |
| Total | $ (2,631) | $ (3,139) |
| **Capital leases** | | |
| Within one year | $ (1,792) | $ - |
| After one year but not more than five years | (7,658) | - |
| Total | $ (9,450) | $ - |
| **Capital commitments** | | |
| Mobile Equipment - USA | (2,088) | $ (72) |
| Total | $ (2,088) | $ (72) |
| **Guarantees** | | |
| Bank performance guarantees (i) | $ (79,965) | $ (41,605) |

(i) 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 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 dividend of 3 cents per share (FY2014: Nil) 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 2015 | Equity Interest 2014 |
|---|---|---|---|
| Austal Cyprus Ltd | Cyprus | 100% | 100% |
| Austal Egypt LLC | Egypt | 100% | 100% |
| Austal Holdings Inc | USA | 100% | 100% |
| Austal Hull 130 Chartering LLC | USA | 100% | 100% |
| Austal Muscat LLC | Oman | 100% | 100% |
| Austal Philippines Pty Ltd | Australia | 100% | 100% |
| Austal Service Darwin Pty Ltd | Australia | 80% | 80% |
| Austal Service Pty Ltd | Australia | 100% | 100% |
| Austal Ships Pty Ltd | Australia | 100% | 100% |
| Austal Systems Pty Ltd | Australia | 100% | 100% |
| Austal UK Ltd | United Kingdom | 100% | 100% |
| Austal USA LLC | USA | 100% | 100% |
| Hydraulink (NT) Pty Ltd* | Australia | 80% | 80% |
| Austal Middle East Pty Ltd | Australia | 100% | 100% |
| KM Engineering (NT) Pty Ltd* | Australia | 80% | 80% |
| Oceanfast Luxury Yachts Pty Ltd | Australia | 100% | 100% |
| Oceanfast Pty Ltd | Australia | 100% | 100% |
| Seastate Pty Ltd | Australia | 100% | 100% |

*100% owned by Austal Service Darwin Pty Ltd, which itself is 80% owned by Austal Service Pty Ltd.

## Note 28. Related party disclosure

It is Group policy that all transactions with related parties are conducted on commercial terms and conditions.

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

## Note 29. Key management personnel compensation

| | 2015 '000 | 2014 '000 |
|---|---|---|
| Short-term employee benefits | $ 3,566 | $ 3,309 |
| Post-employment benefits | 240 | 164 |
| Termination benefits | 78 | - |
| Long term benefits | 120 | 125 |
| Share-based payment | 460 | 442 |
| Total | $ 4,464 | $ 4,040 |

Detailed remuneration disclosures are provided in the Remuneration Report commencing on page 15.

## 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. This is intended to ensure that executives hold a stake in the Company and to align their interests with those of shareholders.

The board also undertook a review of the LTI scheme following its initial 2 years of operation. The purpose was to ensure that the scheme continued to drive long term executive performance as well as meet normal industry practice. A number of changes were implemented most notably to the award levels as shown below in this section. In addition, following significant market feedback, the TSR award measure has been changed from an absolute TSR to a relative TSR or iTSR.

#### 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 will be three years.

#### Measures of long term performance

The Company will use two long term performance measures:

- TSR 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 and FY2015 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.

### Total Shareholder Return (TSR) measure

TSR has the strongest alignment with shareholders is TSR, however it is recognised that absolute TSR is influenced by overall economic movements, therefore future grants of LTI will be offered to executives that vest based on indexed TSR (iTSR).

iTSR determines the performance of the Group relative to the entire market rather than capturing the absolute performance of the Group.

A relative TSR was considered however it was not possible to identify a comparator group of companies that was statistically robust enough to be meaningful and the Board was concerned that this would undermine the link between executive performance and reward outcomes.

iTSR will apply to future grants of LTI from FY2016 based on a comparison of Austal's TSR against the S&P All Ordinaries Accumulation index "XAOAI"

### 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

1,173,456 (FY2014: 1,049,022) performance rights were issued during the year.

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

| Performance Rights Valuation Inputs | FY2015 | | FY2014 | |
|---|---|---|---|---|
| | Tranche | | Tranche | |
| | 1 | 2 | 1 | 2 |
| Grant date | 30 Oct 2014 | 21 Oct 2014 | 18 Nov 2013 | 13 Dec 2013 |
| Spot price ($) | $ 1.04 | $ 1.04 | $ 0.70 | $ 0.84 |
| Expected volatility (%) | 40% | 40% | 40% | 40% |
| Discount rate (%) | 2.60% | 2.60% | 2.90% | 2.80% |
| Dividend yield (%) | Nil | Nil | Nil | Nil |
| Staff turnover | Nil | Nil | Nil | Nil |
| Expected life of option (years) | 3 | 3 | 3 | 3 |
| Fair value of right at grant date | 0.70 | 0.65 | 0.34 | 0.44 |

### ii. Employee Share Option Plan (ESOP)

The ESOP was established in 2006 and replaced by the LTIP in 2012. No options have been issued under ESOP since December 2011.

The ESOP aimed to reward executives and senior managers with the issue of share options commensurate with their position and responsibilities within the Group. The Group used Total Shareholder Return (TSR) as the performance hurdle for the ESOP.

### Summaries of options granted under ESOP

The following table illustrates the movement in share option holdings and weighted average exercise prices (WAEP) during the year:

| Summary of options ESOP | 2015 Number | | 2015 WAEP | 2014 Number | | 2014 WAEP |
|---|---|---|---|---|---|---|
| **Outstanding at the beginning of the year** | **6,531,736** | **$** | **2.52** | **7,190,486** | **$** | **2.49** |
| Exercised during the year | - | $ | - | - | $ | - |
| Forfeited during the year | (210,000) | | 2.15 | (658,750) | | 2.23 |
| **Outstanding at the end of the year** | **6,321,736** | **$** | **2.53** | **6,531,736** | **$** | **2.52** |
| **Exercisable at the end of the year** | **6,321,736** | | | **2,826,736** | | |

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

| Tranche | Grant date | Expiry Date | Exercise Price | No. of share options at year end: Outstanding | Exercisable |
|---|---|---|---|---|---|
| **2** | 13-Sep-07 | 13-Sep-14 | $ 3.60 | 311,236 | 311,236 |
| **3** | 24-Oct-07 | 24-Oct-14 | 3.60 | 140,000 | 140,000 |
| **4** | 10-Sep-08 | 10-Sep-15 | 2.40 | 725,500 | 725,500 |
| **5** | 03-Nov-09 | 03-Nov-16 | 2.95 | 1,505,000 | 1,505,000 |
| **8** | 27-Sep-10 | 27-Sep-17 | 2.34 | 1,925,000 | 1,925,000 |
| **9** | 21-Oct-11 | 21-Oct-18 | 2.15 | 1,715,000 | 1,715,000 |
| Total | | | | **6,321,736** | **6,321,736** |

### iii. Austal Group Management Share Plans (AGMSP)

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

- 398,539 shares allocated under Plan 1 and Plan 2 with a weighted average price of $1.33 each, with no contractual life, and
- 3,617,000 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 were 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:

| | 2015<br>'000 | 2014<br>'000 |
|---|---|---|
| **Summary of options granted under AGMSP** | | |
| **Outstanding at the beginning of the year** | 1,066 | 1,351 |
| Granted during the year | - | - |
| Exercised during the year | (335) | - |
| Forfeited during the year | - | (285) |
| **Outstanding at the end of the year** | 731 | 1,066 |

All remaining options were fully vested and exercisable throughout the year

## iv. CEO fixed remuneration share rights issue

The structure of Base Remuneration for the CEO has been changed post balance date.

The previous structure provided for the following base remuneration for the CEO:

- Fixed cash remuneration
- Fixed share based remuneration equal to 30% of the fixed cash remuneration. The number of shares are based on the volume weighted average closing price of ASB shares in each 6 month period.
- The fair value of the share rights has been determined based on the Company share price at the grant date of 30 October 2014, being the date of the 2014 annual general meeting at which the share rights were approved.

| Name | Period earned | Grant date | Granted | Fair value per share | Fair value |
|---|---|---|---|---|---|
| Andrew Bellamy | FY2015 H1 | 30 Oct 2014 | 92,602 | $ 1.30 | $ 120,383 |
| Andrew Bellamy | FY2015 H2 | 30 Oct 2014 | 68,598 | 1.30 | 89,177 |
| Total | | | 161,200 | | $ 209,560 |

The Board resolved to amend and simplify the fixed remuneration structure subsequent to the year end, to reflect general market practice.

A new base remuneration consisting solely of cash was set post balance date for the period 1 January 2015 to 30 June 2015. The fixed cash remuneration was increased by 30% of the previous fixed cash remuneration. The increase in the fixed cash remuneration was equal to the previous share based fixed remuneration.

The FY2015 H1 share rights provided as fixed remuneration have been converted into shares. The FY2015 H2 share rights will not be converted into shares due to the cash settlement subsequent to the year end.

## v. Recognition and measurement - 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)
- Employee Share Option Plan (ESOP)
- The Long Term Incentive Plan (LTI Plan)
- CEO shares

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Monte Carlo model.

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 number of entitlements included in expense recognition is adjusted to an estimate of the ultimate number of entitlements expected to vest where non-market performance conditions must be satisfied.

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.

## vi. Recognised share-based payment expenses

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

| | 2015 '000 | 2014 '000 |
|---|---|---|
| **Share Based Payments Expense** | | |
| Expense arising from equity-settled share-based payment transactions | $ (1,373) | $ (383) |

## Note 31. Parent entity

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

| Balance sheet | | 2015 '000 | | 2014 '000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Current | $ | 108,498 | $ | 239,735 |
| Non - Current | | 297,056 | | 176,776 |
| Total | $ | 405,554 | $ | 416,511 |
| **Liabilities** | | | | |
| Current | $ | (46,392) | $ | (28,135) |
| Non - Current | | (18,307) | | (19,980) |
| Total | $ | (64,699) | $ | (48,115) |
| **Net Assets** | $ | 340,855 | $ | 368,396 |
| **Equity** | | | | |
| Contributed Equity | $ | 112,523 | $ | 111,598 |
| Employee benefits reserve | | 7,685 | | 6,750 |
| Asset revaluation reserve | | 8,246 | | 8,247 |
| Cash flow hedge reserve | | (20,184) | | 8,675 |
| Retained earnings | | 232,585 | | 233,126 |
| Total | $ | 340,855 | $ | 368,396 |

| Income | | | | |
|---|---|---|---|---|
| Net Profit / (Loss) after tax | $ | 2,928 | $ | 39,563 |
| Total Comprehensive Income | | (25,519) | | 39,563 |

# 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 2015 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 2015.

On behalf of the Board.

John Rothwell AO
Chairman

25 August 2015

LCS 2 – USS *INDEPENDENCE*

Building a better working world

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# Independent audit report to members of Austal Limited

## 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 2015, 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:

a. the financial report of Austal Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. 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 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Robert A Kirkby
Partner
Perth
25 August 2015

# Shareholder information

The following information was extracted from the Company's register at 13 August 2015.

## Distribution of shares

| | Number of holders | Number of shares | % of Total issued capital |
|---|---|---|---|
| 1 - 1000 | 1,566 | 750,375 | 0.22% |
| 1,001 - 5,000 | 1,915 | 5,182,203 | 1.49% |
| 5,001 - 10,000 | 700 | 5,344,876 | 1.54% |
| 10,001 - 100,000 | 755 | 19,735,927 | 5.69% |
| 100,001 and over | 69 | 315,910,070 | 91.06% |
| Total | 5,005 | 346,923,451 | 100.00% |

## Twenty largest shareholders

| Rank | Shareholder | Number of holders | % of Total issued capital | Substantial shareholder |
|---|---|---|---|---|
| 1 | HSBC Custody Nominees (Australia) Limited | 82,088,257 | 23.66% | Yes |
| 2 | J P Morgan Nominees Australia Limited | 60,697,725 | 17.50% | Yes |
| 3 | National Nominees Limited | 37,347,233 | 10.77% | Yes |
| 4 | Citicorp Nominees Pty Ltd | 34,937,510 | 10.07% | Yes |
| 5 | Austro Pty Ltd | 32,200,745 | 9.28% | Yes |
| 6 | RBC Investor Services Australia Nominees Pty Limited | 12,779,593 | 3.68% | |
| 7 | Onyx (WA) Pty Ltd | 8,317,570 | 2.40% | |
| 8 | BNP Paribas Noms Pty Ltd | 5,807,717 | 1.67% | |
| 9 | Mr Vincent Michael O'Sullivan | 4,164,000 | 1.20% | |
| 10 | Austal Group Management Share Plan Pty Ltd | 4,015,818 | 1.16% | |
| 11 | Garry Heys & Dorothy Heys | 2,844,670 | 0.82% | |
| 12 | RBC Investor Services Australia Nominees Pty Limited | 2,730,973 | 0.79% | |
| 13 | UBS Nominees Pty Ltd | 2,644,953 | 0.76% | |
| 14 | Mr William Robert Chambers | 2,325,650 | 0.67% | |
| 15 | Mirrabooka Investments Limited | 2,000,000 | 0.58% | |
| 16 | Lavinia Shipping Ltd | 2,000,000 | 0.58% | |
| 17 | Mossisberg Pty Ltd | 1,922,000 | 0.55% | |
| 18 | Bond Street Custodians Limited | 1,594,718 | 0.46% | |
| 19 | Navigator Australia Ltd | 1,517,257 | 0.43% | |
| 20 | Warbont Nominees | 1,374,717 | 0.40% | |
| | Total | 303,311,106 | 87.42% | |

## Voting rights

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

# Corporate governance statement

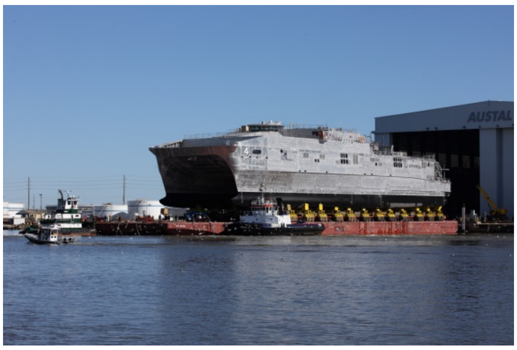
The Company has elected to post its Corporate Governance Statement on its website in accordance with ASX Listing Rule 4.10.3. The Corporate Governance Statement can be found at the following URL: www.austal.com/corporategovernance.

# Corporate Directory

JHSV 1 - USNS *Spearhead*

JHSV 2 - USNS *Choctaw County*

JHSV 3 - USNS *Millinocket*




JHSV 4 - USNS *Fall River*

## Directors

### Executive Directors

Andrew Bellamy

### Non-Executive Directors

Giles Everist
Jim McDowell
John Rothwell
David Singleton

## 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
Facsimile: +61 8 9410 2564

## Share registry

Advanced Share Registry Services

110 Stirling Highway
Nedlands 6009
Western Australia
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Facsimile: +61 8 9389 7871