



Austal Limited

Appendix 4E for the year ended 30 June 2014

1. The reporting period is from 1 July 2013 to 30 June 2014. The previous corresponding period is 1 July 2012 to 30 June 2013.

2. Results for announcement to the market.			\$'000
2.1 Revenue from ordinary activities	up 24.8% to		\$ 1,122,863
2.2 Profit (loss) from ordinary activities after tax	down 11% to		\$ 31,859
2.3 Net profit for the period attributable to members	down 12% to		\$ 31,548
2.4 Dividend distributions			
No dividends is payable with respect to the year ended 30 June 2014.			
2.5 Record date for determining entitlements to the dividends		N/A	
2.6 Explanation of figures in 2.1 to 2.4 that may be required		Refer to Review of Operations within the Annual Report	
3. Statement of comprehensive income with notes		Refer to Annual Report	
4. Statement of financial position with notes		Refer to Annual Report	
5. Statement of cash flows and notes		Refer to Annual Report	
6. Statement of changes in equity		Refer to Annual Report	
7. Details of dividend or distribution reinvestment plans		N/A	
8. Details of dividends or distributions		N/A	
9. Net tangible assets per ordinary security			
9.1 Current period (\$ / share)		\$	1.24
9.2 Previous corresponding period (\$ / share)		\$	1.15
10. Control gained or lost over entities during the period			-
11. Details of associates and joint venture entities		N/A	
12. Other significant information		Refer to Annual Report	
13. Accounting standards used by foreign entities			
The financial statements of subsidiaries are prepared using consistent accounting policies for the same reporting period as the parent company. The foreign entities including Austal USA prepare their accounts under accounting standards that are equivalent to International Financial Reporting Standards.			
14. Commentary on the result			
14.1 Earnings per share			
Current period – basic		\$	0.09
Previous corresponding period – basic		\$	0.12
Current period – diluted		\$	0.09
Previous corresponding period – diluted		\$	0.12
14.2 Returns to shareholders including distributions and buy backs			
No dividends were declared with respect to the year ended 30 June 2014.			
14.3 Significant features of operating performance		Refer to Annual Report	
14.4 Segment results		Refer to Annual Report	
14.5 Trends in performance		Refer to Annual Report	
14.6 Other factors affecting the results in period or future		Refer to Annual Report	
15. Audit / review of accounts upon which this is based		Audited accounts	
16. Accounts not audited or subject to review		N/A	
17. Qualifications of audit/review		No qualifications	





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## Chairman's report

It is my pleasure to present the 2014 Annual Report to you on behalf of the Board of Austal Limited.

The past 12 months represented a year of solid operational improvement and strengthening of the balance sheet by generation of cash and repaying of debt. In that time our Group:

- Exceeded revenue guidance of \$1 billion.
- Concluded the sale of surplus assets in Henderson and used proceeds to repay debt.
- Maintained a strong focus on cash generation also used to repay debt.
- Made operational improvements at our US shipyard, which translated into improved shipbuilding margins and profit growth.
- Confirmed funding for two more Littoral Combat Ships under our existing contract with the US Navy.
- Secured new shipbuilding contracts with the Royal Navy of Oman and the Abu Dhabi National Oil Company.
- Matured delivery of the US Navy and Australian Customs contracts such that the outlook is one of lower risk and more predictable earnings.
- Successfully delivered an 80 m high speed ferry from the Philippines Shipyard Operation and grew local capability.
- Profitability grew Support activities following the restructure and consolidation in FY2013.

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 \$31.859 million in FY2014, compared to \$35.742 million in FY2013. FY2014 earnings before interest, tax, depreciation and amortisation were \$79.338 million for the year compared to \$62.575 million in FY2013. The improvement in earnings was driven by stronger shipbuilding margins in our US and Australian shipyards as existing programs matured.
- Revenue for the year grew by 24.8 per cent from \$899.491 million in FY2013 to \$1,122.863 million.

- US operations was the largest contributor to revenue, delivering \$933.615 million (FY2013: \$747.739 million) and \$61.682 million in earnings before interest and tax (EBIT) (FY2013: \$50.100 million) as Austal continued to perform work on its major Littoral Combat Ships (LCS) and Joint High Speed Vessels (JHSV) contracts for the US Navy.
- Australian operations delivered an improved result as the Cape Class program matured with \$241.912 million in revenue (FY2013: \$144.058) and \$16.684 million EBIT (FY2013: \$0.041 million).
- Philippines Operation reported a \$2.703 million EBIT (FY2013: \$5.020 million).

Group net debt was reduced to \$68.579 million (FY2013: \$137.074 million) with proceeds from the sale of surplus assets and cash generated from operations being used to repay long term debt.

### Reconciliation of EBITDA:

	2014 \$'000	2013 \$'000
<b>Profit before income tax</b>	\$ 47,144	\$ 26,726
Finance costs	\$ 8,742	\$ 13,571
Finance income	(321)	(2,231)
<b>EBIT</b>	<b>\$ 55,565</b>	<b>\$ 38,066</b>
Depreciation	\$ 21,593	\$ 21,914
Amortisation	2,180	2,595
<b>EBITDA</b>	<b>\$ 79,338</b>	<b>\$ 62,575</b>

EBITDA is a non-IFRS measure. The information is unaudited but is extracted from the audited financial statements.

EBITDA is used by management to understand cashflows within the group.

### Board and senior management

Giles Everist joined the Board as an Independent Director in November 2013 and brings extensive financial experience to the team.

The senior management team has remained stable during the year and the focus has been on increasing the sustainability of the organisation.

### Strategy and governance

The Board has been actively engaged in the strategy development risk assessment process. This has provided clear direction to senior management about growth objectives. These objectives are now incorporated into both short term and long term incentive programs for executives. The Group's risk management framework has been

refreshed during the year at both a strategic and corporate level. Both the Audit and Risk committee and Remuneration committee have been involved in that process to ensure that the necessary controls and governance are in place.

Austral has the opportunity to leverage its intellectual property in new markets and new opportunities to expand the engineering services business.

## Outlook

The significant steps we took to transform Austral in the year have placed the Group in a stronger position to deliver on our significant order book and progress the operational improvements we have made. The US Navy funded an additional US\$680 million of work in the 12 months, taking the Group order book to \$2.8 billion as at 30 June 2014. This secures revenue through CY2018. With a record amount of work in hand, our focus is to deliver prudent cash management and continue to drive operational improvements across our businesses, with a near-term view to return dividends to shareholders.

I would like to acknowledge our employees for their loyalty and hard work during the year. The achievements we made would not have been possible without their professionalism and dedication, and to shareholders, thank you for your ongoing support of Austral during the year. I am pleased that we have delivered on the operational and financial performance to drive shareholder value, and your Board will focus on continuing to achieve this objective.



John Rothwell AO  
Chairman



## Chief Executive Officer's report

Austal was able to sustain and build upon the prior year's significant operational improvements. This translated into improved operating profit before tax for the Group.

### Financial summary

Year ended 30 June	2014 \$'000	2013 \$'000
Revenue*	\$ 1,122,863	\$ 899,491
EBIT	\$ 55,565	\$ 38,066
Net Interest (Expense) / Income	(8,421)	(11,340)
Operating Profit Before Tax	\$ 47,144	\$ 26,726
Tax (Expense)/Benefit	\$ (15,285)	\$ 9,016
Operating Profit After Tax	\$ 31,859	\$ 35,742
% EBIT/Revenue	4.9%	4.2%
Basic Earnings Per Share (\$ per share)	\$ 0.09	\$ 0.12
Net Assets	\$ 433,232	\$ 407,187
Return on Invested Capital (%)	7.8%	5.5%

\*Excludes other income

### Operational improvements

Management's focus was to implement further operational improvements to sustain and enhance the turn-around in operating profit which began in the prior year. Improving margins at our state of the art shipyard in the US, where Austal is contracted to construct Littoral Combat Ships (LCS) and Joint High Speed Vessels (JHSV) for the US Navy was the primary driver in improved profitability for the Group. Both programs are maturing well with the number of design changes reducing and the workforce stabilising. Austal delivered JHSV 3 to the US Navy and JHSV 4 was launched. LCS 4 was delivered and LCS 6 was launched. Construction of LCS 6, 8, 10 and 12 progressed well. The award of two service and support contracts for the US Navy is an indicator of the future potential for service work.

Operational improvements at our Australian shipyard delivered a profitable result after a difficult few years, as production of the Cape Class Patrol Boats (CCPB) matured. The \$330 million contract progressed well with two vessels delivered and a further six CCPB in production. The design of two High Speed Support Vessels (HSSV) for the Royal Navy of Oman is underway following the contract award in March.

The Philippines shipyard delivered an 80m high speed ferry to Tahiti and a further three wind farm support vessels to the UK. A positive financial result is pleasing as we continue to invest in the development of capability in the yard.

This year saw the establishment of a production design team as well as small component manufacture for Australian operations. The two ferries contracted to the Abu Dhabi National Oil Company (ADNOC) in April are being constructed in the Philippines shipyard.

Consolidation of the Henderson Service base into the Henderson shipyard yielded an improved financial performance in the year. All three business units are now generating income from both shipbuilding contracts and from Service and Systems activities.

### Strategy

We made significant progress in implementing the strategic plan, which included further reducing gearing through a reduction in net debt to strengthen the balance sheet. This was achieved from the proceeds of the sale of the surplus Henderson Service Base and from cash generated by operations.

The order book grew to \$2.8 billion following appropriation of funds in line with US Navy contracts. This secures work through 2018 with two additional LCS funded in the year. The new contract for two HSSV for the Royal Navy of Oman is strategically significant because it is the first example of the JHSV concept being adopted in a new and important region. The ADNOC ferry contract underlines our competitiveness with the establishment of the Philippines shipyard.

Our strategy is clear for the year ahead. Austal will strive to improve margins in the US through operational efficiency. Australian Operations will expand to deliver the Cape Class Patrol Boat and HSSV contracts and continue to target opportunities for domestic and export defence contracts. Technology transfer to the Philippines Operation will continue, and capacity will be expanded in line with market potential. The Philippines shipyard will increase the supply of small components within the Group to increase the competitiveness of the Group as a whole.

All three business units will pursue service and systems opportunities from their well-established shipbuilding operations.

A prudent cash management focus will ensure that costs and inflows are aligned. This will enhance Austal's ability to deliver on the record amount of work in progress and strategic objectives.



## People

Our Values of Excellence, Customer, Integrity and Teamwork have been the basis for many tangible and sustainable business successes throughout the year.

I'd like to thank all of our employees and other stakeholders for their hard work, commitment and loyalty.

We have continued to invest in our people and developed greater depth of talent. This has presented opportunities for many employees to grow and we have augmented this with some important external recruits to increase our skills and experience. The organisation is stronger and more sustainable as a result.

## Outlook

Austal is better positioned to deliver on the order book as a result of improved margins and strengthening the Group's balance sheet in FY2014.

We will sustain the operational improvements and shipbuilding margins, delivering on our two major contracts for the US Navy, the LCS and JHSV. We expect further LCS to be funded in FY2015 as per the contract. The US Navy has demonstrated strong ongoing support to the high performance, low-cost LCS despite sequestration. Austal is well positioned to win new US Navy construction and vessel support contracts.

The translation of profits from our US operations are directly impacted by the USD / AUD exchange rate. We could see a benefit in profit translation with markets forecasting weakening of the AUD. A weaker AUD also improves the international competitiveness of our Australian business.

We will continue to improve productivity in our Australian operations as production of the remaining Cape Class Patrol Boats matures. We are well prepared for the start of construction for the two HSSV for Oman. A good number of opportunities exist to construct similar vessels for both domestic and export defence markets.

We will invest in developing capabilities in the Philippines Operations whilst we pursue new commercial contracts. For the first time we have established a production design team in the Philippines. We will continue to build upon the successful supply of small components from the Philippines across the Group.

Our Service and Systems products have been developed in preparation for deployment to US and Australian defence vessels. This activity grew in FY2014 and will continue to do so. It is expected that these products become a core part of our business in the medium term.

Future success will be built upon further improving operating margins, implementing production efficiencies, and prudent cash management. We will incrementally increase our sales, marketing and research and development spend to ensure we maintain a strong pipeline of work. These measures will ensure that Austal is well positioned to deliver its strategic objectives to generate returns for shareholders.

Andrew Bellamy  
Executive Director and Chief Executive Officer



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	2014 \$'M	2013 \$'M
Revenue	\$ 933.615	\$ 747.739
EBIT	61.682	50.100
EBIT Margin	6.6%	6.7%

Austal's US operations continued to be the biggest contributor to earnings.

Austal USA enhanced its contract management skills as prime contractor and has delivered improved EBIT margins from shipbuilding activities.

FY2014 was Austal USA's first full year as a prime contractor to the US Navy for both the LCS and JHSV programs. The pass through revenue related to systems integration which is undertaken by major sub-contractors had a dilutive effect on EBIT margin compared to the prior year.

Continued focus on skills development and stabilisation of the workforce within the target range of 4,100 – 4,200 has produced a tangible improvement in labour productivity which transitions Austal down the learning curve as the programs progress.

Supply chain activities were focussed on improvements to material planning and logistics, reduced inventory levels, optimisation of economic order quantities, and greater alignment with supplier production schedules to realise material cost reductions.

Management maintained a stringent focus on cash management. Capital expenditure was restricted to sustaining activities having completed a major period of investment in FY2013.

Two more vessels were added to the order book after funds for LCS 18 & 20 - the seventh and eighth LCS under the US\$3.5 billion contract – were appropriated by Congress in March 2014. These projects added a further US\$680 million to the order book and secured funding for the LCS program through until 2018.

There was significant progress in both the JHSV and LCS programs during the year.

JHSV 3, USNS *Millinocket* was delivered in March 2014 after successfully completing acceptance trials in January, JHSV 4, USNS *Fall River* was launched in January and the keel of JHSV 5, USNS *Trenton* was laid in March 2014. Productivity improvement opportunities identified in the early stages of the

program are being effectively incorporated into subsequent vessels.

USNS *Coronado* (LCS 4), the US Navy's fourth LCS and second built by Austal USA and General Dynamics, completed acceptance trials and was delivered to the US Navy during FY2014.

USNS *Jackson* (LCS 6) – the first LCS being built by Austal as the prime contractor under the 10-vessel contract – was launched in January 2014 with delivery scheduled to occur in FY2015. Construction of LCS 8 and LCS 10 continued with the keel laying for LCS 10 performed in April 2014.

### Australian operations

Year ended 30 June	2014 \$'M	2013 \$'M
Revenue	\$ 241.912	\$ 144.058
EBIT	16.684	0.041
EBIT Margin	6.9%	0.0%

Austal's Australian operations delivered a significant increase in EBIT and EBIT margin in FY2014.

This result was driven by productivity gains and cost optimisation achieved at the Henderson shipyard on the \$330 million contract to design, construct and service the Cape Class Patrol Boat for Australian Customs and Border Protection. The second Cape Class Patrol Boat *Cape Byron* was delivered in May 2014 and there was a further increase in construction activity on subsequent patrol boats, with all eight due to be completed by August 2015.

The margin uplift was also driven by the consolidation of Henderson based service and construction activities into one shipyard which yielded a reduction in overhead cost, increased asset utilisation and increased labour efficiency. Service revenue was underpinned by the docking of two Royal Australian Navy Armidale Class Patrol Boats.

The transition of the Australian business into a Defence organisation has necessitated and supported a build-up of systems integration and sustainment skills and capabilities.

The award of two 72 m HSSV for the Royal Navy of Oman in March 2014 increased the order book for Australia by \$142M and extends contracted work until the end of FY2016.

## Philippines operations

Year ended 30 June	2014 \$'M	2013 \$'M
Revenue	\$ 33.767	\$ 39.986
EBIT	2.703	5.020
EBIT Margin	8.0%	12.6%

The Philippines Operations successfully completed the construction of an 80 metre commercial vehicle / passenger ferry which was delivered to Tahiti in the second quarter of FY2014 and also completed the construction of three wind farm vessels for operation in Europe.

The year on year fall in revenue and EBIT was caused by the reduction in activities following the completion of the 80 metre ferry. Throughput is expected to pick up again in FY2015 after the award of two 48 m crew transfer vessels for delivery to ADNOC.

The award of the two vessels added US\$27.8M to the Philippines Order book and provides contracted work through FY2015.

The Philippines Operations entered the Service market in FY2014 by supporting the docking of Austal vessels in Europe and Asia.

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.

The capital investment program to establish the footprint for infrastructure required to construct larger vessels (80 – 130 m in length) was completed on schedule.

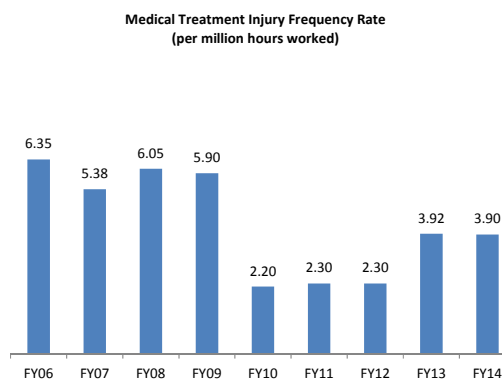
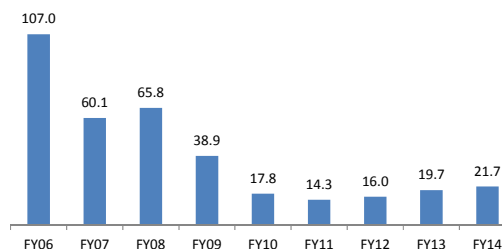
The Group continues to focus on capability development with the objective of the Philippines becoming self-sustaining. The two key areas of focus are on production / project management and the establishment of a Philippines based design team.

## Safety performance

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

Safety performance in Austal's Australian Operations was particularly pleasing in FY2014 with zero lost time injuries (LTIs) incurred whilst labour hours exceeded 1 million hours. Australia received 13 Industrial Foundation for Accident Prevention awards and attained a Gold level Safe Way achiever award for the 4<sup>th</sup> consecutive year.

Austal reports safety performance in accordance with AS1885.1.



## Occupational health and safety policy

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.

## Directors' report

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2014.

### 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.)



### 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.



JHSV 4

## 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 <sup>^</sup>	Performance Rights <sup>^^</sup>
John Rothwell	32,200,745	-	-
Dario Amara	50,000	-	-
David Singleton	28,600	-	-
Andrew Bellamy	566,928	280,000	287,313
Giles Everist	50,000	-	-

<sup>^</sup>This represents options granted from the Employee Option Share Plan (ESOP) (refer to Note 29 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.

<sup>^^</sup>This represents performance rights granted from the Long Term Incentive Plan (LTIP). (Refer to Note 29 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 \$31.859 million after income tax (FY2013: \$35.742 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

No dividend has been declared for FY2014 (FY2013: Nil).

## Significant events after the balance date

The Group announced the completion of the sale of Hull 270 (102 m stock vessel) on 20 August 2014 for \$61.500 million.

## 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 2014.

## 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 29 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

To the extent permitted by law, the parent entity has agreed to indemnify its auditors, Ernst & Young, 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		
	Austral Limited Board	Audit & Risk Committee	Nomination & Remuneration Committee
Number of meetings held	8	4	2
Number of meetings attended:			
John Rothwell	8	-	2
Dario Amara	8	4	-
David Singleton	6	3	2
Giles Everist *	3	2	2
Andrew Bellamy **	8	4	2

\* Giles Everist joined the board in November 2013 and both subcommittees in January 2014. Three Board meetings, two Audit & Risk Committee meetings and two Nomination & Remuneration Committee meetings were held after that date.

\*\* Andrew Bellamy attended all Audit & Risk and Nomination & Remuneration committee meetings as a guest of each committee.



## 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

Dario Amara^  
Giles Everist  
David Singleton

### Nomination and Remuneration

David Singleton^  
Giles Everist  
John Rothwell

^ Designates the Chairman of the committee.

## 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.

## Message from the Nomination and Remuneration Committee

Dear Shareholders,

The achievements over the past year would not have been possible without the hard work and dedication of our people throughout the Group. The leadership shown by our CEO and his executive team has been instrumental to this success.

Fundamental to our on-going success is our ability to attract, reward and retain talented individuals across our entire business through the implementation of a comprehensive human capital strategy, of which remuneration is an important part. Our remuneration policy and practices need to be sensitive to the need to preserve our capital and provide long term sustainable returns to shareholders.

We seek to take a leadership position in this important area of governance. We have engaged with shareholder groups, our executives and other stakeholders to ensure that we get the balance right in arriving at our approach. As a global Group, we have also considered remuneration guidelines, regulations, laws and market practices in all the major jurisdictions in which we operate, including the USA, where a number of our key personnel are located, however it is the ultimate responsibility of the Board to ensure that the remuneration arrangements meet the needs of our business.

We recognise that there is always room for improvement and one of our areas of focus this year has been on shareholder communication in general and our disclosures in our Annual Report in particular.

It is with pleasure that we set out below our FY2014 Remuneration Report. We hope that you find it both clear and concise. I look forward to engaging with you at our Annual General Meeting or other such opportunity in the future.

Yours sincerely



David Singleton  
Chairman, Nomination and Remuneration Committee



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## Remuneration report (audited)

This Remuneration Report for the year ended 30 June 2014 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. Key Management Personnel (KMP)
2. Relationship between remuneration and Austal Limited's performance
3. Remuneration governance
4. Executive remuneration
5. Remuneration Structure
6. Board composition
7. Non-executive Director remuneration
8. Remuneration of key management personnel
9. Details of contractual provisions for KMP
10. Options granted or vested during the period
11. Performance rights granted or vested during the period
12. Shares granted or vested during the period
13. Equity instruments held by KMP
14. Loans to KMP
15. Other transactions with KMP

### 1. Key Management Personnel (KMP)

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

KMP for the year ended 30 June 2014 were as follows:

Executives	Non-executive Directors
<p><b>Executive directors</b></p> <p>Mr Andrew Bellamy      Chief Executive Officer</p>	<p>Mr John Rothwell      Non-Executive Chairman</p> <p>Mr Dario Amara      Independent Director</p> <p>Mr Giles Everist <sup>(1)</sup>      Independent Director</p> <p>Mr David Singleton      Independent Director</p>
<p><b>Executives with no Director duties</b></p> <p>Mr Graham Backhouse      President Australia</p> <p>Mr Greg Jason      Group Chief Financial Officer</p> <p>Mr Brian Leathers      Chief Financial Officer USA</p> <p>Mr Craig Perciavalle      President USA</p> <p>Mr Joselito Turano      President Philippines</p>	
	<p>(1) Mr Giles Everist joined the Board of Directors in November 2013.</p>

### 2. Relationship between remuneration and Austal Limited's performance

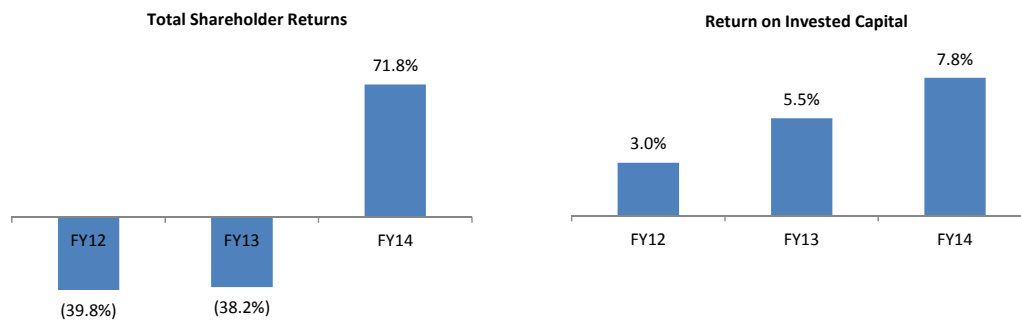
Our long-term remuneration framework is linked to a number of internal and external performance measures which when achieved provide direct benefits to the shareholders through increased returns.

Two key performance measures we use are:

- Total Shareholder Return (TSR) (the capital growth in the value of our share plus dividend paid). We use absolute return as opposed to a relative return due to the lack of a comparable peer group; and
- Return on Capital Invested (ROIC) (Net operating profit after tax exclusive of abnormal items / Net Assets (excluding Cash, Debt, Derivatives and Tax Accounts). Actual ROIC results are compared against internal targets).

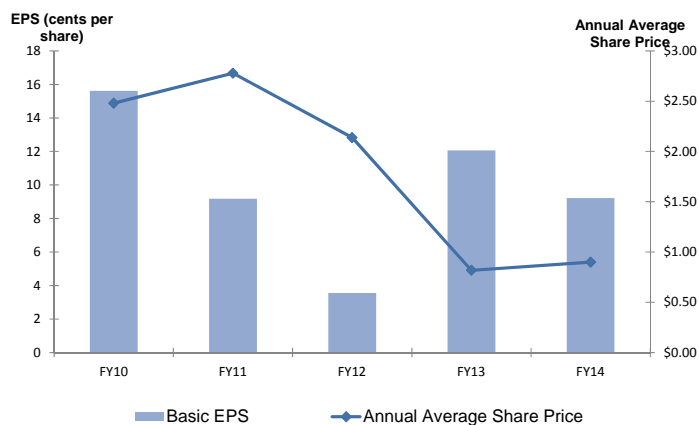
The current Austal Long Term Incentive Plan was established in CY2013. (Refer to Note 29)

A summary of the TSR and ROIC metrics over the past three years is set out below as an indication of performance, noting that the actual metrics will be calculated in line with the rules of the plan at vesting date.



### Group Performance

The graph below shows share price performance compared to the earnings per share (EPS) over time.



### 3. Remuneration governance

#### Independence of the Nomination and Remuneration Committee

The foundation of the Group's remuneration governance structure is the independence and competence of the Nomination and Remuneration Committee (NRC).

The NRC Charter provides that a majority of members of the NRC are independent. For the year ended 30 June 2014 the members of the NRC were David Singleton (Independent Chairman) and Giles Everist (Independent Director) and John Rothwell.

As representatives of shareholders, the independence of the NRC is important as it underscores the impartiality in making its recommendations to the Board on remuneration matters. The remuneration report for 30 June 2013 was approved at the 2013 Annual General Meeting.

#### Use of Independent Remuneration Consultants

The NRC has the ability to engage the services of an Independent Remuneration Consultant. They also have the ability to engage legal counsel, where needed.

The NRC engaged a Remuneration Consultant for the year ended 30 June 2014 to assist with the improvements in remuneration reporting. The Remuneration Consultant was not engaged to provide recommendations in relation to KMP remuneration.

## Share Trading Policy

All equity based remuneration awards granted pursuant to the Group's policy are subject to the Group's Share Trading Policy, details of which can be found on our website.

In particular, there is a prohibition on employees entering into contracts to hedge their exposure to the share price movement of the Group.

## 4. Executive remuneration

### Remuneration Framework

The Group is committed to responsible remuneration practices. The need to reward the Group's employees fairly and competitively based on performance needs to be balanced with the requirement to do so within the context of principled behaviour and action, 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	Performance Alignment	Individual Remuneration Determination	Remuneration Structure and Instruments
<p><b>Principles:</b></p> <ul style="list-style-type: none"> <li>Clearly defined and documented governance procedure</li> <li>Independent Remuneration Committee</li> <li>Independent Remuneration Consultant</li> <li>Annual assessment of Remuneration Policy</li> </ul>	<p><b>Principles:</b></p> <ul style="list-style-type: none"> <li>Reward Group annual performance measured relative to its planned key performance indicators</li> <li>Business performance aligned</li> <li>Recognize and reward teamwork and development of the culture of the organisation</li> <li>Award and differentiate based on individual performance and contributions.</li> </ul>	<p><b>Principles:</b></p> <ul style="list-style-type: none"> <li>Total Remuneration based approach</li> <li>Facilitate competitiveness by paying competitive remuneration levels for comparable roles and experience, subject to performance</li> <li>Promote meritocracy by recognizing individual performance, with a particular emphasis on contribution, ethics and safety</li> <li>Equal remuneration opportunity</li> </ul>	<p><b>Principles:</b></p> <ul style="list-style-type: none"> <li>Provide the appropriate balance of fixed and variable remuneration consistent with the position and role in the Group</li> <li>Significant portion of variable remuneration deferred and aligned with the long-term performance of the Group</li> <li>Promote ethical behaviour and do not create incentives to expose the Group to inappropriate risk</li> </ul>

## 5. Remuneration structure

The mix of Fixed and Variable Remuneration (short term and long term) is designed to ensure the retention of individuals over the longer term and to ensure that there is adequate consideration of risk in the remuneration decisions.

### Fixed remuneration

The level of fixed remuneration, which is most commonly paid in the form of base salary, is set based on the role and experience of the individual, his or her individual sustained long-term performance, and market positioning.

### Variable remuneration

The level of variable remuneration (which includes short term and long term incentives) granted is entirely at the discretion of the Board and in the case of substandard performance can be zero.

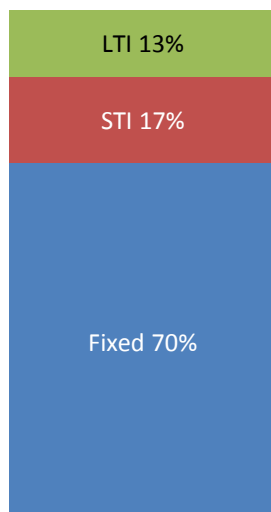
In addition, a portion of variable remuneration (usually in the form of Long Term Incentive (LTI)) is deferred and is typically subject to forfeiture in the event of certain specific performance targets not being met, or in the case of resignation or detrimental activities by employees.

### Remuneration peer group

From time to time the Group will undertake a detailed review of its remuneration structures and amounts and as part of that review will benchmark against comparable companies. The criteria for selecting the peer Group include: market capitalization, industry segment and location of operations.

### Remuneration structure

The target mix of remuneration for KMP is set out below:



It is important to note that these remuneration structures are targets only. They do not set out any entitlements to employees or commitments by the Group. The mix of percentages will change in cases where targeted variable remuneration amounts are not paid in full.

### Fixed remuneration

The fixed remuneration of the CEO is made up of two components:

- Cash – 77%
- Shares – 23%

The 77% cash element is paid through payroll in the usual manner and 23% of the CEO's remuneration is made in shares which are subject to an 18 month holding period from the date at which the shares are released to the CEO and no performance condition exists as it is considered part of his base remuneration. Only the cash component is considered for the purpose of calculating variable compensation potential. The variable compensation does include a performance condition.

The Board is recommending that the issue of shares, which form part of the CEO's base salary, will be made in 2 equal instalments through the year immediately after the publication of the interim and full year accounts. The number of shares to be issued will be calculated based on the 6 month volume weighted average price (VWAP) of the shares immediately preceding the issue. The Board considers that this best reflects the intention of paying a proportion of the CEO's salary as shares but avoids the administrative issues of issuing monthly as is the case for the cash component. This arrangement is subject to shareholder approval at the 2014 Annual General Meeting.

The CEO's salary was reviewed in line with a peer group of listed 'industrial' companies some of which are included within the ASX 300.

- The Board considered the complexity of Austal's business, given its geographic diversity having major opportunities in Australia, USA and Philippines, and the complexity of defence contracting across the globe when determining the peer Group comparison data.

- The peer group was selectively compiled from companies within or just below the ASX 300. The peer Group excludes ASX 100 companies which are deemed to be considerably larger in scale for comparison purposes. The focus was on companies that are manufacturing industrial goods, and / or industrial businesses with a contract delivery model for their products/services or selling into international markets (like Austal).
- Exclusions have primarily extended to resources, oil & gas, financial services, property, investment funds, consumer goods, technology, healthcare or energy/infrastructure companies for comparison purposes.
- Some Perth companies that sit outside the definitions above were included where the market capitalisation was close to that of Austal at the time of compilation for local market comparison purposes.
- Perth listed companies of comparable scale are heavily weighted toward mining services or construction based business which has historically attracted a salary premium.
- The data was extracted from FY2013 and is therefore dated 12 months. There has been a significant slowdown for many of these businesses over the past 12 months and it is expected that the bonus components awarded to executives will reflect this.

The average and median remuneration data from the peer group is summarised below. The Board is satisfied that the CEO's remuneration is market competitive having completed the review.

Peer group data:

<u>Metric</u>	<u>Salary including Superannuation</u>	<u>Short Term Incentive</u>	<u>Long Term Incentive</u>	<u>Total Remuneration</u>
Average	\$ 1,004,480	\$ 352,520	\$ 329,560	\$ 1,686,560
Median	\$ 933,000	\$ 210,000	\$ 273,000	\$ 1,416,000

Fixed remuneration for KMPs being cash and shares for the CEO and cash for other KMPs is targeted at the 50<sup>th</sup> percentile of peer group base salaries for comparable positions. In cases where an individual has critical proprietary knowledge or specific and relevant industry experience, base salary may exceed the 50<sup>th</sup> percentile of peer group, this is particularly the case with regard to high performers.

### Variable remuneration - Short Term Incentive program (STI)

All KMPs are eligible to participate in the Group's Short Term Incentive program.

STI is designed to support the Group's overall strategy by:

- focusing participants on achieving financial year performance goals which contribute to sustainable shareholder value;
- providing a significant incentive based on individual performance measured against challenging targets to motivate key employees; and
- providing clear correlation between key performance measures that influence business outcomes and the employee's ability to influence those measures.

The Group uses a range of qualitative and quantitative performance measures to set goals and assess the performance of individuals. These performance measures are specific to each individual's area of responsibility and include both financial and non-financial measures, such as ethics, health and safety.

The Board reviews and approves performance targets and objectives annually for the CEO and executive management team. Performance targets relate to key business objectives that must be delivered during the current financial year.

Each performance objective may contain multiple targets and initiatives to provide specific milestones for measurement.

The performance objective/s as a part of the STI program are designed to focus employees on adding shareholder value and may be a mixture of financial and non-financial objectives. The objectives will be relative to the most desirable outcomes identified by the CEO.

Financial objectives are to account for a minimum of 50% of the STI objectives and will relate to Board approved budget targets.

When non-financial performance objectives are used, they will relate to strategic performance such as safety, customer satisfaction, operational improvement, business growth and employee relations. When used, the weighting allocated to each of the non-financial objectives will likely be dependent upon the employee's job size and role focus.

Performance relative to financial and individual targets set during the annual budget process provides the basis for determining payments made for at-risk remuneration.

STI awards for KMP are generally between 20% and 50% of total fixed cash remuneration and are paid in cash as soon as possible after the performance criteria has been measured and validated and after the Board has approved the recommended amounts.

The FY2014 STI for the CEO was solely focussed on EBIT and the Board has elected to adopt a balanced scorecard approach for assessing the CEO's performance with respect to the STI plan for FY2015.

Details of STI awards accrued for KMP for the year ended 30 June 2014 are set out below.

<u>Name</u>	<u>Position</u>	<u>* Maximum STI Award</u>	<u>* Accrued STI</u>	<u>* Unawarded STI</u>
Andrew Bellamy	CEO	50%	33%	17%
Graham Backhouse	President - Australia	30%	28%	2%
Greg Jason	Group CFO	30%	20%	10%
Brian Leathers	CFO - USA	30%	10%	20%
Craig Perciavalle	President - USA	40%	13%	27%
Joey Turano	President - Philippines	30%	20%	10%

\*Represents percentage of total fixed cash remuneration.

Vested benefits will be paid in the following financial year.

The Board has the discretion not to grant STI performance awards in the event of substandard Group performance, notwithstanding that individuals may have achieved their agreed performance targets.

### Variable remuneration - Long Term Incentive plan

The Group's Long Term Incentive (LTI) plan is a key element of the Group's remuneration strategy which is designed to retain and rewards executives over the long term. LTI awards are granted purely at the discretion of the Board, based on the performance of the CEO and other KMP.

The objectives of the LTI plan are to:

- align key employee behaviour toward the growth and profitability objectives of the Group and reward key employees for sustained contributions to business success; and
- attract and retain exceptional employees that have the capacity to significantly impact the growth and profitability of the Group

LTI awards amounts are typically up to 50% of fixed cash remuneration (effective from the start of the financial year) and are in the form of Performance Rights, which convert at zero cost to the employee, on a one for one basis to actual shares in the Company subject to meeting the vesting conditions.

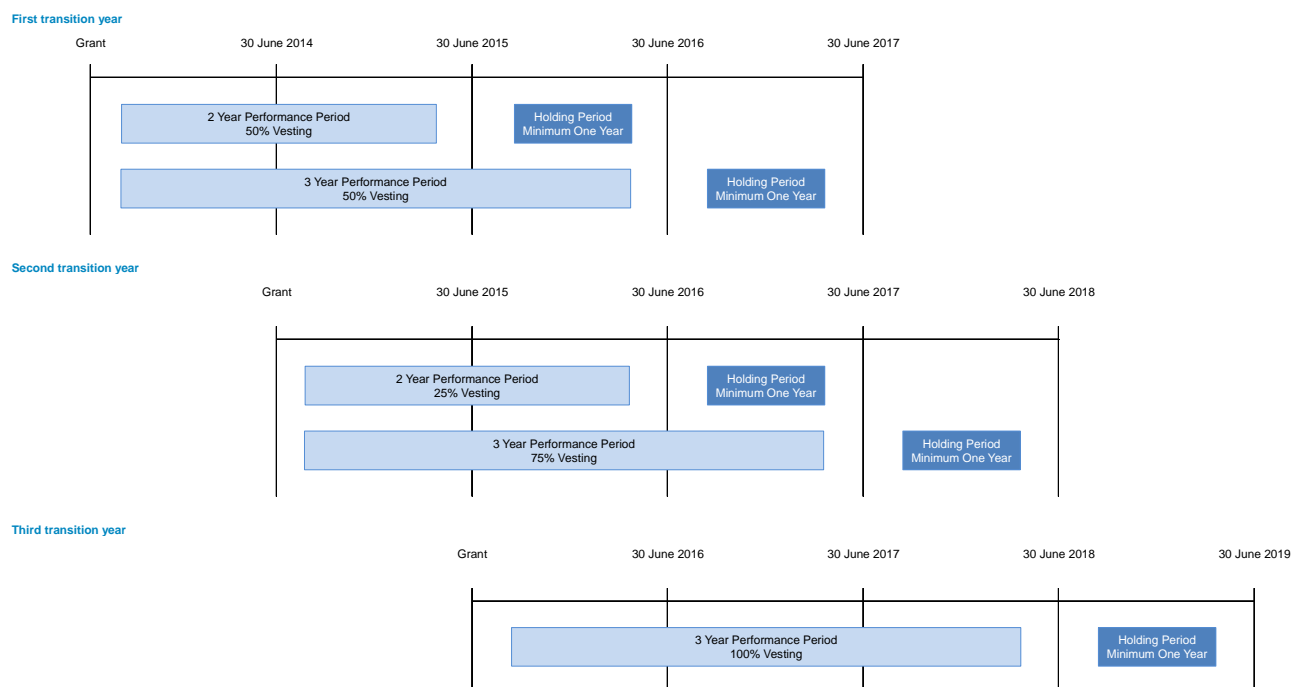
The LTI awards are based on 3-year performance period. Performance periods typically start at 1 July and end at the completion of the third fiscal year other than for a transition period of two years which bridges a gap between the old scheme and the new scheme.

The Performance Rights 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.

The Board decided to suspend the LTI plan for FY2012, and no awards were granted during the year in light of the concerns raised by shareholders through the vote at the 2012 Annual General Meeting regarding the Remuneration Report and remuneration of KMP. This was despite the LTI plan being approved by shareholders at the 2012 Annual General Meeting.



The diagram below illustrates the granting, performance period and holding period of LTI awards through the transition period to the new scheme.



The vesting criteria for awards is linked to the tenure of the individual and Group level quantitative absolute performance measures.

The Group has selected absolute Total Shareholder Return (TSR) and Return on Invested Capital (ROIC) as the most appropriate performance measures to assess executive performance because the Board believes that these performance measures perfectly align the incentives with the objectives of shareholders.

The Performance Rights vest subject to the terms of the plan. An example of performance targets is set out below.

Performance Measure	Percentage of award	Thresholds	Percentage vesting
Total Shareholder Return	30%	<= 15% 15% - 25% >=25%	Zero Pro-rated on linear basis 30%
Return on Invested Capital	70%	<= 6% 6% - 10% >=10%	Zero Pro-rated on linear basis 70%

## 6. Board composition

The Nomination and Remuneration sub-committee has undertaken a review of the structure, size and composition of the Board through an investor survey and other inputs from independent advisors during the year. As a result, the sub-committee has recommended that the current practice of maintaining 3 independent non-executive directors should remain. The process to ensure that the skills at Board level are appropriate to the business needs has continued with the appointment of Giles Everist. 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.

## 7. Non-Executive Director remuneration

The remuneration of Non-Executive Directors is determined by other executive members of the Board in accordance with the Group's Nomination and Remuneration Committee Charter, which also provides that no Director or Manager shall be involved in any decisions as to his or her own remuneration.

Non-Executive Directors receive only fixed remuneration, typically in the form of cash, non-cash benefits and superannuation contributions. Fees may also be paid in the form of equity in the Group.

The remuneration pool limit for Non-Executive Directors is set at \$3 million.

The Directors agreed that the Chairman would reduce his time commitment to the Group from 1 January 2014 with a corresponding pro rata reduction to his remuneration.

The Group proposes a review of Non-Executive Director remuneration for the year ending 30 June 2015.

## 8. Remuneration of key management personnel

Year ended 30 June 2014	Short-Term Benefits				Post Employment Benefits	Long-Term Benefits	Share Based Payments		Total	% Performance Related % Options	
	Salary & Fees	Cash Bonus*	Other Monetary Benefits	Non Monetary Benefits	Super-annuation / Social Security	Employee Leave	Termination Benefits	Equity Settled			
<b>Non-executive directors</b>											
John Rothwell	\$ 318,182	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 318,182	-	-
Dario Amara	93,000	-	-	-	-	-	-	-	93,000	-	-
David Singleton	95,000	-	-	-	-	-	-	-	95,000	-	-
Giles Everist (1)	55,833	-	-	-	-	-	-	-	55,833	-	-
<b>Executive directors</b>											
Andrew Bellamy	782,753	263,040	-	-	17,774	13,297	-	328,027	1,404,891	18.7	-
<b>Other key management personnel</b>											
Joey Turano	226,151	27,421	7,877	-	853	-	-	5,388	267,690	10.2	-
Graham Backhouse	268,373	86,427	-	-	25,460	7,059	-	6,288	393,607	22.0	-
Craig Perciavalle	430,591	54,972	14,021	-	28,764	-	-	30,250	558,598	9.8	-
Greg Jason	308,822	75,840	-	-	17,774	7,332	-	45,819	455,587	16.6	-
Brian Leathers	298,379	44,454	3,370	-	24,421	-	-	26,714	397,338	11.2	-
	<b>\$ 2,877,084</b>	<b>\$ 552,154</b>	<b>\$ 25,268</b>	<b>\$ -</b>	<b>\$ 115,046</b>	<b>\$ 27,688</b>	<b>\$ -</b>	<b>\$ 442,486</b>	<b>\$ 4,039,726</b>		

(\*) Represents the amount accrued for but not paid by the group for services performed in FY14.

(1) Giles Everist joined the Board of Directors in November 2013

Year ended 30 June 2013	Short-Term Benefits				Post Employment Benefits	Long-Term Benefits	Share Based Payments		Total	% Performance Related % Options	
	Salary & Fees	Cash Bonus**	Other Monetary Benefits	Non Monetary Benefits	Super-annuation	Employee Leave	Termination Benefits	Equity Settled			
<b>Non-executive directors</b>											
John Rothwell (1)	\$ 363,636	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 363,636	-	-
John Poynton (1)(2)	90,000	-	-	-	-	-	-	-	90,000	-	-
Dario Amara	93,000	-	-	-	-	-	-	-	93,000	-	-
David Singleton	85,000	-	-	-	-	-	-	-	85,000	-	-
<b>Executive directors</b>											
Andrew Bellamy	750,405	76,690	175,342	-	19,595	-	-	150,590	1,172,622	14.0	14.0
Michael Atkinson (3)	327,750	-	-	-	-	-	-	60,337	388,087	15.5	15.5
<b>Other key management personnel</b>											
Joey Turano (4)	108,251	-	2,027	10,246	-	-	-	-	120,524	-	-
Graham Backhouse (5)	130,264	9,663	-	-	11,724	-	-	-	151,651	-	-
Craig Perciavalle (6)	332,024	-	17,296	-	-	-	-	40,444	389,764	10.4	10.4
Greg Jason(7)	295,263	12,485	-	1,119	18,330	-	-	74,594	401,791	19.2	19.2
Brian Leathers	330,331	-	6,084	-	-	-	-	39,336	375,751	10.5	10.5
Richard Simons (8)	124,949	-	-	-	16,424	-	332,647	(123,048)	350,972	(35.1)	(35.1)
Charles McGill (9)	258,981	-	-	-	19,807	-	-	(7,790)	270,998	(2.9)	(2.9)
	<b>\$ 3,289,854</b>	<b>\$ 98,838</b>	<b>\$ 200,749</b>	<b>\$ 11,365</b>	<b>\$ 85,880</b>	<b>\$ -</b>	<b>\$ 332,647</b>	<b>\$ 234,463</b>	<b>\$ 4,253,796</b>		

\*\* Represents cash bonus paid for services performed in FY2013 and paid in FY2014.

(1) Mr John Rothwell's and Mr John Poynton's fees were exclusive of GST

(2) Mr John Poynton resigned on the 28 June 2013

(3) Mr Michael Atkinson retired on the 30 June 2013

(4) Mr Joey Turano was appointed to President Philippines on the 5 November 2012

(5) Mr Graham Backhouse was appointed to President Australia on the 3 December 2012

(6) Mr Craig Perciavalle was appointed to President USA on the 13 December 2012

(7) Mr Greg Jason was appointed to the position of Chief Financial Officer on the 15 January 2013

(8) Mr Richard Simons' remuneration for 2013 includes a termination payment following his resignation on the 2 October 2012

(9) Mr Charles McGill's employment ceased on the 28 March 2013

## 9. Details of contractual provisions for KMP

Name	Employing Company	Contract Duration	Termination Notice Period	
			Company	Executive
Andrew Bellamy	Austal Limited	Unlimited	3 months	3 months
Greg Jason	Austal Limited	Unlimited	12 weeks	12 weeks
Graham Backhouse	Austal Ships Pty Ltd	Unlimited	12 weeks	12 weeks
Joey Turano	Austal Philippines Pty Ltd	Unlimited	2 months <sup>(3)</sup>	3 months
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. In the event of termination for serious misconduct or other nominated circumstances, executives are not entitled to this termination payment.
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.
3. Termination period is accrued at a rate of 1 month per year of service.

## 10. Options granted or vested during the period

Details of options over ordinary shares in the Group provided as remuneration to key management personnel under the Employee Share Option Plan (ESOP) are shown below. Further information on the options is set out in Note 29.

Name	Award year	Options granted	Grant date	Fair value per option at award date	Vesting date	No. vested during year	No. forfeited during year
Andrew Bellamy	2011	140,000	28 Sep 2010	\$ 0.840	28 Sep 2013	140,000	-
Greg Jason	2011	140,000	28 Sep 2010	\$ 0.840	28 Sep 2013	140,000	-
Craig Perciavalle	2011	70,000	28 Sep 2010	\$ 0.840	28 Sep 2013	70,000	-
Brian Leathers	2011	70,000	28 Sep 2010	\$ 0.840	28 Sep 2013	70,000	-

## 11. Performance rights granted or vested during the period

Details of performance rights for shares in the Group provided as remuneration to key management personnel under the Long Term Incentive Plan (LTIP) are shown below. Further information on performance rights is set out in Note 29.

Name	Award year	Performance rights granted	Grant date	Fair value per performance right	Value of awards at grant date	Vesting date	No. vested during year	No. forfeited during year
Andrew Bellamy	2014	287,313	18 Nov 2013	\$ 0.59	\$ 168,193	18 Nov 2016	-	-
Greg Jason	2014	125,345	18 Nov 2013	\$ 0.59	\$ 73,377	18 Nov 2016	-	-
Craig Perciavalle	2014	168,675	13 Dec 2013	\$ 0.73	\$ 123,065	13 Dec 2016	-	-
Brian Leathers	2014	114,235	13 Dec 2013	\$ 0.73	\$ 83,346	13 Dec 2016	-	-
Graham Backhouse	2014	108,130	18 Nov 2013	\$ 0.59	\$ 63,299	18 Nov 2016	-	-
Joey Turano	2014	93,517	18 Nov 2013	\$ 0.59	\$ 54,745	18 Nov 2016	-	-

## 12. Shares granted or vested during the period

Details of shares in the Group provided as remuneration to key management personnel under fixed remuneration are shown below. Further information is set out in Note 29.

Name	Grant date	Number issued	Number vested	Fair value per share
Andrew Bellamy	27 Nov 2013	371,738	371,738	\$ 0.73

### 13. Equity instruments held by key management personnel

The tables included in this section of the report show the number of:

- options over ordinary shares in the Group
- performance rights to shares granted under the LTIP, and
- shares in the Company

that were held during the financial year by key management personnel of the Group, including their close family members and entities related to them.

#### Options and performance rights

	Options and rights holdings				Balance at end of year	Vested and Exercisable	
	Balance at beginning of year	Granted as Remuneration	Exercised (options)/ Vested (rights)	Net Change Other		Exercisable	Unvested
<b>30 June 2014</b>							
<b>Directors</b>							
Andrew Bellamy							
Options	280,000	-	-	-	280,000	280,000	-
Performance Rights	-	287,313	-	-	287,313	-	287,313
<b>Executives</b>							
Graham Backhouse							
Options	-	-	-	-	-	-	-
Performance Rights	-	108,130	-	-	108,130	-	108,130
Greg Jason							
Options	437,500	-	-	-	437,500	297,500	140,000
Performance Rights	-	125,345	-	-	125,345	-	125,345
Brian Leathers							
Options	239,000	-	-	-	239,000	169,000	70,000
Performance Rights	-	114,235	-	-	114,235	-	114,235
Craig Perciavalle							
Options	250,000	-	-	-	250,000	180,000	70,000
Performance Rights	-	168,675	-	-	168,675	-	168,675
Joey Turano							
Options	-	-	-	-	-	-	-
Performance Rights	-	93,517	-	-	93,517	-	93,517

All vested options are exercisable at the end of the year.

#### Shareholdings

	Shareholdings					Balance at 30 June 2014
	Balance at 30 June 2013	Granted as remuneration	Options exercised	Performance rights vested	Net Change Other	
<b>30 June 2014</b>						
<b>Non - Executive Directors</b>						
John Rothwell	32,200,745	-	-	-	-	32,200,745
Dario Amara	50,000	-	-	-	-	50,000
Giles Everist	-	-	-	-	50,000	50,000
David Singleton	28,600	-	-	-	-	28,600
<b>Executives</b>						
Andrew Bellamy	799,958	371,738	-	-	(604,768)	566,928
Graham Backhouse	-	-	-	-	-	-
Greg Jason	-	-	-	-	-	-
Brian Leathers	-	-	-	-	-	-
Craig Perciavalle	-	-	-	-	-	-
Joey Turano	-	-	-	-	-	-
<b>Total</b>	<b>33,079,303</b>	<b>371,738</b>	<b>-</b>	<b>-</b>	<b>(554,768)</b>	<b>32,896,273</b>

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

#### **14. Loans to key management personnel**

There were no loans to Directors or other key management personnel at any time during year ended 30 June 2014.

#### **15. Other transactions with key management personnel**

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.

## Auditor independence and non-audit services

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



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

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

### 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 2014, 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 Kirkby  
Partner  
26 August 2014

A member firm of Ernst & Young Global Limited  
Liability limited by a scheme approved under Professional Standards Legislation

RK:EH:AUSTAL:037

### 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

26 August 2014

Andrew Bellamy  
Executive Director and Chief Executive Officer

## Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2014

	Notes	2014 '000	2013 '000
<b>Continuing operations</b>			
Revenue	4	\$ 1,122,863	\$ 899,491
Cost of sales – construction contracts		(990,413)	(767,858)
Cost of sales – services		(24,119)	(30,970)
Chartering expenses		(14,067)	(8,502)
<b>Gross Profit</b>		<b>\$ 94,264</b>	<b>\$ 92,161</b>
Other Income and expenses	5	\$ 21,913	\$ 29,337
Administration expenses		(51,895)	(71,212)
Marketing expenses		(8,396)	(9,989)
Finance costs	5	(8,742)	(13,571)
<b>Profit before income tax</b>		<b>\$ 47,144</b>	<b>\$ 26,726</b>
Income tax benefit / (expense)	9	\$ (15,285)	\$ 9,016
<b>Profit after tax</b>		<b>\$ 31,859</b>	<b>\$ 35,742</b>
<b>Profit attributable to:</b>			
Owners of the parent		\$ 31,548	\$ 35,870
Non-controlling interests		311	(128)
<b>Total</b>		<b>\$ 31,859</b>	<b>\$ 35,742</b>
<b>Other comprehensive income</b>			
<b>Amounts that may subsequently be reclassified to profit and loss:</b>			
Cash flow hedges:			
- Gain / (loss) on cash flow hedges taken to equity		\$ 17,231	\$ 10,644
- Gain / (loss) recycled out of equity		(20,689)	(18,604)
- Income tax benefit / (expense)		849	2,388
- Net		\$ (2,609)	\$ (5,572)
Foreign currency translations			
- Gain / (loss) taken to equity		(4,075)	\$ 11,516
- Income tax benefit / (expense)		217	7,506
- Net		\$ (3,858)	\$ 19,022
<b>Other comprehensive income for the period, net of tax</b>		<b>\$ (6,467)</b>	<b>\$ 13,450</b>
<b>Total comprehensive income for the year</b>		<b>\$ 25,392</b>	<b>\$ 49,192</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		\$ 25,081	\$ 49,320
Non-controlling interests		311	(128)
<b>Total</b>		<b>\$ 25,392</b>	<b>\$ 49,192</b>
<b>Earnings per share (\$ per share)</b>			
- basic for profit for the year attributable to ordinary equity holders of the parent	6	\$ 0.09	\$ 0.12
- diluted for profit for the year attributable to ordinary equity holders of the parent	6	0.09	0.12

The above 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 2014

	Notes	2014 '000	2013 '000
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	10	\$ 77,345	\$ 38,030
Restricted cash	10	9,532	69,673
Trade and other receivables	14	95,753	102,743
Inventories	16	328,142	277,888
Prepayments		4,054	7,653
Derivatives	23	2,701	7,749
Total		\$ 517,527	\$ 503,736
<b>Non - Current Assets</b>			
Other financial assets		\$ -	\$ 4,141
Trade and other receivables	14	1,020	-
Prepayments		1,968	-
Derivatives	23	5,787	1,651
Property, plant and equipment	18	366,500	399,917
Intangible assets and goodwill	19	9,473	12,526
Deferred tax assets	9	9,022	22,647
Total		\$ 393,770	\$ 440,882
<b>Total Assets</b>		\$ 911,297	\$ 944,618
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	17	\$ (183,570)	\$ (133,813)
Derivatives	23	(1,972)	(12,193)
Interest-bearing loans and borrowings	11	(13,192)	(243,614)
Provisions	20	(33,704)	(25,128)
Government grants	13	(3,550)	(4,221)
Income tax payable	9	(10,980)	(24,537)
Progress payments received in advance	15	(29,062)	(21,790)
Total		\$ (276,030)	\$ (465,296)
<b>Non - Current Liabilities</b>			
Derivatives	23	\$ (2,229)	\$ (4,885)
Interest-bearing loans and borrowings	11	(142,264)	(1,163)
Provisions	20	(1,023)	(2,217)
Government grants	13	(49,892)	(52,794)
Deferred tax liabilities	9	(6,627)	(11,076)
Total		\$ (202,035)	\$ (72,135)
<b>Total Liabilities</b>		\$ (478,065)	\$ (537,431)
<b>Net Assets</b>		\$ 433,232	\$ 407,187
<b>Equity</b>			
Contributed equity	12	\$ 111,598	\$ 111,328
Reserves	12	27,292	37,309
Retained earnings	12	294,041	258,560
<b>Equity attributable to owners of the parent</b>		\$ 432,931	\$ 407,197
Non - Controlling Interests		\$ 301	\$ (10)
<b>Total Equity</b>		\$ 433,232	\$ 407,187

The above 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 2014

	Issued Capital '000	* Reserved Shares '000	Retained Earnings '000	FCTR '000	Employee Benefits Reserve '000	Cash flow Hedge Reserve '000	Common Control Reserve '000	Asset Reval'n Reserve '000	Total '000	Non Controlling Interest '000	Total Equity '000
<b>Equity at 1 July 2012</b>	\$ 41,373	\$ (9,612)	\$ 222,690	\$ (10,568)	\$ 4,948	\$ 16,649	\$ (15,925)	\$ 27,491	\$ 277,046	\$ -	\$ 277,046
<b>Comprehensive Income</b>											
Profit for the year	\$ -	\$ -	\$ 35,870	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,870	\$ (128)	\$ 35,742
Other Comprehensive Income	-	-	-	19,023	-	(5,572)	-	-	13,451	-	13,451
<b>Total</b>	\$ -	\$ -	\$ 35,870	\$ 19,023	\$ -	\$ (5,572)	\$ -	\$ -	\$ 49,321	\$ (128)	\$ 49,193
<b>Other equity transactions</b>											
Shares issued	\$ 77,891	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 77,891	\$ -	\$ 77,891
Transaction costs	(1,823)	-	-	-	-	-	-	-	(1,823)	-	(1,823)
Cost of share-based payments	-	-	-	-	1,263	-	-	-	1,263	-	1,263
Acquisition of Subsidiary	3,499	-	-	-	-	-	-	-	3,499	118	3,617
<b>Total</b>	\$ 79,567	\$ -	\$ -	\$ -	\$ 1,263	\$ -	\$ -	\$ -	\$ 80,830	\$ 118	\$ 80,948
<b>Equity at 1 July 2013</b>	\$ 120,940	\$ (9,612)	\$ 258,560	\$ 8,455	\$ 6,211	\$ 11,077	\$ (15,925)	\$ 27,491	\$ 407,197	\$ (10)	\$ 407,187
<b>Comprehensive Income</b>											
Profit for the year	\$ -	\$ -	\$ 31,548	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,548	\$ 311	\$ 31,859
Other Comprehensive Income	-	-	-	(3,858)	-	(2,609)	-	-	(6,467)	-	(6,467)
<b>Total</b>	\$ -	\$ -	\$ 31,548	\$ (3,858)	\$ -	\$ (2,609)	\$ -	\$ -	\$ 25,081	\$ 311	\$ 25,392
<b>Transfers between reserves</b>	\$ -	\$ -	\$ 3,933	\$ 3,008	\$ (1,508)	\$ 301	\$ -	\$ (5,734)	\$ -	\$ -	\$ -
<b>Other equity transactions</b>											
Shares issued	\$ 270	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 270	\$ -	\$ 270
Cost of share-based payments	-	-	-	-	383	-	-	-	383	-	383
<b>Total</b>	\$ 270	\$ -	\$ -	\$ -	\$ 383	\$ -	\$ -	\$ -	\$ 653	\$ -	\$ 653
<b>Equity at 30 June 2014</b>	\$ 121,210	\$ (9,612)	\$ 294,041	\$ 7,605	\$ 5,086	\$ 8,769	\$ (15,925)	\$ 21,757	\$ 432,931	\$ 301	\$ 433,232

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

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

## Consolidated statement of cash flows for the year ended 30 June 2014

	Notes	2014 '000	2013 '000
<b>Cash flows from operating activities</b>			
Receipts from customers		\$ 1,112,844	\$ 894,029
Payments to suppliers and employees		(1,043,939)	(930,149)
Interest received	4	321	2,231
Interest paid	5	(8,742)	(13,571)
Income tax received / (paid)		(15,927)	(10,580)
GST refunds / (payments)		-	2,172
Net cash from / (used in) operating activities	7	<u>\$ 44,557</u>	<u>\$ (55,868)</u>
<b>Cash flows from investing activities</b>			
Receipts of government grants		\$ 4,506	\$ 4,763
Proceeds from sale of property, plant and equipment		24,611	9,351
Proceeds from the sale of assets held for sale		-	6,898
Purchase of property, plant and equipment		(11,884)	(21,265)
Purchase of intangible assets		(1,263)	(3,478)
Proceeds from sale of intangible assets		3,002	-
Acquisition of subsidiary / investment		-	(2,914)
Net cash from / (used in) investing activities		<u>\$ 18,972</u>	<u>\$ (6,645)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares net of transaction costs		\$ -	\$ 75,065
Repayment of borrowings		(114,238)	(93,368)
Loans received		24,917	50,244
Equity dividends paid		-	-
Settlement of derivatives		(12)	32,227
Net cash from / (used in) financing activities		<u>\$ (89,333)</u>	<u>\$ 64,168</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<u>\$ (25,804)</u>	<u>\$ 1,655</u>
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		\$ 107,703	\$ 104,751
Net foreign exchange differences		4,978	1,297
Net increase / (decrease) in cash and cash equivalents		(25,804)	1,655
Cash and cash equivalents at end of year	10	<u>\$ 86,877</u>	<u>\$ 107,703</u>

The above 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 2014 was authorised for issue in accordance with a resolution of the directors on 26 August 2014.

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 is summarised as follows:

###### Current year performance

This section focuses on the results and performance of the Group, including profitability and the resultant return to shareholders via 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, warranty costs etc.

## **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 as at and for the year ended 30 June each year (the Group).

Subsidiaries are all 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, for consolidation purposes, adjusted to comply with Group policy and generally accepted accounting principles in Australia. In preparing the consolidated financial statements, all intercompany balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends have been eliminated in full.

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. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

### **iv. Foreign currency transactions and translation**

Both the functional and presentation currency of Austal Limited and its Australian subsidiaries is Australian dollars (A\$). Each entity in the Group determines its own functional currency 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 (US\$).

As at the reporting date, 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 balance 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 has impacted the Group's accounting policies and required disclosures in the notes to the financial statements but 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 2013:

- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
- AASB 2013-3 Amendments to Australian Accounting Standards – Transition Guidance and other amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period
- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
- AASB 119 Employee Benefits (revised 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle, and
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities

## 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 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities:**

AASB 2012-3 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. The effective date for the Group will be from 1 July 2014.

### **Interpretation 21: Accounting for 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. The effective date for the Group will be from 1 July 2014.

### **AASB 9: Financial Instruments:**

On 24 July 2014 The IASB issued the final version of IFRS 9 which replaces IAS 39 and includes a logical model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting.

IFRS 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 IFRS 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.

The AASB is yet to issue the final version of AASB 9. A revised version of AASB 9 (AASB 2013-9) was issued in December 2013 which 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 simplified 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.

#### **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. The effective date for the Group will be from 1 July 2014.

#### **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. The effective date for the Group will be from 1 July 2014.

#### **AASB 2014-1 Part A - Annual Improvements 2010–2012 Cycle: Amendments to Australian Accounting Standards - Part A - Annual Improvements to IFRSs 2010–2012 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.

The effective date for the Group will be from 1 July 2014.

#### **AASB 2014-1 Part A - Annual Improvements 2011–2013 Cycle: Amendments to Australian Accounting Standards - Part A - Annual Improvements to IFRSs 2011–2013 Cycle**

Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items:

- AASB13 - Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132.
- AASB40 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3.

The effective date for the Group will be from 1 July 2014.

#### **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 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.

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 A of the amendments was effective for the Group from 1 July 2013 and did not have any effect on the financial position or performance of the Group.

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. The effective date for the Group of Part B of the amendments will be from 1 July 2014.

Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments. The effective date for the Group of Part C of the amendments will be from 1 July 2015.



### **Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)**

IAS 16 and IAS 38 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 IASB 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.

The effective date for the Group will be from 1 July 2016.

### **IFRS 15**

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

The effective date for the Group will be from 1 July 2017. Early application of this standard is permitted.

## Current year performance

### Note 3. Operating segments

	Australia '000	USA '000	Philippines '000	Unallocated '000	Elimination / Adjustments '000	Total '000
<b>Year ended 30 June 2014</b>						
<b>Revenues</b>						
External customers	\$ 153,886	\$ 933,615	\$ 32,758	\$ 2,609	\$ (326)	\$ 1,122,542
Inter-segment	88,026	-	1,009	-	(89,035)	-
Finance income	-	-	-	4,682	(4,361)	321
<b>Total</b>	<b>\$ 241,912</b>	<b>\$ 933,615</b>	<b>\$ 33,767</b>	<b>\$ 7,291</b>	<b>\$ (93,722)</b>	<b>\$ 1,122,863</b>
<b>Segment result</b>						
EBIT	\$ 16,684	\$ 61,682	\$ 2,703	\$ (27,211)	\$ 1,707	\$ 55,565
Finance income	-	-	-	4,682	(4,361)	321
Finance expenses	-	-	-	(13,271)	4,529	(8,742)
<b>Total</b>	<b>\$ 16,684</b>	<b>\$ 61,682</b>	<b>\$ 2,703</b>	<b>\$ (35,800)</b>	<b>\$ 1,875</b>	<b>\$ 47,144</b>
Depreciation and amortisation	\$ (1,606)	\$ (17,937)	\$ (972)	\$ (3,258)	\$ -	\$ (23,773)
<b>Balance sheet</b>						
Segment assets	\$ 192,119	\$ 662,948	\$ 22,261	\$ 577,205	\$ (543,236)	\$ 911,297
Segment liabilities	(174,198)	(456,424)	(15,263)	(142,867)	310,687	(478,065)
<b>Year ended 30 June 2013</b>						
<b>Revenues</b>						
External customers	\$ 105,294	\$ 747,739	\$ 33,057	\$ 11,160	\$ 10	\$ 897,260
Inter-segment	38,764	-	6,929	2,333	(48,026)	-
Finance income	-	-	-	2,231	-	2,231
<b>Total</b>	<b>\$ 144,058</b>	<b>\$ 747,739</b>	<b>\$ 39,986</b>	<b>\$ 15,724</b>	<b>\$ (48,016)</b>	<b>\$ 899,491</b>
<b>Segment result</b>						
EBIT	\$ 41	\$ 50,100	\$ 5,020	\$ (25,894)	\$ 8,799	\$ 38,066
Finance income	-	-	-	2,231	-	2,231
Finance expenses	-	-	-	(13,571)	-	(13,571)
<b>Total</b>	<b>\$ 41</b>	<b>\$ 50,100</b>	<b>\$ 5,020</b>	<b>\$ (37,234)</b>	<b>\$ 8,799</b>	<b>\$ 26,726</b>
Depreciation and amortisation	\$ (1,030)	\$ (18,708)	\$ (708)	\$ (4,063)	\$ -	\$ (24,509)
<b>Balance sheet</b>						
Segment assets	\$ 146,387	\$ 604,650	\$ 41,621	\$ 421,830	\$ (269,870)	\$ 944,618
Segment liabilities	(91,355)	(517,244)	(36,960)	(72,492)	180,620	(537,431)

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

## Analysis of Unallocated

### Revenue

Sale of stock yacht	\$ -	\$ 9,302
Rental revenue	-	2,333
Charter vessel revenue	2,419	1,858
Finance income	4,682	2,231
Other	190	-
<b>Total</b>	<b>\$ 7,291</b>	<b>\$ 15,724</b>

### Segment result

Profit / (loss) on foreign exchange	\$ (1,888)	\$ (10,024)
Net profit / (loss) on sale of shipyard	3,582	4,839
Net profit / (loss) on sale of stock yacht	-	(4,327)
Write down of inventory	(13,361)	-
Corporate overheads	(8,618)	(11,163)
Sales & marketing costs	(7,312)	(8,007)
Rental profit	-	2,333
Charter vessel profit	386	455
Finance income	4,682	2,231
Finance expenses	(13,271)	(13,571)
<b>Total</b>	<b>\$ (35,800)</b>	<b>\$ (37,234)</b>

### Segment assets

Intercompany receivables	\$ 193,148	\$ 150,883
Other financial assets (investment in subsidiaries)	232,860	91,306
Cash and restricted cash	26,777	70,698
Property, plant and equipment	45,914	48,904
Inventories	59,159	46,297
Derivatives	8,388	13,742
Deferred tax assets	9,023	-
Other	1,936	-
<b>Total</b>	<b>\$ 577,205</b>	<b>\$ 421,830</b>

### Segment liabilities

Deferred tax liabilities and income tax payable	\$ (17,293)	\$ (34,525)
Interest bearing loans	(12,062)	(17,470)
Derivatives	(4,201)	(12,194)
Intercompany payables	(99,044)	-
Deferred Income	(6,490)	-
Other	(3,777)	(8,303)
<b>Total</b>	<b>\$ (142,867)</b>	<b>\$ (72,492)</b>

One customer in the USA segment generated revenue of \$938.618 million during FY2014 (FY2013: \$736.084 million) and one customer in the Australia segment generated revenue of \$100.814 million during FY2014 (FY2013: \$59.233 million).

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>

### Revenue from external customers by geographical location of customers

North America	\$ 938,618	\$ 746,560
Europe	20,150	14,887
Asia	15,034	35,478
Australia	125,163	86,806
Other	23,898	15,760
<b>Total</b>	<b>\$ 1,122,863</b>	<b>\$ 899,491</b>

#### Non-current assets, other than financial instruments, prepayments and deferred tax assets

##### Geographical location

North America	\$ 300,842	\$ 317,799
Asia	17,744	13,495
Europe	15,187	16,977
Australia	42,200	64,172
Total	<u>\$ 375,973</u>	<u>\$ 412,443</u>

##### Composition

Property, plant and equipment	\$ 366,500	\$ 399,917
Intangible assets	9,473	12,526
Total	<u>\$ 375,973</u>	<u>\$ 412,443</u>

#### i. Identification of reportable segments:

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

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

#### ii. Reportable segments:

The reportable segments were USA, Philippines, Ships, Service and Systems in FY2013. Service and Systems and Ships have been included under Australian Operation for FY2014 because the two business units were integrated into one operation. Prior year comparative information has been restated to reflect the change of segment structure.

The Group's reportable segments are as follows:

##### 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.

#### iii. Accounting policies and inter-segment transactions

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

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

#### iv. Unallocated

The 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
- Revenue from property leased to other Group segments
- Finance revenue and costs
- Taxation
- Assets held for sale
- Derivatives
- Commercial vessel charter contracts

## Note 4. Revenue

	2014 '000	2013 '000
<b>Revenue</b>		
Construction contract revenue	\$ 1,069,190	\$ 849,514
Charter revenue	17,453	15,459
Service revenue	35,899	32,287
Interest from other unrelated parties	321	2,231
<b>Total</b>	<b>\$ 1,122,863</b>	<b>\$ 899,491</b>

### 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 contract revenue

Construction contract revenue is brought to account on a percentage of completion basis, based on actual costs incurred as a proportion of estimated total contract costs.

The estimated total contract costs are determined prior to commencement and evaluated every month thereafter. In the event of a change to the cost of completion during the life of the contract, the construction contract revenue is adjusted accordingly and the remaining life of the contract is calculated on the adjusted value.

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

#### 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.

#### Service revenue

Service revenue is brought to account on a percentage of completion basis, based on actual costs incurred as a proportion of estimated total contract costs. Where the contract outcome cannot be measured reliably, contract costs are recognised as an expense as incurred and where it is probable that the cost will be recovered, revenue is recognised only to the extent of the costs incurred.

#### 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.

#### 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 stage 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 FY2014 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

	<b>2014</b>	<b>2013</b>
	<b>'000</b>	<b>'000</b>
<b>Other income and expenses</b>		
Government grants	\$ 3,643	\$ 4,763
Training reimbursement	8,079	6,754
Gain on disposal of property, plant and equipment	3,582	115
Gain on disposal of intangible assets	903	-
Net foreign exchange gains	(495)	9,381
Sale of scrap	3,802	500
Rental income	198	2,822
Other income	2,201	5,002
Total	<u>\$ 21,913</u>	<u>\$ 29,337</u>
<b>Finance costs</b>		
Interest paid to unrelated parties	\$ (8,742)	\$ (13,571)
Total	<u>\$ (8,742)</u>	<u>\$ (13,571)</u>
<b>Depreciation and amortisation</b>		
Depreciation excluding impairment	\$ (21,593)	\$ (21,914)
Amortisation	(2,180)	(2,595)
Total	<u>\$ (23,773)</u>	<u>\$ (24,509)</u>
<b>Employee benefits expense</b>		
Wages and salaries	\$ (284,218)	\$ (218,106)
Superannuation	(3,840)	(4,534)
Share based payments	(383)	(1,733)
Workers' compensation costs	(7,640)	(6,246)
Annual leave expense	(8,294)	(7,254)
Long service leave expense	(239)	232
Total	<u>\$ (304,614)</u>	<u>\$ (237,641)</u>
<b>Auditor's remuneration</b>		
	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
Amounts received or due and receivable by Ernst & Young for:		
An audit or review of the financial report of the entity and any other entity in the Group	\$ (317,270)	\$ (262,881)
Other services in relation to the entity and any other entity in the Group	-	-
Tax advice	-	(33,000)
Total	<u>\$ (317,270)</u>	<u>\$ (295,881)</u>
Amounts receivable 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	\$ (320,220)	\$ (297,118)
Other services in relation to the entity and any other entity in the Group	(1,302)	-
Tax advice	-	-
Total	<u>\$ (321,522)</u>	<u>\$ (297,118)</u>



**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 note 19 for accounting policies related to amortisation of intangible assets.

**Employee benefits**

Refer to accounting policies for employee benefits in note 20.

**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.

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

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

- Mark to market adjustments on non-derivative financial assets such as foreign currency denominated loans.
- Mark to market 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

		<u>2014</u>	<u>2013</u>
<b>Net profit after tax</b>			
Net profit attributable to ordinary equity holders of the parent from continuing operations	\$'000	\$ 31,548	\$ 35,870
<b>Weighted average number of ordinary shares</b>			
Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share	Number	342,042,581	297,166,499
Effect of dilution			
Options	Number	294,589	522,537
Performance Rights	Number	399,105	-
Weighted average number of ordinary shares (excluding reserved shares) adjusted for the effect of dilution	Number	<u>342,736,275</u>	<u>297,689,036</u>
<b>Earnings per share</b>			
Basic earnings per share	\$ / share	\$ 0.09	\$ 0.12
Diluted earnings per share	\$ / share	\$ 0.09	\$ 0.12

### 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 29

9,097,740 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. (FY2013: 9,139,165). 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 assuming all outstanding rights will vest. The rights are not included in the determination of basic earnings per share. Further information about the performance rights is provided in Note 29

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

	2014 '000	2013 '000
<b>Net profit</b>	\$ 31,859	\$ 35,742
<b>Adjustments for:</b>		
Depreciation and amortisation	\$ 23,776	\$ 24,509
Net (gain) / loss on disposal of property, plant and equipment	(3,582)	114
Net (gain) / loss on disposal of intangible assets	(903)	-
Share based payments	383	1,263
Ineffective hedge gains/losses	12	-
Net exchange differences	254	-
<b>Total</b>	<b>\$ 19,940</b>	<b>\$ 25,886</b>
<b>Changes in assets and liabilities:</b>		
(Decrease) / increase in provisions for:		
Income tax (current and deferred)	\$ (7,905)	(33,697)
Workers' compensation insurance	1,695	526
Warranty	65	3,989
Employee benefits	2,530	32
Other provisions	3,092	2,488
(Increase) / decrease in trade & other receivables	5,970	(6,553)
(Increase) / decrease in inventories	(58,646)	(84,359)
(Increase) / decrease in other assets	-	(4,312)
(Increase) / decrease in prepayments	2,703	-
(Increase) / decrease in other financial assets	4,141	-
(Decrease) / increase in trade and other payables	49,757	5,187
(Decrease) / increase in progress payments in advance	7,272	(5,498)
(Decrease) / increase in derivative assets & liabilities	(17,916)	-
(Decrease) / increase in government grants	-	4,701
<b>Total</b>	<b>\$ (7,242)</b>	<b>\$ (117,496)</b>
<b>Net cash (outflow)/inflow from operating activities</b>	<b>\$ 44,557</b>	<b>\$ (55,868)</b>

## Note 8. Dividends paid and proposed

### i. Dividends on ordinary shares

	2014 '000	2013 '000
<b>Dividends on Ordinary Shares</b>		
Final franked dividend (cents per share)	-	-
Final franked dividend	\$ -	\$ -

### ii. Franking credit balance

	2014 '000	2013 '000
<b>Opening Balance</b>	\$ 583	\$ -
Franking credits that arose from the payment of income tax instalments during the year	\$ 350	\$ 583
Franking credits distributed	-	-
Movement	\$ 350	\$ 583
<b>Closing Balance</b>	<b>\$ 933</b>	<b>\$ 583</b>

## Note 9. Income and other taxes

### i. Income tax expense

	2014 <u>'000</u>	2013 <u>'000</u>
<b>Major components of tax expense for the years ended 30 June 2014 and 2013 are:</b>		
<b>Consolidated Profit &amp; Loss</b>		
<b>Current Income Tax</b>		
Current income tax charge	\$ (13,224)	\$ (13,334)
Adjustments in respect of current income tax of the previous year	7,863	8,686
<b>Deferred Income Tax</b>		
Relating to origination and reversal of temporary differences	\$ (1,549)	\$ 5,128
Adjustments in respect of deferred income tax of the previous year	(8,375)	8,536
<b>Total income tax (expense) / benefit</b>	<u>\$ (15,285)</u>	<u>\$ 9,016</u>
<b>Other Comprehensive Income (OCI)</b>		
<b>Current and deferred income tax related items charged or credited directly to OCI</b>		
Current and deferred gains and losses on foreign currency contracts and consolidation adjustments	\$ 1,082	\$ (9,894)
<b>Total (expense) / benefit charged to OCI</b>	<u>\$ 1,082</u>	<u>\$ (9,894)</u>
<b>Other equity items</b>		
<b>Current and deferred income tax related items charged or credited directly to other equity items</b>		
Capital raising costs	\$ -	\$ 784
Deferred gains on revaluation of property, plant and equipment	-	-
<b>Total (expense) / benefit charged to other equity</b>	<u>\$ -</u>	<u>\$ 784</u>
<b>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:</b>		
<b>Accounting profit / (loss) before income tax from continuing operations</b>	\$ 47,144	\$ 26,726
<b>Income Tax at the Group's statutory income tax rate of 30% (2013: 30%)</b>	\$ (14,142)	\$ (8,018)
Adjustment for Austal USA statutory income tax rate of 36.9% (2012: 36.9%)	\$ (2,289)	\$ (809)
Other foreign tax rate differences	1,145	(960)
Branch (profit) / loss	(865)	1,714
US section 199 domestic manufacturing deduction	1,313	1,077
Research and development and other tax offsets and credits	543	-
Unrealised foreign exchange losses on intercompany loans	306	2,730
Adjustments in respect of current and deferred income tax of the previous year	(513)	17,222
Other non-assessable or non-deductible items	(783)	(3,940)
<b>Total Adjustments</b>	<u>\$ (1,143)</u>	<u>\$ 17,034</u>
<b>Income tax expense / (benefit) reported in the statement of comprehensive income</b>	<u>\$ (15,285)</u>	<u>\$ 9,016</u>

## ii. Analysis of temporary differences

	Statement of Financial Position		Statement of Comprehensive Income	
	2014 '000	2013 '000	2014 '000	2013 '000
<b>Deferred income tax - USA</b>				
<b>Deferred tax assets</b>				
Payables	\$ 17,680	\$ 27,631	\$ 9,768	\$ 21,175
Provisions	5,014	2,919	(2,051)	906
Losses available for offset against future taxable income	5,092	8,713	3,577	2,398
Research and development tax credits	19	3,641	3,662	(308)
Work Opportunity Tax Credits	-	456	413	67
Charitable donations	34	34	-	2
Total	\$ 27,839	\$ 43,394	\$ 15,369	\$ 24,240
<b>Deferred tax liabilities</b>				
Property, plant and equipment	\$ (18,541)	\$ (18,900)	\$ (65)	\$ (124)
Inventories	(276)	(1,847)	(1,571)	(1,847)
Total	\$ (18,817)	\$ (20,747)	\$ (1,636)	\$ (1,971)
<b>Deferred tax assets - Net</b>	<b>\$ 9,022</b>	<b>\$ 22,647</b>	<b>\$ 13,733</b>	<b>\$ 22,269</b>
<b>Deferred income tax - Australia</b>				
<b>Deferred tax assets</b>				
Trade & other receivables	\$ 3,827	\$ 3,247	\$ (581)	\$ -
Payables	284	108	(176)	(3,153)
Provisions	4,859	3,927	(932)	(213)
Deferred gains and losses on foreign currency contracts	-	2,304	2,304	13,921
Undeducted s.40-880 costs	539	625	(84)	627
Undeducted borrowing costs	-	-	-	(62)
Losses available for offset against future taxable income	218	-	(218)	(1,053)
Research and development and other tax offsets	-	202	202	202
Total	\$ 9,727	\$ 10,413	\$ 515	\$ 10,269
<b>Deferred tax liabilities</b>				
Property, plant and equipment	\$ (3,404)	\$ (6,189)	\$ (319)	\$ (129)
Inventories	(11,655)	(15,300)	(3,645)	(1,570)
Deferred gains and losses on foreign currency contracts	(1,295)	-	1,295	-
Total	\$ (16,354)	\$ (21,489)	\$ (2,669)	\$ (1,699)
<b>Deferred tax assets - Net</b>	<b>\$ (6,627)</b>	<b>\$ (11,076)</b>	<b>\$ (2,154)</b>	<b>\$ 8,570</b>
<b>Deferred tax (expense) / income booked to Statement of Comprehensive Income</b>			<b>\$ 11,579</b>	<b>\$ 30,839</b>

## 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. At the balance date, the possibility of default was remote.

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

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

## 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

	2014 '000	2013 '000
<b>Current</b>		
Cash at bank and in hand	\$ 77,345	\$ 38,030
Total	\$ 77,345	\$ 38,030
<b>Restricted cash:</b>		
Unutilised Go Zone Bond funds (i)	\$ 9,532	\$ 11,617
Cash and term deposits (ii)	-	58,056
Total	\$ 9,532	\$ 69,673
<b>Total Cash per Cash Flow Statement</b>	<b>\$ 86,877</b>	<b>\$ 107,703</b>

(i) Unutilised Go Zone Bonds may only be spent on those capital works projects that were specifically identified in the documentation issued to investors.

(ii) Comparative balance represented partial proceeds from the FY2013 capital raising that were used in FY2014 to retire Go Zone debt.

#### 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.

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



## Note 11. Interest bearing loans and borrowings

	2014 '000	2013 '000
<b>Current</b>		
Revolving Credit Facility	\$ (12,000)	\$ -
Multi-Option Facility (1)	-	(8,000)
Equipment line (2)	-	(22,283)
Bank Loan (unsecured) (3)	(1,192)	(8,357)
Go Zone Bonds (4)	-	(204,974)
<b>Total</b>	<b>\$ (13,192)</b>	<b>\$ (243,614)</b>
<b>Non - Current</b>		
Bank Loan (unsecured) (3)	\$ -	\$ (1,163)
Go Zone Bonds (4)	(142,264)	-
<b>Total</b>	<b>\$ (142,264)</b>	<b>\$ (1,163)</b>
<b>Total</b>	<b>\$ (155,456)</b>	<b>\$ (244,777)</b>

- Cash advance was provided under the Multi Option facility.
- The Equipment line was closed at 30 June 2014.
- The Bank loan is payable by instalments until October 2014, with an average variable interest rate between 4.1% to 4.7% in FY2014.
- The Go Zone Bonds are variable rate demand bonds and mature on 1 May 2041 and are payable in US dollars with an average effective interest rate of approximately 3.7% in FY2014.
- The loans and facilities incur interest at various average rates between 4% and 5%.

### 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 were authorized 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\$225M 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 0.054% in FY2014. GZB bondholders are secured by letters of credit issued by Austal's banking syndicate with a maturity date of 31 December 2015. The average cost of the letters of credit in FY2014 was 3.677%.

Austal has redeemed (repaid) a cumulative amount of ~ US\$90M of GZB funds and owes US\$135M at 30 June 2014.

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.

### iii. Banking facilities

	2014 <u>'000</u>	2013 <u>'000</u>
<b>Facilities used at reporting date</b>		
Revolving Credit Facility (1)	\$ (12,000)	\$ -
Multi-Option Facility (2)	-	(34,933)
Equipment Line (3)	-	(22,283)
Bank Loan (unsecured) (4)	(1,192)	(9,470)
Go Zone Bonds (5)	(142,264)	(204,974)
Contingent Instrument Facility (6)	(41,605)	-
Other unsecured facility	-	(50)
Total	<u>\$ (197,061)</u>	<u>\$ (271,710)</u>

#### Facilities unused at reporting date

Revolving Credit Facility (1)	\$ (38,000)	\$ -
Multi-Option Facility (2)	-	(56,567)
Equipment Line (3)	-	-
Bank Loan (unsecured) (4)	-	-
Go Zone Bonds (5)	-	-
Contingent Instrument Facility (6)	(58,395)	-
Other unsecured facility	-	-
Total	<u>\$ (96,395)</u>	<u>\$ (56,567)</u>

#### Total Facilities Available

Revolving Credit Facility (1)	\$ (50,000)	\$ -
Multi-Option Facility (2)	-	(91,500)
Equipment Line (3)	-	(22,283)
Bank Loan (unsecured) (4)	(1,192)	(9,470)
Go Zone Bonds (5)	(142,264)	(204,974)
Contingent Instrument Facility (6)	(100,000)	-
Other unsecured facility	-	(50)
Total	<u>\$ (293,456)</u>	<u>\$ (328,277)</u>

1. The Revolving Credit Facility is provided under a new Syndicated Facility Agreement (SFA) which was executed on 19 July 2013. The maturity of the SFA is 31 December 2015. Funds were borrowed under the Revolving Credit Facility in FY2014 with an average variable interest rate of 4.5% in FY2014.
2. Cash advance and contingent instruments were provided under the Multi Option facility until 19 July 2013 when the facility was closed and replaced with the SFA.
3. The Equipment Line was transferred into the SFA at 19 July 2013 and then repaid and closed at 30 June 2014.
4. The Bank Loan is payable by instalments until October 2014, with an average variable interest rate of 4.8% in FY2014.
5. The Go Zone Bonds of US\$ 135.040 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 3.7% in FY2014.
6. 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 23).

### 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		'000	
	2014	2013	2014	2013
<b>Ordinary Shares on Issue</b>				
1 July	346,173,195	188,193,007	\$ 120,940	\$ 41,373
Shares issued during the year	371,738	157,980,188	\$ 270	\$ 79,567
30 June	<u>346,544,933</u>	<u>346,173,195</u>	<u>\$ 121,210</u>	<u>\$ 120,940</u>
<b>Reserved Shares</b>				
1 July	(4,350,601)	(4,350,601)	\$ (9,612)	\$ (9,612)
Options exercised	-	-	\$ -	\$ -
30 June	<u>(4,350,601)</u>	<u>(4,350,601)</u>	<u>\$ (9,612)</u>	<u>\$ (9,612)</u>
<b>Net</b>	<u>342,194,332</u>	<u>341,822,594</u>	<u>\$ 111,598</u>	<u>\$ 111,328</u>

### 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 29 for more information in relation to the Austal Group Management Share Plan.

### ii. Movements in ordinary share capital

The entire movement in ordinary shares during year ended 30 June 2014 is comprised of shares issued to Mr Andrew Bellamy on 26 November 2013 as part of his contract of employment. (Refer to the Remuneration Report on page 16) The volume weighted average price (VWAP) on which the shares were issued was \$0.83 per share.

### iii. Nature & purpose of reserves

#### Foreign currency translation reserve

The foreign currency translation 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 29 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

	2014 '000	2013 '000
<b>Deferred Grant Income</b>		
<b>Current</b>		
Infrastructure Development	\$ (3,550)	\$ (4,221)
Total	<u>\$ (3,550)</u>	<u>\$ (4,221)</u>
<b>Non - Current</b>		
Infrastructure Development	\$ (49,892)	\$ (52,794)
Total	<u>\$ (49,892)</u>	<u>\$ (52,794)</u>
<b>Total</b>	<u>\$ (53,442)</u>	<u>\$ (57,015)</u>

### 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.

When the grant relates to an asset, the fair value is credited to a deferred income liability account and is released to profit and loss over the expected useful life of the relevant asset.

When the grant relates to an expense item, it is 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

	2014 '000	2013 '000
<b>Current</b>		
Trade amounts owing by unrelated entities – construction contracts	\$ 95,842	\$ 104,130
Allowance account for doubtful debts	(89)	(1,387)
Total	<u>\$ 95,753</u>	<u>\$ 102,743</u>
<b>Non - Current</b>		
Trade amounts owing by unrelated entities	\$ 1,020	\$ -
Total	<u>\$ 1,020</u>	<u>\$ -</u>
<b>Total</b>	<u>\$ 96,773</u>	<u>\$ 102,743</u>

#### 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 provision for impairment. 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 (FY2013: \$2.198 million) were impaired and fully provided for at 30 June 2014. Movements in the provision for impairment of receivables are detailed below:

	2014 \$'000	2013 \$'000
<b>Provision for Doubtful Debts</b>		
1 July	\$ (1,387)	\$ (1,863)
Charge for the Year	\$ (89)	\$ (414)
Utilised	1,387	890
Unused amounts reversed	-	-
Movement	\$ 1,298	\$ 476
30 June	\$ (89)	\$ (1,387)

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				Impaired	Total
		0-30	31-60	61-90	90+		
2014	'000	\$ 89,580	\$ 4,430	\$ 435	\$ 2,417	\$ (89)	\$ 96,773
2013	'000	\$ 94,422	\$ 3,452	\$ 677	\$ 5,579	\$ (1,387)	\$ 102,743

Receivable balances are monitored on an ongoing basis.

### v. Fair values of current trade and other receivables

Due to the short term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

## Note 15. Construction contracts in progress

	2014 <u>'000</u>	2013 <u>'000</u>
<b>Work in Progress</b>		
Construction revenue recognised to date	\$ 3,603,494	\$ 2,503,102
less Progress payments received & receivable	(3,275,969)	(2,225,910)
Total due from customers	<u>\$ 327,525</u>	<u>\$ 277,192</u>
<b>Progress Payments Received in Advance</b>		
Construction revenue recognised to date	\$ 204,322	\$ 49,848
less Progress payments received & receivable	(233,384)	(71,638)
Total due to customers	<u>\$ (29,062)</u>	<u>\$ (21,790)</u>
<b>Total due from / (to) customers</b>	<u><b>\$ 298,463</b></u>	<u><b>\$ 255,402</b></u>

### 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	2014 <u>'000</u>	2013 <u>'000</u>
<b>Inventories</b>			
Work in progress	15	\$ 327,525	\$ 277,192
Other stock		617	696
Total		<u>\$ 328,142</u>	<u>\$ 277,888</u>

### 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

	2014	2013
Notes	'000	'000
<b>Current</b>		
Trade & other payables owed to unrelated entities (i)	\$ (183,570)	\$ (133,813)
Total	<u>\$ (183,570)</u>	<u>\$ (133,813)</u>

(i) 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
<b>Balance 1 July 2013</b>				
Gross carrying amount at fair Value	\$ 332,695	\$ -	\$ -	\$ 332,695
at cost	-	127,250	4,599	131,849
Accumulated Depreciation & Impairment	(8,817)	(55,355)	(455)	(64,627)
Net Carrying Amount	<u>\$ 323,878</u>	<u>\$ 71,895</u>	<u>\$ 4,144</u>	<u>\$ 399,917</u>
<b>Balance 30 June 2014</b>				
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	<u>\$ 303,819</u>	<u>\$ 61,859</u>	<u>\$ 822</u>	<u>\$ 366,500</u>

#### ii. Reconciliation of movement for the year

	Freehold Land & Buildings '000	Plant & Equipment '000	Capital WIP '000	Total '000
<b>Balance 1 July 2012</b>	<b>\$ 273,700</b>	<b>\$ 67,630</b>	<b>\$ 29,053</b>	<b>\$ 370,383</b>
Additions	\$ 5,573	\$ 14,270	\$ 1,422	\$ 21,265
Transfer (in / out)	29,585	(310)	(29,275)	-
Disposals	(43)	(430)	-	(473)
Depreciation charge for the year	(8,817)	(12,642)	(455)	(21,914)
Impairment	-	-	324	324
Exchange Adjustment	23,880	3,376	3,076	30,332
Total	<u>\$ 50,178</u>	<u>\$ 4,264</u>	<u>\$ (24,908)</u>	<u>\$ 29,534</u>
<b>Balance 1 July 2013</b>	<b>\$ 323,878</b>	<b>\$ 71,894</b>	<b>\$ 4,145</b>	<b>\$ 399,917</b>
Additions	\$ 2,269	\$ 5,230	\$ 4,385	\$ 11,884
Transfer (in / out)	7,930	(205)	(7,724)	1
Disposals	(16,766)	(1,611)	-	(18,377)
Depreciation charge for the year	(8,707)	(12,886)	-	(21,593)
Exchange Adjustment	(4,788)	(560)	16	(5,332)
Total	<u>\$ (20,062)</u>	<u>\$ (10,032)</u>	<u>\$ (3,323)</u>	<u>\$ (33,417)</u>
<b>Balance 30 June 2014</b>	<b>\$ 303,816</b>	<b>\$ 61,862</b>	<b>\$ 822</b>	<b>\$ 366,500</b>

### 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.

If land and buildings were measured using the cost model, the carrying amount would be as follows:

	2014	2013
	'000	'000
Land & Buildings valued using cost model		
Cost	\$ 404,029	\$ 313,594
Accumulated Depreciation & Impairment	(84,191)	(38,517)
Net Carrying Amount	<u>\$ 319,838</u>	<u>\$ 275,077</u>

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 if appropriate, at each financial year end.

### 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. In assessing 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.

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 profit or loss.

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**

**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 21.iii.

## Note 19. Intangible assets

	Computer Software '000	Development Costs '000	Goodwill '000	Total '000
<b>Balance 1 July 2013</b>	<b>\$ 4,931</b>	<b>\$ 1,132</b>	<b>\$ 6,463</b>	<b>\$ 12,526</b>
Additions	\$ 729	\$ 534	\$ -	\$ 1,263
Amortisation for the year	(2,012)	(168)	-	(2,180)
Disposals	(601)	(1,498)	-	(2,099)
Exchange Adjustment	(37)	-	-	(37)
<b>Total</b>	<b>\$ (1,921)</b>	<b>\$ (1,132)</b>	<b>\$ -</b>	<b>\$ (3,053)</b>
<b>Balance 30 June 2014</b>	<b>\$ 3,010</b>	<b>\$ -</b>	<b>\$ 6,463</b>	<b>\$ 9,473</b>
<b>Balance 1 July 2013</b>				
Cost	\$ 13,953	\$ 1,200	\$ 6,463	\$ 21,616
Accumulated Amortisation & Impairment	(9,022)	(68)	-	(9,090)
<b>Net Carrying Amount</b>	<b>\$ 4,931</b>	<b>\$ 1,132</b>	<b>\$ 6,463</b>	<b>\$ 12,526</b>
<b>Balance 30 June 2014</b>				
Cost	\$ 13,195	\$ -	\$ 6,463	\$ 19,658
Accumulated Amortisation & Impairment	(10,185)	-	-	(10,185)
<b>Net Carrying Amount</b>	<b>\$ 3,010</b>	<b>\$ -</b>	<b>\$ 6,463</b>	<b>\$ 9,473</b>

### i. Recognition and measurement

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are 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 at each financial year-end. 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 are 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. For the purpose of impairment testing, 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, 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. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstance 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 Darwin CGU, which is part of the Australia segment. (Refer to Note 3 for details.)

The Group tests whether goodwill is recoverable on an annual basis. The recoverable amount of Darwin 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. As a result of this analysis, management has concluded that no impairment charge is required.

### iii. Significant accounting judgement and estimates

#### Recoverable amount of the Darwin CGU

The recoverable amount of the Darwin CGU is \$15 million and is determined based on value in use calculations using cash from projections from financial budgets approved by senior management covering a five year period. The following table sets out the key assumptions:

	Budget period gross margins <sup>(1)</sup>		Growth rate beyond budget period <sup>(2)</sup>		Discount rate <sup>(3)</sup>	
	2014	2013	2014	2013	2014	2013
Darwin	10-15%	10-15%	5.0%	5.0%	15.0%	10.5%

(1) Budgeted gross margin

(2) Weighted average growth rate used to extrapolate cash flows beyond the budget period

(3) In performing the value-in-use calculations for the Darwin CGU, the group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. 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 Darwin 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.

## Other liabilities

### Note 20. Provisions

	Employee Benefits '000	Workers' Compensation '000	Warranty '000	Other '000	Total '000
<b>Provisions at 1 July 2013</b>	\$ (11,193)	\$ (6,449)	\$ (6,510)	\$ (3,193)	\$ (27,345)
Arising during the year	\$ (14,912)	\$ (5,400)	\$ (5,314)	\$ (6,204)	\$ (31,830)
Utilised	12,648	3,648	5,249	2,827	24,372
Unused amounts reversed	(102)	-	-	269	167
Effects of foreign exchange	(164)	57	-	16	(91)
Movement	\$ (2,530)	\$ (1,695)	\$ (65)	\$ (3,092)	\$ (7,382)
<b>Provisions at 30 June 2014</b>	<b>\$ (13,723)</b>	<b>\$ (8,144)</b>	<b>\$ (6,575)</b>	<b>\$ (6,285)</b>	<b>\$ (34,727)</b>

	Employee Benefits '000	Workers' Compensation '000	Warranty '000	Other '000	Total '000
<b>2013</b>					
Current	\$ (10,088)	\$ (6,449)	\$ (6,510)	\$ (2,081)	\$ (25,128)
Non-Current	(1,105)	-	-	(1,112)	(2,217)
Total	\$ (11,193)	\$ (6,449)	\$ (6,510)	\$ (3,193)	\$ (27,345)
<b>2014</b>					
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)

#### 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 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 leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Assumptions are formulated when determining the Group's long service leave obligations. This requires estimation of future wage and salary levels and the probability of current employees attaining the service period required to qualify for long service leave benefits. Expected future payments are discounted using market yields at the reporting date on national government 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. No provision for dividends has been recognised as at 30 June 2014. (FY2013: 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 to return it to a passenger ferry specification. This is consistent with the comparative period.



## Financial risk management

### Note 21. Fair value measurements

#### i. Financial assets and financial liabilities

The Group holds the following financial instruments:

Financial Assets	Notes	Derivatives	Assets at	Total
		used for hedging at fair value '000	amortised cost '000	'000
<b>2014</b>				
Cash and equivalents	10	\$ -	\$ 77,345	\$ 77,345
Restricted cash	10	-	9,532	9,532
Trade & other receivables	14	-	95,753	95,753
Forward exchange contracts	23	8,488	-	8,488
Total		\$ 8,488	\$ 182,630	\$ 191,118
<b>2013</b>				
Cash and equivalents	10	\$ -	\$ 38,030	\$ 38,030
Restricted cash	10	-	69,673	69,673
Trade & other receivables	14	-	102,743	102,743
Forward exchange contracts	23	9,400	-	9,400
Total		\$ 9,400	\$ 210,446	\$ 219,846
Financial Liabilities	Notes	Derivatives	Liabilities at	Total
		used for hedging at fair value '000	amortised cost '000	'000
<b>2014</b>				
Trade & other payables	17	\$ -	\$ (183,570)	\$ (183,570)
Forward exchange contracts	23	(4,201)	-	(4,201)
Interest bearing borrowings borrowings	11	-	(155,456)	(155,456)
Total		\$ (4,201)	\$ (339,026)	\$ (343,227)
<b>2013</b>				
Trade & other payables	17	\$ -	\$ (133,813)	\$ (133,813)
Forward exchange contracts	23	(17,078)	-	(17,078)
Interest bearing borrowings borrowings	11	-	(244,777)	(244,777)
Total		\$ (17,078)	\$ (378,590)	\$ (395,668)

The Group's exposure to various risks associated with the financial instruments is discussed in note 22. 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. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. 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
<b>Balance 30 June 2014</b>					
<b>Financial assets</b>					
Derivatives used for hedging	23	\$ -	\$ 8,488	\$ -	\$ 8,488
Total		\$ -	\$ 8,488	\$ -	\$ 8,488
<b>Financial liabilities</b>					
Derivatives used for hedging	23	\$ -	\$ (4,201)	\$ -	\$ (4,201)
Total		\$ -	\$ (4,201)	\$ -	\$ (4,201)
<b>Balance 30 June 2013</b>					
<b>Financial assets</b>					
Derivatives used for hedging	23	\$ -	\$ 9,400	\$ -	\$ 9,400
Total		\$ -	\$ 9,400	\$ -	\$ 9,400
<b>Financial liabilities</b>					
Derivatives used for hedging	23	\$ -	\$ (17,078)	\$ -	\$ (17,078)
Total		\$ -	\$ (17,078)	\$ -	\$ (17,078)

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.

**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.

For financial instruments that are recognised at fair value on a recurring basis, 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.

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. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

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. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its assets and liabilities measured at fair value into the three levels prescribed under the accounting standards. An explanation of each level is provided in note 21 (i).

	Notes	Level 1 '000	Level 2 '000	Level 3 '000	Total '000
<b>Balance 30 June 2014</b>					
<b>Property, plant and equipment</b>					
Land & buildings	18	\$ -	\$ -	\$ 303,819	\$ 303,819
Total		\$ -	\$ -	\$ 303,819	\$ 303,819
<b>Balance 30 June 2013</b>					
<b>Property, plant and equipment</b>					
Land & buildings	18	\$ -	\$ -	\$ 323,878	\$ 323,878
Total		\$ -	\$ -	\$ 323,878	\$ 323,878

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

### Valuation techniques used to determine fair values

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

The last 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 June 2014 '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 <sup>2</sup>	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 <sup>2</sup> )	US\$100 - \$211 (\$185) per ft <sup>2</sup>	Higher cost per ft <sup>2</sup> increases fair value.
Land - Henderson	A\$ 8,800	Selection of land with similar approximate utility	\$200-220 (\$210) per m <sup>2</sup>	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 <sup>2</sup> )	\$500 - \$1,750 (\$998) per m <sup>2</sup>	Higher cost per m <sup>2</sup> 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. If an impairment trigger exists, the recoverable amount of the asset is determined. The recoverable amount of the asset is the higher of fair value less costs to sell and value in use. In assessing 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.

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

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

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

## Note 22. 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.

<b>Risk</b>	<b>Exposure arising from</b>	<b>Measurement</b>	<b>Management</b>
Market risk - interest rate	Long-term borrowings at variable rates	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 credit lines and borrowing facilities

### Objectives and policy

Ultimate responsibility for identification and control of financial risks rests with the Audit & Risk Management Committee under the authority of the Board. 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.

At the end of the reporting period, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	2014 '000	2013 '000
<b>Financial Assets</b>		
<b>Cash and cash equivalents</b>		
Australian variable rate interest	\$ 35,324	\$ 18,320
US variable rate interest	51,553	89,383
<b>Total</b>	<b>\$ 86,877</b>	<b>\$ 107,703</b>
<b>Financial Liabilities</b>		
<b>Interest bearing loans and borrowings</b>		
Australian variable rate interest	\$ (13,192)	\$ (17,520)
US variable rate interest	(142,264)	(227,257)
<b>Total</b>	<b>\$ (155,456)</b>	<b>\$ (244,777)</b>
<b>Net Exposure</b>	<b>\$ (68,579)</b>	<b>\$ (137,074)</b>

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 impact on other components of equity as a result of changes in interest rates. The below sensitivity analysis 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 FY2014 observations.

	2014 '000	2013 '000
<b>Post tax gain / (loss)</b>		
+1% (100 basis points)	\$ (686)	\$ (1,371)
-1% (100 basis points)	686	1,371

### iii. Foreign currency risk

Refer to Note 23 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 the 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, GBP and Euro.

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 AUD.

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; and
- using financial instruments (refer to Note 23).

Sales contracts are negotiated based at the current market rate on the contract signing date. Where there is a tender involving significant foreign currency exposure, the Group seeks to cover that exposure by a rise and fall clause for exchange rate movements between the date of price calculation to the date the contract becomes effective.

Known foreign exchange transaction exposure, which result from normal operational business activities are hedged.

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

Judgement of reasonable possible movements	Post tax profit (higher / (lower))		Equity (higher / (lower))	
	2014	2013	2014	2013
	'000	'000	'000	'000
<b>USD / AUD</b>				
+5%	\$ 4,727	\$ 3,316	\$ 17,106	\$ 3,764
-5%	(4,727)	(3,316)	(17,106)	(3,764)
<b>EUR / AUD</b>				
+5%	\$ 2	\$ 17	\$ (1,769)	\$ (1,172)
-5%	(2)	(17)	1,769	1,172
<b>EUR / USD</b>				
+5%	\$ 4,515	\$ -	\$ 4,515	\$ -
-5%	(4,515)	-	(4,515)	-

Derivative financial instruments such as forward currency contracts and currency options are purchased to eliminate the currency exposures so as to maintain a properly hedged position. 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 23.

#### iv. 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. To manage this, 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. The Group undertakes investments in 11am / 24 hour call deposits, term deposits or negotiable certificates of deposit in order to achieve this objective.

In addition, 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.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure 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 23.

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



## v. Liquidity risk

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet our 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 was in the process of finalising a new syndicated banking facility at the last reporting date (30 June 2013). Execution of the new facility was achieved subsequent to the last reporting date on 19 July 2013 which provides credit until 31 December 2015 and enabled the reclassification of a significant portion of current liabilities as non-current liabilities in the current accounting period.

The following are the contractual maturities of financial liabilities, including interest payments:

	Carrying Amount '000	Years to maturity				Contractual Cash Flows '000
		0 - 1 '000	1 - 2 '000	2 - 5 '000	> 5 '000	
<b>Balance 30 June 2014</b>						
<b>Derivative financial assets / (liabilities)</b>						
Outflow	\$ -	\$ (154,468)	\$ (161,766)	\$ (81,962)	\$ (172)	\$ (398,368)
Inflow	-	155,193	165,183	82,129	172	402,677
Net derivative financial assets / (liabilities)	\$ -	\$ 725	\$ 3,417	\$ 167	\$ -	\$ 4,309
<b>Non Derivative financial liabilities</b>						
Trade & other payables	\$ (183,570)	\$ (183,570)	\$ -	\$ -	\$ -	\$ (183,570)
Bank loan (unsecured)	(1,192)	(1,217)	-	-	-	(1,217)
Go Zone Bond facility (i)	(142,264)	-	(150,171)	-	-	(150,171)
Revolving Credit Facility	(12,000)	(12,019)	-	-	-	(12,019)
Total	\$ (339,026)	\$ (196,806)	\$ (150,171)	\$ -	\$ -	\$ (346,977)

(i) Go Zone Bonds are classified with 1 - 2 years to maturity because the letters of credit wrapping the bonds mature on 31 December 2015.

	Carrying Amount '000	Years to maturity				Contractual Cash Flows '000
		0 - 1 '000	1 - 2 '000	2 - 5 '000	> 5 '000	
<b>Balance 30 June 2013</b>						
<b>Derivative financial assets / (liabilities)</b>						
Outflow	\$ -	\$ (155,105)	\$ (59,776)	\$ (33,307)	\$ -	\$ (248,188)
Inflow	-	162,502	62,111	38,019	-	262,632
Net derivative financial assets / (liabilities)	\$ -	\$ 7,397	\$ 2,335	\$ 4,712	\$ -	\$ 14,444
<b>Non Derivative financial liabilities</b>						
Trade & other payables	\$ (133,813)	\$ (133,813)	\$ -	\$ -	\$ -	\$ (133,813)
Bank loan (unsecured)	(9,470)	(8,529)	(1,177)	-	-	(9,706)
Equipment line (secured)	(22,283)	(23,174)	-	-	-	(23,174)
Go Zone Bond facility	(204,974)	(377,151)	-	-	-	(377,151)
Total	\$ (370,540)	\$ (542,667)	\$ (1,177)	\$ -	\$ -	\$ (543,844)

The Group had \$38.000 million (FY2013: \$56.567 million) of unused credit facilities available for its immediate use at balance date (refer to Note 11). The Group also has a total of \$77.345 million (FY2013: \$38.030 million) in cash and cash equivalents, which it is able to use to meet its liquidity needs.

## Note 23. 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

Such 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, except for those that qualify as cash flow hedges, are taken to the statement of 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, as 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.

At the inception of a hedge relationship, 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.

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. For fair value hedges, the carrying amount of the 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. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the 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 by currency the Australian dollar value of the significant forward foreign exchange agreements and forward currency options. 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.

	2014				2013			
	Average Forward Rate	Buy '000	Average Forward Rate	Sell '000	Average Forward Rate	Buy '000	Average Forward Rate	Sell '000
<b>USD / AUD</b>								
less than 3 months	0.9603	\$ 897	1.0012	\$ 249	1.0305	\$ 81	0.9215	\$ 6,507
3 - 12 months	0.9167	80,868	0.9599	3,436	1.0139	492	0.9593	95,628
13 months or greater	0.8775	131,794	0.9713	86	0.6303	1,034	0.9190	29,231
		<u>\$ 213,559</u>		<u>\$ 3,771</u>		<u>\$ 1,607</u>		<u>\$ 131,366</u>
<b>EUR / AUD</b>								
less than 3 months	0.6608	\$ 1,809	-	\$ -	0.5511	\$ 153	0.7445	\$ 53
3 - 12 months	0.7403	203	0.6400	1,382	0.5434	310	0.7992	130
13 months or greater	0.7343	477	0.6089	22,285	0.5311	476	0.8019	2,640
		<u>\$ 2,489</u>		<u>\$ 23,667</u>		<u>\$ 939</u>		<u>\$ 2,823</u>
<b>USD / EUR</b>								
less than 3 months	-	\$ -	1.3322	\$ 782	0.9296	\$ 34,825	0.9529	\$ 24,824
3 - 12 months	-	-	1.3709	59,448	-	-	0.9584	17,976
13 months or greater	-	-	1.3941	85,849	-	-	0.9813	26,146
		<u>\$ -</u>		<u>\$ 146,079</u>		<u>\$ 34,825</u>		<u>\$ 68,946</u>
<b>GBP / AUD</b>								
less than 3 months	-	\$ -	0.6222	\$ 36	0.6360	\$ 116	-	\$ -
3-12 months	0.5640	1,637	0.6126	115	0.6222	154	0.5897	1,715
13 months or greater	0.5511	3,265	0.5548	552	0.6047	365	0.5548	4,902
<b>Total</b>		<u>\$ 4,902</u>		<u>\$ 703</u>		<u>\$ 635</u>		<u>\$ 6,617</u>
<b>USD / GBP</b>								
less than 3 months	-	\$ -	-	\$ -	0.9730	\$ 836	0.9584	\$ 522
3-12 months	0.5851	1,682	-	-	0.9407	12,346	-	-
13 months or greater	0.6160	2,026	-	-	0.9275	2,584	-	-
<b>Total</b>		<u>\$ 3,708</u>		<u>\$ -</u>		<u>\$ 15,766</u>		<u>\$ 522</u>
<b>SEK / AUD</b>								
less than 3 months	-	\$ -	5.6830	\$ 192	-	\$ -	-	\$ -
3-12 months	-	-	5.6138	2,334	-	-	-	-
13 months or greater	-	-	5.4524	1,469	-	-	-	-
<b>Total</b>		<u>\$ -</u>		<u>\$ 3,995</u>		<u>\$ -</u>		<u>\$ -</u>

**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. In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated. 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 24. 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.

	2014 '000	2013 '000
<b>Operating lease commitments</b>		
<b>Future minimum rentals payable under non-cancellable leases as at 30 June are as follows</b>		
Within one year	\$ (1,395)	\$ (1,125)
After one year but not more than five years	(1,744)	(1,496)
Total	<u>\$ (3,139)</u>	<u>\$ (2,621)</u>
<b>Capital commitments</b>		
Buildings USA	\$ (72)	\$ (16)
<b>Guarantees</b>		
Bank performance guarantees (i)	\$ (41,605)	\$ (26,933)
(i) The bank performance guarantees and Go Zone Bonds 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 25. Events after the balance date

The Group announced the completion of the sale of Hull 270 (102 m stock vessel) on 20 August 2014 for \$61.500 million.

## The Group, management and related parties

### Note 26. 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	
		2014	2013
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%
Image Marine 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%

Austal Limited is the ultimate parent of the Group and is incorporated in Perth, Western Australia.

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

### Note 27. 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 Directors' and Key Management Personnel remuneration and the matters disclosed in this report,.

### Note 28. Key management personnel compensation

	2014 '000	2013 '000
Short-term employee benefits	\$ 3,454,506	\$ 3,600,806
Post-employment benefits	115,046	85,880
Termination benefits	-	332,647
Long term benefits	27,688	-
Share-based payment	442,486	234,463
Total	<u>\$ 4,039,726</u>	<u>\$ 4,253,796</u>

Detailed remuneration disclosures are provided in the Remuneration report commencing on page 16.

## Note 29. Share based payments

### i. Long Term Incentive Plan

The establishment of the Austal Limited Long Term Incentive Plan (LTIP) was approved by shareholders at the 2012 Annual General Meeting. The plan replaced the previous Employee Share Option Plan (refer below) and aims to reward KMP with the issue of performance rights commensurate with their position and responsibilities within the Group so as to:

- attract and retain exceptional employees ('key employees') that have the capacity to significantly impact the growth and profitability of the Group;
- align key employees' behaviour towards the growth and profitability objectives of the Group; and reward key employees for sustained contributions to business success.

#### Structure

The performance rights may be granted to KMP and executives in accordance with the LTIP rules and set by the Remuneration Committee.

The terms of each offer to participate in the LTIP may differ depending on the relevant KMP role. Shares issued following the vesting of any performance rights will generally be subject to a restriction on trading for at least 12 months, although the holder will be entitled to any dividends paid during that restricted period.

Entitlement to performance rights under the LTIP is based solely on measures which deliver improved results to shareholders, thereby ensuring that the objectives of KMP and shareholders are aligned.

#### 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 are as follows:

#### Return on Invested Capital (ROIC) measure

70% of the performance rights that vest under the LTIP will be tied to the achievement of an average ROIC target over the prescribed period as per the definition of ROIC in the Remuneration Report. To be eligible for the full entitlement of performance rights under this aspect of the LTI Plan. An example of the ROIC targets for FY2013 is included within the Remuneration report on commencing page 16. The LTI entitlement reduces progressively as ROIC steps down such that the performance rights will not vest if ROIC is less than the threshold target over the prescribed period.

#### Total Shareholder Return (TSR) measure

30% of any LTI award will depend on the achievement of TSR levels prescribed by the Board. To be eligible for the full entitlement of performance rights under this aspect of the LTI Plan. An example of the TSR targets for the FY2013 grant is included within the Remuneration report commencing on page 16. The LTI entitlement reduces progressively as TSR steps down such that the performance rights will not vest if TSR is less than the threshold target over the prescribed period. Maintenance of existing TSR performance in itself is not enough to meet the hurdle required for performance rights under this measure. The Board considers this to be consistent with its objective of improving returns to shareholders.

## Rights issued and valuation

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

	Tranche	
	1	2
Grant date	18 Nov 2013	13 Dec 2013
Spot price (\$)*	\$ 0.70	\$ 0.84
Expected volatility (%)	40%	40%
Discount rate (%)	2.90%	2.80%
Dividend yield (%)	Nil	Nil
Staff turnover	Nil	Nil
Expected life of option (years)	3	3

## 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 this plan 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:

	2014		2013	
	Number	WAEP	Number	WAEP
Outstanding at the beginning of the year	7,190,486	\$ 2.49	8,273,611	\$ 2.46
Granted during the year	-	\$ -	-	\$ -
Exercised during the year	-	-	-	-
Forfeited during the year	(658,750)	2.23	(1,083,125)	2.25
Outstanding at the end of the year	<b>6,531,736</b>	<b>\$ 2.52</b>	<b>7,190,486</b>	<b>\$ 2.49</b>
Exercisable at the end of the year	4,606,736		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	1,785,000	-
10	20-Dec-11	20-Dec-18	2.15	140,000	-
Total				<b>6,531,736</b>	<b>4,606,736</b>



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

The trustee holds a total of 4,350,601 shares at balance date on behalf of the plans represented by:

- 733,539 shares allocated under Plan 1 and Plan 2 with a weighted average price of \$1.33 each, with no contractual life, and
- 3,617,062 share 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. After this period, 20% of a participant's shares will become eligible to be transferred provided 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.
- Upon termination of employment or contract arrangements the shares must be sold and the loan (if any) repaid.

#### 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:

	2014 '000	2013 '000
<b>Summary of options granted under AGMSP</b>		
<b>Outstanding at the beginning of the year</b>	1,351	1,351
Granted during the year	-	-
Exercised during the year	-	-
Forfeited during the year	(617)	-
<b>Outstanding at the end of the year</b>	<b>734</b>	<b>1,351</b>

All remaining options were fully vested and exercisable throughout the year

#### iv. CEO fixed remuneration share issue

23% of the CEO's fixed remuneration is provided in shares which are subject to an 18 month holding period from the date at which the shares are released to the CEO and no performance condition exists as it is considered part of his base remuneration. 371,738 shares were issued during the year. The fair value of the shares was determined using the closing price on the grant date.

The Board is recommending that the issue of shares, which form part of the CEO's base salary, will be made in 2 equal instalments through the year immediately after the publication of the interim and full year accounts. The number of shares to be issued will be calculated based on the 6 month volume weighted average price (VWAP) of the shares immediately preceding the issue. The Board considers that this best reflects the intention of paying a proportion of the CEO's salary as shares but avoids the administrative issues of issuing monthly as is the case for the cash component. This arrangement is subject to shareholder approval at the 2014 Annual General Meeting.

#### 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).

There are currently two plans in place to provide these benefits, which extend to senior management and directors:

- The Austal Group Management Share Plan (AGMSP); and
- The Long Term Incentive Plan (LTI Plan).

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.

In valuing equity-settled transactions, 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. Where non-market performance conditions must be satisfied, the number of entitlements included in expense recognition is adjusted to an estimate of the ultimate number of entitlements expected to vest.

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 as 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.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense 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.

If an equity-settled award is cancelled, it 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, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, 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:

	2014		2013
	<u>'000</u>		<u>'000</u>
<b>Share Based Payments Expense</b>			
Expense arising from equity-settled share-based payment transactions	\$	(383)	\$ (1,263)

## Note 30. Parent entity

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

	2014		2013
	<u>'000</u>		<u>'000</u>
<b>Balance sheet</b>			
<b>Assets</b>			
Current	\$ 239,735	\$	290,917
Non - Current	176,776		112,054
Total	<u>\$ 416,511</u>	<u>\$</u>	<u>402,971</u>
<b>Liabilities</b>			
Current	\$ (28,135)	\$	(46,052)
Non - Current	(19,980)		(27,741)
Total	<u>\$ (48,115)</u>	<u>\$</u>	<u>(73,793)</u>
<b>Net Assets</b>	<u>\$ 368,396</u>	<u>\$</u>	<u>329,178</u>
<b>Equity</b>			
Contributed Equity	\$ 111,598	\$	111,328
Employee benefit reserve	6,750		3,887
Asset revaluation reserve	8,247		14,162
Cash flow hedge reserve	8,675		11,340
Retained earnings	233,126		188,461
Total	<u>\$ 368,396</u>	<u>\$</u>	<u>329,178</u>
<b>Income</b>			
Profit / (Loss) after tax	\$ 39,563	\$	840
Total Comprehensive Income	39,563		840

## Note 31. Business combinations

No business combinations have taken place within the Group in the year ended 30 June 2014.

The Group acquired an 80% interest in KM Engineering (NT) Pty Ltd and Hydraulink (NT) Pty Ltd through its subsidiary Austal Service Darwin Pty Ltd in the comparative year ended 30 June 2013. The transaction was not considered to be material for the Group.

Accounting for business combinations in previous periods has been done in accordance with the accounting policy below.

### i. Accounting for business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree.

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit and loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is recognised if the aggregate of the consideration transferred and the amount recognised for non-controlling interest is in excess of the net identifiable assets acquired and liabilities assumed. Alternatively a gain is recognised in profit and loss if the fair value of the net assets acquired is in excess of the aggregate consideration transferred. Refer to Note 19 for additional information on goodwill recognised by the Group.

Acquisitions prior to July 2009 were accounted for using the purchase method of accounting.

## Directors' declaration

In accordance with a resolution of the directors of Austal Limited, I state that:

In the opinion of the directors:

- The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - Giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 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, as at the date of this declaration, 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.

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 2014.

On behalf of the Board.



John Rothwell AO  
Chairman

26 August 2014



JHSV 3 & LCS 4

## Corporate governance statement

Austal Limited, its Board of directors and senior management are committed to the best practices of corporate governance, ethical standards and risk management and the Group's approach to corporate governance is summarised in this section of the report. This Corporate Governance Statement should be read in conjunction with the Directors' Report on page 9.

The Board of Austal Limited is responsible for guiding and monitoring of the consolidated entity on behalf of shareholders. The Board's Audit and Risk subcommittee is tasked with the oversight and management of the Group's corporate governance policies and procedures.

The Austal Limited Corporate Governance Statement is now structured to specifically align with the ASX Corporate Governance Council's (the Council) Principles and Recommendations, which are as follows:

- Principle 1. Lay solid foundations for management and oversight
- Principle 2. Structure the board to add value
- Principle 3. Promote ethical and responsible decision making
- Principle 4. Safeguard integrity in financial reporting
- Principle 5. Make timely and balanced disclosure
- Principle 6. Respect the rights of shareholders
- Principle 7. Recognise and manage risk
- Principle 8. Remunerate fairly and responsibly

### Principle 1 – Lay solid foundations for management and oversight

The Board gives direction and exercises judgment in setting the Group's objectives and overseeing their implementation. Responsibility for the operation and administration of the Group is delegated by the Board to the CEO and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the executive management team.

The Board's functions include:

- adopting a Strategic Plan for the Group, including general and specific goals and reviewing actual results against that plan, which is aimed at meeting stakeholders' objectives and managing business risk;
- establishing and maintaining policies directed to ensuring that the Group complies with the law and conforms to the highest standards of financial and ethical behaviour;
- reviewing the Group's reporting systems and internal controls (both operational and financial) together with appropriate monitoring of compliance activities to determine these systems and controls are adequate and appropriate;
- ensuring that significant risks are identified, assessed, appropriately managed and monitored;
- the appointment, performance assessment and, if necessary, removal of members of the executive management team;
- determining and implementing appropriate delegations of authority from the Board to the management to enable their respective functions to be effectively carried out;
- agreeing key performance indicators (both financial and non-financial) with management and monitoring progress against these indicators; and
- reporting to shareholders.

The performance of key executives is reviewed regularly against both measurable and qualitative indicators. Each year the Nomination and Remuneration Committee assesses the performance of key executives. The performance criteria against which they are assessed are aligned with the financial and non-financial objectives of the Group.

## Principle 2: Structure the Board to add value

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board. Any proposed new director is nominated by the Nomination and Remuneration Committee and approved by the Board prior to being appointed. The appointment is until the next General Meeting of shareholders at which time the shareholders are required to approve the appointment.

In accordance with the Council's Recommendation 2.1, a majority of the Board are independent directors. The Board is made up of a Non-Executive Chair, one Executive director and three independent Non-Executive directors. As a result the Board considers those independent directors have a material impact on Board matters and the Group's direction, and are therefore able to ensure that management acts in the best interests of the Group. The directors believe that the Board is well balanced, with a mix of expertise that ensures value for shareholders.

Each year the Nomination and Remuneration Committee conducts a performance assessment for each Board member against both measurable and qualitative indicators. The performance criteria against which directors are assessed are aligned with the financial and non-financial objectives of the Group. Directors whose performance is consistently unsatisfactory may be asked to retire.

The performance of the directors was assessed during the year in accordance with the above process and the Board is satisfied with the performance of the Company's directors.

### Independence

The Council guidelines provide that directors are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, the Board considers 'materiality' from both the Group's and the individual director's perspective. The determination of materiality is based on the Council's guidelines which include:

- whether a director is a substantial shareholder of the Company, or affiliated with a substantial shareholder of the Company;
- whether the director is employed or has previously been employed by the Company, the nature of that employment and the period (if any) between ceasing employment and commencing as a director;
- whether the director has been a member or principal of an organisation that has provided services or consulted to the Group within the last 3 years;
- whether the director is, or is affiliated with a material supplier to or customer of the Group; and
- whether the director has a material contractual relationship with the Group other than as a director.

The above matters, along with any other qualitative factors which point to the actual ability of the Director to have an influence in shaping the direction of the Group, are considered when determining each director's independence.

Based on the above criteria, the Board considers the following directors are independent:

<b>Name</b>	<b>Position</b>
Dario Amara	Non-Executive Director
David Singleton	Non-Executive Director
Giles Everist	Non-Executive Director

Austal's Non-executive Chairman is not classified as independent (as the term is used in the Council's recommendations), however he is a founding director of the Company and possesses extensive Australian shipbuilding experience, from which Austal's shareholders continue to benefit. Mr Rothwell has made a significant contribution to the development of the shipbuilding industry in Australia and continues to draw on his broad experience to add value to the Group.

The Chairman's position is reviewed regularly by the Nomination and Remuneration Committee. Following the most recent review and in light of the above unique skills and experience he brings to the Group, it remains the Board's opinion that Mr Rothwell is the best candidate to Chair the Company.

Directors are required to disclose any actual or potential conflicts or material personal interests on their appointment to the Board. These disclosures are required to be kept up to date. Directors with material personal interests in matters that are before the Board are excluded from consideration of the matter and from related voting processes.

All directors are entitled to seek independent professional advice at the Group's expense if required.

## Outside directorships

The number of outside directorships held by directors is considered as part of his or her appointment and retention. Unless exceptional circumstances apply, the Group follows the Council's guidelines for acceptance of outside directorships by Executive and Non-Executive Directors.

None of the Company's current directors have outside directorship commitments that exceed the Council's guidelines.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee has 3 members, comprised of two independent directors and the Non-executive Chairman. The Nomination and Remuneration Committee is chaired by David Singleton, an independent director. The Committee reviews and makes recommendations to the Board in relation to candidates for vacant Board positions, remuneration of directors and key executives, Board evaluation processes and succession planning.

The Nomination and Remuneration Committee's functions are described in its charter, which is reviewed and updated regularly and published on the Group's website.

## Principle 3: Promote ethical and responsible decision-making

### Ethical standards and performance

The Board acknowledges the need for continued maintenance of the highest standards of corporate governance practice and ethical conduct by all directors and employees of the Austal Group. The Group has adopted a Director Code of Conduct under which directors are expected to:

- act honestly and in good faith;
- exercise due care and diligence in fulfilling the functions of their office;
- use their powers to act in the best interests of the Group as a whole;
- avoid conflicts and make full disclosure of any possible conflict of interest;
- comply with the law;
- be independent in judgement and ensure all reasonable steps are taken to be satisfied as to the soundness of Board decisions;
- encourage the reporting and investigating of unlawful and unethical behaviour; and
- comply with the share trading rules and other Group policies.

The Group also has an Employee Code of Conduct that applies to all employees across the Austal Group. The Employee Code of Conduct contains requirements that are similar to those contained in the Director Code of Conduct, adjusted to reflect the different roles and expectations arising out of various positions of employment within the Group.

### Share trading policy

Directors and key management personnel are required to comply with the Group's share trading policy, which may from time to time be adjusted by the Board and applies in addition to legislative requirements and the ASX Listing Rules.

The Group's share trading policy is published on its website and includes:

- a restriction on trading in securities of Austal Limited shares to the period of four months following the release of half yearly and preliminary final reports. Directors and executive managers are also restricted from trading in Austal Limited shares for 24 hours following any announcement by the Company to the ASX;
- any director or executive manager intending to buy or sell shares in the Company or any company in which the Company has an interest is required to notify the Chairman or the Company Secretary of his/her intentions before proceeding with the transaction; and
- directors, managers and staff are not permitted to deal in the Company's securities if they are in possession of material information which is not available to the share market, but if it were, may impact the value at which the securities are traded.



## Diversity at Austal

Austal recognises that developing a diverse workforce is critical in building its organisational capability and maintaining a high level of performance, and values the distinctive skills, experiences and perspectives each individual brings to the workplace. The Group is committed to ensuring all employees are treated with respect and given equal opportunities for employment and development, and the Board has adopted an Equity and Diversity policy which can be found on the Group's website. Among other things, the Group's diversity policy:

- articulates how the Group considers diversity within the workforce will make a valuable contribution towards the Group's continuous improvement and the achievement of goals; and
- sets out the Board's commitment to promoting a corporate culture which embraces diversity.

The Group's ability to achieve diversity within the workforce is restricted by the industry in which it operates, the significant majority of which is male. As there is a limited number of women who hold the particular fabrication, welding and production skills required by the bulk of the Group's workforce, the ability to meet targets for gender diversity is necessarily restricted. In accordance with the Group's Code of Conduct, employment and remuneration are based on merit, qualifications, skills and experience so that equally qualified personnel can be confident of their standing in the Group, and value to the Group, regardless of their gender, racial background, age, religious beliefs or other values.

The Board therefore has not set specific targets for diversity requirements, but focuses on improving diversity through workplace practices such as:

- the employment of international workers through 457 visas, and assistance in domiciling those workers in Australia upon visa expiry;
- employment of personnel with particular needs (for example, persons with hearing impairments), both through the Commonwealth Rehabilitation Service and through direct recruitment ;
- offering flexible working hours; and
- employment of part time workers:

The Group emphasises equal opportunity for employment. While there are currently no female Board members, in light of the sector in which the Group operates, women are relatively well represented in other roles. Women currently occupy professional, management and senior management roles across the business in the following numbers:

<b>Business unit</b>	<b>% of Senior management roles filled by women</b>	<b>% of management roles filled by women</b>	<b>% of professional roles filled by women</b>
Australia Operations	21%	14%	33%
US Operations	4%	19%	23%
Philippines Operations	13%	16%	35%

The Group has obtained certification of compliance with the *Workplace Gender Equality Act 2012 (Cwlth)* from the Federal Government's Workplace Gender Equality Agency. A copy of the gender diversity report that the Group submitted to the agency can be found on the Group's website.

The Board will continue to embrace diversity within the Group's workforce as the Group and its activities grow and appropriately skilled candidates are available.

## Principle 4: Safeguard integrity in financial reporting

### Audit and Risk Management Committee

The Company's Audit & Risk Management Committee has 3 members, all of whom are independent Non-executive directors. The Audit & Risk Management Committee is chaired by Dario Amara. The Committee also obtains advice on corporate governance and related financial matters from an independent academic consultant who attends Committee meetings as required.

The Audit & Risk Management Committee's functions are described in its charter, which is reviewed and updated regularly and published on the Group's website. They include:

- reviewing the Group's financial reporting processes to ensure the integrity, accuracy and timeliness of the Group's financial accounts;
- reviewing the internal controls, policies and procedures the Group uses to identify and manage business risks;
- the policies and procedures for ensuring compliance with relevant regulatory and legal requirements, and good corporate governance practice;
- ensuring compliance with statutory reporting responsibilities;
- assessing the effectiveness of the management of business risk and reliability of management reporting; and
- reporting any significant deficiencies in the above to the Board.

In addition to the above, the Audit & Risk Management Committee (in accordance with its Charter) annually reviews the performance of the external auditor on behalf of the Board, focussing particularly on:

- the scope and rigour of the audit;
- the quality of the service provided, considered from the shareholders' point of view; and
- the independence of the auditor.

If the Board considers a change in auditor is necessary, it will make a recommendation to shareholders to do so. Such recommendation would be the subject of shareholder approval in a General Meeting.

## Principle 5: Make timely and balanced disclosure

### Continuous disclosure

Austal Limited has established written policies and procedures on information disclosure. The focus of these procedures is on compliance with ASX disclosure commitments and improving access to information for all investors. The objective is to ensure information announced by the Company is timely, factual, clear and contains all information relevant to shareholders and potential investors.

The Chief Executive Officer, with oversight from the Audit & Risk Committee, has responsibility for:

- making sure that the Group complies with continuous disclosure requirements;
- overseeing and co-ordinating disclosure of information to the stock exchange, analysts, brokers, shareholders, the media and the public; and
- educating directors and staff on the Group's disclosure policies and procedures and raising awareness of the principles underlying continuous disclosure.

The Company releases all price sensitive information through the ASX, whether as part of regulatory reporting such as financial results, directors interests and changes in shareholdings, or other operational information that is relevant to shareholders or anyone considering investment in the Company.

## Principle 6: Respect the rights of shareholders

### Shareholder communication policy

The Board is ultimately responsible for ensuring that the shareholders are informed of all major developments affecting the Group's state of affairs.

Information is communicated to shareholders through:

- the Annual Report;
- the interim financial report;
- disclosures made to the ASX;
- notices and explanatory memoranda of the Annual General Meeting (AGM); and
- the AGM.

The Company posts all ASX announcements on its website immediately after they are published by ASX and maintains that information on the website for 4 years. Announcements include the full content of all presentations made to analysts and industry conferences, which are lodged with ASX and published prior to the presentation being given.

It is Company policy for the auditor's lead engagement partner to be present at the AGM in the event of questions about the conduct of the audit, the preparation and content of the auditors' report, accounting policies adopted by the Group or auditor independence. The Company's legal adviser is also present at the AGM.

## Principle 7: Recognise and manage risk

### Risk management and internal compliance and control

The Board determines the Group's 'risk profile' and reviews internal processes and procedures to satisfy itself that management has developed and implemented a thorough system of risk management and internal control. The Board delegates responsibility for undertaking and assessing risk management and internal control effectiveness to management, however it retains ultimate responsibility for this function and therefore requires management to regularly assess internal compliance, risk management and control procedures and report back to the Board on the efficiency and effectiveness of those procedures. The Group's process of risk management and internal compliance and control includes:

- continuously identifying and measuring risks that might impact upon the achievement of the Group's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls; and
- monitoring the performance, and continuously improving the effectiveness of risk management systems and internal compliance and controls.
- The risk management programme addresses risks under the following categories:
  - business risks inherent to the shipbuilding industry;
  - operating risks associated with sales, design and production;
  - financial risks; and
  - specific vessel risks.

The Board oversees regular assessment of the effectiveness of risk management and internal compliance and control. In the past year, a focus on financial risk has led to the revision and updating of several risk management policies regarding treasury management, financial accounting, financial risk management and taxation and the employment of additional resources to ensure these issues are continually addressed and policies improved.

The Board is satisfied with the executive's approach to and management of the risks faced by the business, based on the measures adopted for addressing those risks.

The Board receives monthly updates from management about the financial status of the Group and its controlled entities. The Board is comfortable that the declarations made by the CEO and CFO in accordance with s295A are based on a sound process. To ensure the appropriate level of confidence in this process, executives across the business are required to make similar declarations to the CEO before the declaration is made to the Board.

### **Principle 8: Remunerate fairly and responsibly**

It is the Group's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. The Group has implemented and will maintain a responsible, performance-based remuneration policy that is aligned with the long-term interests of its shareholders as set out in more detail in the Remuneration Report found at page 16. The key objectives of the remuneration policy are to:

- strike the right balance between meeting shareholders' expectations, paying our employees competitively, and responding appropriately to the regulatory environment;
- motivate executives to pursue the long term success of the Group; and
- clearly demonstrate the relationship between executives' performance and remuneration, and the alignment of those 2 factors.

The Group's approach to remuneration, including the structuring of executive remuneration and the role of incentives, is set out in detail in the Remuneration Report. Only executives and employees are eligible to participate in the Group's incentive schemes (whether those schemes are based on STI, LTI or employee share plans). Non-executive directors are paid a fixed fee which does not include equity-based remuneration, in order to maximise the benefit of their independence and eliminate the potential for conflicts of interest to arise.

## Independent audit report to the members of Austal Limited



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Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

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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 2014, 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 2014 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 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Robert Kirkby  
Partner  
Perth  
26 August 2014

## Shareholder information

The following information was extracted from the Company's register as at 22 August 2014.

### Distribution of shares

	Number of holders	Number of units	% of Total Issued Capital
1 - 1000	1,406	697,036	0.20%
1,001 - 5,000	1,914	5,339,322	1.54%
5,001 - 10,000	708	5,499,713	1.59%
10,001 - 100,000	834	22,981,871	6.63%
100,001 and over	72	312,026,991	90.04%
<b>Total</b>	<b>4,934</b>	<b>346,544,933</b>	<b>100.00%</b>

### Twenty largest shareholders

Rank	Shareholder	Number of holders	% of Total Issued Capital
1	HSBC Custody Nominees (Australia) Limited	55,850,870	16.12%
2	J P Morgan Nominees Australia Limited	54,921,985	15.85%
3	National Nominees Limited	41,721,882	12.04%
4	Citicorp Nominees Pty Ltd	32,841,970	9.48%
5	Austro Pty Ltd	32,200,745	9.29%
6	Navigator Australia Ltd	27,870,610	8.04%
7	Onyx (WA) Pty Ltd	9,817,570	2.83%
8	Mr Vincent Michael O'Sullivan	8,650,000	2.50%
9	UBS Nominees Pty Ltd	6,699,324	1.93%
10	RBC Investor Services Australia Nominees Pty Limited	5,535,282	1.60%
11	Austal Group Management Share Plan Pty Ltd	4,355,531	1.26%
12	BNP Paribas Noms Pty Ltd	3,948,971	1.14%
13	Garry Heys & Dorothy Heys	2,844,670	0.82%
14	Mr William Robert Chambers	2,625,650	0.76%
15	Mirrabooka Investments Limited	2,550,000	0.74%
16	Lavinia Shipping Ltd	2,280,000	0.66%
17	Mossisberg Pty Ltd	1,883,945	0.54%
18	Lujeta Pty Ltd	1,300,000	0.38%
19	Kenny Nominees (NT) Pty Ltd	1,240,783	0.36%
20	Gregory McKechnie	1,112,575	0.32%
	<b>Total</b>	<b>300,252,363</b>	<b>86.66%</b>

### Substantial shareholders

Rank	Shareholder	Number of holders	% of Total Issued Capital
1	HSBC Custody Nominees	55,850,870	16.12%
2	J P Morgan Nominees Australia Limited	54,921,985	15.85%
3	National Nominees Limited	41,721,882	12.04%
4	Citicorp Nominees Pty Ltd	32,841,970	9.48%
5	Austro Pty Ltd	32,200,745	9.29%
6	Navigator Australia Ltd	27,870,610	8.04%

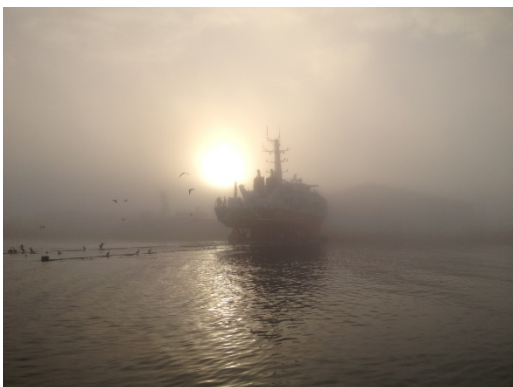
### Voting rights

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

## Corporate directory



Cape Byron



Launch of Cape Sorell



Cape Byron

### Directors

#### Executive Directors

Andrew Bellamy

#### Non-Executive Directors

John Rothwell  
Dario Amara  
David Singleton  
Giles Everist

### 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  
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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  
Telephone: +61 8 9389 8033  
Facsimile: +61 8 9389 7871