



**Austal Limited** Annual Report

**2019**



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# Company Overview

Austal celebrated 30 years of shipbuilding in August 2018 - a significant milestone for a young but successful company that has designed, constructed and continues to support the world's most impressive high speed craft. Orders have now surpassed 330 vessels for more than 100 operators in 56 countries.

Austal has grown from a small business, building cray fishing boats in Henderson, Western Australia in 1988 to become the world's largest aluminium shipbuilder and a leading defence Prime contractor, delivering a diverse range of commercial and naval ships from seven shipyards around the world.

Renowned for innovative, iconic vessel designs and industry-leading technology, Austal has revolutionised maritime transportation and security – and continues to set new benchmarks for vessel capability and performance, seakeeping and customer experience.

## 2019 Highlights



**\$1.85B**  
Revenue



**\$4.9B**  
Order Book



**11**  
New ships  
ordered



**58**  
Ships scheduled or  
under construction



**12**  
Ships  
delivered



**25**  
Vessels under  
sustainment



7 shipyards  
in 5 countries



6 Service Centres

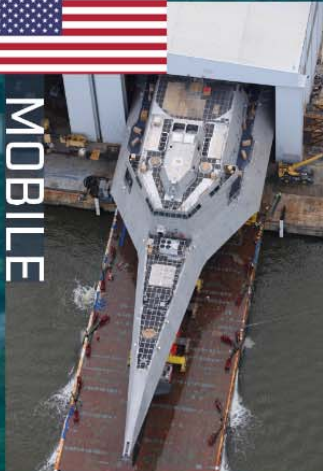


5,700 Employees

# Shipyards



MOBILE



Only foreign owned Prime Contractor designing, building and sustaining ships for the US



**5th** Largest shipyard in the USA

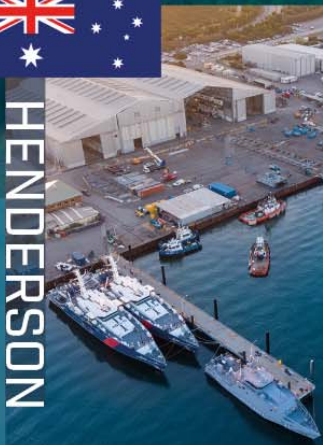
Largest industrial employer in South Alabama



Orders placed for 4 x Littoral Combat Ships and 2 x Expeditionary Fast Transport Ships



HENDERSON



**3** Australian Shipyards

Austal Henderson South is the latest addition to Austal Australia's ship building facilities

**118**

Naval Architects, Designers and Draftspeople

**♀ 25%**

Female workforce target

12.5% of the workforce are currently women

NAVAL BASE



**3** of 21 Guardian Class Patrol Boats (GCPBs) Delivered

Pacific Patrol Boat Replacement Program



**3** months

Between each GCPB delivery



Cairns service centre expanded and now sustaining GCPB Fleet



BALAMBAN



5

New Construction Bays

Infrastructure upgrade complete and officially opened in July 2019



>900

Employees

98%

Local Filipino



Awarded government license to engage in shipbuilding and ship repair of naval combat vessels in the Philippines



VUNG TAU



Shipyard officially opened in October 2018



>300

Employees

97%

Local Vietnamese



94m vehicle/passenger ferry for Trinidad and Tobago currently under construction



AULONG



40%

Austal's investment in Joint Venture



7

Vessels under construction in FY2019



40 metre passenger ferries delivered in FY2019

# Ships in build

Defence



## Littoral Combat Ship (LCS)

### US Navy

LCS 16 and 18 commissioned  
LCS 18 and 20 delivered  
LCS 22, 24, 26, 28 and 30 under construction



## Expeditionary Fast Transport (EPF)

### US Navy

EPF 10 delivered  
EPF 11 and 12 under construction



## Guardian Class Patrol Boat (GCPB)

### Commonwealth of Australia

GCPB 1, 2 and 3 delivered  
GCPB 4 launched  
GCPB 5, 6, 7 and 8 under construction



## Austal Patrol 58

### Trinidad and Tobago Coast Guard

Hull 398 and 399 under construction



*USS Cincinnati (LCS 20) and USNS Burlington (EPF 10)*





**30m Passenger Ferry**  
**VS Grand Ferries Corporation**  
 Hull 420 delivered



**109m Passenger and Vehicle Ferry**  
**Molslinjen**  
 Hull 393 delivered



**50m Passenger Ferry**  
**Braveline**  
 Hull 680 delivered  
 Hull 681 delivered



**40m Passenger Ferry**  
**Blue Sea Jet**  
 AL002 delivered



**42m Passenger Ferry**  
**Xidao Dazhou Tourism Co Ltd**  
 AL003 delivered  
 AL004, AL005 and AL006 under construction



**49m Passenger Ferry**  
**SNC Aremiti**  
 Hull 421 under construction



**109m Passenger and Vehicle Ferry**  
**Fjord Line**  
 Hull 419 under construction



**117m Passenger and Vehicle Ferry**  
**Fred Olsen S.A**  
 Hull 394 under construction  
 Hull 395 under construction



**83m Passenger Ferry**  
**JR Kyushu Jet Ferry**  
 Hull 396 under construction



**94m Passenger and Vehicle Ferry**  
**National Infrastructure Development Company (NIDCO)**  
 Hull 397 under construction



**42m Passenger Ferry**  
**Shenzhen Airport**  
 AL007 under construction



**81m Passenger Ferry**  
**Beibi Gulf**  
 AL008 under construction



# Leadership in Vessel Design, Flexibility in Vessel Construction

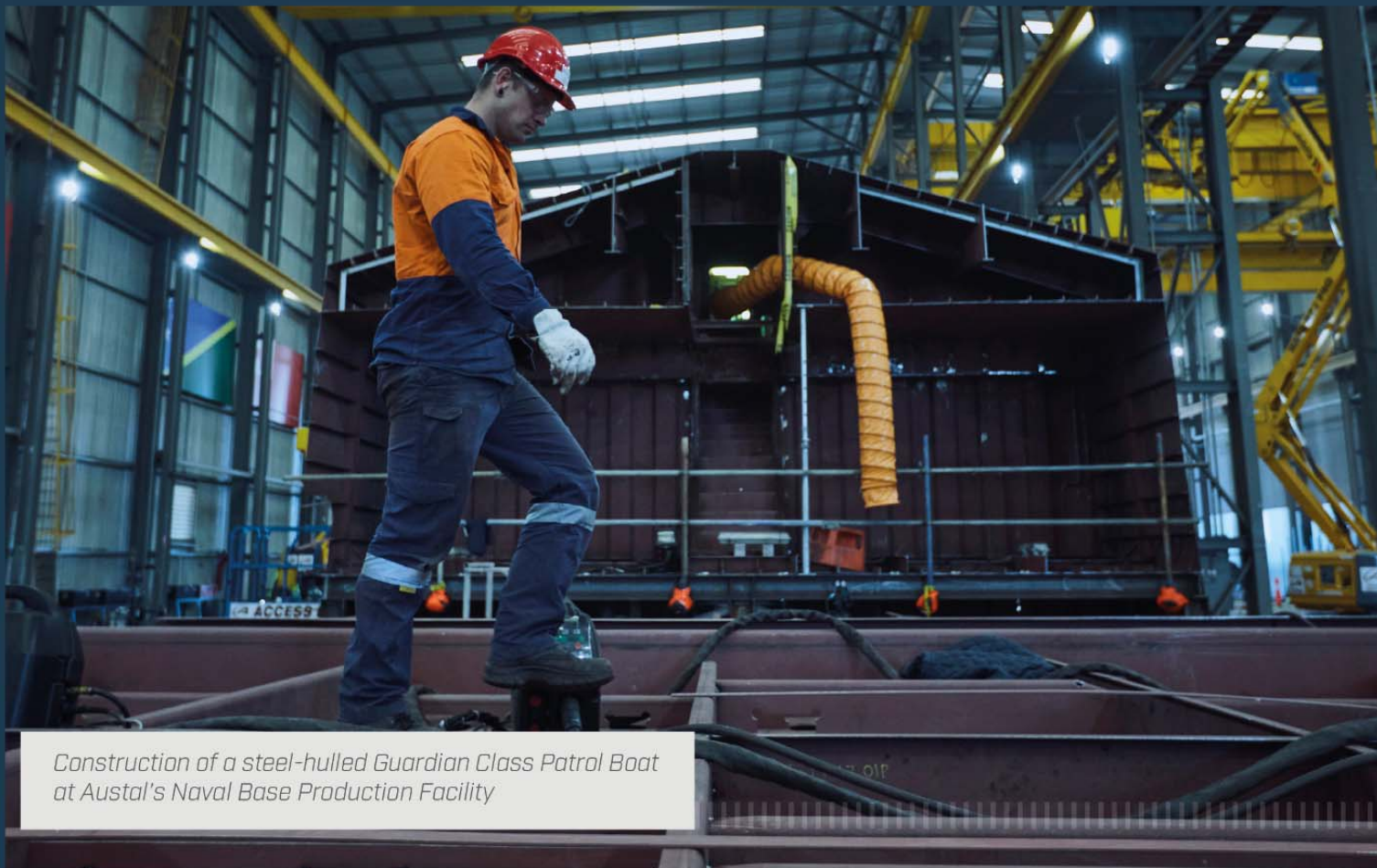
Austal has led the international market in high speed aluminium ferries since the early 1990s and has developed a range of sought after monohull, catamaran and trimaran designs from 30 to 130 metres in length.

Building upon commercial vessel success, the company diversified into aluminium naval vessels and is now the only foreign owned prime contractor to be building defence vessels for the United States Navy, including the Littoral Combat Ship and Expeditionary Fast Transport.

Now, as we further strengthen our defence portfolio, Austal is offering steel solutions for military applications to meet growing export demand. In 2019 we commenced delivery of Guardian Class Patrol Boats for the Commonwealth of Australia's Pacific Patrol Boat Replacement Project, comprising 21 vessels for 12 Pacific Island nations and Timor Leste.



*Austal Hull 521 – the Guardian Class Patrol Boat “HMPNGS Ted Diro”, delivered to Papua New Guinea in November 2018*



*Construction of a steel-hulled Guardian Class Patrol Boat at Austal's Naval Base Production Facility*

# Innovation in Maritime Technology

Austal is continuing to drive innovation and develop 'smart ship' technology to further improve vessel performance, customer experience and operator returns. Our proprietary systems such as Motion Control and MARINELINK Smart are evolving to include new features that are helping our customers to achieve greater operating efficiencies while providing a more comfortable and enjoyable journey.



*MARINELINK Smart provides live, shore-based tracking of fleet performance and asset health*



*MARINELINK Smart provides crews with live advice helping to reduce fuel costs and improving passenger comfort.*



*MARINELINK Smart is tailored to the unique needs of High Speed Craft*

# 30 Years of Austal



# 30





*30 year anniversary birthday celebration event at Austal Henderson, 8 August 2018*

# Sustainment

One of Austal's greatest assets and area of opportunity is in sustainment – ensuring the ongoing availability and optimum capability of our customers' ships. Austal is unique as an OEM in offering sustainment and in-service support for vessels, throughout the world. Austal is well positioned to expand support services to both commercial and defence customers, globally, from dedicated service centres located in Australia, the USA, Philippines, Vietnam, Singapore and the Middle East.



**\$225m**

Turnover support contracts FY2019



**\$70m**

Turnover support contracts FY2019

# Business Priorities in 2020

Expand footprint in USA through participation in new USN programs



Drive Asian investment to enhance competitiveness



Group wide cost efficiency



Build world's best through major expansion of R&D investment



## Chairman's report



### Financial Year Highlights

- Reliable performance from the LCS and EPF programs in the USA.
- Expanded commercial shipbuilding operations across Australasia and continued growth in support work.
- Largest ever workforce, with 5,700 committed staff across the business.
- Strong outlook underpinned by \$4.9 billion order book.

It is my pleasure to present the 2019 Annual Report to shareholders on behalf of the Board of Austal Limited.

Austal had its 30th birthday last year, and this year the Company is approaching another major milestone, celebrating 20 years of operations in the United States of America.

Austal USA was born in December 1999, when less than 100 employees started work at a 6-hectare yard in Mobile, Alabama that had a single assembly bay fronted by a wharf measuring 115 metres. Since then, we have grown the shipyard into arguably one of the world's most advanced manufacturing facilities. Austal USA now has 3,400 staff working at a 66-hectare facility, with four final assembly bays, a 65,000 square metre Module Manufacturing Facility, two office buildings, an administration building housing the US Navy's program support staff, and a drive-through warehouse, all fronted by a combined wharf length of 230 metres.

It is fitting that our FY2019 financial results reflect the continued strong, major contribution from our USA shipyard. Austal delivered record results across the business, including Net Profit After Tax (NPAT) of \$61.384 million, 63.5% higher than the prior corresponding period (pcp), and Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) of \$135.001 million, up 33.9% on the pcp. This is the third time that EBITDA has exceeded the \$100 million mark in the Company's history and the second year in a row. These earnings were generated off a record \$1,852.074 million in revenue, with 79.5% of that revenue coming from Austal's USA shipyard. The Board is delighted with the Company's financial performance in FY2019, which reflected the ongoing strong delivery of our significant order book.

Notwithstanding the strength of our USA shipyard, the particularly pleasing part of our financial results was the substantial and growing contribution from our commercial operations. We expanded construction of our commercial ferry contracts in the year, facilitated by a strong order book and the investments made in our Australasia shipyards to increase throughput. This included a trebling of construction capacity at our Philippines shipyard and the opening of leased shipyards in Vietnam and Western Australia. These investments have provided greater capacity and scalability for Austal whilst ensuring prudent capital expenditure.



We also grew our workforce as we expanded capacity in Australasia, which stood at 2,300 at the end of FY2019. This dedicated team worked on seventeen commercial ferries in the year, of which six were delivered. The commercial vessels currently under construction are expected to drive significant revenue and earnings growth from Australasia in FY2020. This includes three large 100+ metre ferries, all of which are scheduled to be delivered in the next 18 months. These large, high speed, innovative catamaran and trimaran ferries set Austal apart in the global landscape. The breadth and quality of our commercial customers in Japan, Taiwan, Korea, and Europe shows the strength of our business, given that all of the regions have strong shipbuilding industries of their own.

Austal finished FY2019 with a near-record \$4.9 billion order book, \$2 billion higher than 12 months earlier and putting the Company in a strong position for the future. Notably, we were awarded six additional vessels from the US Navy in the year – four Littoral Combat Ships (LCS) and two Expeditionary Fast Transports (EPF). These contracts secure work at our USA shipyard through to 2024, with consistent and highly predictable production providing us with reliable earnings visibility. Other naval vessel works included early-stage construction of two 58-metre Cape Class Patrol Boats vessels for Trinidad and Tobago. We also progressed well with the ongoing delivery of the 21-vessel Guardian Class Patrol Boat (GCPB) program for the Commonwealth of Australia, handing over the first three vessels in FY2019 and generating increasing efficiencies as the program matures at full rate production.

The ongoing support work we are performing is often missed given our major vessel programs form such a large part of Austal's order book. One of our most significant achievements in the year was being selected as the prime contractor for dry docking of LCS 14 to carry out support and sustainment work. This was the first time that Austal has acted as prime contractor for this type of work and points to the potential of the support business in the USA. This potential only increases in scale as more Austal designed and built US Navy vessels are deployed and operate for decades to come. It is why we have made significant investments in this area and will continue to do so.

We are also targeting the right strategic investments now to ensure that Austal is best placed to win the vessel programs of the future. Chief Executive Officer (CEO) David Singleton goes into more detail about the major opportunities we have right across the business in his CEO Report. Austal has a proud history of backing innovation in the past, which have become the competitive strengths for the Company today. Lightweight and high speed aluminium ships, innovative trimaran and catamaran designs, and our expansion into the USA and Asia are only a few examples. With this as our base and a strong financial capacity, we have clear initiatives in place that have the potential to propel Austal further forward for tomorrow. This is an exciting phase in our development but of course one that does carry risk.

Austal has maintained a stable Board that has a strong mix of skills and experience, and I would like to thank them for their support. In particular, this year the Board has closely reviewed the Company's executive remuneration structures in light of shareholder feedback. Led by Sarah Adam-Gedge as the new Chair of the Nomination & Remuneration Committee, we have completed significant restructuring of our executive pay and incentive schemes to strike the best possible balance between meeting shareholders' expectations, paying our employees competitively, and responding appropriately to the regulatory environment. I encourage you to read the Remuneration report to see the changes we have made and we welcome feedback.

I would like to acknowledge the Austal executive team, all of our support managers, and the Company's entire workforce spread across the globe in seven separate shipyards and six service centres for their hard work and dedication in making the year such a great success. I look forward to what we can achieve next year and beyond.

And finally, I would like to thank shareholders for your ongoing support.



John Rothwell AO  
Chairman

# Chief Executive Officer's report



## Financial Year Highlights

- Record company profitability and cash flow.
- Growth in order book to a record level during the year with award of four LCS and two EPF orders and additional commercial ferry contracts awarded in FY2019.
- USA business running well and ahead of plan.
- Australasia expansion nearing completion enabling significant sales and throughput growth.

Austal has made a leap forward in FY2019 with record financial results and \$1.9 billion growth to our order book after celebrating 30 years as a company in CY2018. This feels like just reward for the many years of development, with an array of strategic initiatives coming together to deliver a step change for the Company. Our strong financial results were underpinned by impressive performance on our naval shipbuilding contracts in the USA and enhanced by a growing contribution from commercial shipbuilding in Australasia.

Importantly, we do not see this as a peak but as a new normal for the business. We have greater visibility and reliability of earnings in the medium term than we have perhaps ever experienced. Shipbuilding by its nature has an element of cyclical to it but we believe our predictability has never been greater due to our \$4.9 billion order book, embedded position in US naval shipbuilding, and strengthening long-term support revenues as vessels are commissioned.

## USA

Austal has always invested for the future and there is no better example than in the USA, where we are the only foreign prime contractor to build major vessels for the US Navy. We have now achieved a position where robust and consistent performance, on-cost budgets, and on-time delivery are expected. We believe that this performance is known and appreciated by the US Navy, which has continued to support what we do as the only all-aluminium naval shipbuilder in the USA. This is exemplified by the US Navy awarding Austal six vessels in FY2019 – four Littoral Combat Ships (LCS) and two Expeditionary Fast Transports (EPF) – securing work through to 2024.

Whilst the EPF catamarans have been deployed extensively for some time we are now seeing a broader engagement of our Independence Class LCS trimarans in Asia, with recent visits to Davao, Singapore, and Darwin, amongst others. It is good to see our innovative vessels doing what they were designed to do and building Austal's international reputation in the process.

## Australasia

Shipbuilding in Australasia has also been performing well. We delivered three GCPB on time and to the exacting standards of the Australian Defence Department under a 21-vessel, \$341 million shipbuilding and associated in-service support contract. We have built a production line for the vessels in a facility leased for the program that is enabling impressive improvements in efficiency levels ship-by-ship. At the same time our Henderson shipyard is full and we have leased a new facility nearby to build the 83-metre JR Kyushu ferry for Japan. Performance has been impressive given the workload.

We have also made giant steps in Asia, a market that we regard as core for the future with significant growth opportunities as the travelling public expands in the thousands of islands in the region. I believe our decision to make a major expansion in the Philippines has been both bold and well timed, and decisive in our positioning. The facilities we have established are some of the best in the world for large commercial vessels and will give us enormous competitive advantage in speed and quality when fully optimised. Equally, our new purpose-built, leased facility in Vietnam has demonstrated that we can scale our business without major upfront capital costs. Within a year of starting in Vietnam, we ended the year employing close to 300 people and building a 94-metre catamaran. I believe that Vietnam will become a key home for us.

## Support

Austral has had a consistent strategy to expand our support business across the globe, with the Company now having a presence in San Diego, Oman, Darwin, Cairns and Singapore, in addition to our established shipyards. Support keeps us in touch with our customers and our products, and provides a long-term, stable income stream. This is particularly important as an increasing number of Austral designed and built vessels are commissioned and deployed by the US Navy. It has taken us some time and significant investment to get the capability that we need, which is quite different to ship construction, but will be a valuable source of business in the future.

## Strategy and outlook

As I stated above, Austral is experiencing not only profit growth but arguably the greatest visibility and reliability of earnings in our 30-plus year history. It is important that we use this as a springboard to set the business up for its next phase of growth, as we have done in the past. In doing so we recognise that with shipbuilding, such opportunity always comes with a level of risk.

In the USA, the landscape for Austral has developed significantly over the last few years, with our performance on trimaran and catamaran naval vessels opening up opportunities as they evolve into the potential programs of the future. The US Navy is in the process of transitioning the small surface combatant program (currently LCS) to a Fast Frigate (FFG) through a request for tender.

We are one of four bidders being evaluated by the US Navy over the next year and, if we are successful, our USA business could grow substantially.

The EPF vessel will in our opinion, continue to evolve as a highly flexible platform capable of performing multiple roles beyond what was anticipated at its inception. The US Navy has already indicated that the latest vessels are likely to be hospital variants and we see the opportunity for further applications. The US Navy's growing interest in unmanned vessels may also provide significant opportunities for the vessel types that we build and we are testing these technologies.

In Australasia, I believe our ability to scale defence shipbuilding capability into new markets has given us a novel way to think about serving key customer areas. Asian countries aspire to build vessels in their own country as they expand their Navies, like in Australia and the USA. We have a proven ability to provide a sovereign shipbuilding option and will market this increasingly in the future as opportunities arise. It means a different approach – one that is not solely focused in Australia but rather leverages our deep skills in design and shipbuilding to meet the needs of new markets.

Meanwhile, in commercial ferries, we have been steadily increasing R&D investments to build on our competitive advantage in designing and constructing fast, lightweight ferries as the world's largest aluminium shipbuilder. We are seeing the market change as new emission laws require cleaner fuels such as LNG and electric batteries. In addition, new digital technologies are enabling us to do things we could not do in the past with our ferry designs. It is critical Austral continues to invest in this field so we can capture new markets and opportunities.

Our ability to deliver strong profitability has provided Austral with the balance sheet strength to make investments across the business that will drive the Company's next phase of growth. For example, if we are successful with the US Navy's new frigate program, Austral has the financial capacity behind us to expand the Company's USA facilities accordingly. We will also use this capacity to further broaden our core in support activities, given its ongoing potential as a source of substantial revenue growth.



David Singleton

Managing Director and Chief Executive Officer

# Review of operations

## Group financial results

	2019 '000	Restated <sup>1</sup> 2018 '000
Total revenue	\$ 1,852,074	\$ 1,390,455
EBITDA <sup>2</sup>	135,001	100,797
EBIT <sup>3</sup>	92,795	63,489
NPAT <sup>4</sup>	61,384	37,533
Earnings per share (\$ per share)	\$ 0.176	\$ 0.108
Dividends per share (\$ per share)	\$ 0.060	\$ 0.050
EBIT margin	5.0%	4.6%
Net assets	\$ 630,783	\$ 545,578
Net cash / (debt)	101,911	(23,254)
Net cash flow	105,455	9,750

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further information is provided in Note 2.
2. Earnings before interest, tax, depreciation and amortisation (EBITDA).
3. Earnings before interest and tax (EBIT).
4. Net Profit / (loss) after tax (NPAT)

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

- Total revenue for the year increased by 33.2% to \$1,852.074 million in FY2019.
- FY2019 earnings before interest and tax (EBIT) increased by 46.2% to \$92.795 million compared to \$63.489 million in FY2018.
- Austal reported a net profit after tax (NPAT) of \$61.384 million in FY2019 compared to \$37.533 million in FY2018.
- The Group delivered operating cash flow of \$164.517 million, up by 250.5% on FY2018, and FY2019 net cash flow of \$105.455 million up by 1081.6% on FY2018.
- Austal has maintained a strong cash balance of \$275.665 million at 30 June 2019 demonstrating the ongoing cash generating strength of the business (30 June 2018: \$162.024 million).

- Net cash (excluding the notional accounting treatment of the CCPB 9 & 10 leasing program) was \$150.709 million at 30 June 2019 (30 June 2018: \$33.880 million).
- Total dividends of 6.0 cents per share (unfranked) were declared in respect of FY2019, representing a 34.2% payout ratio (FY2018: 2.0 cents per share fully franked and 3.0 cents per share unfranked).

## People & Safety

Safety is and must remain an important value for everyone at Austal. To this end, we continue to develop our 'Zero Harm' approach to health and safety, underscoring Austal's commitment to customers, employees, regulators and the communities in which it operates.

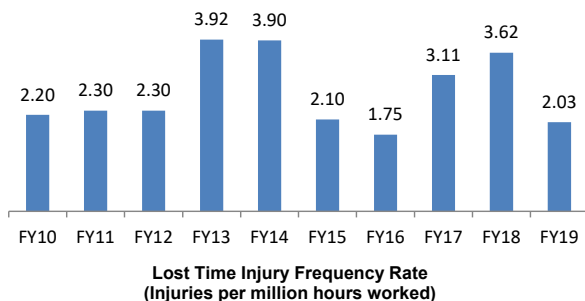
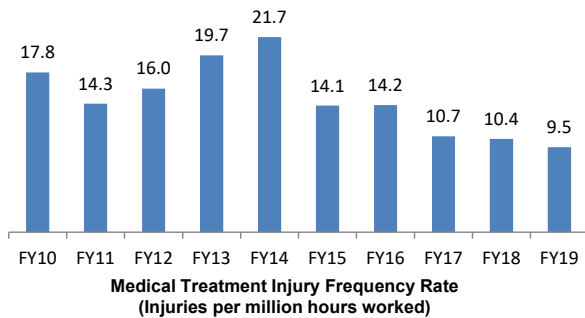
Austal USA was awarded its 8th Safety Award from the Shipbuilders Council of America for Excellence in Safety in April 2019. Austal USA also saw a year on year reduction of recordable injuries by over 15%, resulting in 5 consecutive years of year over year improvement.

Austal USA's safety performance continues to lead the industry and our current incident rate is less than half of the industry average.

Goal Zero is an ongoing initiative at Austal designed to reinforce our Health, Safety, Environment & Quality (HSEQ) culture. This HSEQ program calls on all employees to strive for zero injuries, illnesses, incidents, and deaths on the job. We strive for "Goal Zero - Zero Harm, Zero Waste" from the way that we operate, to the products we develop and the way in which we partner with our customers.

Our HSEQ department communicates key topics regularly to reinforce this important program — including workplace hazards, processes, and personal safety — to our workforce. These messages are designed to keep employees engaged and focused on working safely. Daily pre-start meetings, monthly HSEQ Toolbox sessions, nationally accredited training, and ongoing education and awareness briefings reinforce this hands-on, data-driven approach to managing safety risks and driving continuous improvement.

Group Safety performance indicators as shown below have improved over the course of this year, with trends improving - FY2019 Lost Time Injury Frequency Rate at 2.03 injuries per million hours worked compared to our FY2018 result of 3.62.



Further details on Health, Safety and Environmental initiatives at Austal can be found in Austal's Environmental, Social and Governance Report.

## New contract awards

Austal received \$3.354 billion of new contract awards during the period to increase the order book to \$4.885 billion at 30 June 2019.

### USA

- Austal was awarded contracts in FY2019 to build LCS 32, 34, 36 and 38 within a total congressional cost cap of US\$2.3 billion. Austal has delivered ten LCS and has a forward order book of a further nine ships. The total value of the LCS order book was ~US\$2.5 billion at 30 June 2019.
- Two contracts totalling US\$360 million were awarded for the construction of EPF 13 and 14 which have added additional backlog to the remaining EPF currently under construction in the USA. The total value of the EPF order book was US\$419 million at 30 June 2019.

- Austal was awarded two LCS service contracts totalling US\$31 million, for engineering and management services of LCS 16 USS Tulsa and LCS 18 USS Charleston. These contracts are to support work specification development, prefabrication effort and materials procurement for post-shakedown maintenance availabilities which occurs after each vessel delivery.
- A US\$21 million support activities contract was awarded to undertake a dry-docking of LCS 14 USS Manchester. This award was particularly significant because it marked the first time that Austal has acted as the prime contractor for the docking of an LCS.
- A further large service contract orders totalling US\$16 million were awarded for extended industrial post-delivery availability on LCS 20 USS Cincinnati.

### Australasia

- A \$98 million contract was awarded for a 94 metre catamaran ferry for the Government of the Republic of Trinidad and Tobago being built in Austal's new shipyard in Vung Tau, Vietnam.
- A \$126 million contract to purchase two 58 metre Cape Class Patrol Boats was awarded to enhance border protection capabilities from the Government of the Republic of Trinidad and Tobago.
- Four high speed vessels were awarded to the Aulong joint venture for Shenzhen airport, Beibi Gulf, Shenzhen Pengxing and Blue Sea Jet for a combined value of \$58 million.

A financial breakdown for each segment 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 performance across the operating segments.

## US operations

### Segment financial performance

	2019 \$'000	Restated <sup>1</sup> 2018 \$'000
Revenue	\$ 1,472,679	\$ 1,161,102
EBIT	106,422	81,455
EBIT Margin	7.2%	7.0%

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further information is provided in Note 2.

USA revenue increased by \$311.577 million (26.8%) compared to FY2018 to deliver \$1,472.679 million in FY2019.

EBIT also increased by \$24.967 million (30.7%) on FY2018 to \$106.422 million representing further year on year improvement in profitability.

Revenue and earnings in FY2019 were higher than the prior corresponding period, principally due to:

- Increased throughput on the EPF and LCS programs.
- Higher support earnings due to the award of new contracts that increased throughput.
- A weaker average USD / AUD exchange rate positively impacted the translation of USD earnings into AUD by \$6.623 million.

### Vessel construction & deliveries

The USA operations had ten vessels under construction during the year and delivered three of those vessels to the United States Navy (USN) in FY2019; LCS 18 USS Charleston in September 2018, EPF 10 USNS Burlington in November 2018 and LCS 20 USS Cincinnati in June 2019.

Construction and assembly of LCS 22, 24, 26, 28 and 30 was progressed. Long lead time materials were ordered for LCS 32, 34, 36 and 38.

EPF 11 and 12 were in construction during FY2019 and long lead time materials were ordered for the newly awarded EPF 13 and EPF 14.

### Sustainment

Austal USA continued to organically expand the LCS and EPF sustainment business, most notably expanding its service presence in San Diego, California, the home port for the Independence class LCS constructed by Austal.

Sustainment revenue increased by \$90.040 million (66.9%) compared to FY2018 to \$224.625 million in FY2019.

EBIT increased by \$7.652 million (88.3%) on FY2018 to contribute \$16.322 million.

### Future US defense programs

Austal is demonstrating the versatility and adaptability of the LCS to meet the Fast Frigate FFG design requirements specified by the US Navy with a highly capable and affordable platform.

The FFG acquisition plan indicates a requirement for 1 initial vessel then 2 vessels per annum thereafter up to a total of 20 vessels. Austal USA is currently preparing a response to the US Navy's Request for Proposal which is due for submission in CY2019 and Contract Award scheduled for late CY2020.

## Australasia operations

Reporting of Austal's Australia, Philippines, Vietnam, Aulong Joint Venture and Muscat operations have been combined into a single Australasia operations reporting segment.

These locations act as a single business unit for tendering, scheduling, resource planning and management accountability.

### Segment financial performance

	2019 \$'000	2018 \$'000
Revenue	\$ 393,155	\$ 237,845
EBIT	11,673	(8,458)
EBIT Margin	3.0%	N/A

The Australasia segment reported revenue of \$393.155 million (FY2018: \$237.845 million), and EBIT of \$11.673 million (FY2018 EBIT loss: \$(8.458) million).

Revenue and earnings in FY2019 were higher than the prior corresponding period, principally due to:

- Increased shipbuilding capacity to four large 100+ metre ferries through the expansion of Asia facilities.
- High level of production activity and throughput across all of the Australasian shipbuilding operations.
- Delivery of three Guardian Class Patrol Boats (GCPB) within the \$341 million 21-ship program.
- Launch and sea trials of the \$108 million, 109 metre Molslinjen vehicle passenger ferry delivered in January 2019.
- Completion and delivery of additional five high speed passenger ferries from the Philippines and People's Republic of China.

## Facilities expansion

Recent investments made in the Company's Australasia shipyards underpinned growth in shipbuilding throughput. These investments include:

- Expanding the Philippines assembly hall to 120 metres long, 40 metres wide and 42 metres high.
- Austal Vietnam's shipyard relocated to a purpose built leased facility capable of building 100+ metre ferries.
- An additional leased facility in Henderson, Western Australia for the construction of an 83 metre trimaran vessel for JR Kyushu of Japan.

The facilities expansion fundamentally changes the business because two large ferries can now be built simultaneously in Asia.

The shipyards in Australia, Philippines and Vietnam now form a 'shipbuilding system' that allows the optimisation of work flow, risk and profitability.

The expansion also provides potential for the creation of new home markets as customers prefer to purchase locally but to international quality standards.

Austal invested \$22.880 million in FY2019 and estimates an additional \$5.595 million to complete the expansion in FY2020.

## Vessel deliveries

Seven vessels were delivered from Australasia during the year:

- A 30 metre high speed catamaran for VS Grand Ferries of the Philippines in September 2018.
- Three GCPB for the Commonwealth of Australia in November 2018, April 2019 and June 2019.
- A 109 metre vehicle passenger ferry for Molslinjen of Denmark in January 2019.
- Two 50 metre high speed catamarans for Braveline of Taiwan in March 2019 and April 2019.
- Two vessels were delivered during the year to Blue Sea Jet from Austal's China joint venture, Aulong located in Guandong Province, in the People's Republic of China.

## Vessel construction

Significant progress was made on the vessels currently under construction:

- Two 117 metre Fred Olsen trimaran ferries, \$190 million contract (awarded in October 2017).
- The 109 metre \$108 million Fjord Line ferry (awarded in August 2017).
- The 94 metre \$98 million ferry for Trinidad and Tobago (awarded in December 2018).
- The 83 metre \$68 million trimaran ferry for JR Kyushu of Japan (awarded in March 2018).
- The 49 metre ferry for SNC Aremiti, \$30 million contract (awarded in December 2017).
- Five vessels currently under construction in the Aulong Joint Venture.

## Sustainment

Sustainment activity in FY2019 included the continuation of servicing and support for the Cape Class Patrol Boat (CCPB) fleet 1 to 8, operated by the Australian Border Force throughout Northern Australia, plus a sustainment contract worth up to \$18 million over three years for CCPB 9 & 10, Cape Fourcroy and Cape Inscription being operated by the Royal Australian Navy.

## Innovating for the future

Austal continues to see opportunities to innovate its product and services to meet the future needs of its customers. The business has been built on a great history of innovation, through its class leading hull designs, construction techniques and technology integration.

Three of the current vessels being constructed for customers are large trimaran designs. Austal is the only company that currently designs and builds high speed trimaran ferries. This is testament to the hard work and dedication of the Austal teams in conceiving and bringing these incredible products to life.

Austal continues to prioritise and focus on innovation in hull designs, energy efficiency and smart technology.

## Directors' report

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2019.

### Directors

The names and details of the Company's Directors in office at the date of this report are detailed below:

#### John Rothwell AO – Non-Executive Chairman



John has played a major role in the development of the Australian aluminium shipbuilding industry with over 40 years of experience in boat and shipbuilding. He is the architect responsible for the establishment of Austal and was the founding Managing Director. John identified markets for high speed ferries throughout Asia which resulted in Austal's rapid growth. He saw the potential for US Defense contracts for high speed aluminium naval ships and he led the formation of a new shipyard in Mobile, Alabama in 1999.

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

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

#### David Singleton – Chief Executive Officer



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

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

David was the Chief Executive Officer of Alenia Marconi Systems (AMS) in the intervening years; a joint venture between BAE Systems and Finmeccanica that had turnover of circa €1.4 billion and employed 7,500 people across the UK, Italy, USA and Germany.

AMS was a European leader of naval warfare and air defence systems, C4I (command, control, communications, computers and intelligence), 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 in senior management roles in Royal Ordnance, which was eventually acquired by BAE. Most recently, David was the CEO and Managing Director of Perth based mining company Poseidon Nickel Limited. Prior to this role, he served as CEO and Managing Director of Clough Limited between 2003 and 2007. David has a degree in Mechanical Engineering from University College London and has an Honorary Doctorate of Engineering from Edith Cowen University in Western Australia.



### **Giles Everist – Independent Non-Executive Director**



Giles has a breadth of board and executive experience gained over his 30 year career. He has worked for a range of production and service based businesses, within the resources, engineering and construction sectors, both in Australia and overseas in the UK and Africa.

Giles was appointed as a Non-Executive Director of the Company in November 2013 and Audit & Risk Committee Chair in November 2015. Giles holds a mechanical engineering degree and is a qualified chartered accountant. Giles is currently a Non-Executive Director of Norwood Systems and Chief Financial Officer of Macmahon Holdings Limited. He was Chairman of ASX listed Decmil Group Limited between 2011 and 2014 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 during his career with Rio Tinto in the United Kingdom and Australia, as well as major US design engineering group Fluor Corporation.

Giles has held a number of other Non-Executive Director and Audit & Risk Committee Chair roles with ASX listed companies including Decmil Group Limited, Logicomms Limited and Macmahon Holdings Limited, as well as for a number of private and not for profit organisations.

### **Sarah Adam-Gedge – Independent Non-Executive Director**



Sarah was appointed as a Non-Executive Director of the Company in August 2017. Sarah brings a strong consulting, enterprise technology, and digital background to Austal through her experience in executive roles in the information technology and consulting sectors. She is currently the Managing Director for Publicis Sapient Australia, which is the digital business transformation hub of the Publicis Groupe. Previously, she has been the Managing Director of Avanade Australia, Managing Partner and Vice President, Global Business Services at IBM and has also previously held senior executive roles at PwC and Arthur Andersen, leading the development and implementation of numerous digital enterprise transformation engagements across different geographies, and industries.

Sarah is a Chartered Accountant and member of the Institute of Chartered Accountants Australia / New Zealand. Sarah holds a Bachelor of Business (Accounting) from the Queensland University of Technology and is a Graduate of the Australian Institute of

Company Directors, is a member of the Diversity Council for the Australian Computer Society, and on the Finance, Audit and Risk Committee of Ovarian Cancer Australia.

### **Chris Indermaur – Independent Non-Executive Director**



Chris was appointed as a Non-Executive Director of the Company in October 2018. Chris has over 30 years of experience in large Australian companies in Engineering and Commercial roles. Amongst these roles he was the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Limited.

Chris holds a Bachelor of Engineering (Mechanical) and a Graduate Diploma of Engineering (Chemical) from the West Australian Institute of Technology (now Curtin University). He also holds a Bachelor of Laws and a Master of Laws from the Queensland University of Technology and a Graduate Diploma in Legal Practice from the Australian National University.

Chris is also a Director of Austin Engineering Limited and of Centrex Metals Limited.

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

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

<u>Director</u>	<u>Ordinary Shares</u>	<u>Share Rights</u>	<u>Performance Rights</u>
Mr John Rothwell	32,307,692	-	-
Mr David Singleton	28,600	1,819,769	1,088,932
Mr Giles Everist	10,000	20,441	-
Mrs Sarah Adam-Gedge	10,000	20,441	-
Mr Chris Indermaur	-	6,857	-

## Principal activities

The principal activities of the companies within the consolidated entity during the year were the design, manufacture and support of high performance vessels for commercial and defence customers worldwide. These activities are unchanged from the previous year.

## Results

The net profit after tax of the consolidated entity for the financial year was \$61.384 million. (FY2018: \$37.533 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 20.

## Share price at 30 June 2019

The closing share price of Austal at 30 June 2019 was \$3.41 (30 June 2018: \$1.86).

## Dividends

A dividend of 3.0 cents per share was paid after the FY2019 H1 results (FY2018 H1: 2.0 cents per share) and a further dividend of 3.0 cents per share has been proposed for FY2019 (FY2018 final: 3.0 cents per share).

## Significant events after the balance date

The Directors have declared an unfranked dividend of 3.0 cents per share in respect of the year ended 30 June 2019 as described above.

## Likely developments and future results

A general discussion of the Group's outlook is included in the Chairman's report on page 16, the CEO's report on page 18 and the Review of operations on page 20.

## Significant changes in the state of the affairs

There were no significant changes to the 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 2019.

## Share rights, share options and performance rights

There were 5,020,315 un-vested performance rights at 30 June 2019. There were 1,374,196 ordinary shares issued under options exercised during the year. There were 159,095 share rights granted as part of the CEO remuneration and 31,891 share rights granted as part of the Non-Executive Directors' remuneration during FY2019. Further information relating to the options exercised is provided in Note 35.

## Indemnification and insurance of Directors and Officers

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

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

## Indemnification of auditors

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

## Committee membership

The Company has an Audit & Risk Committee and a Nomination & Remuneration Committee of the Board of Directors. Members acting on the committees of the Board during the year were:

### Audit & Risk

Mr Giles Everist<sup>1</sup> - Chairman  
Mrs Sarah Adam-Gedge  
Mr Chris Indermaur<sup>2</sup>  
Mr Jim McDowell<sup>3</sup>

### Nomination & Remuneration

Mrs Sarah Adam-Gedge<sup>1</sup> - Chair from September 2018  
Mr John Rothwell  
Mr Giles Everist  
Mr Jim McDowell<sup>3</sup> - Chairman until August 2018

1. Designates the Chair of the committee.
2. Appointed on 19 October 2018.
3. Resigned on 31 August 2018.

## Directors' meetings

The number of Board and committee meetings of Directors and the attendance by each Director during the year was as follows:

	Meeting		
	Board	Audit & Risk Committee	Nomination & Remuneration Committee
<b>Number of meetings held</b>	6	4	7
<b>Number of meetings attended:</b>			
Mr John Rothwell	6	-	7
Mr David Singleton	6	4 <sup>1</sup>	7 <sup>1</sup>
Mr Giles Everist	6	4	7
Mrs Sarah Adam-Gedge	6	4	7
Mr Chris Indermaur <sup>2</sup>	5	3	5 <sup>1</sup>
Mr Jim McDowell <sup>3</sup>	1	1	-

1. Attended as a guest.

2. Mr Chris Indermaur was appointed as a Non-Executive Director on 19 October 2018.

3. Mr Jim McDowell resigned as a Non-Executive Director (and from all subcommittees) on 31 August 2018.

## Rounding

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

# Nomination & Remuneration Committee Chair's message

Dear Shareholders,

The Board of Directors is pleased to present the Remuneration Report for FY2019, outlining the nature and amount of remuneration for Austal's Non-Executive Directors and other Key Management Personnel (KMP).

I commenced the role of Chair of the Nomination and Remuneration Committee (NRC) in September 2018. Around this time, we received feedback from shareholders indicating a desire for change regarding certain elements of remuneration and ultimately a strike was recorded against Austal's FY2018 Remuneration Report.

As a result of these events, the Board decided to take the opportunity to undertake a comprehensive review of remuneration policies, practices and disclosures in the interests of all stakeholders. This review commenced in October 2018 and included advice from Austal's independent remuneration consultants, consultation with shareholders, management and other stakeholders. This process took over 6 months to complete, and has resulted in significant changes to all aspects of executive KMP remuneration. The Board decided to take immediate action and as a result, many of these changes have been implemented during FY2019 and are detailed in this Remuneration Report, with the balance of changes being implemented in FY2020 where immediate change was not possible or practical.

The scope of the review included executive and NED remuneration benchmarking, review of STI and LTI plans, metrics and vesting scales and associated policies, the alignment of Company's remuneration practices to shareholders' interests, as well as taking account of best-practices evident in the market.

In summary, the major changes are:

- Reduction in Total Remuneration (TR) for executive KMP. For the CEO this resulted in a reduction of the TR opportunity from 300% of Total Fixed Remuneration (TFR) to 270% of TFR.
- 50% of STI awards are now settled with equity, which is deferred over 3 years. STI awards were previously 100% cash. STI Stretch awards have been reduced from 100% to 50% over Target. In addition, a minimum of 50% of STI metrics will be financial, and we have improved the transparency of the metrics and their measurement in this Report. Certain elements of the STI changes have not been implemented for US KMP because remuneration practices and regulations are different in the USA.
- LTI metrics have been changed from rTSR (Relative Total Shareholder Return) and ROIC (Return on Invested Capital), to three new metrics being iTSR (Indexed TSR), EPS (Earnings per Share) Growth, and ROE (Return on Equity), with each metric constituting 1/3 weighting. These metrics ensure alignment with shareholders' interest, are more specific to Austal's industry (in relation to iTSR), and their measurement is more transparent. The Board discretion for retesting has also been removed.

A list of the material shareholder concerns and actions by the NRC is summarised on the next page and additional disclosures have also been included to provide shareholders with a greater understanding of FY2019 remuneration. The Board is satisfied that the outcomes for remuneration in relation to FY2019 demonstrates an appropriate link between performance and reward in respect of the executive KMP of the Company given the results for FY2019.

The Board will consider what further improvements to remuneration governance, policies, procedures and practices should be made over the course of FY2020 and likely into FY2021, implement them, provide updates and respond to feedback in future Remuneration Reports.

The Board will be pleased to receive feedback in relation to this report, and commit to engaging with shareholders and their representatives on these matters. We look forward to your comments and support for remuneration related resolutions at the upcoming AGM.

Yours sincerely,



Sarah Adam-Gedge  
Chair, Nomination & Remuneration Committee

## Material shareholder concerns and NRC responses

### Overall Remuneration

Concern	Action in FY2019
<ul style="list-style-type: none"> <li>CEO award opportunities are too high.</li> </ul>	<ul style="list-style-type: none"> <li>Total CEO remuneration opportunity at the stretch level has been reduced from 300% of Total Fixed Remuneration (TFR) to 270% of TFR.</li> </ul>
<ul style="list-style-type: none"> <li>Proportion of cash to CEO.</li> </ul>	<ul style="list-style-type: none"> <li>Cash: equity ratio at target has been changed from 75% / 25% to 50% / 50%.</li> </ul>
<ul style="list-style-type: none"> <li>No minimum equity holding required.</li> </ul>	<ul style="list-style-type: none"> <li>The CEO has been required to accumulate and then maintain equity holdings with value equivalent to 1 year of TFR since his appointment in FY2016. The CEO's equity holding was equivalent to 571% of TFR at 30 June 2019.</li> <li>The CFO has been required to accumulate and then maintain equity holdings with value equivalent to ½ a year of TFR since FY2018. The CFO's equity holding was equivalent to 222% of TFR at 30 June 2019.</li> <li>All Non-Executive Directors (NED) have been required to accumulate and then maintain equity holdings with value equivalent to 1 year of Board fees since FY2018.</li> </ul>
<ul style="list-style-type: none"> <li>CEO's FY2018 TFR increase was excessive.</li> </ul>	<ul style="list-style-type: none"> <li>Statutory remuneration tables in the FY2018 disclosed an apparent increase in TFR that was higher than the actual increase due to movements in the leave accrual. The CEO's TFR was actually only increased by the CPI index of 2.1%.</li> <li>A realised remuneration table has been added to the FY2019 Remuneration Report to improve disclosure of concepts that may be opaque in the accounting disclosures.</li> <li>FY2019 TFR increase was 1.9% and TFR has been frozen for FY2020.</li> </ul>

### Short Term incentives (STI)

Concern	Action in FY2019
<ul style="list-style-type: none"> <li>100% of STI was paid in cash, some STI should be equity.</li> </ul>	<ul style="list-style-type: none"> <li>STI award for Australian based KMP changed to 50% cash and 50% equity and the equity component is subject to a 3 year holding lock.</li> </ul>
<ul style="list-style-type: none"> <li>No profit gate for STI payout.</li> </ul>	<ul style="list-style-type: none"> <li>An EBIT gate set at 85% of Budget has been established.</li> </ul>
<ul style="list-style-type: none"> <li>Exposure to financial KPI should be at least 50% to increase alignment with shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>Financial KPI weight increased to 60% for FY2019 with a policy that the minimum weight will be 50%.</li> </ul>
<ul style="list-style-type: none"> <li>No visibility of KPI targets and actuals.</li> </ul>	<ul style="list-style-type: none"> <li>KPI targets and results are now disclosed.</li> </ul>
<ul style="list-style-type: none"> <li>Non-financial growth and efficiency KPI should be simple.</li> </ul>	<ul style="list-style-type: none"> <li>Non-financial measures are more specific.</li> </ul>

### Long Term Incentives (LTI)

Concern	Action in FY2019
<ul style="list-style-type: none"> <li>Austal Total Shareholder Return (TSR) is susceptible to a free carry on market movements.</li> </ul>	<ul style="list-style-type: none"> <li>Modified TSR metric for the FY2019 LTI plan to be Austal's premium above the market index (i.e. Indexed TSR).</li> </ul>
<ul style="list-style-type: none"> <li>All Ordinaries TSR is too broad.</li> </ul>	<ul style="list-style-type: none"> <li>Adopted the ASX 300 Industrials index for the TSR calculation.</li> </ul>
<ul style="list-style-type: none"> <li>No positive TSR gate for award.</li> </ul>	<ul style="list-style-type: none"> <li>Added a positive TSR gate for TSR component.</li> </ul>
<ul style="list-style-type: none"> <li>Board has discretion to re-test.</li> </ul>	<ul style="list-style-type: none"> <li>Re-testing and extension of measurement period has been removed.</li> </ul>

# Remuneration report [audited]

This Remuneration Report for the year ended 30 June 2019 outlines the remuneration arrangements of the Company 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.

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## 1. Key management personnel in FY2019

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

The KMP for the year ended 30 June 2019 were:

### Senior Executives

Mr David Singleton	Chief Executive Officer and Managing Director since April 2016 Independent Non-Executive Director from December 2011 to April 2016
Mr Greg Jason	Group Chief Financial Officer since January 2013
Mr Craig Perciavalle	President USA since November 2012
Mr Patrick Gregg	Chief Operating Officer Australasia since February 2017

### Non-Executive Directors

Mr John Rothwell	Chairman since 1998 Member of the Nomination & Remuneration Committee since December 1998
Mr Giles Everist	Independent Non-Executive Director since November 2013 Chairman of the Audit & Risk Committee since October 2014 Member of the Nomination & Remuneration Committee since February 2014
Mrs Sarah Adam-Gedge	Independent Non-Executive Director since August 2017 Member of the Audit & Risk Committee since August 2017 Chair of the Nomination & Remuneration Committee since September 2018
Mr Chris Indermaur	Independent Non-Executive Director since October 2018 Member of the Audit & Risk Committee since October 2018

Persons ceasing to be Non-Executive Directors during the period:

Mr Jim McDowell	Independent Non-Executive Director ceased 31 August 2018 Chairman of the Nomination & Remuneration Committee ceased 31 August 2018
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## 2. Executive KMP remuneration in FY2019

### I. FY2019 Award opportunities

#### i. Target remuneration

The table below depicts the Target remuneration for KMP in FY2019 including:

- The Total Fixed Remuneration,
- STI award opportunity if Target STI KPI results are achieved,
- LTI award opportunity if Target LTI results are achieved.

Target awards are applied to Total Fixed Remuneration.

KMP	TFR	STI Opportunity		LTI Opportunity		Total
		Target	\$	Target	\$	
Mr David Singleton	\$ 1,103,046	60%	\$ 661,828	40%	\$ 441,218	\$ 2,206,092
Mr Greg Jason	567,878	40%	227,151	35%	198,757	993,787
Mr Craig Perciavalle	927,939	30%	278,382	35%	324,779	1,531,099
Mr Patrick Gregg	483,000	40%	193,200	35%	169,050	845,250
<b>% of Total</b>						
Mr David Singleton	50%		30%		20%	100%
Mr Greg Jason	57%		23%		20%	100%
Mr Craig Perciavalle	61%		18%		21%	100%
Mr Patrick Gregg	57%		23%		20%	100%

#### ii. Stretch [Maximum] remuneration in FY2019

The table below depicts the Stretch (Maximum) remuneration for KMP in FY2019 including:

- The Total Fixed Remuneration
- STI award opportunity if Stretch STI KPI results are achieved
- LTI award opportunity if Stretch LTI results are achieved

Stretch awards are applied to Total Fixed Remuneration.

KMP	TFR	STI Opportunity		LTI Opportunity		Total
		Stretch	\$	Stretch	\$	
Mr David Singleton	\$ 1,103,046	90%	\$ 992,741	80%	\$ 882,437	\$ 2,978,224
Mr Greg Jason	567,878	60%	340,727	70%	397,515	1,306,119
Mr Craig Perciavalle	927,939	60%	556,763	70%	649,557	2,134,260
Mr Patrick Gregg	483,000	60%	289,800	70%	338,100	1,110,900
<b>% of Total</b>						
Mr David Singleton	37%		33%		30%	100%
Mr Greg Jason	43%		27%		30%	100%
Mr Craig Perciavalle	43%		27%		30%	100%
Mr Patrick Gregg	43%		27%		30%	100%

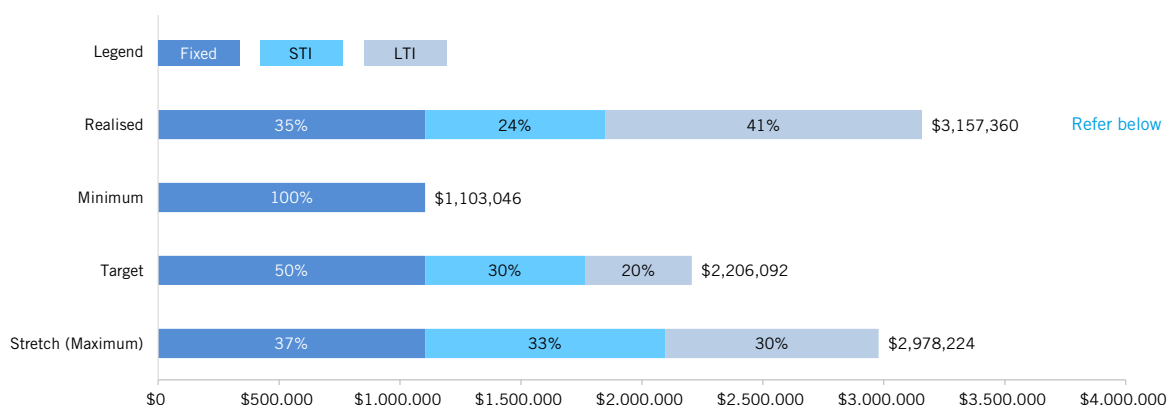
## II. CEO remuneration

This chart depicts the Minimum, Target and Maximum remuneration opportunity that was available to the CEO as well as the realised remuneration and the breakdown between fixed and variable remuneration (STI & LTI).

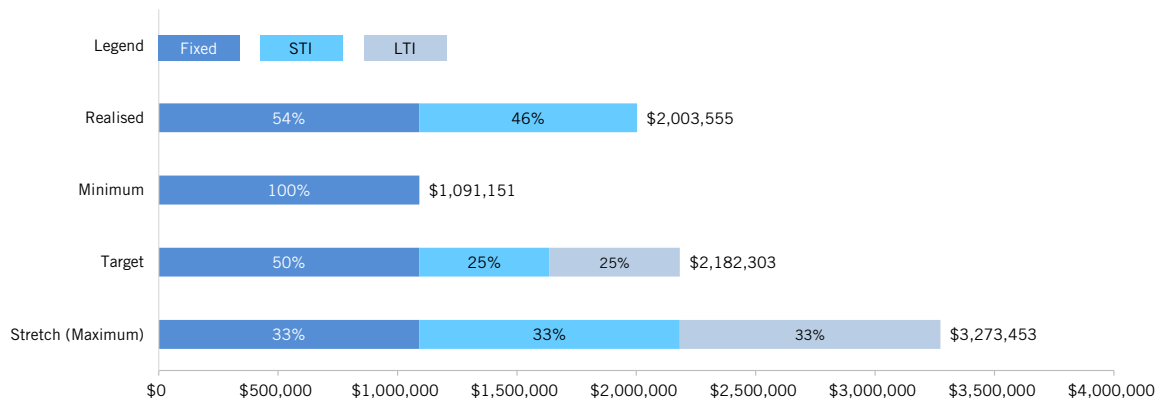
The concept of realised remuneration is described in section V on page 38 below.

A comparison of the two charts depicts the reduction in total award opportunities at Stretch from 300% of Total Fixed Remuneration (TFR) in FY2018 to 270% in FY2019.

### FY2019 CEO Remuneration



### FY2018 CEO Remuneration



The FY2019 Realised Remuneration exceeds the FY2019 Stretch Remuneration for the following reasons:

- The FY2019 Stretch Remuneration was calculated using the FY2019 LTI award opportunity which was 80% of TFR as depicted on page 33 whereas the FY2017 LTI Grant was issued based on the FY2017 LTI award opportunity which was 100% of TFR as depicted in the table on page 30 of the FY2017 Annual Report.
- Mr David Singleton assumed the role of CEO on 4 April 2016, and so the FY2017 LTI grant was based upon approximately 15 months of service rather than 12 months of service to account for the FY2016 service period.

The FY2019 Realised Remuneration would have been \$2,898,697 if the portion of the FY2017 LTI grant relating to the FY2016 service period was excluded.

### III. STI KPI targets and results

The following KPI were selected because they were the most significant matters for each of the KMP that were expected to contribute to the success of the Company during FY2019, given the business plans approved by the Board at the commencement of the financial year.

#### Chief Executive Officer - Mr David Singleton

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
Group EBIT	30%			100%	\$ 75 m	\$ 81 m	\$ 90 m	\$ 93 m
Group Free Cashflow	10%			100%	\$ 49 m	\$ 53 m	\$ 59 m	\$ 120 m
Australasia EBIT margin	20%			-	3.0%	3.5%	5.0%	2.9%
Group Order Intake	10%			84%	Further detail is provided below			
Business Development	20%			67%	Further detail is provided below			
Overhead Cost Reduction	10%			100%	Further detail is provided below			
<b>Total</b>	<b>100%</b>			<b>72%</b>				

#### Chief Financial Officer - Mr Greg Jason

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
Group EBIT	30%			100%	\$ 75 m	\$ 81 m	\$ 90 m	\$ 93 m
Group Free Cashflow	10%			100%	\$ 49 m	\$ 53 m	\$ 59 m	\$ 120 m
Australasia EBIT margin	20%			-	3.0%	3.5%	5.0%	2.9%
Group Order Intake	10%			84%	Further detail is provided below			
Individual Targets	30%			80%	Further detail is provided below			
<b>Total</b>	<b>100%</b>			<b>72%</b>				

#### President USA - Mr Craig Perciavalle

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
USA EBIT (USD)	30%			100%	\$ 57 m	\$ 60 m	\$ 66 m	\$ 76 m
USA Free Cashflow (USD)	20%			100%	\$ 8 m	\$ 16 m	\$ 23 m	\$ 24 m
Sustainment Revenue (USD)	10%			100%	\$ 78 m	\$ 87 m	\$ 95 m	\$ 160 m
Sustainment Growth	5%			-	Further detail is provided below			
Productivity	15%			100%	Further detail is provided below			
USA Order Intake	10%			100%	Further detail is provided below			
New Vessel Programs	10%			100%	Further detail is provided below			
<b>Total</b>	<b>100%</b>			<b>95%</b>				

#### Chief Operating Officer - Australasia - Mr Patrick Gregg

Measures	Weight	Actual Performance			Targets			
		Below	Stretch	Award	Threshold	Target	Stretch	Actual
Australasia EBIT margin	25%			-	3.0%	3.5%	5.0%	2.9%
Australasia Free Cashflow	15%			100%	\$ (20) m	\$ (6) m	\$ 10 m	\$ 115 m
Group Order Intake	20%			84%	Further detail is provided below			
Individual Targets	40%			95%	Further detail is provided below			
<b>Total</b>	<b>100%</b>			<b>70%</b>				

**Chief Executive Officer - Mr David Singleton**

**Growth & Order Intake KPI (84% Award)**

Award of LCS 32, LCS 34 and EPF 13.  
Award of two \$100 m ferry (margins commercial in confidence).  
Award of \$30 m of passenger ferries (margins commercial in confidence).  
Philippines facility expansion completed on schedule.

**Business Development KPI (67% Award)**

Win LCS Planning Yard contract.  
Implementation of USA dry dock strategy.

**Overhead Cost Reduction KPI (100% Award)**

Corporate & Australasia overhead reduction program.

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**Chief Financial Officer - Mr Greg Jason**

**Growth & Order Intake KPI (84% Award)**

As per the CEO.

**Major Personal KPI (80% Award)**

Deliver significant progress to resolve the ATO Royalties dispute.  
Complete re-financing of 50% of Go Zone Debt.  
Major capital projects appropriately funded as required.  
Implementation of cyber security program initiatives.  
Complete scoping study to select new Enterprise Resource Planning system.

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**President USA - Mr Craig Perciavalle**

**Sustainment Growth (0% Award)**

LCS Planning Yard Contract Awarded to Austal.

**Productivity (100% Award)**

LCS & EPF cost & productivity performance - (commercial in confidence).

**USA Order Intake (100% Award)**

Award of LCS 32, 34, 36 & 38 and EPF 13 & 14.

**New Vessel Program Development (100% Award)**

Positioning for FFG Program.  
Design development of next generation EPF.

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**Chief Operating Officer - Australasia - Mr Patrick Gregg**

**Growth & Order Intake KPI (84% Award)**

As per the CEO.

**Major Personal KPI (95% Award)**

Australasia cost & productivity performance - (commercial in confidence).  
Deliver Australasia vessel programs to schedule.  
Expand Philippines shipbuilding operations.  
Establish Vietnam shipbuilding operations.  
Establish Strategic Purchasing function.  
Aulong Joint Venture self sustaining.

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#### IV. FY2017 LTI plan vesting in FY2019

##### i. Performance rights grant

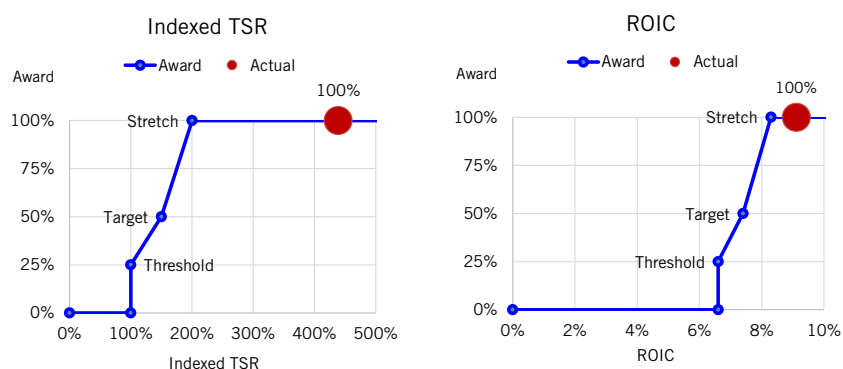
1,859,629 performance rights were granted to KMP in FY2017, who were still employed by Austal at 30 June 2019.

##### ii. Measurement periods

100% of the performance rights granted in FY2017 had a 3 year measurement period from 1 July 2016 – 30 June 2019.

##### iii. FY2017 LTI Vesting performance

The Return on Invested Capital (ROIC) and Indexed Total Shareholder Return (iTSR) performance criteria relating to the FY2017 grant of performance rights to KMP are detailed below. The actual vesting performance is indicated by the red dot. iTSR is calculated by dividing Austal TSR by Market TSR (XAOA All Ordinary Total Return Index). ROIC is calculated by dividing Net Operating Profit after Tax (NOPAT) by Invested Capital.



Indexed TSR = Austal TSR / Market TSR

ROIC = NOPAT / Invested Capital

##### iv. FY2017 LTI Vesting Awards

KMP	Tranche	Weight	Granted	Vesting		Value @ Grant Date
				%	Number	
<b>VWAP @ Grant Date</b>						\$ 1.10
Mr David Singleton	iTSR	40%	477,648	100%	477,648	\$ 524,001
	ROIC	60%	716,473	100%	716,473	786,001
	Total		<u>1,194,121</u>	100%	<u>1,194,121</u>	<u>\$ 1,310,002</u>
Mr Greg Jason	iTSR	40%	105,155	100%	105,155	\$ 115,359
	ROIC	60%	157,732	100%	157,732	173,039
	Total		<u>262,887</u>	100%	<u>262,887</u>	<u>\$ 288,398</u>
Mr Craig Perciavalle	iTSR	40%	161,048	100%	161,048	\$ 176,677
	ROIC	60%	241,573	100%	241,573	265,015
	Total		<u>402,621</u>	100%	<u>402,621</u>	<u>\$ 441,692</u>

## V. Realised remuneration (non-statutory disclosure)

The Realised Remuneration tables below are provided to convey the actual remuneration awarded to KMP during FY2019 and FY2018 rather than the accounting expense required under the accounting standards and includes:

- The portion of Total Fixed Remuneration (TFR) paid in cash.
- The portion of TFR converted and granted as share rights.
- The portion of TFR contributed to superannuation plans or pension schemes.
- STI awarded but not yet paid for Key Performance Indicators (KPI) results.
- The value of LTI rights vesting following the conclusion of the relevant measurement period using the volume weighted average price (VWAP) at the grant date.

### FY2019

KMP	Total Fixed Remuneration				Total	FY2019 STI Awarded			LTI	Total
	Cash	Share Rights	Super-annuation / Pension	Other		Cash	Share Rights	Total	FY2017 Vesting	
Value @ Grant VWAP <sup>1</sup>									\$ 1.10	
Mr David Singleton	\$ 747,448	\$ 334,767	\$ 20,831	\$ -	\$ 1,103,046	\$ 372,156	\$ 372,156	\$ 744,312	\$ 1,310,002	\$ 3,157,360
Mr Greg Jason <sup>2</sup>	496,397	50,950	20,531	-	567,878	127,238	127,237	254,475	288,398	1,110,751
Mr Craig Perciavalle	797,203	-	97,154	33,582	927,939	478,322	-	478,322	441,692	1,847,953
Mr Patrick Gregg	447,173	-	35,827	-	483,000	109,862	109,862	219,724	-	702,724
<b>% of Total</b>										
Mr David Singleton					34.9%			23.6%	41.5%	100.0%
Mr Greg Jason					51.1%			22.9%	26.0%	100.0%
Mr Craig Perciavalle					50.2%			25.9%	23.9%	100.0%
Mr Patrick Gregg					68.7%			31.3%	-	100.0%

### FY2018

KMP	Total Fixed Remuneration				Total	FY2018 STI Awarded			LTI	Total
	Cash	Share Rights	Super-annuation / Pension	Other		Cash	Share Rights	Total	FY2016 Vesting	
Value @ Grant VWAP <sup>1</sup>									\$ 1.77	
Mr David Singleton	\$ 750,749	\$ 315,402	\$ 25,000	\$ -	\$ 1,091,151	\$ 912,404	\$ -	\$ 912,404	\$ -	\$ 2,003,555
Mr Greg Jason	476,065	41,667	25,010	-	542,742	280,500	-	280,500	-	823,242
Mr Craig Perciavalle	651,648	-	85,841	23,554	761,043	398,658	-	398,658	-	1,159,701
Mr Patrick Gregg	435,000	-	25,000	-	460,000	234,600	-	234,600	-	694,600
<b>% of Total</b>										
Mr David Singleton					54.5%			45.5%	-	100.0%
Mr Greg Jason					65.9%			34.1%	-	100.0%
Mr Craig Perciavalle					65.6%			34.4%	-	100.0%
Mr Patrick Gregg					66.2%			33.8%	-	100.0%

1. Value @ Grant VWAP is Volume Weighted Average Share Price utilised for the LTI grant.

2. Mr Greg Jason's TFR increase at the end of FY2018 was 2%. The FY2018 realised remuneration reflects a TFR increase that was granted part way through FY2018, and therefore did not represent an entire year at the increased rate and the FY2019 TFR appears to be more than 2% higher than the TFR in FY2018.

## VI. Statutory remuneration disclosure

The following table outlines the remuneration received by Executive KMP during FY2019 and FY2018, prepared according to statutory disclosure requirements and accounting standards:

KMP	Fixed Remuneration					Variable Remuneration		Other	Total
	Salary <sup>1</sup>	Share Rights	Super-	Other	Total	STI Accrued	LTI	Long Service Leave Accrued	
			annuation / Pension	Monetary Benefits			Accounting Expense <sup>2</sup>		
Mr David Singleton	\$ 814,049	\$ 334,767	\$ 20,831	\$ -	\$ 1,169,647	\$ 744,312	\$ 1,776,504	\$ 18,231	\$ 3,708,694
Mr Greg Jason	493,029	50,950	20,531	-	564,510	254,475	420,664	9,350	1,248,999
Mr Craig Perciavalle	797,203	-	97,154	33,582	927,939	478,322	672,126	-	2,078,387
Mr Patrick Gregg	478,758	-	35,827	-	514,585	219,724	218,086	8,050	960,446
<b>Total</b>	<b>\$ 2,583,039</b>	<b>\$ 385,717</b>	<b>\$ 174,343</b>	<b>\$ 33,582</b>	<b>\$ 3,176,681</b>	<b>\$ 1,696,833</b>	<b>\$ 3,087,380</b>	<b>\$ 35,631</b>	<b>\$ 7,996,526</b>
<b>% of Total</b>									
Mr David Singleton					31.5%	20.1%	47.9%	0.5%	100.0%
Mr Greg Jason					45.2%	20.4%	33.7%	0.7%	100.0%
Mr Craig Perciavalle					44.6%	23.0%	32.3%	-	100.0%
Mr Patrick Gregg					53.6%	22.9%	22.7%	0.8%	100.0%

KMP	Fixed Remuneration					Variable Remuneration		Other	Total
	Salary <sup>1</sup>	Share Rights	Super-	Other	Total	STI Accrued	LTI	Long Service Leave Accrued	
			annuation / Pension	Monetary Benefits			Accounting Expense <sup>2</sup>		
Mr David Singleton	\$ 780,572	\$ 315,402	\$ 25,000	\$ -	\$ 1,120,974	\$ 912,404	\$ 330,961	\$ 17,885	\$ 2,382,224
Mr Greg Jason	442,977	41,667	25,010	-	509,654	280,500	121,379	9,167	920,700
Mr Craig Perciavalle	647,910	-	85,841	23,554	757,305	398,658	168,895	-	1,324,858
Mr Patrick Gregg	450,083	-	25,000	-	475,083	234,600	43,162	7,667	760,512
<b>Total</b>	<b>\$ 2,321,542</b>	<b>\$ 357,069</b>	<b>\$ 160,851</b>	<b>\$ 23,554</b>	<b>\$ 2,863,016</b>	<b>\$ 1,826,162</b>	<b>\$ 664,397</b>	<b>\$ 34,719</b>	<b>\$ 5,388,294</b>
<b>% of Total</b>									
Mr David Singleton					47.1%	38.3%	13.9%	0.8%	100.0%
Mr Greg Jason					55.4%	30.5%	13.2%	1.0%	100.0%
Mr Craig Perciavalle					57.2%	30.1%	12.7%	-	100.0%
Mr Patrick Gregg					62.5%	30.8%	5.7%	1.0%	100.0%

1. Salary represents cash based salary expensed during the reporting period including annual leave provision adjustments and therefore may not equal the cash received by the KMP during the reporting period.

2. The LTI expense represents the portion of the actuarial valuation of active LTI plans expensed through the Profit and Loss in accordance with AASB 2.

The Corporations Act mandate the manner in which the cost of all forms of remuneration are disclosed within the Remuneration Report such as the following matters:

- Share based payments expense for LTI plans represents the portion of the actuarial valuation of all relevant Performance Rights (grants across multiple years) expensed within the reporting period including adjustments for forfeiture and vesting outcomes for internal measures of performance.
- Salary represents the amount expensed in the Profit and Loss statement during the reporting period which will be influenced by the number of leave days taken (e.g. salary and fees expensed will be higher for a KMP who didn't take any annual leave days during the reporting period because the expense will represent the 12 months worked plus the value of leave accrued (e.g. 4 weeks in Australia)).

## VII. Reconciliation of realised remuneration and statutory remuneration

The following table reconciles the realised remuneration received by Executive KMP during FY2019 and FY2018 with the statutory remuneration disclosures for those years.

KMP	Remuneration			Explanation of Variance			
	Realised	Statutory	Variance	LTI Vesting Versus Expense	Long Service Leave Provision	Leave Provision Movement	Total
Mr David Singleton	\$ 3,157,360	\$ 3,708,694	\$ (551,334)	\$ (466,502)	\$ (18,231)	\$ (66,601)	\$ (551,334)
Mr Greg Jason	1,110,751	1,248,999	(138,248)	(132,266)	(9,350)	3,368	(138,248)
Mr Craig Perciavalle	1,847,953	2,078,387	(230,434)	(230,434)	-	-	(230,434)
Mr Patrick Gregg	702,724	960,446	(257,722)	(218,087)	(8,050)	(31,585)	(257,722)

KMP	Remuneration			Explanation of Variance			
	Realised	Statutory	Variance	LTI Vesting Versus Expense	Long Service Leave Movement	Leave Provision Movement	Total
Mr David Singleton	\$ 2,003,555	\$ 2,382,224	\$ (378,669)	\$ (330,961)	\$ (17,885)	\$ (29,823)	\$ (378,669)
Mr Greg Jason	823,242	920,700	(97,458)	(121,379)	(9,167)	33,088	(97,458)
Mr Craig Perciavalle	1,159,701	1,324,858	(165,157)	(168,895)	-	3,738	(165,157)
Mr Patrick Gregg	694,600	760,512	(65,912)	(43,162)	(7,667)	(15,083)	(65,912)



### 3. Non-Executive Director remuneration

#### I. Application

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

#### II. Fee policy

The fee policy is designed to ensure that remuneration is reasonable, appropriate, and produces outcomes that fall within the fee limit, at each point of being assessed.

##### i. Fee cap

The Remuneration for NED is managed within the aggregate fee limit (AFL) of \$3,000,000 approved by shareholders of the Company. The cap has remained unchanged since listing on the Australian Securities Exchange (ASX) in 1998.

##### ii. Board & committee fees

- Remuneration is composed of Board fees and Committee fees.
- Both fee types include superannuation to the extent applicable to the incumbent.
- Board fees paid for membership of the Board, inclusive of superannuation and exclusive of committee fees have been set with reference to the 50th percentile of the market of comparable ASX listed companies.
- Remuneration for the current Chairman of the Board reflects his continued high level of contribution to the company and the Board. The fee level is reviewed every year, and the Board retained the FY2019 total remuneration fee at \$200,000, inclusive of committee fees.
- Committee fees recognise additional contributions to the work of the Board by members of committees. They are similarly referenced to the benchmark group as above.

##### iii. FY2019 fee rates

The following table outlines the NED fee policy rates that were applicable for FY2019:

	Role	
	Chair	Member
Main Board	\$ 192,500	\$ 95,000
Audit & Risk Committee	20,000	10,000
Nomination & Remuneration Committee	15,000	7,500

##### iv. Termination benefits

Termination benefits are not paid to NED.

### III. Share rights

Share rights were introduced as a component of NED remuneration during FY2018.

The NED have agreed annually with the Company to receive 25% of their Board fees (excluding Committee fees) in the form of share rights in order to accumulate equity holdings equivalent to one year of Board fees (excluding Committee fees). The issuance of share rights to NED was approved by shareholders at the 2017 and 2018 Annual General Meetings.

The Chairman of the Board does not presently receive share rights because of his significant shareholding in the Company.

### IV. NED remuneration in FY2019

The following table outlines the remuneration received by NED of the Company during FY2019 and the previous year, prepared according to statutory disclosure requirements and applicable accounting standards:

	Board Fees				Committee Fees			Total
	Cash	Super-annuation	Share Rights	Total	Cash	Super-annuation	Total	
Mr John Rothwell	\$ 175,799	\$ 16,701	\$ -	\$ 192,500	\$ 6,849	\$ 651	\$ 7,500	\$ 200,000
Mr Giles Everist	65,068	6,182	23,750	95,000	25,114	2,386	27,500	122,500
Mrs Sarah Adam-Gedge	65,068	6,182	23,750	95,000	20,758	1,972	22,731	117,731
Mr Chris Indermaur <sup>1</sup>	45,681	4,340	15,833	65,854	6,355	604	6,959	72,812
Mr Jim McDowell <sup>2</sup>	10,845	1,030	3,958	15,833	3,805	361	4,167	20,000
<b>Total</b>	<b>\$ 362,461</b>	<b>\$ 34,434</b>	<b>\$ 67,292</b>	<b>\$ 464,187</b>	<b>\$ 62,882</b>	<b>\$ 5,974</b>	<b>\$ 68,856</b>	<b>\$ 533,043</b>

1. Mr Chris Indermaur became a NED in October 2018.

2. Mr Jim McDowell resigned in August 2018.

	Board Fees				Committee Fees			Total
	Cash	Super-annuation	Share Rights	Total	Cash	Super-annuation	Total	
Mr John Rothwell	\$ 175,799	\$ 16,701	\$ -	\$ 192,500	\$ 6,849	\$ 651	\$ 7,500	\$ 200,000
Mr Giles Everist	72,298	6,868	15,833	95,000	25,114	2,386	27,500	122,500
Mrs Sarah Adam-Gedge <sup>1</sup>	59,173	5,621	15,833	80,628	7,751	736	8,487	89,115
Mr Jim McDowell	72,298	6,868	15,833	95,000	22,831	2,169	25,000	120,000
<b>Total</b>	<b>\$ 379,568</b>	<b>\$ 36,059</b>	<b>\$ 47,500</b>	<b>\$ 463,127</b>	<b>\$ 62,545</b>	<b>\$ 5,942</b>	<b>\$ 68,487</b>	<b>\$ 531,614</b>

1. Mrs Sarah Adam-Gedge became a NED in August 2017.

## 4. Remuneration governance framework

The following framework and strategy broadly outlines the principles and policies that the Board applies in overseeing KMP remuneration.

### I. Nomination & Remuneration Committee Charter

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

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

The Committee also oversees the implementation of the policies in setting remuneration and performance objectives related to the Short Term Incentive (STI) and Long Term Incentive (LTI) plans.

The remit of the NRC also includes succession planning which was undertaken for the Directors of the Board during FY2019. Succession planning for Executive Management was deferred until later in CY2019 so that the NRC could focus on the structural changes to remuneration during FY2019.

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

### II. Share trading policy

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

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

### III. Executive remuneration consultant engagement policy

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

### IV. Stakeholder engagement

The Company seeks input regarding the governance of KMP remuneration from a wide range of sources, including:

- Shareholders,
- NRC Members,
- Stakeholder groups including proxy advisors,
- External remuneration consultants (ERC),
- Other experts and professionals such as tax advisors and lawyers,
- Company management to understand roles and issues facing the Company.

## V. Remuneration framework

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

Remuneration should contribute to the Group's achievements in a way that supports the Group's culture and goals. The Remuneration Policy Framework set out below summarises the key features of the Group's remuneration approach. The Company's remuneration structures and practices were thoroughly reviewed and substantially modified in FY2019 following feedback at the 2018 Annual General Meeting.

### Our Vision

Maintain a responsible, performance-based Remuneration Policy that is aligned with the long-term interests of our shareholders.  
Certain incentive metrics are utilised on the Remuneration framework to capture the impact of the Group's strategy.

### Our Goal

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

### Our Approach

#### Governance

Clearly defined and documented governance procedure  
Independent NRC  
Independent ERC  
Annual assessment of Remuneration Policy

#### Individual Remuneration

Reward annual performance of Group relative to planned key performance indicators  
Aligned with business performance  
Recognise and reward teamwork and development of the culture of the organisation  
Award and differentiate based on individual performance and contributions

#### Individual Remuneration Determination

Total remuneration based approach  
Facilitate competitiveness by paying remuneration levels for comparable roles and experience, subject to performance  
Promote meritocracy by recognising individual performance, with an emphasis on contribution, ethics and safety  
Equal remuneration opportunity

#### Remuneration Structure

Provide the appropriate balance of fixed and variable remuneration consistent with the position and role in the Group  
Significant portion of variable remuneration deferred and aligned with the long-term performance of the Group  
Promote ethical behaviour and do not create incentives to expose the Group to inappropriate risk

## 5. Executive KMP remuneration policy

### I. Structure

The following policy applies to executive KMP:

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

### II. Total fixed remuneration

#### i. Framework

- Base Packages should be set with reference to the market practice of ASX listed companies at the 50th percentile, where 50% of the comparator group are above the median level and 50% are below the median level.
- Total Remuneration Package (TRP) at Target bonus levels (being the Base Package plus incentive awards intended to be paid for targeted levels of performance) should be between the 50th and 75th percentile range of the relevant market practice to create a strong incentive to achieve targeted objectives in both the short and long term.
- Remuneration will be managed within a range to allow for the recognition of individual differences such as individual experience, knowledge or competency with which they fulfil a role (a range of + / - 20% is generally targeted in line with common market practices).

#### ii. CEO Minimum Equity Holding

The CEO must accumulate and hold a minimum equity holding that is equal to or greater in value than 1 year of TFR.

The minimum equity holding includes shares, share rights and vested indeterminate rights, but does not include unvested performance rights.

The minimum equity holding may be achieved by vesting of LTI grants, personal purchase of shares on market by the CEO, or the CEO and the Board may agree at the commencement of each year for up to 30% of TFR to be unconditionally (not subject to performance conditions since it is part of TFR) payable in share rights.

The number of share rights issued will be calculated monthly based upon the volume weighted average closing price of Austal Limited's shares in the last 5 share trading days of each month.

The balance of the CEO's TFR is to be paid in cash (i.e. TFR less the component granted in equity).

Mr Singleton and the Board of Directors agreed that 30% of Mr Singleton's TFR would be paid in share rights for FY2019.

### III. Short term incentive (STI) policy

The short term incentive policy provides for a component of annual remuneration of executives to be at-risk, payable in a mix of cash and equity and based upon an assessment of performance measured using key performance indicators (KPI) that are aligned to the relevant business unit of each individual and the Company performance.

#### i. Purpose

The purpose of the STI Plan is to incentivise KMP to deliver and outperform KPI and annual business plans that are challenging but achievable. This is intended to lead to sustainable superior returns for shareholders and to modulate the cost of employing KMP such that the cost of employment reflects the performance of the Company.

#### ii. Principles

The principles of the plan are that:

- STI should be aligned with clear and measurable targets which are set at the start of the financial year, and the targets will be aligned with the achievement of the Company's business plan.
- STI payments will be determined after the end of the financial year and the full year accounts have been approved by the Board.
- STI payments are at the full discretion of the Board even if hurdles are met in order to avoid inappropriate outcomes.

#### iii. Form of remuneration - cash and equity

STI awarded to KMP will be paid as follows:

- 50% in cash.
- 50% as indeterminate rights (refer to the definition below) with a minimum holding period of 3 years irrespective of continued employment.

#### iv. Indeterminate Rights

Indeterminate Rights are contractual rights to the value of a share in the Company which are typically settled in the form of shares but which may, at the Board's discretion, be settled in cash. All issuances of equity under STI and LTI arrangements will be in the form of indeterminate rights from FY2019 onwards based on the recommendations of an independent ERC engaged by the Board during FY2019 and issuance subject to shareholder approval where required.

#### v. Measurement period

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

#### vi. Determination of STI award

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

The Board has the discretion to not grant STI performance awards in the event of substandard Group performance, notwithstanding that individuals may have achieved their agreed performance targets. This demonstrates the Board's commitment to aligning remuneration with the expectations and outcomes of shareholders.

**vii. Key Performance Indicators (KPI)**

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

Weightings are applied to the KPI selected for each participant to reflect the relative importance of each KPI whilst ensuring that financial metrics always constitute at least 50% of the total.

Satisfaction of KPI performance conditions are assessed qualitatively and quantitatively against the targets defined at the start of the financial year.

The FY2019 KPI are contained in the STI KPI target and results section on page 35.

**viii. Cessation of employment during a measurement period**

STI awards will only be made to those participants that are still employed at the end of the Measurement Period.

**ix. Cessation of employment post measurement period**

Resignation after the completion of the measurement period will not impact the 50% of STI that is paid in cash.

STI recipients who resign after the completion of the measurement period will be subject to good leaver / bad leaver provisions. An employee may forfeit their indeterminate rights if they are a 'bad leaver'. A bad leaver is defined as an employee whose employment is terminated for cause, resigns upon being asked to do so or an ex-employee who acts against the interests of the company.

STI awards may be determined at the discretion of the Board in the case of either resignation or termination due to serious illness or disability.

**x. Change of control**

The Board has determined that in the event of a Change of Control (including a takeover), indeterminate rights will vest on a pro-rata basis at the 'Target' level for the portion of the Performance Period that has elapsed at the date of the change of control. The Board retains discretion to vary this approach if it considers it would generate an inappropriate outcome.

**xi. Profit gate**

The Company's FY2019 EBIT (Earnings Before Interest and Tax) result must attain at least 85% of budget in order for STI to be awarded for FY2019.

**xii. Individual performance gate**

Individual performance ratings for the year must be at least "Meets Expectations" on the following scale:

- Does not meet expectations.
- Meets expectations.
- Exceeds expectations.

The Board will have discretion to vary award outcomes in the circumstances that the outcomes would otherwise be inappropriate.

**xiii. Fraud or gross misconduct**

All entitlements in relation to the Measurement Period will be forfeited by a participant if the Board forms the view that a participant has committed fraud, defalcation or gross misconduct in relation to the Company.

**xiv. Clawback policy**

The Board has implemented a Clawback policy which provides for the potential forfeiture of the unvested equity based STI entitlements in the event of a material misstatement in the Company's financial statements for any of the three financial years contained within the holding lock period.

The Clawback policy only applies to the Indeterminate Rights awarded from STI and does not apply to the cash portion of STI that has already been paid to participants.

**xv. STI award opportunities**

The FY2019 STI award opportunities are contained in the STI KPI target and results section on page 35.

**IV. Long term incentive (LTI) policy**

The LTI policy of the Company is to set a component of annual remuneration of executives to be at-risk, payable in equity in the Company and based on an assessment of long term performance over not less than three years. A share disposal restriction applies for one year from the expiry of the performance measurement period which extends the effective remuneration deferral to a total of four years.

The Board has conducted a review of the LTI plan and a new plan has been introduced for FY2019 with details disclosed below.

**i. Purpose**

The purpose of the LTI Plan is to incentivise Senior Executives to deliver long term Group performance that will lead to sustainable superior returns for shareholders and to modulate the remuneration of Senior Executives relative to this performance.

**ii. Form of incentive**

The LTI is a grant of Indeterminate Performance Rights that vest based on an assessment of performance against objectives over a defined Measurement Period. No dividends are payable nor accrued on Performance Rights which are unvested.

**iii. Measurement period**

The Measurement Period is three financial years.

**iv. LTI grant**

The number of LTI Rights granted are calculated with reference to the stretch (maximum) LTI value divided by the volume weighted average closing share price in the first month of the measurement period less the expected value of dividends that will not accrue to Rights holders (Rights are not eligible to receive dividends).

Details of the FY2019 LTI grant are contained on page 53.



**v. FY2017 & FY2018 measures of long term performance**

The Company used two long term performance measures for FY2017 & FY2018:

- Total Shareholder Return (TSR) as an external measure of performance.
- Return on Invested Capital (ROIC) as an internal measure of performance.

**vi. FY2019 measures of long term performance**

The NRC undertook a comprehensive review of LTI metrics with the assistance of an external remuneration consultant and selected three equally weighted (i.e. 1/3 each) measures of long term performance for the FY2019 LTI plan:

- Indexed Total Shareholder Return (iTSR).
- Return on Equity (ROE).
- Earnings per Share Growth (EPSG).

Metrics are set so that Target performance is expected to be achieved 50 – 60% of the time and Stretch or Maximum performance is expected to be achieved 10 – 20% of the time. The metrics are disclosed below.

**vii. Total Shareholder Return [TSR] measure**

The Board believes that TSR is the measure that has the strongest alignment with shareholders.

The FY2019 grant was offered based on iTSR, which sets an absolute TSR premium to indexed TSR outcomes, and avoids windfall gains / (losses) from changes in broad market movements in share prices.

Austal's iTSR will be computed by comparing Austal's TSR index against the ASX 300 Industrials Total Return Index.

Austal's TSR is the sum of Share price appreciation and dividends (assumed to be reinvested in Shares) during the Measurement Period. Share price appreciation is measured utilising a 1 month VWAP at the beginning and the end of the measurement period (i.e. July in year 1 and June in year 3). TSR is converted into a cumulative annual growth rate (CAGR) for the purposes of the vesting scale.

**viii. Earnings per Share Growth [EPSG] measure**

EPSG is an internal measure of performance that is commonly used and which the Board encourages management to focus on. Earnings per share links to the Company's ability to satisfy its dividend policy and is therefore highly relevant.

EPSG will be calculated by dividing EPS in the final year of the 3 year measurement period by the EPS in the last financial year prior to the 3 year measurement period. EPSG is converted into a cumulative annual growth rate (CAGR) for the purposes of the vesting scale.

- EPS will equal Basic EPS as reported in the financial accounts.
- Actual EPSG results will be compared against internal targets set by the Board.

**ix. Return on equity (ROE) measure**

Sustainability of ROE is a key element of creating sustainable shareholder wealth and hence ROE was adopted to help ensure that this is taken into account by management. ROIC was used previously however it was decided that ROE is more easily understood by both internal and external stakeholders, since it is subject to fewer accounting adjustments.

ROE will be calculated by dividing:

- The average NPAT over the 3 year measurement period by
- The day weighted average Contributed Equity + Retained Profits + Reserved Shares balance over the 3 year measurement period.

Actual ROE results are compared against internal targets set by the Board.

**x. TSR Gate**

A gate of Company TSR being positive for the measurement period applies to the iTSR tranche, to ensure that the LTI will not reward executives when shareholders have lost value.

**xi. Board Discretion**

The Board retains a discretion to adjust vesting outcomes in the circumstances that the outcomes from applying the vesting scales alone would be deemed to be inappropriate. In exercising this discretion, the Board is required to take into account the Company performance from the perspective of Shareholders over the relevant Measurement Period and consider whether specific participants:

- engaged in any activities or communications that may cause harm to the operations or reputation of the Company or the Board,
- took actions that caused harm or will cause harm to the Company's stakeholders,
- took excessive risks or contributed to or may otherwise benefit from unacceptable cultures within the Company,
- exposed employees, the broader community or environment to excessive risks, including risks to health and safety.

The Board will also consider whether there has been a material misstatement in the Company's financial reports, which would unduly increase any award under the scheme.

**xii. Vesting of Performance Rights**

Performance Rights meeting the performance hurdles will vest at the end of the measurement period.

Participants are not required to make any payments at grant or at vesting.

**xiii. Holding period**

A one year holding period applies to all vesting performance rights:

- Recipients are permitted to exercise their rights in order to receive shares, however
- Recipients are prevented from selling their shares during the holding period.

This effectively extends the incentive period to four years and increases the accumulation of equity by executives to strengthen their alignment with shareholders.

**xiv. Specified Disposal Restrictions**

Performance Rights may not be disposed of or otherwise dealt with prior to exercise.

Vested Performance Rights may not be exercised in the 12 months following the end of the 3 year measurement period.

All shares acquired by Participants as a consequence of exercising vested Rights, shall be subject to a dealing restriction related to the share trading policy and insider trading restrictions.

**xv. Cessation of employment during a measurement period**

A Participant who resigns prior to the elapsing of the measurement period in respect of which the grant is made will forfeit their entire unvested performance rights grant.

The Board may exercise its discretion to award some proportion of LTI under certain circumstances including consideration of whether the KMP was a good leaver up to the point of vesting.

Vested rights held by a Participant are not forfeited.

**xvi. Clawback policy**

The Board may determine that a Participant found to have harmed the interests of the Company or its Shareholders, will forfeit some or all of their unvested entitlements at any time. This includes fraud, defalcation, joining a competitor etc.

Unvested Rights held that are not forfeited, will be retained for testing against the vesting conditions at the normal time.

**xvii. Change of Control of the Company**

Target LTI will vest in proportion to the portion of the measurement period that has elapsed in the event that a change of control of the Company occurs.

The LTI will be valued based upon the value of the share price immediately before the change of control event occurs.

## 6. Equity instruments held by KMP

### I. FY2017 Performance rights vesting

Further information relating to the FY2017 Performance Rights vesting is provided on page 37.

### II. FY2018 Performance rights grant

#### i. Performance Rights grant

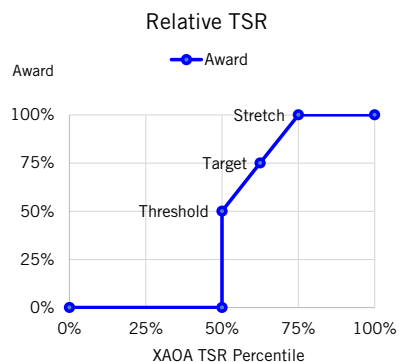
1,219,045 performance rights were granted to KMP in FY2018, who were still employed by Austal and remained unvested at 30 June 2019.

#### ii. Measurement period

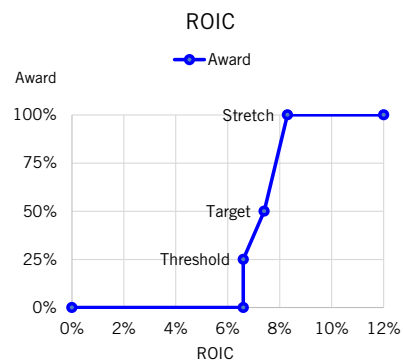
100% of the performance rights granted in FY2018 have a 3 year measurement period from 1 July 2017 – 30 June 2020.

#### iii. Performance criteria

The Return on Invested Capital (ROIC) and Relative Total Shareholder Return (rTSR) performance criteria relating to the FY2018 grant of performance rights to KMP are detailed below.



Relative TSR = Austal TSR Percentile of Market  
XAOA - All Ordinaries Total Return Index



ROIC = NOPAT / Invested Capital

### III. FY2019 Performance rights grant

Performance rights granted to KMP in FY2019 are depicted in the table below. The Fair Value per right has been determined by an independent actuary in accordance with AASB 2 Share Based Payments and does not match the Stretch LTI opportunity as detailed earlier in the report.

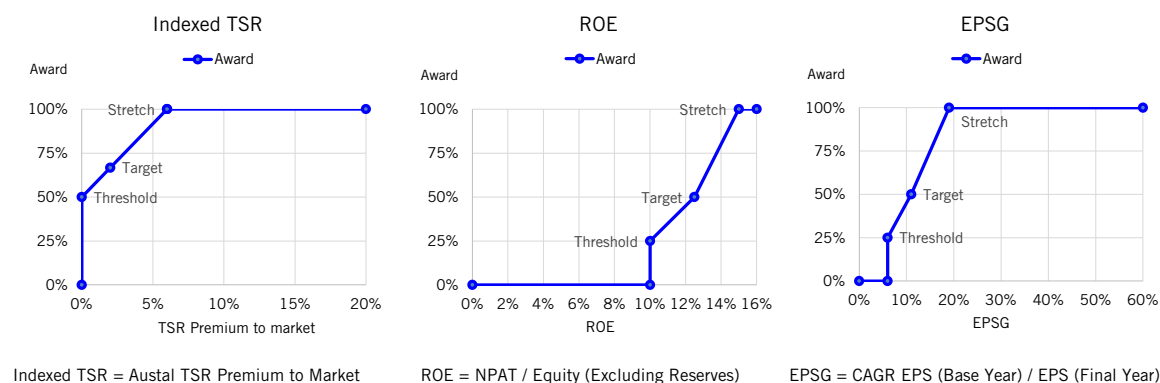
Name	Rights granted			Total	Value @ grant date
	iTSR	ROE	EPSP		
Fair Value per right	\$ 1.88	\$ 2.13	\$ 2.13		
Mr David Singleton	164,134	164,134	164,134	492,402	\$1,007,619
Mr Greg Jason	73,653	73,653	73,653	220,958	452,154
Mr Craig Perciavalle	101,054	101,054	101,054	303,163	620,373
Mr Paddy Gregg	63,418	63,418	63,418	190,253	389,321
<b>Total</b>	<b>402,259</b>	<b>402,259</b>	<b>402,259</b>	<b>1,206,776</b>	<b>\$2,469,466</b>

#### i. Measurement period

100% of the Performance Rights granted in FY2019 have a 3 year measurement period from 1 July 2018 – 30 June 2021.

#### ii. Performance criteria

The performance criteria relating to the FY2019 grant of performance rights to KMP are detailed below.



#### IV. TFR share rights earned during the period

Details of share rights provided as fixed remuneration to KMP in FY2019 are shown below. Further information is provided in Note 35.

These share rights are in lieu of TFR normally paid in cash and are not a bonus nor performance based. The measurement date for the share rights is the volume weighted average share price of the last 5 trading days of each month. The share rights provided to the CEO were approved by shareholders during the 2016 Annual General Meeting. The share rights provided to the NED were approved by shareholders during the 2017 and 2018 Annual General Meetings.

<u>KMP</u>	<u>Earned</u>	<u>Average fair value per right</u>	<u>Fair value</u>
Mr David Singleton	159,095	\$ 2.10	\$ 334,767
Mr Greg Jason	24,127	2.11	50,950
Mr Giles Everist	11,385	2.09	23,750
Mrs Sarah Adam-Gedge	11,385	2.09	23,750
Mr Chris Indermaur	6,857	2.31	15,833
Mr Jim McDowell	2,264	1.75	3,958

## V. Changes in equity held by KMP

	Balance at 30 June 2018	FY2019 Movements				Balance at 30 June 2019	Vested and	
		Granted	Vested	Lapsed	Bought (Sold)		Exercisable	Unvested
<b>Executives</b>								
<b>Mr David Singleton</b>								
Shares	28,600	-	-	-	-	28,600	28,600	-
Share Rights	466,553	159,095	1,194,121	-	-	1,819,769	1,819,769	-
Performance Rights	1,790,651	492,402	(1,194,121)	-	-	1,088,932	-	1,088,932
<b>Total</b>	<b>2,285,804</b>	<b>651,497</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,937,301</b>	<b>1,848,369</b>	<b>1,088,932</b>
<b>Mr Greg Jason</b>								
Shares	85,033	-	-	-	(25,944)	59,089	59,089	-
Share Rights	23,477	24,127	262,887	-	-	310,491	310,491	-
Performance Rights	621,890	220,958	(262,887)	(152,244)	-	427,717	-	427,717
<b>Total</b>	<b>730,400</b>	<b>245,085</b>	<b>-</b>	<b>(152,244)</b>	<b>(25,944)</b>	<b>797,297</b>	<b>369,580</b>	<b>427,717</b>
<b>Mr Craig Percivalle</b>								
Shares	152,444	-	-	-	(40,000)	112,444	112,444	-
Share Rights	-	-	402,621	-	-	402,621	402,621	-
Performance Rights	872,643	303,163	(402,621)	(233,211)	-	539,974	-	539,974
<b>Total</b>	<b>1,025,087</b>	<b>303,163</b>	<b>-</b>	<b>(233,211)</b>	<b>(40,000)</b>	<b>1,055,039</b>	<b>515,065</b>	<b>539,974</b>
<b>Mr Patrick Gregg</b>								
Performance Rights	178,945	190,253	-	-	-	369,198	-	369,198
<b>Total</b>	<b>178,945</b>	<b>190,253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>369,198</b>	<b>-</b>	<b>369,198</b>
<b>Non-Executive Directors</b>								
<b>Mr John Rothwell</b>								
Shares	32,807,692	-	-	-	(500,000)	32,307,692	32,307,692	-
<b>Total</b>	<b>32,807,692</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(500,000)</b>	<b>32,307,692</b>	<b>32,307,692</b>	<b>-</b>
<b>Mr Giles Everist</b>								
Shares	10,000	-	-	-	-	10,000	10,000	-
Share Rights	9,056	11,385	-	-	-	20,441	20,441	-
<b>Total</b>	<b>19,056</b>	<b>11,385</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,441</b>	<b>30,441</b>	<b>-</b>
<b>Mrs Sarah Adam-Gedge</b>								
Shares	-	-	-	-	10,000	10,000	10,000	-
Share Rights	9,056	11,385	-	-	-	20,441	20,441	-
<b>Total</b>	<b>9,056</b>	<b>11,385</b>	<b>-</b>	<b>-</b>	<b>10,000</b>	<b>30,441</b>	<b>30,441</b>	<b>-</b>
<b>Mr Chris Indermaur</b>								
Share Rights	-	6,857	-	-	-	6,857	6,857	-
<b>Total</b>	<b>-</b>	<b>6,857</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,857</b>	<b>6,857</b>	<b>-</b>
<b>Mr Jim McDowell<sup>1</sup></b>								
Shares	33,751	-	-	-	(33,751)	-	-	-
Share Rights	9,056	2,264	-	-	(11,320)	-	-	-
<b>Total</b>	<b>42,807</b>	<b>2,264</b>	<b>-</b>	<b>-</b>	<b>(45,071)</b>	<b>-</b>	<b>-</b>	<b>-</b>

1. Mr Jim McDowell resigned on 31 August 2018, therefore the balance of his shares and share rights have been removed from the table at 30 June 2019.

## VI. Minimum equity holdings

Some KMP and all NED are required to accumulate and maintain a minimum level of equity holding with value equivalent to a specified percentage of annual TFR as detailed in the table below:

	<u>Balance at 30 Jun 2019</u>	<u>Value @ 30 Jun 2019</u>	<u>FY2019 TFR</u>	<u>Equity Holding % of TFR</u>		<u>Target Introduced</u>
				<u>30 Jun 2019</u>	<u>Target</u>	
<b>Value / share</b>		\$ 3.41				
<b>Executives</b>						
Mr David Singleton	1,848,369	\$ 6,302,938	\$ 1,103,046	571%	100%	Feb 2016
Mr Greg Jason	369,580	1,260,268	567,878	222%	50%	Sep 2017
Mr Craig Perciavalle	515,065	1,756,372	927,939	189%	-	-
Mr Patrick Gregg	-	-	483,000	-	-	-

	<u>Balance at 30 Jun 2019</u>	<u>Value @ 30 Jun 2019</u>	<u>FY2019 Board Fees <sup>1</sup></u>	<u>Equity Holding % of TFR</u>		<u>Target Introduced</u>
				<u>30 Jun 2019</u>	<u>Target</u>	
<b>Non-Executive Directors</b>						
Mr John Rothwell	32,307,692	\$ 110,169,230	\$ 192,500	57231%	100%	Nov 2017
Mr Giles Everist	30,441	103,804	95,000	109%	100%	Nov 2017
Mrs Sarah Adam-Gedge	30,441	103,804	95,000	109%	100%	Nov 2017
Mr Chris Indermaur	6,857	23,382	65,854	36%	100%	Oct 2018

1. Includes Board Fees and excludes Committee Fees



## 7. Other related matters

### I. Board composition

The NRC reviews the structure, size and composition of the Board annually, taking inputs from investors and other independent advisors received during the year into account. The NRC has recommended that the current practice of maintaining three independent NED on the Board should remain following the FY2019 review.

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

### II. Details of contractual provisions for KMP

Name	Employer	Duration	Termination Notice Period		Termination Benefits <sup>1</sup>
			Group	Individual	
Mr David Singleton	Austal Limited	Unlimited	3 months	3 months	3 months
Mr Greg Jason	Austal Limited	Unlimited	12 weeks	12 weeks	12 weeks
Mr Craig Perciavalle	Austal USA LLC	Unlimited	None	None	None
Mr Patrick Gregg	Austal Ships Pty Ltd	Unlimited	3 months	3 months	3 months

1. Termination Benefit Limit under the Corporations Act is 12 months of average prior 3 years salary unless Shareholder approval is obtained.

Austal may choose to terminate the contracts immediately by making a payment equal to the Group Notice Period fixed remuneration in lieu of notice. Executives are not entitled to this termination payment in the event of termination for serious misconduct or other nominated circumstances.

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 of STI or LTI permitted under the remuneration policy upon termination of employment is described in the relevant sections of this report.

All NED enter into a service agreement with the Company in the form of a letter of appointment on appointment to the Board. The letter summarises the Board policies and terms, including compensation relevant to each director. The appointment letters specify a term of three years before each NED is required to be put forward for re-election in accordance with regulatory requirements.

### III. Other transactions with KMP

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

#### IV. Use of external remuneration consultants

The Board approved and engaged an external remuneration consultant to provide KMP remuneration recommendations and advice during the reporting period. The consultants and the amount payable for the information and work that led to their recommendations are listed below:

##### i. Godfrey Remuneration Group Pty Limited (GRG)

GRG were engaged for the following services during FY2019:

- Market benchmarking of KMP remuneration.
- Review and modification of the Company's STI and LTI plans.
- Development of a General Employee Equity Plan (GEEP) for FY2020.
- At-cost return economy flights for workshop in Perth.
- Total fees \$74,409 excluding GST.

##### ii. Independence from Executive KMP

The Board is satisfied that the KMP remuneration recommendations received were free from undue influence from KMP to whom the recommendations related for the following reasons:

- the policy for engaging external remuneration consultants is being adhered to and is operating as intended,
- the Board has been closely involved in all dealings with the external remuneration consultants,
- each KMP remuneration recommendation received during the year was accompanied by a legal declaration from the consultant to the effect that their advice was provided free from undue influence from the KMP to whom the recommendations related.

End of Remuneration Report

## Auditor independence

# Deloitte.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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The Board of Directors  
Austal Limited  
100 Clarence Beach Rd  
Henderson, WA  
6166, Australia

29 August 2019

Dear Board Members,

### Austal Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Austal Limited.

As lead audit partner for the audit of the financial statements of Austal Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,



**DELOITTE TOUCHE TOHMATSU**



Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited

# Consolidated statement of profit and loss and other comprehensive income for the year ended 30 June 2019

	Notes	2019 '000	Restated <sup>1</sup> 2018 '000
<b>Continuing operations</b>			
Revenue	4	\$ 1,852,074	\$ 1,390,455
Cost of sales		(1,661,113)	(1,260,178)
<b>Gross Profit</b>		<b>\$ 190,961</b>	<b>\$ 130,277</b>
Other income and expenses	5	\$ 13,301	\$ 13,698
Administration expenses		(92,265)	(64,061)
Marketing expenses		(18,149)	(15,854)
Finance costs	5	(8,284)	(8,532)
Share of profit / (loss) from joint venture	31	-	(266)
<b>Profit / (loss) before income tax</b>		<b>\$ 85,564</b>	<b>\$ 55,262</b>
Income tax benefit / (expense)	9	\$ (24,180)	\$ (17,729)
<b>Profit / (loss) after tax attributable to the owners of the parent</b>		<b>\$ 61,384</b>	<b>\$ 37,533</b>
<b>Other comprehensive income (OCI)</b>			
<b>Amounts that may subsequently be reclassified to profit and loss:</b>			
Cash flow hedges			
- Gain / (loss) taken to equity		\$ (10,269)	\$ (7,500)
- (Gain) / loss recycled out of equity		8,576	706
- Income tax benefit / (expense)		460	1,698
- Net		\$ (1,233)	\$ (5,096)
Foreign currency translations			
- Gain / (loss) taken to equity		\$ 27,912	\$ 15,543
- Net		\$ 27,912	\$ 15,543
<b>Other comprehensive income not to be reclassified to profit and loss in subsequent periods</b>			
Asset revaluation reserve			
- Gain / (loss) taken to equity		\$ 2,103	\$ 63,286
- Income tax benefit / (expense)		(578)	(10,067)
- Net		\$ 1,525	\$ 53,219
<b>Other comprehensive income net of tax for the period attributable to the owners of the parent</b>		<b>\$ 28,204</b>	<b>\$ 63,666</b>
<b>Total comprehensive income for the year</b>		<b>\$ 89,588</b>	<b>\$ 101,199</b>
<b>Earnings per share (\$ per share)</b>			
Basic for profit for the year attributable to ordinary equity holders of the parent	6	\$ 0.176	\$ 0.108
Diluted for profit for the year attributable to ordinary equity holders of the parent	6	0.173	0.108

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further details are provided in Note 2.

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

# Consolidated statement of financial position as at 30 June 2019

	Notes	2019 '000	Restated <sup>1</sup> 2018 '000
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	10	\$ 275,665	\$ 162,024
Trade and other receivables	15	225,268	97,349
Inventories and work in progress	17	167,042	241,896
Prepayments		9,480	7,557
Derivatives	26, 27	1,932	1,608
Income tax refundable	9	1,701	4,523
<b>Total</b>		<b>\$ 681,088</b>	<b>\$ 514,957</b>
<b>Non - Current</b>			
Other financial assets	22	\$ 11,859	\$ 10,160
Investment in joint venture	31	1,729	1,804
Derivatives	26, 27	258	1,077
Property, plant and equipment	19	588,384	565,778
Intangible assets and goodwill	20	20,743	20,812
Deferred tax assets	9	8,402	7,844
Other non-current assets	23	14,838	21,751
<b>Total</b>		<b>\$ 646,213</b>	<b>\$ 629,226</b>
<b>Total</b>		<b>\$ 1,327,301</b>	<b>\$ 1,144,183</b>
<b>Liabilities</b>			
<b>Current</b>			
Trade and other payables	18	\$ (202,308)	\$ (178,140)
Derivatives	26, 27	(8,992)	(5,605)
Interest bearing loans and borrowings	11	(51,211)	(72,758)
Provisions	24	(85,305)	(69,758)
Deferred grant income	14	(6,445)	(8,903)
Progress payments received in advance	16	(120,402)	(53,759)
<b>Total</b>		<b>\$ (474,663)</b>	<b>\$ (388,923)</b>
<b>Non - Current</b>			
Derivatives	26, 27	\$ (7,552)	\$ (6,298)
Interest bearing loans and borrowings	11	(122,543)	(112,520)
Provisions	24	(1,707)	(1,546)
Deferred grant income	14	(56,214)	(58,050)
Deferred tax liabilities	9	(33,839)	(31,268)
<b>Total</b>		<b>\$ (221,855)</b>	<b>\$ (209,682)</b>
<b>Total</b>		<b>\$ (696,518)</b>	<b>\$ (598,605)</b>
<b>Net Assets</b>		<b>\$ 630,783</b>	<b>\$ 545,578</b>
<b>Equity attributable to owners of the parent</b>			
Contributed equity	13	\$ 130,570	\$ 118,329
Reserves		189,520	156,719
Retained earnings		310,693	270,530
<b>Total</b>		<b>\$ 630,783</b>	<b>\$ 545,578</b>

1. The financial position of the prior corresponding period has been restated in accordance with AASB 15. Further details are provided in Note 2.

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

# Consolidated statement of changes in equity for the year ended 30 June 2019

	Issued Capital '000	Reserved Shares <sup>1</sup> '000	Retained Earnings <sup>2</sup> '000	Foreign Currency Transl'n Reserve '000	Employee Benefits Reserve '000	Cash Flow Hedge Reserve '000	Common Control Reserve '000	Asset Reval'n Reserve '000	Total Equity '000
<b>Equity at 1 July 2017</b>	\$ 128,276	\$ (11,892)	\$ 247,006	\$ 66,647	\$ 2,561	\$ (693)	\$ (17,594)	\$ 40,716	\$ 455,027
<b>Comprehensive Income</b>									
Profit for the year	\$ -	\$ -	\$ 37,533	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,533
Other Comprehensive Income	-	-	-	15,543	-	(5,096)	-	53,219	63,666
Total	\$ -	\$ -	\$ 37,533	\$ 15,543	\$ -	\$ (5,096)	\$ -	\$ 53,219	\$ 101,999
<b>Other equity transactions</b>									
Shares issued	\$ 1,209	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,209
Dividends	-	-	(14,000)	-	-	-	-	-	(14,000)
Share based payments expense	-	-	-	-	1,617	-	-	-	1,617
Shares issued to employee share trust	812	(812)	-	-	-	-	-	-	-
Shares issued for vested performance rights	201	-	-	-	(201)	-	-	-	-
Dividend retained in relation to AGMSP <sup>3</sup>	14	127	(1)	-	-	-	-	-	140
AGMSP options exercised	147	247	-	-	-	-	-	-	394
Transfer between reserves <sup>4</sup>	(494)	494	-	-	-	-	-	-	-
Other	-	-	(8)	-	-	-	-	-	(8)
Total	\$ 1,889	\$ 56	\$ (14,009)	\$ -	\$ 1,416	\$ -	\$ -	\$ -	\$ (10,648)
<b>Movement</b>	\$ 1,889	\$ 56	\$ 23,524	\$ 15,543	\$ 1,416	\$ (5,096)	\$ -	\$ 53,219	\$ 90,551
<b>Equity at 30 June 2018</b>	\$ 130,165	\$ (11,836)	\$ 270,530	\$ 82,190	\$ 3,977	\$ (5,789)	\$ (17,594)	\$ 93,935	\$ 545,578
<b>Comprehensive Income</b>									
Profit for the year	\$ -	\$ -	\$ 61,384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,384
Other Comprehensive Income	-	-	-	27,912	-	(1,233)	-	1,525	28,204
Total	\$ -	\$ -	\$ 61,384	\$ 27,912	\$ -	\$ (1,233)	\$ -	\$ 1,525	\$ 89,588
<b>Other equity transactions</b>									
Shares issued for dividend reinvestment plan	\$ 1,922	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,922
Dividends	-	-	(21,133)	-	-	-	-	-	(21,133)
Share based payments expense	-	-	-	-	5,975	-	-	-	5,975
Shares issued to employee share trust	454	(454)	-	-	-	-	-	-	-
AGMSP shares sold <sup>3</sup>	(2,763)	10,929	-	-	-	-	-	-	8,166
Dividend retained in relation to AGMSP <sup>3</sup>	13	95	-	-	-	-	-	-	108
Tax expense on sale of AGMSP shares <sup>3</sup>	(65)	-	-	-	-	-	-	-	(65)
Options exercised	2,110	-	-	-	(1,142)	-	-	-	968
Transfer between reserves <sup>5</sup>	-	-	313	-	(313)	-	-	-	-
Transfer between reserves <sup>6</sup>	-	-	(401)	-	401	-	-	-	-
Remeasurement gain on retirement benefits	-	-	-	-	(324)	-	-	-	(324)
Total	\$ 1,671	\$ 10,570	\$ (21,221)	\$ -	\$ 4,597	\$ -	\$ -	\$ -	\$ (4,383)
<b>Movement</b>	\$ 1,671	\$ 10,570	\$ 40,163	\$ 27,912	\$ 4,597	\$ (1,233)	\$ -	\$ 1,525	\$ 85,205
<b>Equity at 30 June 2019</b>	\$ 131,836	\$ (1,266)	\$ 310,693	\$ 110,102	\$ 8,574	\$ (7,022)	\$ (17,594)	\$ 95,460	\$ 630,783

1. Reserved Shares are held in relation to employee share trusts.

2. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further details are provided in Note 2.

3. The Trustee sold all of the shares in the Austal Group Management Share Plan during the year. Further details are provided in Note 35.

4. Transfer of Reserved Shares relating to vested AGMSP.

5. Transfer of lapsed LTI balance.

6. Transfer of retirement reserve opening balance.

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

# Consolidated statement of cash flows for the year ended 30 June 2019

	Notes	2019 '000	2018 '000
<b>Cash flows from operating activities</b>			
Receipts from customers		\$ 1,865,442	\$ 1,343,239
Payments to suppliers and employees		(1,688,944)	(1,265,900)
Interest received	4	1,053	305
Interest paid		(5,773)	(4,931)
Income tax refunded / (paid)		(7,261)	(7,030)
Net cash from / (used in) operating activities	7	<u>\$ 164,517</u>	<u>\$ 65,683</u>
<b>Cash flows from investing activities</b>			
Receipts of government infrastructure grants		\$ 1,482	\$ 2,318
Proceeds from sale of property, plant and equipment		3,867	262
Purchase of property, plant and equipment	19	(41,542)	(19,924)
Purchase of intangible assets	20	(1,556)	(3,438)
Construction of Cape Class Patrol Boats 9 & 10		-	(3,005)
Investment in joint venture		-	(299)
Business acquisition	33	-	(9,826)
Net cash from / (used in) investing activities		<u>\$ (37,749)</u>	<u>\$ (33,912)</u>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	12	\$ (10,744)	\$ (9,230)
Dividends paid (net of dividend reinvestment program)		(19,211)	(12,791)
Sale of surplus AGMSP <sup>1</sup> Shares		7,674	-
Exercise of options		968	-
Net cash from / (used in) financing activities		<u>\$ (21,313)</u>	<u>\$ (22,021)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<u>\$ 105,455</u>	<u>\$ 9,750</u>
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		\$ 162,024	\$ 150,471
Net foreign exchange differences		8,186	1,803
Net increase / (decrease) in cash and cash equivalents		105,455	9,750
Cash and cash equivalents at end of year	10	<u>\$ 275,665</u>	<u>\$ 162,024</u>

1. Austal Group Management Share Plan. Further details are provided in Note 35.

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

# Notes to the financial statements

## Basis of preparation

### Note 1 Corporate information

The financial report of the Austal Limited Group of Companies (the Group or the Company) for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the Directors on 29 August 2019.

Austal Limited is a limited liability company incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX) under the code ASB.

The principal activities of the Group during the year were the design, manufacture and sustainment of high performance vessels. These activities were 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 the Australian Accounting Standards Board (AASB).

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

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

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

The financial report presents the figures of the consolidated entity, unless otherwise stated.

Austal Limited is a for profit entity.



## II Reporting structure

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

### 1. Current year performance

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

### 2. Capital structure

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

### 3. Working capital

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

### 4. Infrastructure & other assets

This section focuses on property, plant and equipment, intangible assets of the Group, impairment and other assets.

### 5. Other liabilities

This section focuses on provisions such as employee benefits, workers compensation and warranty.

### 6. Financial risk management

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

### 7. Unrecognised items

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

### 8. The Group, management and related parties

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

## III Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group for the year ended 30 June 2019.

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

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

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

Investments in subsidiaries held by Austal Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

#### IV Foreign currency transactions and translation

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

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

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

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

#### V Accounting judgements and estimates

The Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities in the application of the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information on material estimates and judgements considered when applying the accounting policies can be found in the following notes:

<b>Key accounting judgements and estimates</b>	<b>Note</b>
Contract revenue and expected construction profits at completion	4
Research and development tax credits	5
Deferred tax assets	9
Impairment of non-financial assets	19, 21
Estimation of useful lives of assets	19
Provisions	24

## VI Change of comparative financial information

### 1. Provisions

Prior corresponding period information within the Balance Sheet has been reclassified to be comparable to the current year as follows:

- Provisions – an amount relating to payroll tax payable has been reclassified from Provisions to Trade and other payables.

### 2. Adoption of AASB 15 Revenue from customers

Comparative information within the following notes has been changed to be comparable to the current year as follows:

- AASB 15 Revenue from customers – impact of adoption,
- Austral has utilised a full retrospective approach for the adoption on 1 July 2018 as part of the FY2019 financial report. Opening retained earnings, work in progress and revenue have been restated as depicted below:

Statement of Profit and Loss			FY2018	
			Original '000	Restated '000
Revenue			\$ 1,391,977	\$ 1,390,455
Income tax (expense) / benefit			(17,756)	(17,738)

Statement of Financial Position	1 July 2017		30 June 2018	
	Original '000	Restated '000	Original '000	Restated '000
Inventories (WIP)	\$ 170,422	\$ 167,331	\$ 246,509	\$ 241,896
Deferred tax assets	5,630	6,834	7,844	9,075
Retained Earnings	248,893	247,006	273,912	270,530

### 3. Operating segments

The operating segments of Australia, Philippines, Vietnam, Muscat and the Aulong Joint Venture operations have been combined into a single Australasia reporting segment from 1 July 2018.

The Australasia reporting segment integrates capabilities across multiple shipyards and service centres with each individual location contributing value to the vessel dependant on the unique skill set of each location.

Management and reporting structures are aligned with the Australasia reporting segment. The COO Australasia is the decision maker for the combined Australasia business, monitoring and evaluating performance of the overall segment and allocating resources according to the best overall segment outcome.

Further information is provided in Note 3.

## VII New and amended standards adopted by the Group

The Group has applied all new and amended accounting standards and interpretations effective from 1 July 2018, including:

### 1. AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 fully retrospectively in accordance with paragraph C3(a) of AASB 15.

Comparatives have been restated as outlined in the section above. The following expedients have been used in accordance with paragraph C5 of AASB 15:

- Revenue in respect of completed contracts that begin and end in the same accounting period has not been restated; and
- Revenue in respect of completed contracts with variable consideration reflects the transaction price at the date the contracts were completed.

The Group's accounting policy in respect of revenue after adopting AASB 15 is as follows:

Revenue represents income derived from contracts for the provision of goods and services by the Company and its subsidiary undertakings to customers in exchange for consideration in the ordinary course of the Group's activities.

#### Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract. Contracts are combined into one performance obligation for the purposes of revenue and profit recognition where individual contracts do not result in a performance obligation on the basis that it is not distinct and do not have independent utility to the customer.

#### Transaction price

The total transaction price at the start of the contract is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. There are typically no observable stand-alone selling prices given the bespoke nature of many of the Group's products and services, which are designed and / or manufactured under contract to the customer's individual specifications. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles.

## Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer.

The Group determines whether each performance obligation within a contract is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the over time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs (typically sustainment contracts) or the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically shipbuilding contracts).

The Group recognises revenue using an input method, based on costs incurred in the period for each performance obligation to be recognised over time. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group does not include long lead time materials where they do not represent progress. The Group has determined that this method faithfully depicts the Group's performance in transferring control of the goods and services to the customer.

Revenue is recognised at the point in time that control is transferred to the customer if the over time criteria for revenue recognition are not met, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

Expected losses are recognised immediately as an expense when it is probable that total contract costs will exceed total contract revenue.

## Contract modifications

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

- Prospectively as an additional, separate contract;
- Prospectively as a termination of the existing contract and creation of a new contract; or
- As part of the original contract using a cumulative catch up.

The majority of the Group's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract-by-contract and may result in different accounting outcomes.

## Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded.

### Costs to fulfil a contract

Contract fulfilment costs in respect of over time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under AASB 2 Inventories.

### Inventories

Inventories includes raw materials and work-in-progress recognised in accordance with AASB 2 in respect of contracts with customers which have been determined to fulfil the criteria for point in time revenue recognition under AASB 15. The Group does not typically build inventory to stock. Inventories are stated at the lower of cost and net realisable value.

## 2. AASB 9: Financial Instruments [AASB 9] [effective 1 July 2018]:

### Investments and other financial assets

#### Classification

The Group classifies its financial assets in the following measurement categories from 1 July 2018:

- Those to be measured subsequently at fair value (either through Other Comprehensive Income, or through the Profit and Loss); and
- Those to be measured at amortised cost.

#### Measurement

The Group measures a financial asset at initial recognition at its fair value plus transaction costs that are directly attributable to the acquisition of the asset not measured at fair value through the Profit and Loss.

The Group subsequently measures derivative financial instruments at fair value. Gains and losses on derivative financial instruments that do not qualify for hedge accounting are recognised in the Profit and Loss for the period. The effective portion of any change in the fair value of a derivative financial instrument designated as a cash flow hedge is recognised in Other Comprehensive Income and presented in the hedging reserve in equity. Amounts recognised in equity are reclassified from reserves into the cost of the underlying transaction and recognised in the Profit and Loss when the underlying transaction affects the Profit and Loss. The ineffective portion of any change in the fair value of the instrument is recognised in the Profit and Loss immediately. Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the underlying asset or liability attributable to the hedge risk, and gains and losses on the derivative financial instrument, are recognised in the Profit and Loss for the period.

The Group subsequently measures trade and other receivables, contract receivables and amounts due from equity accounted investments at amortised cost.

#### Impairment

The Group applies the simplified approach permitted by AASB 9 for trade and other receivables, contract receivables and amounts due from equity accounted investments, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

### Derivatives and hedging

#### Cash flow hedges

The effective portion of any change in the fair value of a derivative financial instrument designated as a hedge of cash flows relating to a highly probable forecast transaction (income or expense) is recognised in Other Comprehensive Income and presented in the hedging reserve in equity. The ineffective portion of any change in the fair value of the instrument is recognised in Profit and Loss immediately.

#### Fair value hedges

Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the underlying asset or liability attributable to the hedged risk, and gains and losses on the derivative instrument, are recognised in the Profit and Loss for the period.

### **Fair value through Profit and Loss**

Gains and losses on derivative financial instruments that do not qualify for hedge accounting are recognised in the Profit and Loss for the period.

### **Financial liabilities**

There are no changes to the accounting policies in respect of loans, overdrafts, and trade and other payables, which continue to be measured at amortised cost, except where fair value hedge accounting is applied.

## **VIII Pronouncements issued and not effective**

The following new or amended accounting standards issued by the AASB are relevant to current operations and will impact the Group in the period of initial application. They are available for early adoption but have not been applied in preparing this Financial Report.

### **1. AASB 16 Leases (effective date 1 July 2019):**

AASB 16 applies to annual reporting periods beginning on or after 1 January 2019 and replaces AASB 117 Leases and the related interpretations. AASB 16 Leases specifies how to recognise, measure and disclose leases. The standard provides a single lessee accounting model, excluding those that are classified as short-term leases or leases for low-value assets, requiring lessees to recognise right-of-use assets and lease liabilities, similar to the accounting for finance leases under AASB 117. The key features of AASB 16 lessee accounting are as follows:

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

Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. In cases where the Group is a lessor (for both operating and finance leases), it is not anticipated that the application of AASB 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements.

The Group will adopt the new standard with effect from 1 July 2019 and make significant judgements and estimates when measuring the opening lease liability and corresponding right-of-use asset under AASB 16. Consequently, the Group plans to adopt the new standard using the modified retrospective approach, electing to measure the right of use asset retrospectively, by calculating what the right-of-use asset balance would have been on the adoption date if the new standard had always applied. Under this approach, any differences that exist between the lease liability and right-of-use asset balances are recognised as an adjustment to the opening balance on retained earnings on 1 July 2019.

The Group has non-cancellable operating lease commitments of \$11.7 million as at the reporting date. Based on estimates, the Group will recognise a right of use asset of \$5.0 million and an equal and opposite lease liability for these respective leases upon adoption of AASB 16.

The Net profit / (loss) after tax impact is estimated to be less than \$(0.3) million in FY2020. The impact is zero over the life of the lease.

The following effects to the Group's financial statements and disclosures are expected:

- Total assets and liabilities on the balance sheet will be grossed-up, due to the recognition of the right-to-use assets (non-current assets) and the corresponding fair value of lease liabilities. Current liabilities will also show an increase due to a portion of the lease liability being classified as a current liability.
- EBITDA will increase as operating lease costs are replaced with incremental interest and depreciation charges.
- Compared to the current net earnings profile, interest expense will be greater earlier in a lease's life due to the higher principal value, causing profit variability over the course of the lease.
- Cash flow will not be impacted because the contracts with third parties will not change.

Further information relating to the Group's Operating Lease commitments is provided in Note 28.

**2. Other new accounting standards [effective date 1 July 2019]:**

The following new or amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions,
- AASB 2017-5 Amendment to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections and
- Interpretation 22 Foreign Currency Transactions and Advance Consideration.



# Current year performance

## Note 3 Operating segments

### I Disclosures

	USA '000	Australasia '000	Unallocated '000	Elimination / Adjustments '000	Total '000
<b>Year ended 30 June 2019</b>					
<b>Revenue</b>					
External customers	\$ 1,472,679	\$ 378,076	\$ 108	\$ 158	\$ 1,851,021
Inter-segment <sup>1</sup>	-	15,079	-	(15,079)	-
Finance income	-	-	1,053	-	1,053
<b>Total</b>	<b>\$ 1,472,679</b>	<b>\$ 393,155</b>	<b>\$ 1,161</b>	<b>\$ (14,921)</b>	<b>\$ 1,852,074</b>
<b>Profit / (loss) before tax</b>					
Earnings before interest and tax	\$ 106,422	\$ 11,673	\$ (25,267)	\$ (33)	\$ 92,795
Finance income	-	-	1,053	-	1,053
Finance expenses	-	-	(8,284)	-	(8,284)
<b>Profit / (loss) before income tax</b>	<b>\$ 106,422</b>	<b>\$ 11,673</b>	<b>\$ (32,498)</b>	<b>\$ (33)</b>	<b>\$ 85,564</b>
Depreciation and amortisation	\$ (29,381)	\$ (10,003)	\$ (2,822)	\$ -	\$ (42,206)
<b>Balance sheet</b>					
Segment assets	\$ 913,301	\$ 320,408	\$ 103,200	\$ (9,608)	\$ 1,327,301
Segment liabilities	(411,658)	(242,372)	(42,488)	-	(696,518)

	USA <sup>2</sup> '000	Australasia <sup>3</sup> '000	Unallocated '000	Elimination / Adjustments '000	Total '000
<b>Year ended 30 June 2018 Restated</b>					
<b>Revenue</b>					
External customers	\$ 1,161,102	\$ 228,377	\$ 853	\$ (182)	\$ 1,390,150
Inter-segment <sup>1</sup>	-	9,468	-	(9,468)	-
Finance income	-	-	305	-	305
<b>Total</b>	<b>\$ 1,161,102</b>	<b>\$ 237,845</b>	<b>\$ 1,158</b>	<b>\$ (9,650)</b>	<b>\$ 1,390,455</b>
<b>Profit / (loss) before tax</b>					
Earnings before interest and tax	\$ 81,455	\$ (8,458)	\$ (9,755)	\$ 247	\$ 63,489
Finance income	-	-	305	-	305
Finance expenses	-	-	(8,532)	-	(8,532)
<b>Profit / (loss) before income tax</b>	<b>\$ 81,455</b>	<b>\$ (8,458)</b>	<b>\$ (17,982)</b>	<b>\$ 247</b>	<b>\$ 55,262</b>
Depreciation and amortisation	\$ (25,899)	\$ (9,088)	\$ (2,321)	\$ -	\$ (37,308)
<b>Balance sheet</b>					
Segment assets	\$ 834,542	\$ 261,956	\$ 51,777	\$ (4,092)	\$ 1,144,183
Segment liabilities	(384,045)	(178,332)	(36,228)	-	(598,605)

1. Inter-segment revenues, investments, receivables and payables are eliminated on consolidation.
2. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further information is provided in Note 2.
3. The Australasia operating segment has been restated for the prior corresponding period to include Australia, Philippines, Vietnam, Muscat and Aulong Joint Venture. Further information is provided in Note 2.

	2019 '000	2018 '000
<b>Analysis of Unallocated</b>		
<b>Revenue</b>		
Support and sustainment revenue	\$ -	\$ 9
Charter vessel revenue	108	844
Finance income	1,053	305
Total	<u>\$ 1,161</u>	<u>\$ 1,158</u>
<b>Profit / (loss) before tax</b>		
Foreign exchange gains / (losses)	\$ (776)	\$ (561)
Write down of charter vessels	(1,157)	(1,064)
Administration expenses	(19,415)	(11,979)
Marketing expenses	(9,758)	(10,667)
Charter vessel profit / (loss)	(198)	400
Research and development credits	6,037	14,116
Finance income	1,053	305
Finance expenses	(8,284)	(8,532)
Total	<u>\$ (32,498)</u>	<u>\$ (17,982)</u>
<b>Segment assets</b>		
Cash	\$ 77,202	\$ 11,381
Property, plant and equipment	-	5,856
Other receivables	33	283
Deferred tax assets	8,402	7,844
Income tax receivable	2,324	4,464
Other non-current assets <sup>1</sup>	14,838	21,751
Other	401	198
Total	<u>\$ 103,200</u>	<u>\$ 51,777</u>
<b>Segment liabilities</b>		
Deferred tax liabilities	\$ (33,839)	\$ (31,268)
Creditors & provisions	(8,649)	(4,960)
Total	<u>\$ (42,488)</u>	<u>\$ (36,228)</u>

1. Balance relates to research and development (R&D) credits. Further information is provided in Note 23.

	2019 '000	Restated <sup>1</sup> 2018 '000
<b>Revenue from external customers</b>		
<b>By geographical location of customers</b>		
North America	\$ 1,472,679	\$ 1,160,944
Europe	150,922	99,767
Australia	108,647	104,525
Asia	81,059	21,032
South and Central America	36,050	-
Middle East	1,664	3,882
Total	<u>\$ 1,851,021</u>	<u>\$ 1,390,150</u>

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further information is provided in Note 2.

One customer in the USA segment contributed revenue of \$1,472.679 million during FY2019 (FY2018: \$1,160.944 million).

	<u>2019</u> <u>'000</u>	<u>2018</u> <u>'000</u>
<b>Non-current assets <sup>1</sup></b>		
<b>Geographical location</b>		
North America	\$ 451,188	\$ 446,019
Australia	106,635	107,459
Asia	51,304	27,255
Europe	-	4,882
Total	<u>\$ 609,127</u>	<u>\$ 585,615</u>
<b>Composition</b>		
Property, plant and equipment	\$ 588,384	\$ 565,778
Intangible assets	20,743	20,812
Total	<u>\$ 609,127</u>	<u>\$ 586,590</u>

1. Excludes financial instruments, prepayments and deferred tax assets.

## II Identification of reportable segments

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

The Chief Executive Officer, who is the Chief Operating Decision Maker (CODM), monitors the performance of the business segments separately for the purpose of making decisions. Segment performance is evaluated based on operating Profit and Loss. Finance costs, finance income and income tax are managed on a Group basis (i.e. Unallocated).

## III Reportable segments

The reportable segments are:

### 1. USA

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

### 2. Australasia

Reporting of Austal's Australia, Philippines, Vietnam, Aulong Joint Venture and Muscat operations is combined into a single Australasia reporting segment. These locations act as a single business unit for tendering, scheduling, resource planning and management accountability.

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

## IV Accounting policies, inter-segment transactions and unallocated items

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 in accordance with the Group's transfer pricing policy.

Certain unallocated items are not considered to be part of the core operations of any segment.

## Note 4 Revenue

### I Disclosure

	2019	Restated <sup>1</sup>
	'000	2018
	'000	'000
<b>Revenue</b>		
Vessel construction and support	\$ 1,840,793	\$ 1,379,186
CCPB 9 & 10	10,120	10,120
Other charter vessels	108	844
Total Revenue from customers	\$ 1,851,021	\$ 1,390,150
Finance income	\$ 1,053	\$ 305
Total	\$ 1,852,074	\$ 1,390,455

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further information is provided in Note 2.

### II Recognition and measurement

#### 1. Vessel construction and support revenue

Revenue from contracts with customers is recognised in the Profit and Loss statement when the performance obligations are considered met. Revenue is recognised at an amount that reflects the consideration the Group expects to be entitled to, net of goods and services tax or similar tax.

Further information on the application of AASB 15 on the major activities of the Group (construction and support) are provided in Note 2.

#### 2. Vessel finance for Cape Class Patrol Boats 9 & 10 (CCPB 9 & 10)

Austal entered into a finance arrangement with National Australia Bank (NAB) and the Royal Australian Navy (RAN) for the construction of CCPB 9 & 10 in December 2015. NAB financed the purchase of the vessels and is leasing them to the RAN for an initial 3 year term.

This arrangement results in non-cash entries being recorded in Austal's statutory reporting during the charter period for notional revenue, notional depreciation and notional interest. Notional revenue of \$10.120 million was reported in FY2019 (FY2018: \$10.120 million).

Further information is provided in Note 11 and Note 30.

#### 3. Other charter vessel revenue

Charter vessel revenue is generated from operating rentals received on charter of vessels (other than CCPB 9 & 10) and is recognised over time. All other charter vessels were disposed of during FY2019.

### III Remaining performance obligations [work in hand]

The transaction price allocated to remaining performance obligations (unsatisfied or partially satisfied) at 30 June 2019 is set out below:

#### Transaction price allocated to remaining performance obligations pursuant to customer contracts

	2019 '000	2018 '000
Committed at the reporting date but not recognised as liabilities; payable:		
- Within one year	\$ 1,795,768	\$ 1,288,598
- One to five years	3,089,116	1,713,872
Total	<u>\$ 4,884,884</u>	<u>\$ 3,002,470</u>

The transaction price associated with unsatisfied or partially satisfied performance obligations does not include variable consideration that is constrained.

### IV Significant accounting judgements and estimates

#### 1. Contract revenue and expected construction profits at completion

The assessment of contract revenue in accordance with the Group's accounting policies requires certain estimates to be made of total contract revenues, total contract costs and the current percentage of completion, which if ultimately inaccurate will impact the level of revenue recognised in the Profit and Loss for FY2019 and future years.

Estimates were made by management with respect to total contract revenues, and total contract costs, which had a resulting impact on the percentage of completion, in line with the Group's accounting policy for contract revenue. Specific risks that are considered in determining total contract costs including schedule, material costs, labour hours and rates, learning curve (where applicable), liquidated damages and other general risks and contingencies.

## Note 5 Other profit and loss

### I Disclosure

	<b>2019</b>	<b>2018</b>
	<b>'000</b>	<b>'000</b>
<b>Other income and expenses</b>		
Government infrastructure grants amortised	\$ 9,270	\$ 8,662
Training reimbursement grants	2,631	2,839
Gain / (loss) on disposal of property, plant and equipment	439	(46)
Net foreign exchange gain / (loss)	(574)	(387)
Sale of scrap materials	3,008	3,736
Gain on cessation of foreign operations	-	817
Other income	2,296	811
Warranty	(2,569)	(1,670)
Write down of assets	(1,200)	(1,064)
Total	<u>\$ 13,301</u>	<u>\$ 13,698</u>
<b>Finance costs</b>		
Interest to unrelated parties	\$ (7,557)	\$ (6,993)
Amortisation of capitalised loan origination costs	(727)	(1,539)
Total	<u>\$ (8,284)</u>	<u>\$ (8,532)</u>
<b>Share of profit from joint venture <sup>1</sup></b>		
Share of profit / (loss) of Aulong Joint Venture	\$ -	\$ (266)
Total	<u>\$ -</u>	<u>\$ (266)</u>
<b>Depreciation and amortisation</b>		
Depreciation	\$ (39,905)	\$ (35,712)
Amortisation of intangible assets	(2,301)	(1,596)
Total	<u>\$ (42,206)</u>	<u>\$ (37,308)</u>
<b>Employee benefits <sup>2</sup></b>		
Wages and salaries	\$ (428,212)	\$ (387,699)
Post-retirement benefits	(8,459)	(7,137)
Share based payments expense	(5,975)	(1,617)
Workers' compensation costs	(6,566)	(5,691)
Annual leave expense	(23,612)	(20,765)
Long service leave expense	(2,249)	(1,235)
Total	<u>\$ (475,073)</u>	<u>\$ (424,144)</u>
<b>Research and development credits <sup>2</sup></b>		
Research and development credits	\$ 6,037	\$ 14,116

1. Further information relating to the share of profit from joint venture is provided in Note 31.

2. Includes items that are disclosed within cost of sales.

	<u>2019</u>	<u>2018</u>
<b>Auditor's remuneration</b>		
<b>Amounts received or due and receivable by Deloitte Touche Tohmatsu Australia for:</b>		
An audit or review of the financial report of the entity and any other entities in the Group	\$ (192,200)	\$ (180,000)
Other services in relation to the entity and any other entity in the Group	(130,059)	(62,813)
Tax advice	-	(6,530)
<b>Total</b>	<b><u>\$ (322,259)</u></b>	<b><u>\$ (249,343)</u></b>
<b>Amounts received or due and receivable by related practices of Deloitte Touche Tohmatsu for:</b>		
An audit or review of the financial report of the entity and any other entities in the Group	\$ (916,845)	\$ (716,031)
Other services in relation to the entity and any other entity in the Group	(3,594)	(8,595)
Tax advice	(425,904)	(120,830)
<b>Total</b>	<b><u>\$ (1,346,343)</u></b>	<b><u>\$ (845,456)</u></b>

Auditors remuneration was converted at USD / AUD 0.7150 in FY2019 (FY2018: 0.7751)

## II Recognition & measurement

The following recognition and measurement criteria must be met before the following specific items are recognised in the Profit and Loss:

### 1. Grants relating to expense items

Grants include US Government infrastructure grants and training reimbursement grants. Grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

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

### 2. Research and Development (R&D) credits

R&D tax incentives are accounted for in accordance with the Group's accounting policies as a Government grant under AASB 120 rather than as an income tax benefit under AASB 112.

The excess R&D credits are recognised as a reduction to each vessel's cost estimate at completion when there is reasonable assurance that the credits will be received and utilised. The entire credit is recognised in cost of sales and changes the calculation of percent complete which impacts the timing of revenue recognition for the projects.

The net impact to profit before tax in FY2019 is \$6.037 million (FY2018: \$14.116 million). Further information relating to the R&D credits is provided in Note 23.

### 3. Finance costs

Finance costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other finance costs are expensed in the period that they occur. There were no qualifying assets in FY2019.

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.

#### **4. Depreciation and amortisation**

Further information relating to depreciation is provided in Note 19.

Further information relating to amortisation of intangible assets is provided in Note 20.

#### **5. Employee benefits**

Further information relating to employee benefits is provided in Note 24.

#### **6. 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 Profit and Loss on a straight-line basis over the lease term.

Further information is provided in Note 28.

#### **7. Sale of scrap materials**

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

#### **8. Foreign exchange gains and losses**

Foreign exchange gains and losses included in the Profit and Loss comprise fair value adjustments on non-derivative financial assets (such as foreign currency denominated loans) and gains and losses on cash flow hedges that were deemed to be ineffective during the accounting period.

### **III Significant accounting judgements and estimates**

#### **1. R&D credits**

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



## Note 6 Earnings per share

### I Calculation

		2019	Restated <sup>1</sup>
		'000	2018
		<u>          </u>	<u>          </u>
		'000	'000
<b>Net profit / (loss) after tax</b>			
Net profit attributable to ordinary equity holders of the parent	\$'000	\$ 61,384	\$ 37,533
<b>Weighted average number of ordinary shares</b>			
Basic	Number	349,598,590	346,229,344
Effect of dilution	Number	4,476,326	1,816,757
Diluted	Number	<u>354,074,916</u>	<u>348,046,101</u>
<b>Earnings per share</b>			
Basic earnings per share	\$ / share	\$ 0.176	\$ 0.108
Diluted earnings per share	\$ / share	\$ 0.173	\$ 0.108

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15.  
Further information is provided in Note 2.

### II Measurement

Basic earnings per share is calculated by dividing Net profit / (loss) after tax 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 is calculated by dividing the Net profit / (loss) after tax for the year 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 potentially dilutive ordinary shares into ordinary shares.

### III Information concerning the classification of securities

#### 1. Performance rights

Performance rights granted to executives under the Group's Long Term Incentive Plan are included in the calculation of diluted earnings per share where the conditions would have been met at the reporting date. There were 8,052,757 performance rights that are potentially dilutive at 30 June 2019. These rights are included in the determination of diluted earnings per share.

Further information relating to the performance rights is provided in Note 35.

## **2. Share rights**

Share rights may be provided to the CEO as part of his total fixed remuneration. The share rights are subject to a 12 month holding period from the date at which the shares are released to the CEO, and no performance condition exists because they are considered to be part of his fixed remuneration. This arrangement was approved by shareholders at the 2016 Annual General Meeting for the period ending 31 December 2019. The share rights are included in the calculation of basic earnings per share. 159,095 share rights were issued during the year.

Share rights are also a component of Non-Executive Directors' (NED) and the CFO's remuneration. 31,891 share rights were issued to NED and 24,127 share rights were issued to the CFO during the year.

Austral has issued 212,998 shares to an Employee Share Trust (EST) to support the share rights. Shares in the EST that support the share rights are not dilutive because share rights are already treated as dilutive (this avoids double dilution).

Further information relating to the share rights is provided in Note 35.

## **3. Employee Share Trust**

Austral established an EST during FY2018 for the purpose of acquiring, holding and transferring shares in connection with equity based remuneration established by the Company for the benefit of participants in those plans. Austral issued 212,998 shares to the trust during the year ended 30 June 2019.

## **4. Austral Group Management Share Plans [AGMSP]**

Further information relating to shares held on trust under the AGMSP is provided in Note 35.

## **5. Other equity transactions**

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

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

	2019	Restated <sup>1</sup>
	'000	2018
	'000	'000
<b>Net profit / (loss) after tax</b>	\$ 61,384	\$ 37,533
<b>Adjustments for non cash profit and loss items:</b>		
Depreciation and amortisation	\$ 42,206	\$ 37,308
Write down of charter vessels	1,200	1,064
Net (gain) / loss on disposal of property, plant and equipment	(439)	46
Share based payments expense	5,975	1,617
Net exchange differences	574	387
CCPB 9 & 10 Notional charter income	(10,120)	(10,121)
CCPB 9 & 10 Notional interest expense	1,785	2,063
Amortisation of borrowing costs	727	1,539
Non-cash mark to market of trade payables and receivables	3,903	(151)
Total	\$ 45,811	\$ 33,752
<b>Changes in assets and liabilities:</b>		
Increase / (decrease) in provisions for:		
Income tax (current and deferred)	\$ 6,036	\$ 1,478
Workers' compensation insurance	431	(500)
Warranty	(2,146)	(2,112)
Employee benefits	8,135	10,120
Other provisions	9,288	1,189
(Increase) / decrease in trade and other receivables	(115,180)	(4,274)
(Increase) / decrease in inventories and work in progress	75,604	(74,565)
(Increase) / decrease in prepayments	(1,923)	(1,480)
(Increase) / decrease in other financial assets	(1,699)	(534)
Increase / (decrease) in trade and other payables	16,427	30,733
Increase / (decrease) in progress payments in advance	66,643	38,205
Increase / (decrease) in government grants	(4,294)	(3,862)
Total	\$ 57,322	\$ (5,602)
<b>Net cash inflow / (outflow) from operating activities</b>	<b>\$ 164,517</b>	<b>\$ 65,683</b>

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further information is provided in Note 2.

## Note 8 Dividends paid and proposed

### I Dividends on ordinary shares

	2019 <u>'000</u>	2018 <u>'000</u>
<b>Dividends paid on Ordinary Shares</b>		
Unfranked final dividend for the prior year, 3 cps (2018: fully franked, 2 cps)	\$ (10,549)	\$ (6,989)
Unfranked interim dividend for the current year, 3 cps (2018: fully franked, 2 cps)	(10,584)	(7,011)
Total	<u>\$ (21,133)</u>	<u>\$ (14,000)</u>
<b>Dividend declared subsequent to the reporting period end (not recorded as liability)</b>		
Unfranked final dividend for the current year 3 cps (2018: unfranked 3 cps)	\$ (10,601)	\$ (10,526)

### II Franking credit balance

	2019 <u>'000</u>	2018 <u>'000</u>
<b>Opening Balance</b>	\$ 1,170	\$ 4,377
Franking credits distributed	\$ -	\$ (2,995)
Franking credits movement from the payment / (refund) of income tax	-	(212)
Movement	<u>\$ -</u>	<u>\$ (3,207)</u>
<b>Closing Balance</b>	<u>\$ 1,170</u>	<u>\$ 1,170</u>

## Note 9 Income and other taxes

### I Income tax expense

	2019 '000	Restated <sup>1</sup> 2018 '000
<b>Major components of tax (expense) / benefit are:</b>		
<b>Consolidated Profit and Loss</b>		
<b>Current Income Tax</b>		
Current income tax charge	\$ (10,851)	\$ (5,850)
Adjustments in respect of current income tax of the previous year	745	(196)
Total	<u>\$ (10,106)</u>	<u>\$ (6,046)</u>
<b>Deferred Income Tax</b>		
Relating to origination and reversal of temporary differences	\$ (13,737)	\$ (11,970)
Adjustments in respect of deferred income tax of the previous year	(337)	287
Total	<u>\$ (14,074)</u>	<u>\$ (11,683)</u>
<b>Total income tax (expense) / benefit</b>	<u>\$ (24,180)</u>	<u>\$ (17,729)</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	\$ 460	\$ 1,698
Deferred gains on revaluation of property, plant and equipment	(578)	(10,067)
<b>Total income tax (expense) / benefit charged to OCI</b>	<u>\$ (118)</u>	<u>\$ (8,369)</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>	\$ 85,564	\$ 55,262
<b>Income Tax at the Group's statutory income tax rate of 30% (2018: 30%)</b>	\$ (25,669)	\$ (16,579)
Adjustment for USA statutory income tax rate of 25.3% (2018: 31.6%)	\$ 3,089	\$ (1,702)
Adjustment for Philippines income tax rate of 5%	4,507	(27)
Other foreign tax rate differences	48	693
Non-assessable R&D credits in cost of sales	1,652	4,219
USA revalue deferred balances for tax rate change	-	2,265
USA S.199 domestic manufacturing deduction	-	1,580
USA withholding tax leakage due to losses in Australia	(787)	(876)
Carry forward tax losses not recognised	(1,776)	(4,495)
Transfer pricing adjustments in respect of intercompany royalties	(2,727)	(3,413)
Non-deductible share based equity expense	(1,712)	134
Other non-assessable or non-deductible items	(1,213)	381
Adjustments in respect of current and deferred income tax of the previous year	408	91
Total Adjustments	<u>\$ 1,489</u>	<u>\$ (1,150)</u>
<b>Income tax (expense) / benefit reported in the Profit and Loss</b>	<u>\$ (24,180)</u>	<u>\$ (17,729)</u>
<b>Income tax receivable / (payable)</b>		
Income tax receivable / (payable)	\$ 1,701	\$ 4,523

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further information is provided in Note 2.

## II Analysis of temporary differences

	Statement of Financial Position		Movement in Profit and Loss	
	2019	2018	2019	2018
	'000	'000	'000	'000
<b>Deferred income tax - USA</b>				
<b>Deferred tax assets</b>				
Trade & other receivables	\$ -	\$ -	\$ -	\$ (11,075)
Work in Progress	-	1,231	(1,214)	25
Payables	5,782	5,334	155	(25)
Provisions	3,337	550	2,713	(3,401)
Deferred Grant Income	15,924	16,932	(1,899)	(9,411)
Losses available for offset against future taxable income	33	584	(573)	(1,974)
Alternative minimum tax credits	-	1,368	(1,420)	(420)
R&D	-	-	(14,004)	-
Deferred gains and losses on foreign currency contracts	2,158	406	(41)	(101)
Property, plant and equipment	-	-	-	(1,794)
Other	-	-	-	(108)
<b>Total</b>	<b>\$ 27,234</b>	<b>\$ 26,405</b>	<b>\$ (16,283)</b>	<b>\$ (28,284)</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	\$ (56,845)	\$ (56,345)	\$ 2,473	\$ 16,535
Work in Progress	(3,012)	-	(2,964)	-
Intangibles	(938)	(962)	75	12
Payables	(273)	(234)	-	101
Deferred gains and losses on foreign currency contracts	(5)	(132)	(3)	-
<b>Total</b>	<b>\$ (61,073)</b>	<b>\$ (57,673)</b>	<b>\$ (419)</b>	<b>\$ 16,648</b>
<b>Net deferred tax asset / (liability)</b>	<b>\$ (33,839)</b>	<b>\$ (31,268)</b>	<b>\$ (16,702)</b>	<b>\$ (11,636)</b>
<b>Deferred income tax - Australia</b>				
<b>Deferred tax assets</b>				
Cash	\$ 511	\$ (86)	\$ 597	\$ -
Work in Progress	2,820	-	2,820	-
Payables	289	690	(400)	289
Provisions	8,013	7,633	380	(319)
Deferred gains and losses on foreign currency contracts	2,368	2,410	-	(72)
CCPB 9 & 10	407	732	(327)	(237)
Other	219	110	109	(420)
<b>Total</b>	<b>\$ 14,627</b>	<b>\$ 11,489</b>	<b>\$ 3,179</b>	<b>\$ (759)</b>
<b>Deferred tax liabilities</b>				
Property, plant and equipment	\$ (4,771)	\$ (3,290)	\$ (849)	\$ 806
Deferred gains and losses on foreign currency contracts	(554)	(429)	-	52
Other	(1,196)	(11)	-	(173)
<b>Total</b>	<b>\$ (6,521)</b>	<b>\$ (3,730)</b>	<b>\$ (849)</b>	<b>\$ 685</b>
<b>Net deferred tax asset / (liability)</b>	<b>\$ 8,106</b>	<b>\$ 7,759</b>	<b>\$ 2,330</b>	<b>\$ (74)</b>
<b>Deferred income tax - Other</b>				
<b>Deferred tax assets</b>	<b>\$ 328</b>	<b>\$ 122</b>	<b>\$ 308</b>	<b>\$ -</b>
<b>Deferred tax liabilities</b>	<b>(32)</b>	<b>(37)</b>	<b>(10)</b>	<b>27</b>
<b>Net deferred tax asset / (liability)</b>	<b>\$ 296</b>	<b>\$ 85</b>	<b>\$ 298</b>	<b>\$ 27</b>
<b>Net deferred tax asset / (liability)</b>	<b>\$ (25,437)</b>	<b>\$ (23,424)</b>	<b>\$ (14,074)</b>	<b>\$ (11,683)</b>

### III Austal Group Tax Strategy

#### 1. Tax risk management and governance

Austal's tax risk management and governance processes are supported through its Tax Risk Management Standard that is approved by Austal's Board of Directors. The Audit and Risk Committee assists the Board in fulfilling its oversight responsibilities by reviewing, monitoring and making recommendations in relation to tax risk management and governance practices.

Austal's approach to tax is that it will:

- fulfil its tax obligations in accordance with tax laws and practice of the tax jurisdictions in which it operates.
- pay the amount of tax which is legally due at the correct time.
- maintain an open and collaborative relationship with tax authorities.
- act with integrity and protect the reputation of Austal.

#### 2. Tax planning

Austal seeks to manage its business in a tax-efficient manner, compliant with the tax laws, rules and regulations of the jurisdiction it operates in. Transactions are undertaken for commercial and economic business reasons; Austal will not knowingly participate in, facilitate nor promote artificial or contrived tax planning arrangements for the purposes of tax avoidance.

#### 3. Tax risk appetite

Tax risk will inevitably arise given the scale of the business and the number of tax jurisdictions in which Austal operates, the judgments that are required to interpret complex tax regulations and the continually changing nature of tax laws.

Austal applies a prudent management of its tax affairs and proactively seeks to identify, evaluate, manage and monitor tax uncertainties and risks to ensure that they are appropriately addressed. Transfer pricing is calculated using the "arm's length" principle and structured so that the tax results are consistent with the underlying economic consequences.

#### 4. Relationship with tax authorities

Austal is committed to engaging with the regulatory authorities with integrity, honesty, respect, fairness and a spirit of co-operation.

#### 5. UK specific comments

Austal Group's tax strategy is regarded as satisfying the statutory obligation under Paragraph 22(2) of Schedule 19 Finance Act 2016 ('Qualifying Company') for Austal UK Limited.

## IV Recognition and measurement

### 1. Current tax assets and liabilities

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

### 2. Deferred income tax

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

- the deferred income tax liability arises from the initial recognition of goodwill, or 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 and Loss; or
- the taxable temporary differences associated with investments in subsidiaries, associates or 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.

### 3. Deferred income tax asset recognition

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward tax assets and losses to the extent that the availability of taxable profit against which the deductible temporary differences is probable; and the deferred tax assets 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 and Loss;
- the deductible temporary differences are associated with investments in subsidiaries, associates and interests in joint ventures in which case a deferred tax asset is only recognised to the extent that taxable profits will be available in the foreseeable future.

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

Unrecognised deferred 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 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.



#### 4. Deferred income tax asset and liability measurement

Tax reform in the USA became effective on 1 January 2018 and resulted in a reduction in the Federal rate of income tax from 35% to 21% for tax years beginning on 1 January 2018. Austal was able to apply the new 21% rate for all of FY2019.

The combination of the Federal rate of income tax at 21% and the weighted average of individual US states in which Austal operates was 25.3% for FY2019. The weighted average tax rate changes year on year based on the apportionment of activity between the states.

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.

Amounts arising from the re-measurement of deferred balances is disclosed separately in the tax expense reconciliation.

#### 5. Income taxes relating to equity items

Income taxes relating to items recognised directly in equity are only recognised in equity and not in the Profit and Loss.

### V Tax consolidation

Austal Limited is the head entity in a Tax Consolidated Group comprising of the head entity and its 100% owned Australian resident subsidiaries that was implemented 1 July 2002. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis.

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

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

Any current or deferred tax assets or liabilities 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. The Tax Consolidated Group recognises deferred tax assets arising from unused tax losses of the Tax Consolidated Group to the extent that it is probable that future taxable profits of the Tax Consolidated Group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

The members of the Tax Consolidated Group have entered into a tax funding arrangement which sets out the funding obligations of members of the Tax Consolidated Group in respect of tax amounts. The tax funding arrangements require payments to or from the head entity to be 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 or distribution adjustments in preparing the accounts for the head entity for the current year.

## VI Significant accounting judgements and estimates

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

### 1. Deferred tax assets

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

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.

A deferred tax asset has not been recognised for the Australian Consolidated Tax Group in FY2019 because the group incurred a taxable loss and the standard for recognising carry forward tax losses as a deferred tax asset is higher when a business is emerging from creating taxable losses.

The company has assessed that the criteria for recognising the tax losses will be met when the Australian Consolidated Tax Group generates a taxable profit.

Unrecognised deferred tax assets in respect of the Australian Consolidated Tax Group losses at 30 June 2019 were:

	<b>2019</b> <b>'000</b>	<b>2018</b> <b>'000</b>
<b>Unrecognised Deferred Tax Assets (Tax effected values)</b>		
<b>Opening Balance</b>	\$ 6,175	\$ 1,918
Prior year true-up	\$ (2,180)	\$ -
Current year loss	1,719	4257
<b>Total</b>	<b>\$ (461)</b>	<b>\$ 4,257</b>
<b>Closing Balance</b>	<b>\$ 5,714</b>	<b>\$ 6,175</b>

## 2. Audits by tax authorities

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

An Australian Taxation Office (ATO) audit of Austal Limited that was concluded in CY2017, has resulted in differing interpretations of inter-company royalties associated with intellectual property deployed from Australia to the USA. The ATO's position creates economic double taxation for Austal because the ATO requires that a higher level of royalty income be recognised in the Australian taxable income than may be taken as a deduction in the USA.

Austal has applied for entry into Mutual Agreement Procedures (MAP) between the Competent Authorities of Australia (ATO) and the United States of America (Internal Revenue Service) in order to seek relief from the double taxation.

Austal have accounted for and paid tax based on the ATO's position and may receive tax refunds in Australia or the USA if the outcome of the MAP process results in the removal of economic double taxation. Austal is currently unable to determine what the outcome of this process may be and the timeline to resolution.

## VII Other taxes

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) or Value Added Tax (VAT) except when:

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

The net amount of GST or VAT recoverable from, or payable to, the relevant 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 or VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the relevant taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST or VAT recoverable from, or payable to, the relevant taxation authority.

## Capital structure

### Note 10 Cash and cash equivalents

#### I Net carrying amount

	2019 <u>'000</u>	2018 <u>'000</u>
<b>Cash</b>		
Cash at bank and in hand	\$ 275,665	\$ 162,024
Total	<u>\$ 275,665</u>	<u>\$ 162,024</u>

#### II Recognition and measurement

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less.

Cash and cash equivalents for the purposes of the Consolidated Statement of Cash Flows consists of cash and cash equivalents (as defined above) net of any cash held as a guarantee.

### Note 11 Interest bearing loans and borrowings

#### I Net carrying amount

	2019 <u>'000</u>	2018 <u>'000</u>
<b>Current</b>		
Go Zone Bonds <sup>1</sup>	\$ -	\$ (61,723)
Vessel finance for Cape Class Patrol Boats 9 & 10 <sup>2</sup>	(48,798)	(8,336)
Finance leases	(2,413)	(2,699)
Total	<u>\$ (51,211)</u>	<u>\$ (72,758)</u>
<b>Non - Current</b>		
Go Zone Bonds <sup>1</sup>	\$ (122,286)	\$ (60,888)
Vessel finance for Cape Class Patrol Boats 9 & 10 <sup>2</sup>	-	(48,798)
Finance leases	(257)	(2,834)
Total	<u>\$ (122,543)</u>	<u>\$ (112,520)</u>
<b>Total</b>	<u>\$ (173,754)</u>	<u>\$ (185,278)</u>

1. Tenor of the Go Zone Bonds letters of credit was restored to three years during the period and the carrying amount reclassified as non-current.
2. Reclassified to non-current post balance date after extension was signed.

## II Facilities available

	<u>2019</u> <u>'000</u>	<u>2018</u> <u>'000</u>
<b>Facilities used at reporting date</b>		
Revolving Credit Facility	\$ (58,900)	\$ (102,359)
Go Zone Bonds	(122,286)	(122,611)
Surety Facility	(126,263)	-
Finance leases	(2,670)	(5,533)
Total <sup>1</sup>	<u>\$ (310,119)</u>	<u>\$ (230,503)</u>
<b>Facilities unused at reporting date</b>		
Revolving Credit Facility	\$ (121,100)	\$ (77,641)
Go Zone Bonds	-	-
Surety Facility	(23,737)	(100,000)
Finance leases	-	-
Total	<u>\$ (144,837)</u>	<u>\$ (177,641)</u>
<b>Total Facilities Available</b>		
Revolving Credit Facility	\$ (180,000)	\$ (180,000)
Go Zone Bonds	(122,286)	(122,611)
Surety Facility	(150,000)	(100,000)
Finance Leases	(2,670)	(5,533)
Total	<u>\$ (454,956)</u>	<u>\$ (408,144)</u>

1. The balance sheet carrying amount of total facilities used is \$(124.956) million at 30 June 2019 being Go Zone Bonds and Finance leases (30 June 2018: \$(128.144) million).

## III Recognition and measurement

All loans, borrowings and finance leases 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 Profit and Loss when the liabilities are derecognised.

## IV Banking facilities

Austral has a Syndicated Facility Agreement which includes US\$88.379 million for letters of credit to secure the Go Zone Bonds and a \$180.000 million revolving credit facility. The entire revolving credit facility can be used for contingent non-financial instruments, up to \$50.000 million of any unused part of the facility can be used for cash advances and up to \$20.000 million of any unused part of the facility can be used for contingent financial instruments. The Syndicated Facility Agreement matures in May 2021.

Contingent non-financial instruments (excluding the letters of credit supporting the Go Zone Bonds) are issued to support concepts such as refund payment guarantees, performance bonds and warranty bonds. Further information relating to commitments and contingencies is provided in Note 28.

## V Go Zone Bonds

The Gulf Opportunity Zone Bonds (Go Zone Bonds or GZB) are a form of indebtedness that was authorised by the US Federal Government to incentivise private investment in infrastructure in geographical areas that were affected by Hurricane Katrina in 2005. Austal qualified to borrow US\$225 million with a 30 year maturity to invest in the development of shipbuilding infrastructure in Austal USA between FY2008 and FY2013.

GZB are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 1.58% in FY2019. GZB bondholders are secured by letters of credit issued by Austal's banking syndicate with a maturity date of May 2021. The average cost of the letters of credit in FY2019 was 1.53%.

US\$5.000 million of GZB was redeemed (repaid) during FY2019 and Austal has now redeemed a cumulative amount of US\$136.6 million and owed US\$88.4 million at 30 June 2019. Austal has the option of redeeming the outstanding GZB balance, in whole or in part, at any time during the term of the indebtedness with a 30 day notice to bondholders.

Austal re-financed 50% of the GZB Syndicated Facility during FY2019. 100% of the letters of credit securing GZB mature in May 2021 and all of the GZB debt has been classified as non-current at 30 June 2019.

## VI Surety facility

Austal had \$150.000 million of uncommitted and unsecured Surety facilities for the issuance of non-financial contingent instruments to support commercial vessel contracts at 30 June 2019.

An additional \$100.000 million uncommitted and unsecured Surety facility was established in July 2019. This has been disclosed as a post balance sheet event in Note 30.

## VII Finance leases

Austal USA entered into 5 year finance leases in FY2015 to fund mobile equipment and land in Mobile, Alabama, USA, and the average interest rate incurred in FY2019 was 3.34%.

## VIII Vessel finance for Cape Class Patrol Boats 9 & 10 [CCPB 9 & 10]

Austal entered into a finance arrangement with National Australia Bank (NAB) and the Royal Australian Navy (RAN) for the construction of CCPB 9 & 10 in December 2015.

NAB financed the purchase of the vessels and is leasing them to the RAN for an initial 3 year term. The contract contains a put option granting NAB the right to sell the vessels back to Austal at an option price equal to the residual value of \$21 million per vessel at the end of the 3 year term. The notional effective interest rate incurred in FY2019 was 3.19%.

RAN, NAB and Austal executed agreements on 16 August 2019 to extend the vessel finance contract to April 2023 and May 2023. The contract extension reduces the total residual value to \$24.335 million at the end of the 2 year term and re-classifies the net carrying amount from current to non-current interest bearing loans and borrowings.

## IX Fair value of borrowings

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

## Note 12 Reconciliation of financing cash flow to interest bearing debt

### I Reconciliation

	30 June 2018 '000	Cashflows Repay / (Draw) '000	Non-cash changes				30 June 2019 '000
			CCPB 9 & 10 Debt Reduction <sup>1</sup> '000	Foreign exchange movement '000	Amortisation of borrowing costs '000	Reclassification '000	
Current borrowings	\$ (72,758)	\$ 426	\$ 8,335	\$ (139)	\$ -	\$ 12,925	\$ (51,211)
Non-current borrowings	(112,520)	10,318	-	(6,689)	(727)	(12,925)	(122,543)
Total financing liabilities	<u>\$ (185,278)</u>	<u>\$ 10,744</u>	<u>\$ 8,335</u>	<u>\$ (6,828)</u>	<u>\$ (727)</u>	<u>\$ -</u>	<u>\$ (173,754)</u>

	30 June 2017 '000	Cashflows Repay / (Draw) '000	Non-cash changes				30 June 2018 '000
			CCPB 9 & 10 Debt Reduction <sup>1</sup> '000	Foreign exchange movement '000	Amortisation of borrowing costs '000	Reclassification '000	
Current borrowings	\$ (9,868)	\$ (67)	\$ -	\$ (100)	\$ -	\$ (62,723)	\$ (72,758)
Non-current borrowings	(186,487)	9,297	8,058	(4,572)	(1,539)	62,723	(112,520)
Total financing liabilities	<u>\$ (196,355)</u>	<u>\$ 9,230</u>	<u>\$ 8,058</u>	<u>\$ (4,672)</u>	<u>\$ (1,539)</u>	<u>\$ -</u>	<u>\$ (185,278)</u>

1. CCPB 9 & 10 debt reduction is equal to the difference between the notional charter income and the notional interest expense.

## Note 13 Contributed equity and reserves

### I Contributed equity

#### 1. Net carrying amount

	Shares		'000	
	2019	2018	2019	2018
<b>Ordinary shares on issue</b>				
1 July	350,857,529	349,472,643	\$ 130,165	\$ 128,276
Shares issued for dividend reinvestment plan	912,560	703,878	\$ 1,922	\$ 1,209
Shares issued to Employee Share Trust	212,998	463,697	454	812
Transfer of Reserved Shares related to vested AGMSP	-	-	-	(494)
Shares issued for vested Performance Rights	-	217,311	-	201
Options exercised	1,374,196	-	2,110	-
Dividend retained in relation to AGMSP	-	-	13	23
Tax expense on AGMSP <sup>1</sup>	-	-	(65)	(9)
AGMSP shares sold <sup>1</sup>	-	-	(2,763)	147
30 June	353,357,283	350,857,529	\$ 131,836	\$ 130,165
<b>Reserved shares</b>				
1 July	(4,165,697)	(4,015,539)	\$ (11,836)	\$ (11,892)
Shares issued to Employee Share Trust	(212,998)	(463,697)	\$ (454)	\$ (812)
Dividend retained in relation to AGMSP	-	-	95	127
AGMSP shares sold <sup>2</sup>	3,702,000	313,539	10,929	247
Transfer of Reserved Shares related to vested AGMSP	-	-	-	494
30 June	(676,695)	(4,165,697)	\$ (1,266)	\$ (11,836)
<b>Net</b>	<b>352,680,588</b>	<b>346,691,832</b>	<b>\$ 130,570</b>	<b>\$ 118,329</b>

1. The Trustee sold all of the shares in the Austal Group Management Share Plan during the year. Further information is provided in Note 35.

2. 3,000,000 options exercised from AGMSP Plan 1 and 702,000 options exercised from AGMSP Plan 2.

#### 2. Recognition and measurement

##### Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of the new shares or options. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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

##### Reserved shares

Own equity instruments which are issued and held by a trustee under the Austal Group Management Share Plan (AGMSP) and the Employee Share Trust (EST) 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.

Further information relating to the AGMSP is provided in Note 35.



### 3. Movements in ordinary share capital

The movement in ordinary shares during year ended 30 June 2019 is comprised of shares issued as part of dividends declared and paid during the year.

The Group announced a FY2018 final dividend of 3 cents per share with an option for dividend reinvestment of \$1.98 per share on 28 September 2018, followed by a FY2019 interim dividend of 3 cents per share with an option for dividend reinvestment of \$2.20 per share, which was announced on 1 April 2019.

Austal established an Employee Share Trust (EST) during FY2018 for the purpose of acquiring, holding and transferring shares in connection with equity based remuneration established by the Company for the benefit of participants in those plans. Austal issued 212,998 shares to the trust during the year ended 30 June 2019.

The movement in ordinary shares also includes 1,374,196 options exercised from KM Engineering (NT) Pty Ltd (KME) and Hydraulink (NT) Pty Ltd Option Plan.

## II Reserves

The reserves are shown within the Consolidated Statement of Changes in Equity for the year ended 30 June 2019.

### 1. Foreign currency translation reserve [FCTR]

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

### 2. Employee benefits reserve

This reserve is used to:

- record the value of equity benefits provided to employees and Directors as part of their remuneration, and
- record the re-measurement of the retirement benefits liability.

Further information relating to share based payment plans for the Group is provided in Note 35.

### 3. Cash flow hedge reserve

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

### 4. Common control reserve

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

### 5. Asset revaluation reserve

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

### 6. Re-measurement reserve

This reserve is used to record re-measurement of defined benefit plan, comprising actuarial gains and losses.

## Note 14 Government grants relating to assets

### I Net carrying amount

	<b>2019</b>	<b>2018</b>
	<b>'000</b>	<b>'000</b>
<b>Deferred grant income</b>		
<b>Current</b>		
Infrastructure development	\$ (6,445)	\$ (8,903)
Total	<u>\$ (6,445)</u>	<u>\$ (8,903)</u>
<b>Non - Current</b>		
Infrastructure development	\$ (56,214)	\$ (58,050)
Total	<u>\$ (56,214)</u>	<u>\$ (58,050)</u>
<b>Total</b>	<u>\$ (62,659)</u>	<u>\$ (66,953)</u>

### Movements in Grants

<b>1 July</b>	\$ (66,953)	\$ (70,815)
Grants received during the year	\$ (1,482)	\$ (2,318)
Amortised to the profit and loss	9,270	8,662
Exchange rate adjustment	(3,494)	(2,482)
Net movement	<u>\$ 4,294</u>	<u>\$ 3,862</u>
<b>30 June</b>	<u>\$ (62,659)</u>	<u>\$ (66,953)</u>

### II Recognition and measurement

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

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

The fair value of grants related to expense items is recognised as income over the periods necessary to match the grants on a systematic basis to the costs that they are 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 15 Trade and other receivables

#### I Net carrying amount

	2019 '000	2018 '000
<b>Trade and other receivables</b>		
Trade amounts owing by unrelated entities	\$ 226,020	\$ 98,700
Allowance for doubtful debts	(752)	(1,351)
Total	<u>\$ 225,268</u>	<u>\$ 97,349</u>

#### II Recognition and measurement

Trade receivables represent receivables in respect of which the Group's right to consideration is unconditional subject only to the passage of time. Trade receivables are non-derivative financial assets accounted for in accordance with the Group's accounting policy for non-derivative financial assets as set out in AASB 9 Financial Instruments.

Trade and other receivables are measured at amortised cost. A gain or loss on trade and other financial assets that is subsequently measured at amortised cost is recognised in the Profit and Loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

The average credit period on trade receivables ranges from 30 to 75 days in most cases. In determining the recoverability of a trade receivable, the Group used the expected credit loss model as per AASB 9. The expected credit loss model requires the Group to account for expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets, meaning that a credit default does not need to have occurred before credit losses are recognised.

Further information relating to AASB 9 Financial Instruments is provided in Note 2.

#### III Ageing analysis of trade & other receivables

		Days outstanding				Impaired	Total
		0-30	31-60	61-90	90+		
<b>30 June 2019</b>	'000	\$ 195,680	\$ 23,462	\$ 1,111	\$ 5,767	\$ (752)	\$ 225,268
<b>30 June 2018</b>	'000	74,338	11,025	2,443	10,894	(1,351)	97,349

Past due is defined under AASB 9 to mean any amount outstanding for one or more days after the contractual due date. Past due amounts relate to a number of trade receivable balances where for various reasons the payment terms may not have been met. These receivables have been assessed to be fully recoverable.

#### IV Fair values of trade and other receivables

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

## Note 16 Vessel construction and support contracts in progress

### I Net carrying amount

	2019 '000	Restated <sup>1</sup> 2018 '000
<b>Work in Progress</b>		
Construction and support revenue recognised to date	\$ 11,297,883	\$ 9,468,076
less Progress payments received & receivable	(11,134,798)	(9,228,968)
Total due from customers	\$ 163,085	\$ 239,108
<b>Progress Payments Received in Advance</b>		
Construction and support revenue recognised to date	\$ 584,639	\$ 170,805
less Progress payments received & receivable	(705,041)	(224,564)
Total due to customers	\$ (120,402)	\$ (53,759)
<b>Total due from / (to) customers</b>	<b>\$ 42,683</b>	<b>\$ 185,349</b>

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further information is provided in Note 2.

### II Recognition and measurement

Construction and support work in progress represents the Group's right to consideration for services provided to customers for which the Group's right remains conditional upon something other than the passage of time.

Amounts are generally reclassified to trade receivables when contract performance obligations have been certified or invoiced to the customer.

Progress payments received in advance arise where payment is received prior to work being performed.

### III Significant accounting judgements and estimates

Further information relating to the details of estimates made regarding construction and support contracts is provided in Note 4.

## Note 17 Inventories and work in progress

### I Net carrying amount

	2019 '000	Restated <sup>1</sup> 2018 '000
<b>Inventories and work in progress</b>		
Work in progress	\$ 163,085	\$ 239,108
Other inventory	3,957	2,788
Total	<u>\$ 167,042</u>	<u>\$ 241,896</u>

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15. Further information is provided in Note 2.

### II Recognition and measurement

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

No inventories are expected to be realised more than 12 months after the reporting date.

Further information relating to work in progress is provided in Note 16.

## Note 18 Trade and other payables

### I Disclosure

	2019 '000	2018 '000
<b>Trade and other payables</b>		
Trade & other payables owed to unrelated entities <sup>1</sup>	\$ (202,308)	\$ (178,140)
Total	<u>\$ (202,308)</u>	<u>\$ (178,140)</u>

1. Trade payables are unsecured and non-interest bearing.

### II 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.

### III 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 19 Property, plant and equipment

#### I Net carrying amount

	Freehold Land & Buildings '000	Leasehold Improvements '000	Plant & Equipment '000	Capital WIP '000	Total '000
<b>Balance 30 June 2018</b>					
Gross carrying amount at fair value	\$ 440,455	\$ -	\$ -	\$ -	\$ 440,455
Gross carrying amount at cost	-	48,609	235,340	10,503	294,452
Accumulated Depreciation & Impairment	(25,639)	(19,990)	(123,500)	-	(169,129)
Net Carrying Amount	\$ 414,816	\$ 28,619	\$ 111,840	\$ 10,503	\$ 565,778
<b>Balance 30 June 2019</b>					
Gross carrying amount at fair value	\$ 463,085	\$ 3,254	\$ -	\$ -	\$ 466,339
Gross carrying amount at cost	-	67,646	260,743	3,238	331,627
Accumulated Depreciation & Impairment	(36,585)	(29,578)	(143,419)	-	(209,582)
Net Carrying Amount	\$ 426,500	\$ 41,322	\$ 117,324	\$ 3,238	\$ 588,384

#### II Reconciliation of movement for the year

	Freehold Land & Buildings '000	Leasehold Improvements '000	Plant & Equipment '000	Capital WIP '000	Total '000
<b>Balance 1 July 2017</b>	\$ 348,262	\$ 32,551	\$ 113,821	\$ 5,670	\$ 500,304
Additions	\$ 51	\$ 37	\$ 13,618	\$ 13,365	\$ 27,071
Transfer in / (out)	3,788	37	3,327	(7,152)	-
Transfer to intangibles	-	-	-	(1,612)	(1,612)
Disposals	-	(58)	(828)	-	(886)
Depreciation charge for the year	(10,100)	(6,978)	(18,634)	-	(35,712)
Impairment	-	-	(1,064)	-	(1,064)
Revaluation	61,176	2,110	-	-	63,286
Exchange Adjustment	11,639	920	1,600	232	14,391
Total	\$ 66,554	\$ (3,932)	\$ (1,981)	\$ 4,833	\$ 65,474
<b>Balance 30 June 2018</b>	\$ 414,816	\$ 28,619	\$ 111,840	\$ 10,503	\$ 565,778
Additions	\$ 709	\$ 55	\$ 5,485	\$ 34,544	\$ 40,793
Transfer in / (out)	569	19,591	21,997	(42,157)	-
Disposals	-	-	(3,934)	-	(3,934)
Depreciation charge for the year	(12,287)	(8,396)	(19,222)	-	(39,905)
Impairment	-	-	(1,200)	-	(1,200)
Revaluation	2,103	-	-	-	2,103
Exchange Adjustment	20,590	1,453	2,358	348	24,749
Total	\$ 11,684	\$ 12,703	\$ 5,484	\$ (7,265)	\$ 22,606
<b>Balance 30 June 2019</b>	\$ 426,500	\$ 41,322	\$ 117,324	\$ 3,238	\$ 588,384

### III Recognition and measurement

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

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

The carrying amount of land and building would be recognised as detailed in the table below if they were measured using the historic cost model.

	<b>2019</b>	<b>2018</b>
	<b>'000</b>	<b>'000</b>
<b>Land &amp; Buildings valued using cost model</b>		
Cost	\$ 429,832	\$ 371,442
Accumulated Depreciation & Impairment	(91,551)	(84,147)
Net Carrying Amount	<u>\$ 338,281</u>	<u>\$ 287,295</u>

Any revaluation surplus is recorded in Other Comprehensive Income and 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 Profit and Loss, in which case the increase is recognised in the Profit and Loss.

A revaluation deficit is recognised in the Profit and Loss 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. Any revaluation reserve relating to the particular asset being sold is transferred to retained earnings upon disposal.

### IV De-recognition and disposal

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

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

## V Key judgements and accounting estimates

### 1. Impairment of non-financial assets

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

Further information relating to impairment testing of non-current assets is provided in Note 21.

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate the carrying value of the asset may be impaired. The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset in assessing value in use.

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

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

Impairment losses on plant and equipment are recognised in the Profit and 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.

The key assumptions used to determine the recoverable amount for cash-generating units (CGU) are disclosed and further explained in Note 21.

### 2. Estimation of useful lives of assets

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

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

The following useful lives have been adopted as follows:

- Buildings – 20 to 40 years.
- Plant and Equipment – 2 to 10 years.
- Leasehold Improvements – term of lease.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted at the reporting date as appropriate.



### 3. Revaluation of land and buildings

The Company's land and buildings consist of shipyard facilities in Australia and USA. The Company determined that these constitute one class of asset under AASB 13, based on the nature, characteristics and risk of the property.

The valuation methodology utilised a market comparison approach based on highest and best use which is consistent with the Group's current use of the assets.

The independent revaluation is renewed every three to five years. The Company undertakes an assessment in the years in between obtaining independent valuations to ensure that the latest independent valuation remains appropriate and representative of fair value as at the reporting date.

The last independent revaluation of the Australian land and buildings occurred during FY2019. This resulted in an increase in the valuation of \$2.103 million.

The last independent revaluation of the USA land and buildings occurred during FY2018. This resulted in an increase in the valuation of \$63.286 million.

## Note 20 Intangible assets and goodwill

### I Net carrying amount

	Computer Software '000	Goodwill '000	Other Intangibles '000	Total '000
<b>Balance 1 July 2018</b>				
Cost	\$ 21,009	\$ 12,543	\$ 3,852	\$ 37,404
Accumulated Amortisation & Impairment	(16,542)	-	(50)	(16,592)
Net Carrying Amount	\$ 4,467	\$ 12,543	\$ 3,802	\$ 20,812
<b>Balance 30 June 2019</b>				
Cost	\$ 23,186	\$ 12,797	\$ 4,061	\$ 40,044
Accumulated Amortisation & Impairment	(18,930)	-	(371)	(19,301)
Net Carrying Amount	\$ 4,256	\$ 12,797	\$ 3,690	\$ 20,743

### II Reconciliation of movement for the year

	Computer Software '000	Goodwill '000	Other Intangibles '000	Total '000
<b>Balance 1 July 2017</b>				
	\$ 2,446	\$ 6,463	\$ -	\$ 8,909
Additions	\$ 1,826	-	-	\$ 1,826
Amortisation for the year	1,612	-	-	1,612
Disposals	(49)	-	-	(49)
Business Acquisition	-	6,019	3,807	9,826
Amortisation for the year	(1,548)	-	(48)	(1,596)
Exchange Adjustment	180	61	43	284
Total	\$ 2,021	\$ 6,080	\$ 3,802	\$ 11,903
<b>Balance 30 June 2018</b>				
	\$ 4,467	\$ 12,543	\$ 3,802	\$ 20,812
Additions	\$ 1,556	-	-	\$ 1,556
Disposals	(27)	-	-	(27)
Business Acquisition	-	(76)	-	(76)
Amortisation for the year	(1,987)	-	(314)	(2,301)
Exchange Adjustment	247	330	202	779
Total	\$ (211)	\$ 254	\$ (112)	\$ (69)
<b>Balance 30 June 2019</b>				
	\$ 4,256	\$ 12,797	\$ 3,690	\$ 20,743

### III Recognition and measurement

Intangible assets acquired separately are initially measured at cost and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against the Profit and 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 is reviewed at least once per financial year.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which results in 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:

#### 1. Computer software

Computer software is initially measured at cost and amortised on a straight-line basis over the estimated useful life of each asset. Impairment testing is conducted annually. Computer software is amortised on a straight-line basis over 2 to 5 years.

#### 2. Goodwill

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

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

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

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

## **Note 21    Impairment testing of non-current assets**

### **I    Review cycle**

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

### **II    Cash generating units (CGU)**

The recoverable amounts have been assessed at the CGU level as identified below:

- USA
- Australasia

### **III    Allocation of assets to CGU**

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

Goodwill, acquired through business combinations has been allocated to the following segments:

- USA - a carrying amount of \$6.080 million,
- Australasia - a carrying amount of \$6.463 million.

### **IV    Assessment of recoverable amounts**

The recoverable amounts for each CGU, excluding charter vessels that are assessed independently, have been determined based on value in use calculations using 5 year cash flow projections.

Key inputs into the cash flow projection include the volume and profitability of contracted and projected projects. Changes in these inputs may have an impact on the cash flow projections.

The Company concluded that the recoverable amount is greater than the carrying amount of assets and that no impairment charge is required as a result of this analysis.

## V Significant accounting judgement and estimates

### 1. Recoverable amount of the CGU

The following table sets out the key assumptions used to assess the recoverable amounts:

<u>CGU</u>	<u>USA</u>	<u>Australasia</u>
Growth assumptions	Award of projected vessels	Award of projected vessels
Perpetuity growth rate	0.0%	0.0%
Pre-tax discount factor	13.6%	11.6%
Inflation on costs	1.5%	2.5%

### 2. Growth assumptions

Growth assumptions are based on future vessel construction and service projects not yet awarded. The assumptions are based on historical experience of the size of the vessel that customers typically contract and the corresponding average tender pricing.

### 3. Perpetuity growth rate

Management has taken a conservative view and included a 0% perpetuity growth rate in calculation of the terminal value.

### 4. Pre-tax discount factor

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

### 5. Inflation on costs

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

### 6. Sensitivity to changes in assumptions

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

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

## Note 22 Investments and other financial assets

### I Net carrying amount

	<u>2019</u> <u>'000</u>	<u>2018</u> <u>'000</u>
<b>Other financial assets</b>		
Collateral <sup>1</sup>	\$ 11,313	\$ 10,000
Security deposits	546	160
Total	<u>\$ 11,859</u>	<u>\$ 10,160</u>

1. Austal USA has a legal obligation to provide cash collateral to ensure that workers' compensation claims will be paid if they are upheld.

### II Recognition and measurement

The Group classifies its financial assets in the following measurement categories:

- Financial Assets to be measured subsequently at fair value (either through Other Comprehensive Income, or through the Profit and Loss); and
- Financial Assets to be measured at amortised cost.

The Group measures a financial asset at initial recognition at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset in the case of a financial asset not measured at fair value through the Profit and Loss.

The Group subsequently measures derivative financial instruments at fair value. Gains and losses on derivative financial instruments that do not qualify for hedge accounting are recognised in the Profit and Loss for the period. The effective portion of any change in the fair value of a derivative financial instrument designated as a cash flow hedge is recognised in Other Comprehensive Income and presented in the Cash Flow Hedge Reserve in equity. Amounts recognised in equity are reclassified from reserves into the cost of the underlying transaction and recognised in the Profit and Loss when the underlying transaction affects the Profit and Loss. The ineffective portion of any change in the fair value of the instrument is recognised in the Profit and Loss immediately. Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the underlying asset or liability attributable to the hedge risk, and gains and losses on the derivative financial instrument, are recognised in the Profit and Loss for the period.

The Group subsequently measures trade and other receivables or contract receivables at amortised cost.

Collateral in the statement of financial position comprises cash at bank with an original maturity of 1 year or more. Collateral and security deposits are classified as receivables and measured at amortised cost.

### III Impairment

The Group applies the simplified approach permitted by AASB 9 for trade and other receivables, and contract receivables and amounts due from equity accounted investments, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

## Note 23 Other non-current assets

### I Net carrying amount

	2019 <u>'000</u>	2018 <u>'000</u>
<b>Research and development credits</b>		
<b>Recognised</b>		
USA	\$ 14,838	\$ 21,751
Total	<u>\$ 14,838</u>	<u>\$ 21,751</u>
<b>Unrecognised</b>		
Australia	\$ 7,037	\$ 6,702
USA	-	3,410
Total	<u>\$ 7,037</u>	<u>\$ 10,112</u>

### II Recognition and measurement

The Group recognised a non-current asset of \$14.838 million for research and development (R&D) credits at 30 June 2019.

### III Unrecognised R&D credits

A non-current asset has not been recognised in relation to \$7.037 million of carry forward R&D tax credits that have been generated in the Australian Consolidated Tax Group.

The Australian Consolidated Tax Group includes the Australian operating entities and the majority of the Group Corporate overhead which is reported within the Unallocated segment. The Australian Consolidated Tax Group generated a taxable loss in FY2019 and was deemed to have not met the recognition criteria for an asset.

## Other liabilities

### Note 24 Provisions

#### I Net carrying amount

	Employee Benefits '000	Workers' Compensation '000	Warranty '000	Other '000	Total '000
<b>Provisions at 30 June 2018</b>	\$ (49,249)	\$ (3,294)	\$ (11,422)	\$ (7,339)	\$ (71,304)
Arising during the year	\$ (115,581)	\$ (6,566)	\$ (9,408)	\$ (54,570)	\$ (186,125)
Utilised	109,502	6,292	11,654	45,219	172,667
Unused amounts reversed	4	-	64	320	388
Effects of foreign exchange	(2,060)	(157)	(164)	(257)	(2,638)
Movement	\$ (8,135)	\$ (431)	\$ 2,146	\$ (9,288)	\$ (15,708)
<b>Provisions at 30 June 2019</b>	<b>\$ (57,384)</b>	<b>\$ (3,725)</b>	<b>\$ (9,276)</b>	<b>\$ (16,627)</b>	<b>\$ (87,012)</b>

	Employee Benefits '000	Workers' Compensation '000	Warranty '000	Other '000	Total '000
<b>Provisions at 30 June 2018</b>					
Current	\$ (48,023)	\$ (3,294)	\$ (11,422)	\$ (7,019)	\$ (69,758)
Non-Current	(1,226)	-	-	(320)	(1,546)
Total	\$ (49,249)	\$ (3,294)	\$ (11,422)	\$ (7,339)	\$ (71,304)
<b>Provisions at 30 June 2019</b>					
Current	\$ (55,677)	\$ (3,725)	\$ (9,276)	\$ (16,627)	\$ (85,305)
Non-Current	(1,707)	-	-	-	(1,707)
Total	\$ (57,384)	\$ (3,725)	\$ (9,276)	\$ (16,627)	\$ (87,012)

#### II 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.



### III Information about individual provisions and significant accounting estimates

#### 1. Employee Benefits

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

The Group does not expect its long service leave and annual leave benefits provision to be settled wholly within 12 months of each reporting date. The Group recognises a liability for long service and annual leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### 2. 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.

#### 3. Warranties

A provision for warranty is made upon delivery of each vessel based on the estimated future costs of warranty repairs. The estimated future costs are based on the Group's history of warranty claims made on similar vessels within their warranty periods. The Company subsequently monitors the provision to ensure it is adequate for all known and an estimation for unknown warranty claims. Any increases or decreases in the provision are recognised in the Profit and Loss for the period.

#### 4. 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. An interim dividend of 3.0 cents per share was issued for the half year 31 December 2018 (FY2018 H1: 2.0 cents per share).

An unfranked dividend of 3.0 cents per share is proposed and not recognised as a liability for the year ended 30 June 2019 (FY2018 H2: 3.0 cents per share).

#### 5. Other provisions

The following concepts are included within Other provisions:

##### **Corporate investigations**

The Group is assisting ASIC and certain US Regulatory Authorities with their investigations. An \$11.031 million provision has been recorded based on the best estimate of the probable incremental professional services costs relating to this matter. The Group has had to apply significant judgement when considering whether, and how much, to provide for costs. The provision could change substantially over time as new facts emerge and the investigations progress as a result of the high level of estimation uncertainty.

The Group is not aware of any wrongdoing or all of the specific matters currently being investigated and accordingly no provision has been made for any penalties or damages that may arise from the investigations. Further information is provided in Note 29.

### Onerous contract loss provisions

Loss provisions are established when it is probable that a contract may be deemed onerous. An onerous contract arises when estimated total contract costs will exceed estimated total contract revenue, in which case the estimated loss must be immediately recognised in the Profit and Loss.

Other provisions at 30 June 2019 includes a \$(3.244) million loss provision for the Cape Class Patrol Boat In Service Support Contract (CCPB ISS) with the Australian Border Force (ABF) which was deemed to be onerous at 30 June 2017.

The contract contains options to extend in one-year increments up to 2031 and was extended for one year during FY2019 to 1 August 2020. The ABF has an option to extend the contract in unspecified increments up to a total duration of 11 years from 1 August 2020. A loss provision for an extension period beyond 1 August 2020 has not been recognised.

## Financial risk management

### Note 25 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect 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>Monitoring</b>	<b>Management</b>
Market risk - interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Sustainable gearing levels through business cycles
Market risk - interest rate	Cash, trade receivables and derivative financial instruments	Sensitivity analysis	Excess cash investment within high interest deposit accounts
Market risk - foreign currency	Future commercial transactions, recognised financial assets and liabilities not denominated in the functional currency	Cash flow forecast, Sensitivity analysis	Forward foreign exchange contracts, forward currency options
Credit risk	Cash, short term deposits, trade receivables and derivative financial instruments	Ageing analysis, credit ratings	Monitoring credit allowances
Liquidity	Borrowings, trade payables and derivative financial instruments	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

### Objectives and policy

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

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

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

#### I Market risk

Market risk is the risk that changes in interest rates and foreign exchange rates will affect the Group's earnings, cash flows and carrying values of its financial statements.

##### 1. Interest rate risk exposure

###### Source of risk

The Austal Group is exposed to interest rate risk from changes in interest rates on its outstanding borrowings, derivative instruments and investments from the possibility that changes in interest rate risk will affect future cash flows or the fair value of financial instruments.

## Risk mitigation

The cash, debt and bank covenants of the Group are monitored and re-forecasted on a monthly basis in order to monitor interest rate risk. A variable interest rate policy is maintained to ensure repayments are carried out as soon as practicable, where fixed interest rates are less flexible. Consideration is given to potential renewal of existing positions and alternative financing structures.

## Exposure

The Group had the following exposures to interest rate risk at the end of the reporting period:

	<b>2019</b>	<b>2018</b>
	<b>'000</b>	<b>'000</b>
<b>Financial Assets</b>		
Cash & Cash Equivalents	\$ 275,665	\$ 162,024
Derivative Contracts	2,189	2,685
Total	<u>\$ 277,854</u>	<u>\$ 164,709</u>
<b>Financial Liabilities</b>		
Interest Bearing Liabilities	\$ (137,658)	\$ (130,553)
Derivative Contracts	(16,544)	(11,903)
Total	<u>\$ (154,202)</u>	<u>\$ (142,456)</u>
<b>Net Exposure</b>	<u>\$ 123,652</u>	<u>\$ 22,253</u>

## Sensitivity

Profit and Loss is sensitive to higher or lower interest income from cash and cash equivalents and interest expenses on borrowings as a result of changes in interest rates. There would be no material impact on other components of Equity as a result of changes in interest rates.

The following table demonstrates the sensitivity to a reasonable change in interest rates to the Profit and Loss after tax. 50 basis points was deemed to be a reasonable level of volatility based on FY2019 observations.

	<b>2019</b>	<b>2018</b>
	<b>'000</b>	<b>'000</b>
<b>Post tax gain / (loss)</b>		
<b>AUD</b>		
+0.50% (50 basis points)	\$ 483	\$ 84
-0.50% (50 basis points)	(483)	(84)

The sensitivity analysis assumes that the change in interest rates is effective from the beginning of the financial year and the balances are constant over the year.

## 2. Foreign currency risk

### Source of risk

The Group is exposed to currency risk on sales, purchases or components for construction that are denominated in a currency other than the respective functional currencies of the Group entities, primarily Australian Dollars (AUD) for the Australian operation and US Dollars (USD) for the USA, Philippines and Vietnam operations. The Group is also exposed to foreign exchange movements (primarily in USD) on the translation of the earnings, assets and liabilities of its foreign operations.

The Group's transactions are primarily denominated in AUD, USD and EUR.

### Risk mitigation

The Group's objective is to minimise the risk of a variation in the rate of foreign exchange used to convert foreign currency revenues and expenses and assets or liabilities to the functional currency of each CGU by utilising the following techniques:

- negotiation of contracts to adjust for adverse exchange rate movements.
- using natural hedges.
- using financial instruments, such as foreign currency exchange contracts and swaps.

## Exposure

The Group's financial assets and liabilities exposed to foreign currency risk at 30 June 2019 were as follows:

	All values are stated in AUD equivalent				
	AUD '000	USD <sup>1</sup> '000	EUR <sup>2</sup> '000	Other '000	Total '000
<b>Balance 30 June 2019</b>					
<b>Financial assets</b>					
Cash and cash equivalents	\$ -	\$ 33,634	\$ 31	\$ 1,537	\$ 35,202
Trade and other receivables				84	84
Derivatives	1,044	362	784	-	2,190
<b>Total</b>	<b>\$ 1,044</b>	<b>\$ 33,996</b>	<b>\$ 815</b>	<b>\$ 1,621</b>	<b>\$ 37,476</b>
<b>Financial liabilities</b>					
Trade and other payables	\$ -	\$ (23)	\$ (20)	\$ (1,756)	\$ (1,799)
Derivatives	(4,982)	(11,560)	(1)	-	(16,543)
<b>Total</b>	<b>\$ (4,982)</b>	<b>\$ (11,583)</b>	<b>\$ (21)</b>	<b>\$ (1,756)</b>	<b>\$ (18,342)</b>

	All values are stated in AUD equivalent				
	AUD '000	USD <sup>1</sup> '000	EUR <sup>2</sup> '000	Other '000	Total '000
<b>Balance 30 June 2018</b>					
<b>Financial assets</b>					
Cash and cash equivalents	\$ 123	\$ 8,287	\$ 4,460	\$ 2,216	\$ 15,086
Trade and other receivables	-	41	385	1,276	1,702
Derivatives	39	1,274	1,372	-	2,685
<b>Total</b>	<b>\$ 162</b>	<b>\$ 9,602</b>	<b>\$ 6,217</b>	<b>\$ 3,492</b>	<b>\$ 19,473</b>
<b>Financial liabilities</b>					
Trade and other payables	\$ (381)	\$ (407)	\$ (2,513)	\$ (538)	\$ (3,839)
Derivatives	(8,009)	(3,894)	-	-	(11,903)
<b>Total</b>	<b>\$ (8,390)</b>	<b>\$ (4,301)</b>	<b>\$ (2,513)</b>	<b>\$ (538)</b>	<b>\$ (15,742)</b>

1. Spot USD / AUD rate at 30 June 2019 was 0.7020 (30 June 2018: 0.7402)

2. Spot EUR / AUD rate at 30 June 2019 was 0.6183 (30 June 2018: 0.6339)

## Sensitivity

A 10 per cent strengthening of the Australian Dollar against the following currencies would have increased / (decreased) net profit after tax and equity below at balance date with all other variables held constant as illustrated:

	NPAT higher / (lower)		Equity higher / (lower)	
	2019 '000	2018 '000	2019 '000	2018 '000
<b>Judgement of reasonable possible movements</b>				
EUR	\$ (34)	\$ (259)	\$ (8,731)	\$ 18,046
USD	(1,567)	(371)	(40,762)	(39,734)

A 10 per cent weakening of the Australian Dollar would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis of all other variable held constant.

The foreign currency translation of USD denominated net assets would have significantly affected the equity at the reporting date. The Group had US\$550.3 million of USD denominated net assets at 30 June 2019 (US\$478.3 million at 30 June 2018).

## Summary of forward foreign exchange contracts

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

	2019				2018			
	Buy		Sell		Buy		Sell	
	Average Forward Rate	AUD Equivalent '000	Average Forward Rate	AUD Equivalent '000	Average Forward Rate	AUD Equivalent '000	Average Forward Rate	AUD Equivalent '000
<b>USD</b>		Buy USD		(Sell USD)		Buy USD		(Sell USD)
less than 3 months	0.7223	\$ 20,664	0.7201	\$ (29,540)	-	\$ -	0.7521	\$ (3,655)
3 - 12 months	0.7444	33,246	0.7372	(112,610)	0.7954	36,366	0.7714	(36,931)
> 12 months	0.7209	15,542	0.7309	(172,221)	0.7864	23,285	0.7697	(99,552)
Total		<u>\$ 69,451</u>		<u>\$ (314,371)</u>		<u>\$ 59,651</u>		<u>\$ (140,138)</u>
<b>EUR</b>		Buy EUR		(Sell EUR)		Buy EUR		(Sell EUR)
less than 3 months	0.6109	\$ 13,197	0.6312	\$ (15,088)	0.6239	\$ 2,951	-	\$ -
3 - 12 months	0.6066	50,021	0.6271	(86,661)	0.6011	21,878	0.6389	(146,398)
> 12 months	0.5852	134,971	0.6135	(32,166)	0.6111	74,331	0.6251	(133,001)
Total		<u>\$ 198,189</u>		<u>\$ (133,915)</u>		<u>\$ 99,160</u>		<u>\$ (279,400)</u>
<b>SEK</b>		Buy SEK		(Sell SEK)		Buy SEK		(Sell SEK)
less than 3 months	6.0278	\$ 151		\$ -	6.3149	\$ 479	-	\$ -
3 - 12 months	6.0693	10,729		-	6.1595	828	-	-
> 12 months	6.3123	287		-	6.0054	15,032	-	-
Total		<u>\$ 11,167</u>		<u>\$ -</u>		<u>\$ 16,338</u>		<u>\$ -</u>
<b>GBP</b>		Buy GBP		(Sell GBP)		Buy GBP		(Sell GBP)
less than 3 months		\$ -		\$ -	-	\$ -	-	\$ -
3 - 12 months	0.5340	4,790		-	0.5910	380	-	-
> 12 months	0.5356	3,214		-	0.5659	823	-	-
Total		<u>\$ 8,004</u>		<u>\$ -</u>		<u>\$ 1,203</u>		<u>\$ -</u>



## II Credit risk

Credit risk is the risk of financial loss to the Group as a result of customers or counterparties to financial assets failing to meet their contractual obligations.

### 1. Source of risk

The Group is exposed to counterparty credit risk from trade and other receivables and financial instrument contracts that are outstanding at the reporting date.

### 2. Risk mitigation

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

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

The Group's policy is to minimise the risk that the principle amount will not be recovered and the risk that funds will not be available when required whilst at the same time obtaining the maximum return relative to the risk. The Group's policy is to restrict its investment of surplus cash funds to financial institutions with a Standard and Poor's credit rating of at least A-2, and for a period not exceeding 3 months to manage this risk. The Group is able to undertake investments in short term deposits to achieve this objective.

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

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

The Group's exposure to counterparty credit default risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, is equal to the carrying amount of these instruments. The maximum exposure to credit risk at the reporting date is disclosed in Note 15.

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

### III Liquidity risk

Liquidity risk is the risk that the Group is not able to refinance its debt obligation or meet other cash outflow obligations when required.

This is the risk that the Group is not able to refinance its debt obligation or meet other cash outflow obligations when required.

#### 1. Source of risk:

Exposure to liquidity risk derives from the Group's operations and from the external interest bearing liabilities that it holds.

#### 2. Risk mitigation:

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

The Group's policy is to continually review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

Critical assumptions include input costs, project pipeline, exchange rates and capital expenditure.

The Group aims to hold a minimum liquidity buffer of at least \$75 million between cash on hand and undrawn non-current committed funding to meet any unforeseen cash flow requirements.

Further information relating to the Group's committed finance facilities, including the maturity dates of these facilities, is provided in Note 10 and Note 11.

### 3. Exposure

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

	Years to maturity			Total <sup>1</sup> '000
	0 - 1 '000	1 - 5 '000	> 5 '000	
<b>Balance 30 June 2019</b>				
<b>Derivative financial assets / (liabilities)</b>				
Outflow	\$ (292,059)	\$ (222,028)	\$ (1,305)	\$ (515,392)
Inflow	284,793	208,320	1,121	494,234
Net derivative financial assets / (liabilities)	\$ (7,266)	\$ (13,708)	\$ (184)	\$ (21,158)
<b>Non Derivative financial liabilities</b>				
Trade & other payables	\$ (202,308)	\$ -	\$ -	\$ (202,308)
Go Zone Bond facility	-	(122,287)	-	(122,287)
Finance leases	(2,413)	(257)	-	(2,670)
Vessel finance for Cape Class Patrol Boats 9 & 10 <sup>2</sup>	(43,032)	(5,766)	-	(48,798)
Total	\$ (247,753)	\$ (128,310)	\$ -	\$ (376,063)
<b>Balance 30 June 2018</b>				
<b>Derivative financial assets / (liabilities)</b>				
Outflow	\$ (199,457)	\$ (245,749)	\$ -	\$ (445,206)
Inflow	197,026	241,033	-	438,059
Net derivative financial assets / (liabilities)	\$ (2,431)	\$ (4,716)	\$ -	\$ (7,147)
<b>Non Derivative financial liabilities</b>				
Trade & other payables	\$ (178,140)	\$ -	\$ -	\$ (178,140)
Go Zone Bond facility	(61,723)	(60,888)	-	(122,611)
Finance leases	(2,699)	(2,834)	-	(5,533)
Vessel finance for Cape Class Patrol Boats 9 & 10 <sup>2</sup>	(8,336)	(48,798)	-	(57,134)
Total	\$ (250,898)	\$ (112,520)	\$ -	\$ (363,418)

1. Contractual cash flows include interest

2. Contractual cashflows are equal to the residual value of the vessels. Further information is provided in Note 11.

The Group had \$50.000 million (FY2018: \$50.000 million) of unused cash loan credit facilities available for immediate use at the reporting date and \$275.665 million (FY2018: \$162.024 million) in cash and cash equivalents, which can be used to meet its liquidity needs.

#### **IV 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 the International Swaps and Derivatives Associations (ISDA) master netting agreement. All outstanding transactions under an ISDA agreement are terminated in certain circumstances, for example, when a credit event such as a default occurs. The termination value is assessed and only a single net amount is payable in settlement of all transactions.

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

#### **Note 26 Derivatives and hedging**

##### **I Cash flow hedges**

The effective portion of any change in the fair value of a derivative financial instrument designated as a hedge of cash flows relating to a highly probable forecast transaction (income or expense) is recognised in Other Comprehensive Income and presented in the Cash Flow Hedge Reserve in equity. The ineffective portion of any change in the fair value of the instrument is recognised in the Profit and Loss immediately.

##### **II Fair value hedges**

Where a derivative financial instrument is designated as a fair value hedge, changes in the fair value of the underlying asset or liability attributable to the hedged risk, and gains and losses on the derivative instrument, are recognised in the Profit and Loss for the period.

##### **III Fair value through profit and loss**

Gains and losses on derivative financial instruments that do not qualify for hedge accounting are recognised in the Profit and Loss for the period.

##### **IV Financial liabilities**

Loans, overdrafts, and trade and other payables are measured at amortised cost, except where fair value hedge accounting is applied.

## Note 27 Fair value measurements

### I Fair value

The value of the Group's financial assets and liabilities is calculated using the following techniques depending on the type of financial instrument as follows:

- The fair value of financial assets and financial liabilities traded in active markets is the quoted market price at the reporting date.
- The fair value of forward exchange contracts is calculated using discounted cash flows, reflecting the credit risk of various counterparties. Future cash flows are calculated based on the contract rate, observable forward interest rates and foreign exchange rates. Adjustments for the currency basis are made at the end of the reporting period.
- The nominal value less expected credit losses of trade receivables and payables are assumed to approximate their fair values due to their short term maturity.

#### 1. Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

	Level 1 '000	Level 2 '000	Level 3 '000	Total '000
<b>Balance 30 June 2019</b>				
<b>Financial assets</b>				
Derivatives	\$ -	\$ 2,190	\$ -	\$ 2,190
<b>Financial liabilities</b>				
Derivatives	\$ -	\$ (16,544)	\$ -	\$ (16,544)
<b>Balance 30 June 2018</b>				
<b>Financial assets</b>				
Derivatives	\$ -	\$ 2,685	\$ -	\$ 2,685
<b>Financial liabilities</b>				
Derivatives	\$ -	\$ (11,903)	\$ -	\$ (11,903)

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

#### 2. Fair value of financial assets and liabilities carried at amortised cost

Cash and cash equivalents, trade and other receivables, and trade and other payables are carried at amortised cost which equals their fair value.

Interest bearing liabilities are carried at amortised cost and have a carrying value of \$173.754 million (2018: \$185.278 million). Further information is provided in Note 11.

The fair value of the interest bearing financial liabilities at 30 June 2019 was \$(14.355) million based on the level 2 valuation methodology (2018: \$(9.218) million).

## Unrecognised items

### Note 28 Commitments and contingencies

	2019 '000	2018 '000
<b>Operating lease commitments</b>		
<b>Future minimum rentals payable under non-cancellable leases as at 30 June were as follows</b>		
Within one year	\$ (3,610)	\$ (4,176)
After one year but not more than five years	(4,164)	(4,567)
More than five years	(3,887)	(3,857)
Total	<u>\$ (11,661)</u>	<u>\$ (12,600)</u>
<b>Capital commitments</b>		
Other Capital Equipment	\$ (1,496)	\$ (1,470)
Total	<u>\$ (1,496)</u>	<u>\$ (1,470)</u>
<b>Guarantees</b>		
Bank performance guarantees <sup>1</sup>	\$ (58,900)	\$ (102,359)
Sureties	(126,263)	-
Total	<u>\$ (185,163)</u>	<u>\$ (102,359)</u>

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

## I Commitments

### 1. Operating lease commitments

AASB 16 Leases will be effective in reporting periods commencing 1 July 2019 onwards requiring lessees to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Further information relating to AASB 16 is provided in Note 2.

### 2. Guarantees

Austal has a Syndicated Facility Agreement which includes a \$180.000 million revolving credit facility. The entire revolving credit facility can be used for non-financial contingent instruments, up to \$50.000 million of any unused part of the facility can be used for cash advances and up to \$20.000 million of any unused part of the facility can be used for financial contingent instruments.

Austal had \$150.000 million of uncommitted and unsecured Surety facilities for the issuance of non-financial contingent instruments to support commercial vessel contracts at 30 June 2019.

Bank performance guarantees and Sureties are issued to support concepts such as refund payment guarantees, performance bonds and warranty bonds. The Group had \$(185.163) million of issued guarantees at 30 June 2019 (FY2018: \$(102.359) million).

Further information relating to interest bearing loans and borrowings is provided in Note 11.

## II Contingencies

The Group occasionally receives claims and writs for damages and other matters arising from its operations in the course of its normal business.

The Group entities may also have potential financial liabilities that could arise from historical commercial contracts. No material losses are anticipated in respect of any of those contingencies.

A specific provision is made where it is deemed appropriate in the opinion of the directors, otherwise the directors deem such matters are either without merit or of such kind or involve such amounts that would not have a material adverse effect on the operating results or financial position of the economic entity if disposed of unfavourably.

The Directors are not aware of any other material contingent liabilities in existence as at 30 June 2019 requiring disclosure in the financial statements.

### Note 29 Corporate investigations

In January 2019, ASIC advised the Company that it had opened a preliminary investigation into certain market disclosures in late CY2015 and mid CY2016.

In particular, ASIC advised that it is investigating the calculation of earnings over the period from FY2009-FY2016 and whether the Company placed too much emphasis on the additional construction costs required to meet design and build requirements to withstand shock, when other factors had a greater impact.

As also announced in January 2019, US regulatory authorities have also commenced a separate but related investigation into a number of areas of the Group's US operations including the procurement of certain ship components for use in connection with US Government contracts, charging and allocation of labor hours, and the write-back of work-in-progress that was announced by the Company to the ASX on 4 July 2016. Some of these issues have been the subject of previous investigations and audits by US Defense audit authorities, with no adverse findings against the Group. Investigations in the USA were initially commenced by the Office of the Inspector General of the Department of Defense (US Defense Department). Since that investigation was opened, the Company has been contacted by the US Securities Exchange Commission to request a standstill agreement in contemplation of a preliminary investigation into the Company's activities in the USA.

ASIC has not provided any further detail regarding the matters being investigated since the Company's announcements to the ASX in January 2019.

Pursuant to compulsory document production notices issued by or on behalf of ASIC and US regulators, the Group has provided ASIC and the US Defense Department with a variety of financial and operational documents and associated information relating to the areas of investigation described above. There has been some disagreement between the Company and ASIC as to the application of legal privilege to certain documents and those issues are likely to be determined by the Federal Court in the second half of CY2019.

The Group rejects any assertion of wrongdoing but will continue to cooperate with government agencies in Australia and the USA to provide further details, documents and information as required. The Group is unable to predict what action, if any, might be taken in the future as a result of these matters or how long they may take to resolve. Depending on the outcome of the investigations, authorities in Australia or the USA may in future elect to pursue formal proceedings against Group companies or some of its officers. While the Group is not aware of any wrongdoing or all of the specific matters currently being investigated, it is possible that those proceedings could lead to civil or criminal penalties, damages, and / or suspension or debarment from future US Government contracts, which could have a material adverse effect on its consolidated financial position, results of operations, or cash flows. However the Company notes that the investigation has not impacted Austal's relationship with its principal customer in the USA and in fact, the Group has been awarded more work for the US Navy in FY2019, including new orders for 4 Littoral Combat Ships in the second half of the CY2018.

A provision has been recorded in relation to the estimated costs of supporting the investigation. Further information is provided in Note 24.

## **Note 30**    **Events after the balance date**

### **I**    **Dividend proposed**

An unfranked final dividend of 3 cents per share has been proposed (FY2018 final: unfranked, 3 cents).

### **II**    **Surety Limit Extension**

An additional \$100.000 million Surety facility was established in July 2019 for the issuance of non-financial contingent instruments to support commercial vessel contracts.

Austal now has total unsecured Surety facilities of \$250.000 million at August 2019.

### **III**    **CCPB 9 & 10 Vessel Contract Extension**

RAN, NAB and Austal executed agreements on 16 August 2019 to extend the vessel finance contracts to April 2023 and May 2023. The contract extension reduces the total residual value to \$24.335 million at the end of the 2 year term and changes the classification to non-current interest bearing loans and borrowing. Further information is provided in Note 11.



## The Group, management and related parties

### Note 31 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	Equity Interest	
		2019	2018
Austal Ships Pty Ltd	Australia	100%	100%
Austal Cyprus Ltd	Cyprus	100%	100%
Austal Egypt LLC	Egypt	100%	100%
Austal Muscat LLC	Oman	100%	100%
Austal Service Pty Ltd	Australia	100%	100%
Austal Service Darwin Pty Ltd	Australia	100%	100%
Hydraulink (NT) Pty Ltd	Australia	100%	100%
KM Engineering (NT) Pty Ltd	Australia	100%	100%
Austal Systems Pty Ltd	Australia	100%	100%
Austal UK Ltd	United Kingdom	100%	100%
Austal Holdings Vietnam Pty Ltd	Australia	100%	100%
Austal Viet Nam Co Ltd	Vietnam	100%	100%
Austal Holdings Inc	USA	100%	100%
Austal USA LLC	USA	100%	100%
Austal USA Service LLC	USA	100%	100%
ElectraWatch Inc	USA	100%	100%
Austal Philippines Pty Ltd	Australia	100%	100%
Austal Middle East Pty Ltd	Australia	100%	100%
Austal Holdings China Pty Ltd	Australia	100%	100%
Oceanfast Luxury Yachts Pty Ltd	Australia	100%	100%
Oceanfast Pty Ltd	Australia	100%	100%
Seastate Pty Ltd	Australia	100%	100%

### I Investment in joint venture

	2019 '000	2018 '000
<b>Investment In Joint Venture</b>		
Investment in Aulong Shipbuilding Co Ltd Joint Venture	\$ 1,729	\$ 1,804
Total	\$ 1,729	\$ 1,804
	2019 '000	2018 '000
<b>Share of profit of joint venture</b>		
Share of profit / (loss) of joint venture	\$ -	\$ (266)
Total	\$ -	\$ (266)

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

The Aulong joint venture is currently in the start-up phase of its operations. The Board have taken this into account and considered it appropriate to hold the carrying amount of the investment constant until Aulong declares dividends or displays any signs of impairment, at which time the carrying amount will be adjusted accordingly.

No dividends or impairments have occurred during FY2019 and therefore the Profit and Loss recognised is \$0.000 million (FY2018: \$(0.266) million).

## Note 32 Related party disclosures

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

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

## Note 33 Business combination

### I Consideration transferred

Austal USA LLC acquired 100% interest of ElectraWatch Inc, a United States based non-destructive aluminium testing technology company on 1 May 2018.

	2019 <u>'000</u>	2018 <u>'000</u>
Cash	\$ -	\$ 9,013
Total purchase consideration	<u>\$ -</u>	<u>\$ 9,013</u>

### II Assets acquired and liabilities assumed at the date of acquisition

Acquisition-related costs amounting to \$0.239 million have been excluded from the consideration transferred and have been recognised as an expense in the Profit and Loss, within the 'Other expenses' line item.

	2019 <u>'000</u>	2018 <u>'000</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ -	\$ 66
Trade receivables <sup>1</sup>	-	100
Other current assets	-	2
<b>Non-current assets</b>		
Intangible assets	\$ -	\$ 3,807
<b>Total Assets</b>	<u>\$ -</u>	<u>\$ 3,975</u>
<b>Non-current liabilities</b>		
Other long-term liabilities	\$ -	\$ (7)
<b>Total Liabilities</b>	<u>\$ -</u>	<u>\$ (7)</u>
<b>Net Assets</b>	<u>\$ -</u>	<u>\$ 3,968</u>

1. Trade receivable acquired with a gross contractual amount of \$0.100 million was collected prior to year-end.

### III Goodwill arising on acquisition

The goodwill is attributable mainly to the patent technology of ElectraWatch and the synergies expected to be achieved from integrating the company into Austal USA's advanced ship manufacturing. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

	<b>2019</b> <b>'000</b>	<b>2018</b> <b>'000</b>
Consideration transferred	\$ -	\$ 9,013
Less: fair value of identifiable net assets acquired	-	(3,968)
Establish deferred tax liability on other intangible assets	-	974
Goodwill arising on acquisition	<u>\$ -</u>	<u>\$ 6,019</u>

### IV Net cash flow arising on acquisition

	<b>2019</b> <b>'000</b>	<b>2018</b> <b>'000</b>
Consideration paid in cash	\$ -	\$ 9,013
Less: cash and cash equivalent balances acquired	-	(66)
Net cash outflow arising on acquisition	<u>\$ -</u>	<u>\$ 8,947</u>

### V Impact of acquisition on the results of the Group

ElectraWatch contributed \$0.047 million to the Profit and Loss for the 2 months from 1 May 2018 to 30 June 2018. The profit of the Group for FY2018 would have increased by \$0.323 million if ElectraWatch had been acquired on 1 July 2017.

### Note 34 KMP compensation

	<b>2019</b> <b>'000</b>	<b>2018</b> <b>'000</b>
Short-term employee benefits	\$ 4,700	\$ 4,528
Post-employment benefits	174	161
Termination benefits	-	-
Long term benefits	36	35
Share-based payments	3,087	664
Total	<u>\$ 7,997</u>	<u>\$ 5,388</u>

Detailed remuneration disclosures are provided in the Remuneration Report commencing on page 31.

## Note 35 Share based payments

### I Performance rights

The following changes in performance rights took place during the year:

Grant	Balance at 30 June 2018	Issued	Vested	Forfeited / Lapsed	Balance at 30 June 2019	Expiry date
FY2016	759,212	-	-	(759,212)	-	30 Jun 2018
FY2017	3,032,442	-	(3,032,442)	-	-	30 Jun 2019
FY2018	2,363,476	-	-	-	2,363,476	30 Jun 2020
FY2019	-	2,656,839	-	-	2,656,839	30 Jun 2021
Total	<u>6,155,130</u>	<u>2,656,839</u>	<u>(3,032,442)</u>	<u>(759,212)</u>	<u>5,020,315</u>	

The Board has the discretion to decide if Performance Rights will lapse or vest.

### II Acquisition Options

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

- 687,098 of zero priced options as part of the equity consideration. The number of options was adjusted based on EBIT targets for the 3 years post acquisition. 343,549 options were exercised on 4 July 2018 and the remaining 343,549 options were exercised on 11 September 2018.
- 687,098 options to acquire shares as an executive incentive to the owners who remained employed as managers. The number of options was adjusted based on EBIT targets for the 3 years post acquisition. The options were exercised at \$1.41 per share on 20 March 2019.

The total options of 1,374,196 were exercised during the year. No additional options exist at the reporting date.

### III Austal Group Management Share Plans (AGMSP)

The trustee held a total of 3,702,000 shares at 30 June 2018 on behalf of the AGMSP plans.

The trustee sold all of the shares from AGMSP plans during the year.

There were no shares in AGMSP plans remaining at 30 June 2019.

#### IV CEO fixed remuneration share rights issue

The structure of fixed remuneration for the CEO, David Singleton, for FY2019 was:

- Cash remuneration equal to 70% of Total Fixed Remuneration (TFR); and
- Share based remuneration equal to 30% of TFR.

30% of the CEO's fixed remuneration was provided in share rights which are subject to a 12 month holding period from the date at which the share rights are released to the CEO and no performance conditions exist because it is considered to be part of his base remuneration. 159,095 share rights were earned during FY2019. The number of share rights are based upon the volume weighted average closing price of Austal Limited shares in the last 5 trading days of each month.

#### V Recognition - equity settled transactions

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

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

- The Long Term Incentive Plan (LTI Plan),
- CEO share rights,
- CFO share rights,
- NED share rights.

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

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

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

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. An expense is recognised as if the terms had not been modified. An expense is also recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

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

Shares in the Group held by the Employee Share Trust (EST) are classified and disclosed as Reserved Shares and deducted from equity in the Statement of Changes in Equity. Further information relating to Reserved Shares is provided in Note 13.

## VI Recognised share-based payment expenses

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

	2019 '000	2018 '000
<b>Share Based Payments Expense</b>		
Expense arising from equity-settled share-based payment transactions	\$ (5,975)	\$ (1,617)

## Note 36 Parent entity information

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

	2019 '000	2018 '000
<b>Balance sheet</b>		
<b>Assets</b>		
Current	\$ 82,655	\$ 22,051
Non - Current	310,903	312,779
Total	<u>\$ 393,558</u>	<u>\$ 334,830</u>
<b>Liabilities</b>		
Current	\$ (7,434)	\$ (4,981)
Non - Current	(18,641)	(19,173)
Total	<u>\$ (26,075)</u>	<u>\$ (24,154)</u>
<b>Net Assets</b>	<u>\$ 367,483</u>	<u>\$ 310,676</u>
<b>Equity</b>		
Contributed equity	\$ 130,570	\$ 118,329
Employee benefits reserve	8,498	3,977
Asset revaluation reserve	12,128	10,656
Cash flow hedge reserve	64	29
Retained earnings	216,223	177,685
Total	<u>\$ 367,483</u>	<u>\$ 310,676</u>
<b>Income</b>		
Net Profit / (Loss) after tax	\$ 59,359	\$ (6,712)
Total Comprehensive Income	60,866	(6,530)

Austal Limited provides parent company guarantees in respect of contract performance by various members of the Austal Group including Austal USA LLC, Austal Ships Pty Ltd, Austal Philippines Pty Ltd and Austal Holdings Vietnam Pty Ltd.

## Directors' declaration

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

In the opinion of the Directors:

- The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
- Giving a true and fair view of the consolidated entity's financial position at 30 June 2019 and of its performance for the year ended on that date; and
- Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- The financial Statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

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

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2019.



John Rothwell AO

Chairman

on behalf of the Board

29 August 2019

# Independent audit report to the members of Austal Limited



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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## Independent Auditor's Report to the members of Austal Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Austal Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



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

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Revenue recognition</b></p> <p>As disclosed in Note 4, construction revenues are recognised over time as performance obligations are fulfilled over time.</p> <p>Construction revenue requires management judgement due to the number and type of estimation events over the course of a contract life, the unique nature of individual contract terms leading to complex and judgemental revenue recognition from contracts, including the:</p> <ul style="list-style-type: none"> <li>• Determination of stage of completion and measurement of progress towards satisfaction of performance obligations;</li> <li>• Estimation of total contract revenue and costs including the estimation of cost contingencies;</li> <li>• Determination of contractual entitlement and assessment of the probability of customer approval of variations and acceptance of claims; and</li> <li>• Estimation of project completion date.</li> </ul>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Evaluating the design and operating effectiveness of processes and controls in respect of the underlying project costs and the recognition of revenue from contracts respectively, including: <ul style="list-style-type: none"> <li>○ The contract acceptance process; and</li> <li>○ The preparation, review and authorisation of monthly project reports for all significant contracts.</li> </ul> </li> <li>• On sample basis, testing contracts for delay and other risks, contract percentage of completion, appropriateness of contingencies, history of contract issues, significant unapproved variations or claims;</li> <li>• Reading relevant agreements to understand the key terms and conditions, and confirming our understanding of the agreement terms with management;</li> </ul>

	<ul style="list-style-type: none"> <li>• Assessing the accuracy of the forecast costs to complete based on: <ul style="list-style-type: none"> <li>○ The costs incurred to date;</li> <li>○ Historical budgeting accuracy;</li> <li>○ Physical inspection of key vessels using our internal engineering specialists;</li> <li>○ Inquiry of key project managers and executives; and</li> <li>○ Review of correspondence with customers.</li> </ul> </li> <li>• Evaluating changes in profit margin on material contracts from prior periods; and</li> <li>• Assessing variations and claims including review of correspondence with customers concerning the merits and status of those variations and claims.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Note 4 to the financial statements.</p>
<p><b>Taxation</b></p> <p>The Group's geographic operations resulted in an income tax expense totalling \$24.2 million across two main jurisdictions, being the USA and Australia for the year ended 30 June 2019.</p> <p>As at 30 June 2019 the carrying value of deferred tax assets recognised in relation to the Group's USA Research and Development (R&amp;D) credits was \$14.8 million (refer Note 23), whilst unused tax losses in Australia for which no deferred tax assets have been recognised equated to \$12.5 million.</p> <p>In addition, the Group continue to pay additional tax in relation to intercompany royalties between the USA and Australia (refer Note 9).</p>	<p>Our audit procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Engaging our tax specialists to assess the Group's tax-related balances and the underlying assumptions and calculations including, evaluating the available R&amp;D credits and utilisation profile;</li> <li>• Evaluating the latest Board approved budget with management's forecast of future assessable profits and testing on a sample basis the forecast model for mathematical accuracy;</li> <li>• Assessing the independence, competence and objectivity of the Group's tax advisors and evaluating correspondence between the Group and those advisors; and</li> <li>• Testing the underlying accuracy of the tax effect calculations.</li> </ul>

<p>Significant judgement is required to assess:</p> <ul style="list-style-type: none"> <li>• The extent to which R&amp;D credits will be utilised;</li> <li>• The recoverability of carry forward tax losses and the extent to which tax losses will be utilised; and</li> <li>• The remaining uncertainty in relation to the outcome of the Group's objection to the Australian Tax Office (ATO) audit position with respect to the royalties.</li> </ul>	<p>We also assessed the appropriateness of the disclosures in Note 9 and Note 23 to the financial statements.</p>
<p><b>Provisions</b></p> <p>As disclosed in Note 24, the Group recognised a provision of \$11.0 million as at 30 June 2019 for the probable incremental professional services costs ("costs") relating to the matters set out in Note 29.</p> <p>The Group had to apply significant judgement when considering whether and how much to provide for costs. As a result of the high level of estimation uncertainty the provision could change substantially over time as new facts emerge and the investigations progress.</p> <p>We focused on this area given the judgement necessary to determine the appropriate amount to be provided.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• Discussing the potential costs with in-house legal counsel, other management and the directors;</li> <li>• Challenging the assumptions and the basis for the provision; and</li> <li>• Where possible, corroborating the assumptions to external sources and input from the Group's professional advisors.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Note 24 to the financial statements.</p>

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Report**

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on the Remuneration Report**

#### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 31 to 58 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Austal Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

#### *Responsibilities*

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.



**Deloitte Touche Tohmatsu**



**Tim Richards**

Partner

Chartered Accountants

Perth, 29 August 2018

# Shareholder information

The following information was extracted from the Company's share register at 30 June 2019:

## Distribution of shares

<b>Individual shareholding</b>	<b>Number of shares</b>	<b>% of Total issued capital</b>	<b>Number of holders</b>
1 - 1000	744,733	0.21%	1,746
1,001 - 5,000	5,121,807	1.45%	1,896
5,001 - 10,000	5,622,535	1.59%	740
10,001 - 100,000	17,795,907	5.04%	714
100,001 and over	324,072,301	91.71%	56
<b>Total</b>	<b>353,357,283</b>	<b>100.00%</b>	<b>5,152</b>

## Twenty largest shareholders

<b>Rank</b>	<b>Shareholder</b>	<b>Number of shares</b>	<b>% of Total issued capital</b>	<b>Substantial shareholder</b>
1	HSBC Custody Nominees (Australia) Limited	102,053,614	28.88%	Yes
2	J P Morgan Nominees Australia Limited	66,448,809	18.80%	Yes
3	Citicorp Nominees Pty Ltd	43,587,357	12.34%	Yes
4	National Nominees Limited	33,144,484	9.38%	Yes
5	Austro Pty Ltd	32,307,692	9.14%	Yes
6	BNP Paribas Nominees Pty Ltd	13,502,497	3.82%	
7	Onyx (WA) Pty Ltd	6,600,000	1.87%	
8	Mr William Robert Chambers	3,100,000	0.88%	
9	BNP Paribas Noms Pty Ltd	3,049,314	0.86%	
10	AMP Life Limited	2,682,848	0.76%	
11	Mr Garry Heys & Mrs Dorothy Heys	2,044,670	0.58%	
12	Mossisberg Pty Ltd	1,650,000	0.47%	
13	CS Third Nominees Pty Limited	1,526,675	0.43%	
14	Kenny Nominees (NT) Pty Ltd	1,207,881	0.34%	
15	Lavinia Shipping Limited	1,141,000	0.32%	
16	ACE Property Holdings Pty Ltd	900,000	0.25%	
17	UBS Nominees Pty Ltd	813,051	0.23%	
18	Gregory McKechnie	687,098	0.19%	
19	Neweconomy Com Au Nomnees	669,302	0.19%	
20	Upora Pty Ltd	537,999	0.15%	
	<b>Total</b>	<b>317,654,291</b>	<b>89.88%</b>	

## Voting rights

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

# Corporate governance statement and ESG Report

The Company has elected to post its Corporate Governance Statement and on its website in accordance with ASX Listing Rule 4.10.3 along with its Environmental, Social and Governance Report (ESG Report). The Corporate Governance Statement and ESG Report can be found at the following URL: [www.austal.com/corporategovernance](http://www.austal.com/corporategovernance).

## Corporate directory

### Directors

#### Non-Executive Directors

Mr John Rothwell  
Mr Giles Everist  
Mrs Sarah Adam-Gedge  
Mr Chris Indermaur

#### Executive Directors

Mr David Singleton

### Auditor

Deloitte Touche Tohmatsu  
Brookfield Place, Tower 2  
123 St Georges Terrace  
Perth 6000  
Australia

### Company Secretary

Mr Adrian Strang

### Registered office

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Telephone: +61 8 9410 1111

### Share registry

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