Austal Limited
Annual Report
2018

AUSTAL
RELENTLESS DETERMINATION

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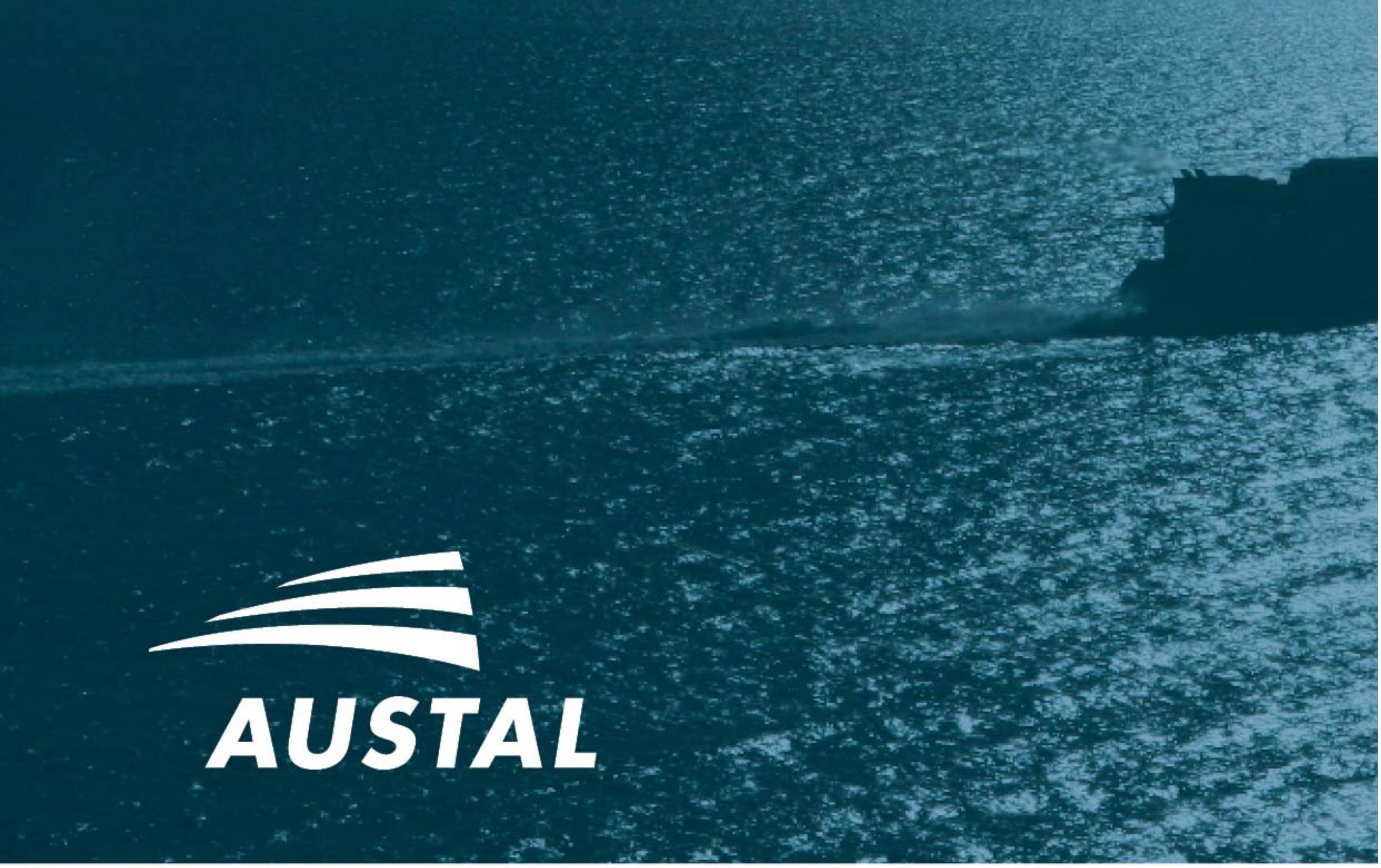
Company Overview

Austal is the world's largest aluminium shipbuilder, leading the international market for high speed craft.

As a global defence prime contractor and marine technology partner of choice, we design, build and sustain advanced commercial and defence vessels.

Celebrating 30 years of success in 2018, Austal has had orders of over **300** commercial and defence vessels for more than **100** operators in **54** countries.



2018 HIGHLIGHTS

$1.39B
Revenue

~$3.0B
Order Book

17
New ships ordered

47
Ships scheduled or under construction

5
Ships delivered

5 SHIPYARDS

3 Service Centres

32 Vessels under sustainment and refurbishment

5,250
Employees

Leader in High Speed Vessel Design and Construction

In the commercial vessel market, Austal is a leader in aluminium high speed craft having delivered more than 160 passenger and vehicle passenger ferries varying from 30 to 130 metres in length.

Austal's innovative designs (featuring monohull, catamaran and trimaran hulls) and efficient, modular manufacturing processes continue to attract operators seeking customised, quality transport solutions that are delivered on time and on budget.

There are ferries...and then there are *ferries*. The 126m *Benchijigua Express* high speed trimaran shown next to a Sydney Harbour ferry.

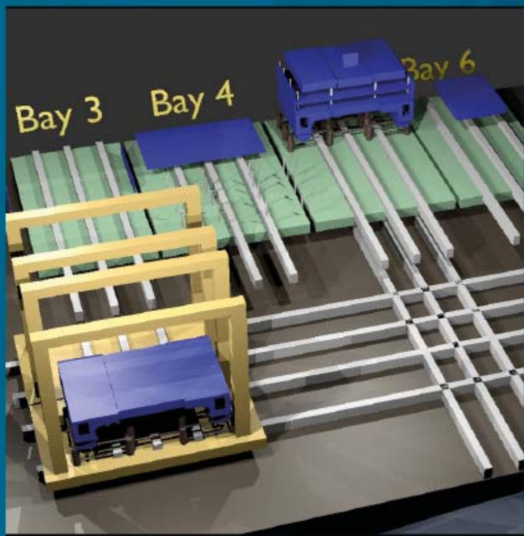
Innovation in Maritime Technology

Austal continues to invest in new technology develoment to enhance ship performance and management.

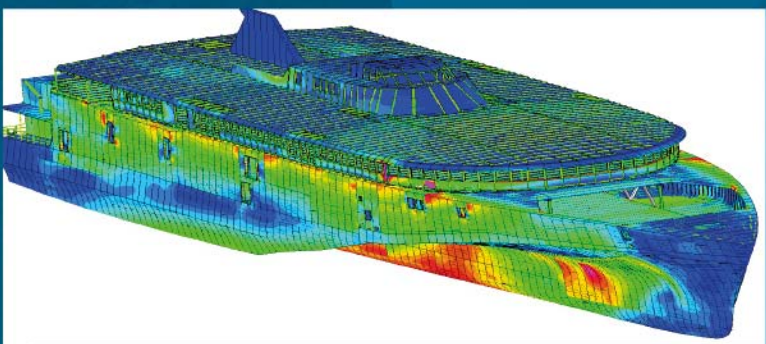
Applying advances in technology to deliver ships that are more efficient, more available and more capable will drive company growth in the Commercial and Defence markets.

Research and development is currently focused on supporting technology areas such as unmanned systems, smart ships, advanced computing, hull-forms, propulsion systems and lighter materials.

Sea-state sensing trials



New build strategy visualisation



Trimaran hull form, unique Austal technology

MARINELINK-Smart

30 Years of Austal

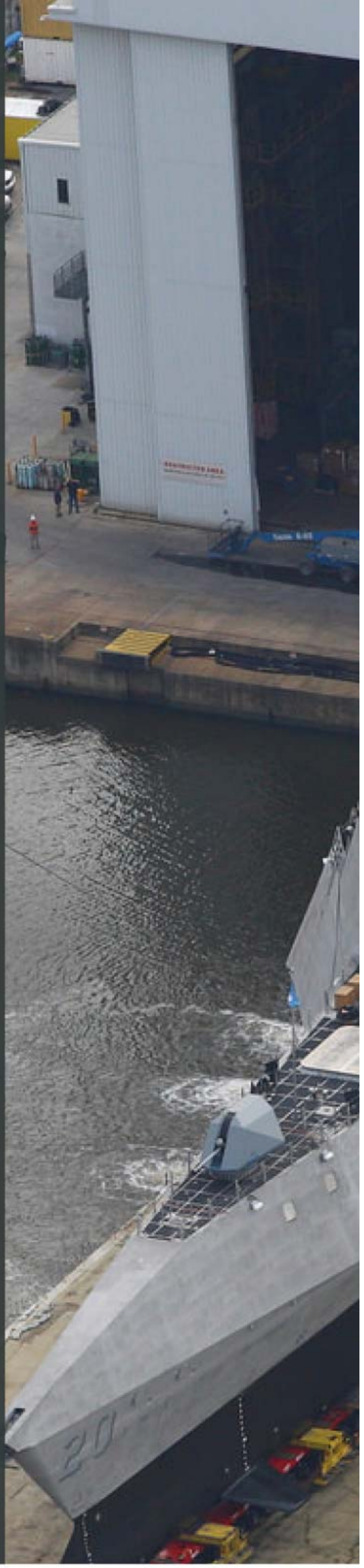
Exporting around the world for three decades.

From its humble beginnings in the late 1980s as a builder of small aluminium boats through to its current status as a truly international shipbuilder and defence prime contractor, Austal is a genuine Australian success story.

Few within the shipbuilding industry could have envisaged just how successful Austal would be in taking its product to the world. In 30 years building and exporting ships, Austal-built vessels have been delivered to the world's leading operators around the world.

1988

Austal's first delivery 'Spoil Sport' seen in the assembly bay at the company's initial facility at Egmont Road in Henderson, Western Australia in 1988

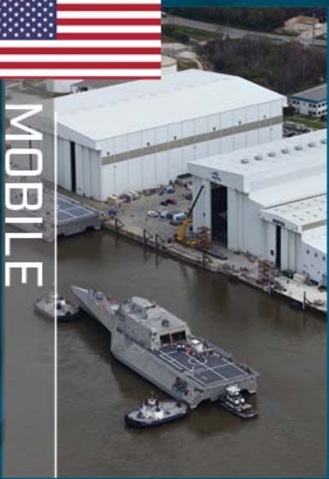


2018

USS Cincinnati (LCS-20) roll-out at Austal's shipyard in Mobile, Alabama in May 2018

Shipyards

MOBILE



AUSTAL

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

5th

5th Largest shipyard in the USA

Largest employer in Mobile, Alabama

FFG(X)

One of only 5 shipbuilders selected by the US Government to develop a Guided Missile Frigate FFG(X) Concept Design

HENDERSON

Molslinjen High Speed Ferry

28%

Improvement in **production efficiency** compared to CY2017

3.4x

Increase in design resources in FY2018

1100

Suppliers Australia-wide

NAVAL BASE

21

Guardian Class Patrol Boats (GCPBs)

New steel construction facility for Pacific Patrol Boat Replacement Program

13

Pacific Island Nations

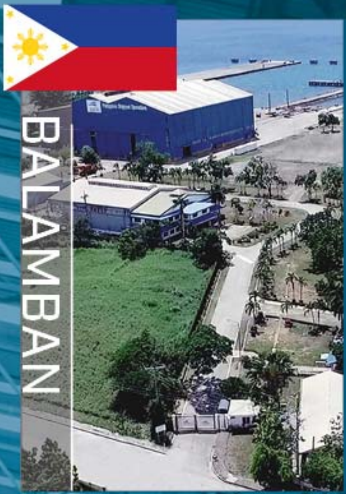
The first GCPB was launched in May 2018.

GCPB Sustainment 2018-2023

Cairns

New Cairns office and support centre opened in CY2017 to service GCPBs

BALAMBAN



3x

2018 shipbuilding capacity when shipyard expansion complete in 2019

500

Workers in 2018

1000

Estimated by 2020

15 vessels delivered to **8** customers worldwide since **2012**

VUNG TAU

Vung Tau

New Austal Vietnam shipyard announced for providing additional shipbuilding capacity to meet growing international order book

New hull assembly bay due for completion in January 2019 is 92m long, 30m high and 55m wide

72

Workers in 2018

650

Estimated by 2020

AULONG

53

Austal vessels delivered to China since 1990

In 2018 we continue this history as the Aulong - Austal Joint Venture, recognising the strong demand in the Chinese fast ferry market.

6

Vessels in build in CY2018

1

42 metre catamaran delivered in FY2018

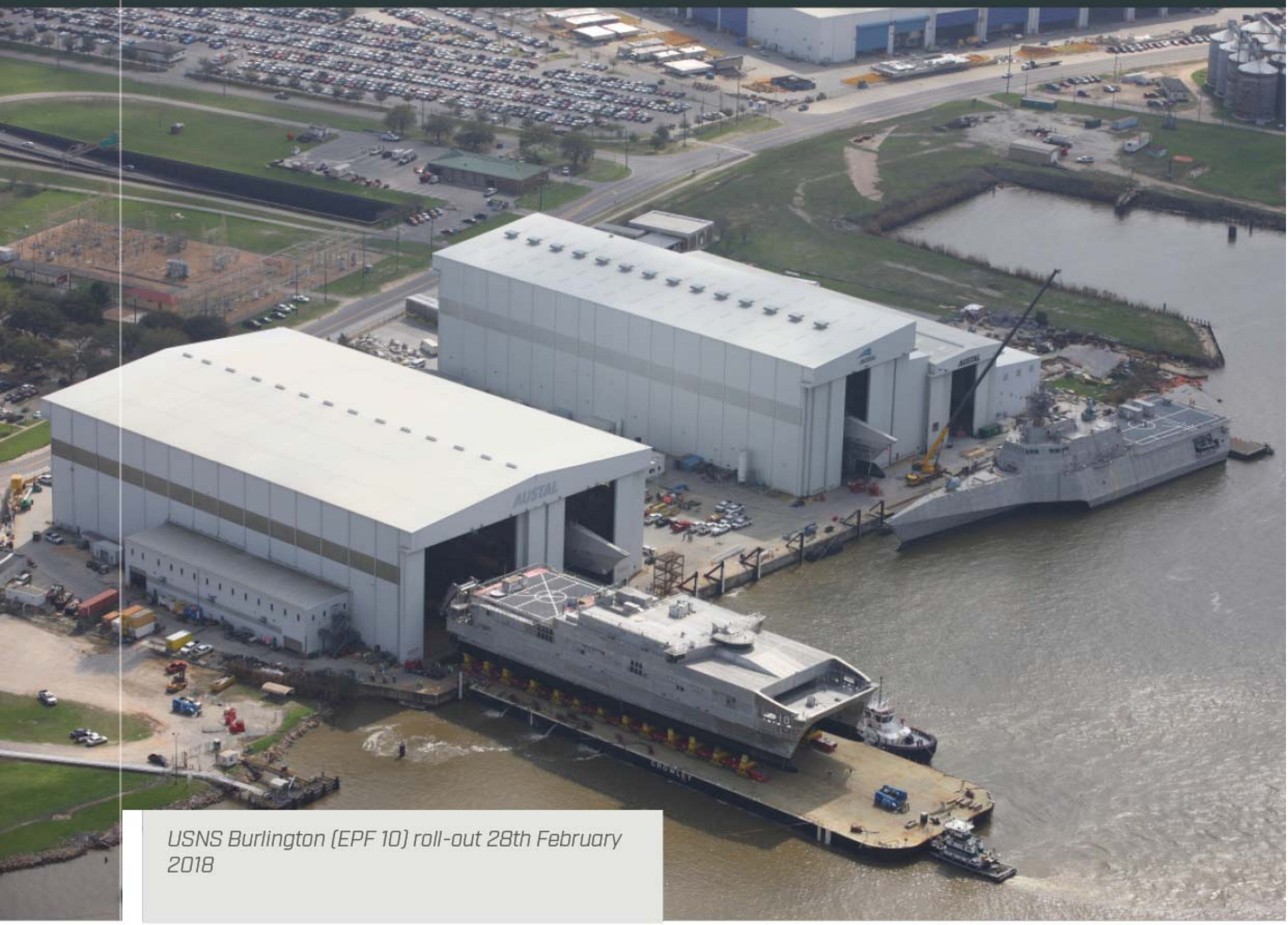
Ships in Build

DEFENCE

Littoral Combat Ship (LCS)
US Navy
LCS 12 Commissioned
LCS 14 Delivered
LCS 16 Delivered
LCS 18, 20 Launched
LCS 22, 24, 26, 28 Under Construction

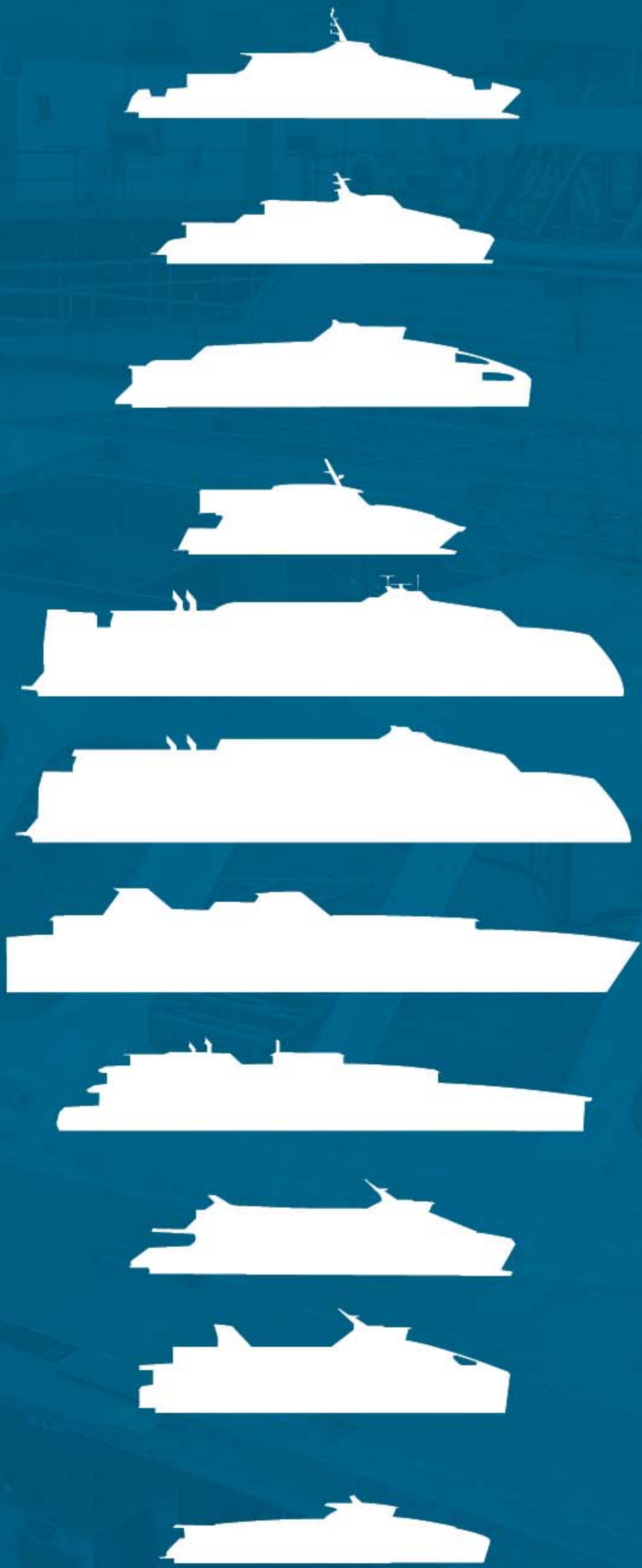
Expeditionary Fast Transport (EPF)
US Navy
EPF 9 Delivered
EPF 10 Launched
EPF 11, 12 Under Construction

Guardian Class Patrol Boat (GCPB)
Commonwealth of Australia
GCPB 1 Launched
GCPB 2-4 Under Construction
GCPB 5-21 Scheduled



USNS Burlington (EPF 10) roll-out 28th February 2018

COMMERCIAL



50m Passenger Ferry
Seaspovill
Hull 416 Delivered

42m Passenger Ferry
Blue Sea Jet
Hull 880 Delivered
1 x Scheduled

56m Passenger Ferry
FRS Helgoline
Hull 418 Delivered

30m Passenger Ferry
VS Ferries Corporation
Hull 420 Launched

109m Passenger and Vehicle Ferry
Molslinjen
Hull 393 Under construction

109m Passenger and Vehicle Ferry
Fjord Line
Hull 419 Under construction

117m Passenger and Vehicle Ferry
Fred Olsen S.A
Hull 394 Scheduled
Hull 395 Scheduled

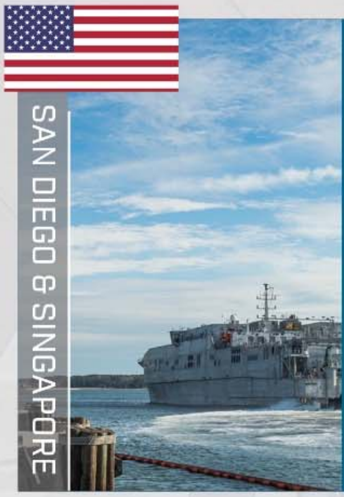
83m Passenger Ferry
JR Kyushu Jet Ferry
Hull 396 Scheduled

50m Passenger Ferry
Braveline
Hull 680 Under Construction
Hull 681 Scheduled

49m Passenger Ferry
SNC Aremiti
Hull 421 Scheduled

42m Passenger Ferry
Xidao Dazhou Tourism Co Ltd
5 x Scheduled

Sustainment



$134m

Turnover LCS and EPF support contracts FY2018

$75m

Turnover support contracts FY2018

Sustainment & Refurbishment

Cape Class Patrol Boat	10
Armidale Class Patrol Boat	6
Littoral Combat Ship	7
Expeditionary Fast Transport	9

100+

Active MARINELINK installations on in-service vessels in FY2018

Business Priorities in 2019

Develop **US market**

EPF Variant | FFG[X]

Complete **Philippines expansion** and **Vietnam set up**

Group wide **cost efficiency**

Harness productivity gains across business

Continued investment in **product development**

Auto Express 94 & 109 and MARINELINK-Smart

Chairman's report

Financial Year Highlights

- Austal's 30th Year.
- Littoral Combat Ship (LCS) program now stable and reliable.
- Growth of a potentially multi decade ship support business.
- Growing workforce of over 5000 highly committed people.

It is my pleasure to present to shareholders the 2018 Annual Report on behalf of the Board of Austal Limited in the year that we have celebrated the 30th birthday of the company.

In particular the board is pleased that Austal's FY2018 Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) and Net Profit After Tax (NPAT) are some of the better results posted by the Company in those 30 years. FY2018 EBITDA of $102.319 million was 32.8 per cent higher than the FY2017 result and was the second time that it has reached the $100 million mark. The Company's NPAT of $39.028 million was 25.6 per cent higher than the prior corresponding period.

We have maintained momentum right across the business in FY2018 with significant operational improvements; achieved stronger financial results; and progressed our strategic milestones.

This progress, has been built on the order book and production efficiency achievements of the last couple of years and points to a cycle of development that Austal should benefit from over the next few years.

Our FY2018 financial result was primarily driven by our US shipbuilding activities on relatively stable US revenue of $1.163 billion. The major part of our business both operationally and financially is in the United States of America, which is focused on two shipbuilding programs for the US Navy, the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF). We are now well into these programs and therefore the significant risk during the start-up of a new vessel class of this magnitude is now largely behind us. Operational performance has continued to improve to a point where we now have good, consistent and highly predictable production with ever increasing levels of efficiency. The US management team has done a superb job driving this operational performance, in delivering the financial results and in maintaining a healthy and productive relationship with the US Navy.

Less obvious to the external observer are the efforts that have gone in to developing our service and support business, which will create a long term revenue stream maintaining the vessels that we have built. It takes around three years to build a ship but maintenance of the vessel will last for up to another 25 years and as our delivered vessel numbers grow inexorably so does the potential for service and support revenue growth. We need to be close to our customer to maintain a high quality of support and so we have undertaken a major expansion of our maintenance centre for the LCS in San Diego where the LCS vessels are home ported.

For the future, the utility of both of the vessel classes that we produce in the USA is becoming clearer, with new variants of the EPF being discussed in addition to the development program for the FFG(X) frigate.

Austal CEO David Singleton, began to inform the market of a resurgence in our core high speed ferry market in early 2016. This market continued to gather momentum through last year and is delivering construction opportunities and contracts in advance of our previous expectations.

Our analysis of international ferry fleet renewal requirements plus route expansions indicates a favourable outlook for civil ferry construction for several years to come at least. In response, we have implemented a major expansion of our Asian-based shipbuilding facilities which will increase our capacity in the region fourfold.

This increase includes the tripling of our capacity in the Philippines, where we have been building high speed catamarans since 2012. Not only has capacity increased, but this yard will be able to build the biggest vessels currently planned at Austal at costs which are internationally competitive. In addition, we have committed to new purpose built, leased, facilities in Vietnam and are nearly two years into our joint venture in China to build high speed aluminium vessels for that market. This new capacity, combined with our existing facilities in Henderson Western Australia, will collectively deliver the 30 non-USA ships in our order book out to 2023.

Whilst our quality and delivery performance from Asia and Australia has been exemplary, our financial performance in these two regions has yet to reflect those operational benchmarks. However, we now believe that the volume of work coupled with the margins the work has been priced at will enable a significant turnaround over the next year and will therefore add to the financial performance of our US operations.

Not everything has gone to plan, and certainly the loss of the Royal Australian Navy's Offshore Patrol Vessel contract was a disappointment in a year of many achievements. We certainly gave this project our best shot having teamed with a vessel design that we were told was acceptable to the Navy.

We were surprised at the outcome given that our tender price was lower than the winning tender, a product of our construction efficiency, and lament the impact it will have on Australia's sovereign shipbuilding capability which appears to have been ceded largely to foreign companies.

Nonetheless, Austal never gives up, and the bounce back in orders and performance is testament to that. Whilst one door has closed, others have opened.

Board and Executive Management.

We received the resignation of Jim McDowell as a non-executive director of Austal Limited in early August 2018. Jim joined the Board more than three years ago, but has recently taken up a role as the Chief Executive of the Department of Premier and Cabinet for the Government of South Australia. Jim has had to retire from all of his non-executive positions as a result. I am pleased to report that the Board has recommended Chris Indermaur for the vacant role and he will be offered up for election by the shareholders at the AGM in October. Chris trained as both an engineer and lawyer and in addition, brings a wealth of strategic skills to the Board as we drive the future expansion of the company.

The executive management team has stayed virtually unchanged over the last year, which provides a stable base to achieve our long term goals. Collectively the CEO and the Executive Leadership Team is continuing to implement our strategic plan and deliver against our key operational objectives.

People

I wish to thank and acknowledge the efforts and achievements of our hard working people, employed in five separate shipyards and four service centres across the globe. Our company's achievements over the last 30 years is outstanding and testament to the determination that our people are renowned for. My sincere thanks to you all in the many countries that we are represented around the world, whether you are a 20 plus year veteran or a new starter.

John Rothwell AO

Chairman

Chief Executive Officer's report

Financial Year Highlights

- Austal USA delivery and financial performance ahead of expectations.
- New orders for LCS with more funded in the US 2018 Defense budget.
- Commercial Order book success a precursor to future financial performance.
- Investment in facility expansion in Australia, Philippines and Vietnam.

The 2018 financial year has featured significant improvements in a number of key areas of our business which will not only hold us in good stead for the next few years but will shape the nature of our business for many years to come.

Financially, it was a strong year for the business, with Austal delivering a near-record NPAT of $39.028 million driven by the strong performance of our US shipyard. There were some disappointments however, primarily around our Australian defence business, in particular the awarding of the Offshore Patrol Vessel (OPV) program to an overseas competitor.

That program, whilst not overly large financially, would have created a strong and stable base for our people and operations in Henderson, Western Australia.

Out of adversity however, new opportunities can emerge and we are continuing to see Austal's commercial shipbuilding business benefiting from a renewed focus as we develop new advanced vessels, develop exciting technologies and as a result work with high quality customers.

Our service and sustainment business also continues to build, growing with the number of military vessels delivered into service in recent years, with a long pipeline of more vessels to come. Whilst a ship may be built over a couple of years, sustainment can provide solid income for the group for the next quarter of a century.

Defence

The standout achievement in this financial year has been our defence business in the USA, which has emerged in great shape from what was a challenging period. The almost inevitable, first-in-class issues on both vessel programs we are building for the US Navy are now behind us, with Austal now into the efficient production and delivery of LCS and EPF. Production, quality and safety performance in the shipyard in Alabama has been exemplary and provides a firm base for years to come as efficiency continually improves demonstrated by the 30 per cent improvement on the LCS program to date. This focus on construction efficiency will continue to define the nature of this operation.

We continued to progress well on the Guardian Patrol Boat Program which is being constructed in Australia and gifted by the Commonwealth of Australia to Pacific island nations. This program was extended from 19 to 21 ships in FY2018, bringing its total value to $335 million for shipbuilding and associated in-service support. The program is now entering full scale production, with the first Guardian Class Patrol Boat, GCPB 1, launched in May 2018 and construction on GCPB 4 started in June 2018.

Commercial

The improved efficiency and margin performance in the USA is also reflected in our commercial operations, where our highly differentiated position and the 30 years of building our intellectual property has led us to a record $444 million commercial order book. For the first time last year our order book for large vessels included 3 commercial trimarans.

This is a vessel type developed by Austal to provide better passenger comfort in rough seas and is an area where Austal is uniquely placed as the only designer and builder of the complex vessel for the high speed ferry industry.

In addition to the record order book, our continuing confidence in the vessel pipeline has driven expansion of build capacity across our operations. We took the decision this year to triple the size of our operations in the Philippines and invest in infrastructure that would enable the yard to build the very largest commercial vessels we bid for. This comes on top of an expansion of our Henderson Operations with a dedicated facility for the construction of the steel Guardian Patrol Boats.

We also announced a major expansion into new, purpose built, leased facilities in Vietnam to further expand our commercial capacity post year end. We chose this site because of the availability of a largely Austal trained management team and significant local expertise and expect employment levels to be in the hundreds by the end of the next financial year. We have also seen our joint venture company in China, Aulong, establish itself by completing its first vessel delivery to an Austal design, and add a further five vessels to its order book.

Strategy

The key to Austal is to understand its differentiated position against the vast number of shipbuilders around the globe. Austal remains the largest aluminium shipbuilder in the world and the leading builder of large high-speed vessels in that market. Aluminium's key characteristic is significantly lower weight which translates into faster and more efficient vessels at a time when travel around the world continues to develop, as witnessed by the unrelenting growth of the commercial aircraft industry.

Achieving maximum performance from aluminium ships requires highly optimised designs to a level not normally seen in steel ships, meaning Austal also employs some of the best marine designers and engineers in the industry.

Austal has the largest vessel design capability in Australia as well as a major centre in the United States and smaller but growing capabilities in the Philippines and Vietnam. This capability, integrated with our extensive shipbuilding capacity and 30 years of experience is what makes Austal the company it is today.

Austal is one of only two designers and builders of large high-speed catamarans and the only builder of aluminium trimarans in the world, a technology developed at Austal's home base in Henderson.

We will continue to invest significantly in new vessel types and technologies to ensure that the performance edge we have today continues into the future. All of this has contributed to an order book of 47 ships with deliveries out to 2023, 14 of which are currently in construction and 5 ships delivered during the financial year.

Defence and border protection vessels provide Austal with the ability to use those leading design and technology systems to provide efficient vessel construction; superior ride control and to equip vessels with greater payloads, optionality and/or firepower compared to rival designs.

Outlook

The stable vessel programs in the USA coupled with the inevitable growth of our sustainment business, as more vessels are delivered, is now bringing a much greater level of predictability to our earnings, which will continue, we believe, over the next few years. It is a fundamental aim of the business to achieve this whilst continuing our successful development of the commercial business which, by its nature is less predictable. However, barring any external shocks, we believe that the commercial high-speed vessel industry, in which Austal is well positioned, will remain strong for several more years. This will create significant opportunities to grow throughput and earnings across the Group.

David Singleton

Managing Director and Chief Executive Officer

Review of operations

Group financial results

- Total revenue for the year increased by 6.2 per cent to $1,391.977 million in FY2018.
- FY2018 earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 32.8 per cent to $102.319 million compared to $77.060 million in FY2017.
- Austal reported a net profit after tax (NPAT) of $39.028 million in FY2018 compared to $15.350 million in FY2017.

	2018 '000	2017 '000
Revenue from customers	$ 1,391,672	$ 1,308,603
EBITDA[1]	$ 102,319	$ 77,060
Depreciation	$ (35,712)	$ (30,379)
Amortisation	(1,596)	(1,143)
EBIT[2]	$ 65,011	$ 45,538
Finance income	$ 305	$ 1,525
Finance cost	(8,532)	(7,198)
Profit / (loss) before income tax	$ 56,784	$ 39,865
Income tax benefit / (expense)	$ (17,756)	$ (24,515)
Profit / (loss) after tax	$ 39,028	$ 15,350
% EBIT[2] / Revenue	4.7%	3.5%
Basic earnings per share ($ per share)	$ 0.113	$ 0.044
Net assets	$ 548,960	$ 456,914

1. Earnings before interest, tax, depreciation and amortisation (EBITDA).
2. Earnings before interest and tax (EBIT).

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

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

US operations

Year ended 30 June	2018 $'000	2017 $'000
Revenue	$ 1,162,624	$ 1,172,066
EBIT	82,977	76,061
EBIT Margin	7.1%	6.5%

USA EBIT of $82.977 million represented further year on year improvement in profitability.

This significant increase was a result of continuing improvements being delivered in the Littoral Combat Ship (LCS) vessel program headlined by a circa 35% efficiency improvement since LCS 6 and the increasing impact of recent vessel awards.

The Expeditionary Fast Transport (EPF) program has continued to perform very well in both delivery and construction efficiency.

The LCS order book was further increased in FY2018 with the award of LCS 30 in October 2017, which followed the award of LCS 28 in June 2017.

The 2018 US Federal Defense budget has allocated funds for 3 more LCS to be procured in FY2019. Austal USA has responded to a request for proposal (RFP) and expects to be notified of the outcome in the next few months. The 2019 Federal Defense Budget was being drafted at the time of this report and is expected to include funds for further LCS.

The 2018 US Federal Defense Budget also included the appropriation of funds for EPF 13, for which USA is bidding at this time. The relatively low cost coupled with the versatility of the EPF is leading to ongoing interest in the platform for various operations beyond the sealift activities of earlier vessels. This could lead to further extensions of the program as the US seeks to increase the number of vessels in the Navy fleet to 355. EPF acquisitions are likely to happen on an annual basis in accordance with the normal acquisition process of the United States Government as with the LCS program.

Contracted work in Mobile will continue until CY2024 if the new vessel contracts identified above are awarded as anticipated.

USA was awarded a US$15 million Fast Frigate FFG(X) design development contract in February 2018 along with four other contenders. This award was further extended with US$6.4 million supplementary contract in July 2018.

Austal is demonstrating the versatility and adaptability of the LCS to meet the Frigate requirements specified by the US Navy with a highly capable and affordable platform but at an affordable cost. The FFG(X) acquisition plan indicates a requirement for 2 vessels per annum. The development work will continue into FY2019 with the next steps being Requests for Proposals to be issued by the US Navy in FY2019 Q3 and Contract Award scheduled in FY2020 Q1.

The USA operations had 12 vessels under construction during the year and delivered four vessels to the US Navy in FY2018, LCS 12, 14 & 16 and EPF 9.

LCS 18 was being prepared for sea trials at year end for delivery during FY2019 H1, LCS 20 was Christened in May 2018 with sea trials also scheduled for FY2019 H1, construction and assembly of LCS 22, 24, 26 & 28 was progressed, and construction of LCS 30 will commence during FY2019.

EPF 10, 11 & 12 were all in construction during FY2018, maintaining a high rate of production although further awards of EPF 13 and EPF 14 will be necessary to keep the production line at its full tempo.

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.

Austal USA enhanced its growth by completing the acquisition of ElectraWatch based out of Charlottesville, Virginia, creating adjacencies in current markets.

Australia operations

Year ended 30 June	2018 $'000	2017 $'000
Revenue	$ 198,546	$ 113,744
EBIT	(6,672)	(2,059)
EBIT Margin	N/A	N/A

The Australian operations which reported an EBIT loss of $(6.672) million for FY2018.

The Australian business has implemented a number far reaching efficiency improvements which are beginning to have an impact but which will take more time to mature:

- Driving productivity improvements on all programs by modifying the way in which Austal designs, plans, procures and builds vessels.
- Re-calibrating the overhead cost base towards commercial contracts and border patrol vessels and away from a pure Defence focus.
- Increasing throughput as the Guardian Class Patrol Boat Program (GCPB) reaches peak production and construction of the commercial order book expands with significantly higher revenue expected in the next financial year.
- Negotiating a reasonable commercial position for the presently unprofitable Cape Class Patrol Boat (CCPB) sustainment contract with the Australian Border Force.

Construction activity for the $335 million contract to design, construct and sustain twenty one 40 metre steel GCPB for the Commonwealth of Australia (CoA) increased during FY2018. Construction activity will reach peak production during FY2019 and be maintained at that level over the next three years.

The first vessel was launched in May 2018, marking a significant milestone for the program. Commissioning of vessel systems commenced in June and sea trials began in August 2018 on time as expected. Delivery of this vessel is expected to occur during FY2019 H1.

Construction of a 109 metre high speed aluminium ferry for Mols Linien of Denmark was significantly progressed during FY2018 with the hull and super structure nearing completion. Final vessel integration and commissioning is expected to be completed on time in early FY2019 H2.

The Australian operations team have delivered a significant efficiency improvement during construction of the 109 metre catamaran which is changing the way we build ships. The team has recorded a circa 30% efficiency improvement to date over previous completed vessels and is continuing to focus on further schedule and efficiency gains.

Significant remediation contracts were completed for another five Armidale Class Patrol Boats during FY2018. The Armidale program is now complete which will liberate shipyard capacity for the new vessel construction programs.

Asia operations

Year ended 30 June	2018 $'000	2017 $'000
Revenue	$ 57,888	$ 33,832
EBIT	(1,627)	(83)
EBIT Margin	N/A	N/A

The Asia operations segment includes the Philippines shipyard operations, newly formed Vietnam shipyard operations and the Aulong Joint Venture (40% Austal) in the People's Republic of China.

Austal is able to distribute vessel contracts among the three shipyards in Asia to optimise work flow and profitability.

The Philippines operations delivered two commercial vessels during FY2018.

- A 50 metre passenger ferry was delivered to Seaspovill of South Korea in July 2017 following contract award in June 2016.
- A 56 metre passenger ferry was delivered to FRS of Germany in April 2018 for operation between Hamburg and Island Heligoland in the North Sea.

Austal committed to a US$18 million infrastructure expansion of the Philippines shipyard operations during FY2018 H2 on the strength of the commercial order book.

The expansion includes a new vessel assembly hall that will measure 120 metres long, 40 metres wide and 42 metres high and new module manufacturing halls. The new expansion will enable the shipyard to construct Austal's largest commercial vessels, beginning with a 108 metre ferry for Fjord Line of Norway and will triple capacity at the yard.

Austal also established a commercial shipyard in Vung Tau, Vietnam which is located in a highly industrialised shipbuilding and marine support precinct to the south of Ho Chi Minh City.

The location was selected to provide additional high quality aluminium construction capacity to Austal's commercial operations both for modules for larger ships (supporting Austal Philippines) and to build smaller high speed aluminium vessels.

The Vietnam operations will move into new waterside purpose built facilities under a two year lease with annual options to extend. The management team consists of experienced largely ex-Austal expatriate personnel who have been building high speed aluminium vessels in the area. The selection of the shipyard in this area was driven by the strength of the management team and the availability of highly skilled trades people. The facility is expected to be in production of a full vessel in FY2019 H1.

The Aulong Joint Venture located in Guandong Province, in the People's Republic of China delivered its first vessel in January 2018 and is expanding its workforce to deliver a substantial growth in commercial vessel orders as described in the section below, which will create an economic level of throughput.

New contract awards

Many significant contracts were awarded to Austal during FY2018, including the following vessels:

- LCS 30 for the US Navy in a contract valued at up to $750 million, bringing total cumulative LCS orders to approximately $7.7 billion and deliveries out to FY2022.
- $190 million for two 117 metre trimaran vehicle passenger ferries for Fred Olsen for operation between the Canary Islands, Spain, which will complement the existing 127 metre trimaran that has been in service since 2005.
- $108 million for a 109 metre high-speed catamaran passenger ferry for Fjordline of Norway which is a further evolution of the 109 metre high-speed catamaran passenger ferry presently in construction for Mols Linien of Denmark.
- $68 million for a 83 metre high-speed trimaran vehicle passenger ferry for JR Kyushu of Japan, which is Austal's first commercial contract for a Japanese client. Construction will commence after a significant research and development program which commenced in FY2018 H2 and will be concluded in FY2019 H1.
- $44 million for two 50 metre high-speed catamaran passenger ferries for Braveline, which is Austal's first commercial contract for a Taiwanese client.
- $30 million for a 49 metre high-speed catamaran passenger ferry for Aremiti in Tahiti, who are a repeat customer, having previously purchased 4 new vessels from Austal, the last of which was delivered in CY2013.
- $5 million for a 30 metre high-speed catamaran passenger ferry for VS Grand Tours in the Philippines, which follows the FY2017 delivery of two similar ferries to 2Go Ferries also in the Philippines.
- $30 million for an additional two GCPB for the Commonwealth of Australia, which extends the program from 19 to 21 vessels.
- $25 million for five high speed passenger ferries across two contracts to be built by the Aulong Joint Venture (40% Austal) in China.

Safety performance

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 7th Safety Award from the Shipbuilders Council of America for Excellence in Safety in April 2018. Austal USA also saw a year on year (FY2018 versus FY2017) reduction of recordable injuries by over 15%, resulting in 5 consecutive years of year over year improvement.

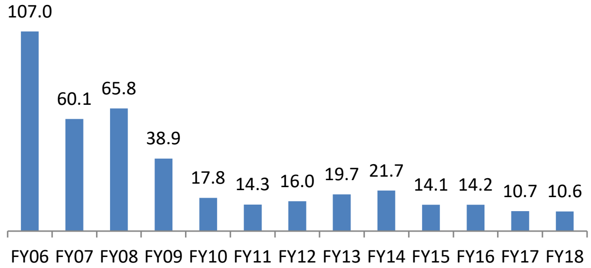
Austal USA's safety performance continues to lead the industry and our current incident rate is less than half of the industry average.

Goal Zero is an ongoing initiative at Austal Australia designed to reinforce our Health, Safety, ?environment & Quality (HSEQ) culture. The protection of our employees, suppliers, customers, and communities is vitally important. 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. HSEQ is more than a metric in Austal, it’s a mindset that impacts the way in which we conduct ourselves every day.

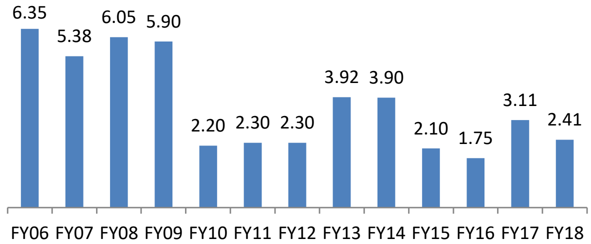
This HSEQ programme calls on all employees to strive for zero harm and zero waste on the job. Several key principles underpin Goal Zero:

- Culture - Making HSEQ part of our mindset.
- Leadership - Engaging everyone to actively address risks and model the right HSEQ behaviours.
- Exposures - Understanding and addressing the HSEQ risks we face on the job.
- HSEQ Systems - Anticipating and mitigating risks through process, design, and administrative controls.

Group Safety performance indicators as shown below have improved over the course of this year, with trends improving - FY2018 Lost Time Injury Frequency Rate at 2.41 injuries per million hours worked compared to our FY2017 result of 3.11.



Medical Treatment Injury Frequency Rate
(Injuries per million hours worked)



Lost Time Injury Frequency Rate
(Injuries per million hours worked)

Goal Zero
Zero Harm. Zero Waste.
PLAN • DO • CHECK • ACT

The Zero Harm initiative was reinforced across operations in Australia with messages targeted to reduce accidents and injuries in the workplace.

Directors' report

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2018.

Directors

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

John Rothwell AO – Non-Executive Chairman

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

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

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

Jim McDowell – Independent Director

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

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

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

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

Jim accepted an offer to become the Chief Executive of Premier and Cabinet in the South Australian State Government and will resign from the board of Austal Limited on 31 August 2018.

Giles Everist – Independent Director

Giles has a breadth of board and executive experience gained over his 29 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 in November 2013 and Audit & Risk Committee Chair in November 2015. Giles holds a mechanical engineering degree and is a qualified chartered accountant. 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, Logicamms Limited and Macmahon Holdings Limited, as well as for a number of private and not for profit organisations. Giles is currently a Non-Executive Director of Norwood Systems and Chief Financial Officer of Macmahon Holdings Limited.

Sarah Adam-Gedge – Independent Director

Sarah was appointed as a Non-Executive Director of the Company on 28 August 2017. Sarah brings a strong enterprise technology management, and digital background to Austal through her experience in executive roles in the information technology and consulting sectors, including serving as Managing Director of Avanade Australia, a business owned by Microsoft and Accenture until recently, and Managing Partner and Vice President, Global Business Services at IBM until 2014. Sarah has also previously held senior executive roles at PwC and Arthur Andersen, leading the development and implementation of numerous digital enterprise transformation engagements for customers including NBN, Qantas, Chevron and Rio Tinto.

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, and is also a member of the Diversity Council for the Australian Computer Society.

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, the 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.

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:

Director	Ordinary Shares	Share Rights	Performance Rights
John Rothwell	32,807,692	-	-
Jim McDowell	33,751	9,056	-
Giles Everist	10,000	9,056	-
David Singleton	28,600	466,553	1,790,651
Sarah Adam-Gedge	-	9,056	-

Principal activities

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

Results

The net profit after tax of the consolidated entity for the financial year was $39.028 million (FY2017: $15.350 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 2018

The closing share price of Austal at 30 June 2018 was $1.86 (30 June 2017: $1.83).

Dividends

A dividend of 2 cents per share was paid after the FY2018 H1 results (FY2017 H1: 2 cents per share) and a further dividend of 3 cents per share has been proposed for FY2018 (FY2017 final: 2 cents per share).

Significant events after the balance date

The Directors have declared an unfranked dividend of 3 cents per share in respect of the year ended 30 Jun 2018 as described above.

Jim McDowell accepted an offer to become the Chief Executive of Premier and Cabinet in the South Australian State Government and will resign from the board of Austal Limited on 31 August 2018.

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 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 2018.

Share options and performance rights

There were 1,374,196 un-issued ordinary shares under options and 6,155,130 un-vested performance rights at year end. Refer to Note 34 for further details of the options outstanding. There were no options exercised during the year. There were 178,340 share rights granted as part of the CEO remuneration and 27,168 share rights granted as part of the non-executive directors' remuneration during FY2018.

Indemnification and insurance of Directors and Officers

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

The parent entity 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	Nomination & Remuneration
Jim McDowell	Jim McDowell [1]
Giles Everist [1]	Giles Everist
Sarah Adam-Gedge	John Rothwell

1. Designates the Chairman of the committee

Directors' meetings

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

	Meeting		
	Board	Audit & Risk Committee	Nomination & Remuneration Committee
Number of meetings held	6	4	4
Number of meetings attended:			
John Rothwell	5	-	3
Jim McDowell	6	4	4
Giles Everist	6	4	4
Sarah Adam-Gedge[2]	5	3	1 [1]
David Singleton	6	4 [1]	4 [1]

1. Attended as a guest
2. Mrs Sarah Adam-Gedge was appointed as a Non-Executive Director on 28 August 2017.

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.

Message from the Nomination & Remuneration Committee (NRC)

Dear Shareholder,

We are pleased to present Austal's Remuneration Report for the year ending 30 June 2018.

Austal's remuneration framework, is designed to create value for all stakeholders, to differentiate rewards based on the Group and individual performance and to provide competitive rewards that attract, motivate and retain talented individuals. Similarly, the framework ensures a focus on achieving short term targets whilst ensuring critical positioning for the longer term success of the Company.

The NRC will maintain an engagement with remuneration consultants from time to time as required, to ensure that Austal maintains remuneration practices that support the strategic objectives of the business.

Board changes

The Board received the resignation of Jim McDowell as a non-executive director of Austal Limited in early August 2018. Jim joined the Board in 2014 but has recently taken up a role as the Chief Executive of the Department of Premier and Cabinet for the government of South Australia. Jim has had to retire from all of his non-executive positions as a result. I am pleased to report that the Board has recommended Chris Indermaur for the vacant role and he will be offered up for election to the shareholders at the 2018 Annual General Meeting in October.

Chris trained as both an Engineer and Lawyer and in addition, brings a wealth of strategic skills to the Board as we drive the future expansion of the company.

The executive management team has stayed virtually unchanged over the last year, which provides a stable base to our long term goals. The Board periodically reviews the succession plans of the Company and a number of management changes have been made through the year commensurate with this plan. Collectively, the CEO and the Executive Leadership Team is continuing to implement the Austal strategic plan and deliver against our key operational objectives.

Remuneration outcomes

Austal is committed to having remuneration outcomes that are aligned with performance and the creation of shareholder value. Specific incentive metrics have been selected to realise the Company's strategies, including the focus on building our already strong commercial shipbuilding position and extension of the US vessel programs.

Austal finished FY2018 with strong profitability and cash flow primarily driven by a continuing trend of strong performance out of the USA. Total Shareholder Return for FY2018 was 8.9% following on from the FY2017 performance of 54.5%.

The estimated vesting of STI and LTI for key management personnel (KMP) for the FY2018 year is:

- Up to 100% of the maximum achievable STI in the USA and up to 85% in the rest of the company.
- No vesting of performance rights from the FY2016 LTI Grant, primarily because of the LCS write down that was recognised in FY2016.

Changes to remuneration structures

The Nomination and Remuneration Committee has a strong focus on the relationship between business performance, risk management and remuneration, and regularly reviews the executive remuneration structure to ensure that it remains appropriate.

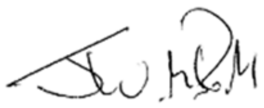
Austal's remuneration strategy is designed to motivate, attract and retain employees to deliver on the Company's strategic objectives, both on a short and long term basis. This includes ensuring a significant proportion is fundamentally aligned to shareholder returns. The strategy drives management accountability for the achievement of stretch targets for the business.

For the 2019 financial year, the Board intends to consider the changing nature of the shipbuilding market in Australia following the Government's announcements of $90 billion of expenditure on a new fleet of Submarines, Frigates and Offshore Patrol Boats. The level of expenditure and the impact on the existing skills base in Australia is likely to be unprecedented. This will drive a major skills shortage across leadership, program management, production control, product support and design, which may have the effect of disrupting Austal's skill base. This represents a key risk for the business as Austal also enters a period of strong ship design and build growth, an issue which is being managed in a number of ways. One of these is to reconsider the appropriate Long Term Incentive (LTI) program for employees, which assists in supporting long term retention. The Board will consider changes to the LTI plan potentially with the removal of the ROIC measure for a structure that is more appropriate in this developing environment. If the LTI plan is modified, this will be described in the Notice of Meeting for the AGM.

Conclusion

The improving financial performance of the Company indicates that the incentive payments made to employees in the last few years are properly structured. When performance did not meet expectations 2 years ago no short term incentives were paid and subsequently payments have matched performance. Our world at Austal is changing however and so we will seek to modify the existing structures to deal with these changes. We thank you for your feedback and continued support.

Yours sincerely,



Jim McDowell

Chairman, Nomination & Remuneration Committee

Remuneration report [audited]

This Remuneration Report for the year ended 30 June 2018 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The Remuneration Report is presented under the following sections:

1. Persons covered by this report

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

The KMP for the year ended 30 June 2018 were:

Executive Director

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

Executives with no Director duties

Mr Greg Jason	Group Chief Financial Officer since January 2013
Mr Craig Perciavalle	President USA since November 2012
Mr Patrick Gregg	Chief Operating Officer Australia and Asia since February 2017

Non-Executive Directors

Mr John Rothwell	Chairman since 1998 Member of the Nomination & Remuneration Committee since December 1998
Mr Jim McDowell	Independent non-executive director since December 2014 Chairman of the Nomination & Remuneration Committee since May 2016 Member of the Audit & Risk Committee since February 2015
Mr Giles Everist	Independent non-executive director since November 2013 Chairman of the Audit & Risk Committee since October 2014 Member of the Nomination & Remuneration Committee since February 2014
Mrs Sarah Adam-Gedge	Independent non-executive director since August 2017 Member of the Audit & Risk Committee since August 2017

2. Remuneration governance framework and strategy

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

1. 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 Nomination & Remuneration Committee also includes succession planning which was reviewed by the Board again in FY2018.

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

2. 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.

3. 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 ensure that the NRC has clarity regarding the extent of any interactions between management and the ERC. This policy enables the Board to state with confidence that advice received has been independent. The policy states that ERC are to be approved and engaged by the Board before any advice is received and that such advice may only be provided to a non-executive director. Any interactions between management and the ERC must be approved and overseen by the NRC, this includes the collection of factual internal records (e.g. superannuation paid or allowances and benefits etc.).

4. Remuneration framework

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

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

Our Vision

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

3. Executive KMP remuneration policy

1. Structure

The following policy applies to executive KMP and executive directors:

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

2. Base remuneration KMP

i. Framework

- Base Packages should be set with reference to the market practice of ASX listed companies at the P50 level, where 50% of the comparator group are above the P50 level and 50% are below the P50 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. Total Fixed Remuneration (TFR) – CEO effective from February 2016

The CEO’s TFR is to be paid in cash, whilst the CEO and the Board may agree at the commencement of each year for up to 30% of TFR to be unconditionally (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 shares in the last 5 share trading days of each month.

Mr Singleton and the Board of Directors agreed that 30% of Mr Singleton’s TFR would be paid in share rights for FY2018 and again in FY2019.

3. Short term incentive (STI) plan policy

The STI policy of the Group stipulates that an annual component of the KMP executives' remuneration will be aligned to the individual business unit, and Company performance.

i. Purpose

The purpose of the STI Plan is to incentivise KMP, Senior Executives and Managers to deliver and outperform key performance indicators (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, Senior Executives and Managers 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.
- The STI should be paid in cash.
- The STI should have a weighting in the remuneration mix that is no greater than the LTI to ensure an adequate balance in focus between short and long term objectives.
- STI payments will be 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.

iii. Measurement period

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

iv. 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.

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

v. FY2018 Key Performance Indicators (KPI)

KPI measures and weightings set for the KMP in FY2018 were as follows:

David Singleton - CEO	**Weight**
Group EBIT[1]	30%
Group Cashflow[1]	10%
Group New Vessel Orders	20%
- New LCS orders in USA[1]	
Group Strategy Development & Execution	30%
- Down selection for the CoA OPV contract as shipbuilder	
- Design compelling FFG(X) frigate solution for USN based on LCS	
- Increase value of support activities in USA & Australia defence	
Implementation of Business Improvement Initiatives	10%
- Implement Philippines yard expansion	
- Meet 'Advanced Manufacturing' goals in Australia to drive costs down	
- LCS to targets or better[1]	
Total	100%

Greg Jason - CFO	
Group EBIT[1]	30%
Group Cashflow[1]	10%
Group New Vessel Orders[1]	20%
Deliver IT strategy including digital shipyard transition	10%
Group Strategy Development & Execution	20%
Implementation of Business Improvement Initiatives	10%
Total	100%

Craig Perciavalle - President USA	
USA financial performance[1]	30%
USA Cashflow[1]	20%
New orders including LCS 30 & EPF 13	10%
Progress LCS conversion to Frigate FFG(X)	10%
Implementation of Business Improvement Initiatives[1]	30%
- LCS cost and productivity performance	
- Safety target for total reportable incidents	
- Growth of Sustainment business	
Total	100%

Patrick Gregg - COO Australia & Asia	
Group EBIT[1]	30%
Group Cashflow[1]	10%
Group New Vessel Orders[1]	20%
Implementation of Business Improvement Initiatives[1]	40%
- Philippines productivity and cost efficiency	
- Australia productivity and cost efficiency	
- OPV implementation upon successful award	
- Growth of Sustainment business	
Total	100%

1. Figures not released due to commercial sensitivity.

vi. FY2019 Key Performance Indicators (KPI)

KPI measures and weightings proposed for the KMP in FY2019 are as follows:

David Singleton - CEO	**Weight**
Group EBIT[1]	30%
Group Cashflow[1]	10%
Group New Vessel Orders[1]	30%
- New LCS & EPF orders in USA[1]	
- Commercial vessel sales[1]	
- Sustainment growth	
Group Strategy Development & Execution	20%
- USA FFG(X) frigate	
- USA strategy	
- Commercial vessel strategy	
Implementation of Business Improvement Initiatives	10%
- Philippines yard expansion and Vietnam establishment	
- Meet 'Advanced Manufacturing' goals in Australia to drive down costs	
- LCS to production cost targets or better[1]	
Total	100%

Greg Jason - CFO	
Group EBIT[1]	30%
Group Cashflow[1]	10%
Group New Vessel Orders[1]	20%
IT strategy including digital shipyard transition & cyber security protection	10%
Group Strategy Development & Execution	20%
Implementation of Business Improvement Initiatives	10%
Total	100%

Craig Perciavalle - President USA	
USA financial performance[1]	30%
USA Cashflow[1]	20%
New orders for LCS & EPF & FFG(X) progress[1]	20%
Cost & performance improvement	15%
Sustainment business development	15%
Total	100%

Patrick Gregg - COO Australia & Asia	
Australia & Asia financial performance[1]	30%
Australia & Asia Cashflow[1]	20%
Implementation of Business Improvement Initiatives[1]	50%
- Philippines productivity and cost efficiency	
- Australia productivity and cost efficiency	
- Vietnam schedule and costs	
- Growth of Sustainment business	
- Employee Safety, Capability and Engagement	
Total	100%

1. Figures not released due to commercial sensitivity.

vii. Determination of STI award

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

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

viii. Target and maximum STI award

Target and maximum awards are applied to base remuneration.

		FY2018			FY2019	
		% of TFR			% of TFR	
Position	Incumbent	Target	Maximum	Estimated	Target	Maximum
Chief Executive Officer	Mr David Singleton	50%	100%	85%	50%	100%
Chief Financial Officer	Mr Greg Jason	30%	60%	51%	30%	60%
President USA	Mr Craig Perciavalle	30%	60%	60%	30%	60%
Chief Operating Officer	Mr Patrick Gregg	30%	60%	51%	30%	60%

4. Long term incentive (LTI) plan policy

The long term incentive plan policy of the Company is for a component of annual remuneration of executives to be at-risk, payable in equity in the Company and based on an assessment of long term performance over not less than three years.

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

iii. Measurement period

The standard measurement period is three years, however the Board has discretion to modify the duration of the measurement period if it deems an extension to be appropriate. An extension of the measurement period will only apply to measures that may be pro-rata increased in difficulty to take account of the additional time.

iv. Measures of long term performance

For FY2018, the Company used two long term performance measures:

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

v. **Total Shareholder Return measure (TSR)**

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

Absolute TSR can be influenced by macro-economic factors that are not specific to the Austal Group, and therefore the FY2016 and FY2017 LTI grants were offered to executives based on Indexed TSR (iTSR).

The Board assessed a peer group of companies that include TSR within their LTI schemes and greater than 90% of companies in the peer group utilise Relative TSR (rTSR) which sets performance hurdles in reference to percentiles of TSR for stocks included in the All Ordinaries Total Return Index (XAOA).

The Board resolved to adopt rTSR for all LTI grants from FY2018 because rTSR is considered to represent a more transparent and understandable basis for measuring performance which is therefore easier to articulate and explain to beneficiaries and shareholders. Achieving company TSR that is below the 50th percentile of the market is considered to be substandard whilst delivering top quartile TSR is clearly strong performance that should be rewarded.

vi. **Return on Invested Capital measure (ROIC)**

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

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

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

For the reasons previously stated, this measure may be amended or replaced for FY2019.

vii. **Vesting of Performance Rights**

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

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

viii. **Holding period**

A one year holding period applies to all shares awarded as a result of LTI performance rights vesting. Recipients are prevented from selling their shares during this period. This effectively extends the incentive period to four years and increases the accumulation of equity by executives to strengthen their alignment with shareholders.

ix. **Reduction or cancellation**

The LTI Plan Rules give the Board broad discretion to amend either the Plan Rules or the terms of an offer made to an executive in order to correct errors (such as errors in the financial statements on which an allocation of Performance Rights was made) or for other legal purposes. The Board may also determine that a Participant’s entitlement to Performance Rights is forfeited or reduced under the Plan Rules, in the event of serious misconduct, fraudulent behaviour or dishonesty. The Board considers that the 1 year holding period discussed above (in addition to the 3 year Performance Period) provides an additional safeguard against participants benefiting unjustly from financial misstatements or misconduct.

x. Target and maximum award

Target and maximum LTI awards are applied to base remuneration (TFR), valued at their grant calculation date.

Position	Incumbent	FY2018 Grant Vesting	
		Target	Maximum
Chief Executive Officer	Mr David Singleton	50%	100%
Chief Financial Officer	Mr Greg Jason	35%	70%
President USA	Mr Craig Perciavalle	35%	70%
Chief Operating Officer	Mr Patrick Gregg	35%	70%

4. Non-Executive Director remuneration

1. 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.

2. Remuneration structure

Remuneration is composed of:

- Board fees
- Committee fees

Both fee types include superannuation to the extent applicable to the incumbent.

3. Fees

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. Chairman

Remuneration for the current Chairman of the Board reflects his continued high level of contribution to the company and the Board. The fee level is reviewed every year, and the Board set the remuneration fee at $200,000 for FY2018.

iii. Board fees

Board fees paid for membership of the Board, inclusive of superannuation and exclusive of committee fees have been set with reference to the 50th percentile of the market of comparable ASX listed companies (as previously described for executive remuneration). No changes to non-executive director fees are planned for FY2019.

iv. Committee fees

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

v. Share rights

Share rights were introduced as a component of NED remuneration during FY2018. NEDs have agreed with the Company to receive 25% of their Total Fixed Remuneration in the form of share rights, as approved by shareholders at the 2017 Annual General Meeting.

4. Termination benefits

Termination benefits are not paid to NED by the Company.

5. Remuneration of KMP

1. FY2018

Year ended 30 June 2018

	Short-Term Benefits			Long Term Benefits	Post Employment Benefits		Share Based Payments Expense			Share Based Payments Expense		STI	
	Salary & Fees	FY2018 STI Accrued	Other Monetary Benefits	Leave Accrued	Super-annuation / Social Security	Termination Benefits	Fixed	Long Term Incentive	Total	% Fixed	% Performance Related	FY2017 STI Paid [2]	FY2018 Unpaid STI
Non-executive directors													
John Rothwell	$ 182,648	$ -	$ -	$ -	$ 17,352	$ -	$ -	$ -	$ 200,000	-	-	$ -	$ -
Giles Everist	97,411	-	-	-	9,254	-	15,833	-	122,498	12.9	-	-	-
Jim McDowell	95,128	-	-	-	9,037	-	15,833	-	119,998	13.2	-	-	-
Sarah Adam-Gedge [1]	66,924	-	-	-	6,358	-	15,833	-	89,115	17.8	-	-	-
Executive directors													
David Singleton	$ 780,752	$ 912,404	$ -	$ 17,885	$ 25,000	$ -	$ 315,402	$ 330,961	$ 2,382,404	27.1	52.2	$ 893,638	$ 912,404
Other key management personnel													
Greg Jason	$ 442,977	$ 280,500	$ -	$ 9,167	$ 25,010	$ -	$ 41,667	$ 121,379	$ 920,700	17.7	43.6	$ 213,892	$ 280,500
Craig Perciavalle	647,910	398,658	23,554	20,012	85,841	-	-	168,895	1,344,870	12.6	42.2	221,689	398,658
Patrick Gregg	450,083	234,600	-	7,667	25,000	-	-	43,162	760,512	5.7	36.5	61,837	234,600
Total	$ 2,763,833	$ 1,826,162	$ 23,554	$ 54,731	$ 202,852	$ -	$ 404,568	$ 664,397	$ 5,940,097	18.0	41.9	$ 1,391,056	$ 1,826,162

1 Mrs Sarah Adam-Gedge was appointed as a Non-Executive Director on 28 August 2017.
2 Final STI paid is based on whether the KMP is still in employment at the end of the financial year, and have met their respective KPI.

2. FY2017

Year ended 30 June 2017

	Short-Term Benefits			Long Term Benefits	Post Employment Benefits		Share Based Payments Expense			Share Based Payments Expense		STI	
	Salary & Fees	FY2017 STI Accrued	Other Monetary Benefits	Leave Accrued	Super-annuation / Social Security	Termination Benefits	Fixed	Long Term Incentive	Total	% Fixed	% Performance Related	FY2016 STI Paid [3]	FY2017 Unpaid 30 June 2017
Non-executive directors													
John Rothwell	$ 185,540	$ -	$ -	$ -	$ 14,460	$ -	$ -	$ -	$ 200,000	-	-	$ -	$ -
Giles Everist	114,529	-	-	-	7,971	-	-	-	122,500	-	-	-	-
Jim McDowell	112,192	-	-	-	7,808	-	-	-	120,000	-	-	-	-
Executive directors													
David Singleton	$ 650,885	$ 841,072	$ -	$ 46,302	$ 35,000	$ -	$ 324,234	$ 200,509	$ 2,098,002	25.0	49.6	$ -	$ 841,072
Other key management personnel													
Greg Jason	$ 364,649	$ 198,969	$ -	$ 40,760	$ 19,308	$ -	$ -	$ 101,380	$ 725,066	14.0	41.4	$ -	$ 198,969
Craig Perciavalle	629,556	204,606	21,011	-	80,402	-	-	149,795	1,085,370	13.8	32.7	-	204,606
Patrick Gregg [1]	162,066	59,178	-	12,746	7,617	-	-	-	241,607	-	24.5	-	59,178
Joselito Turano [2]	14,673	-	1,394	1,019	-	94,795	-	(20,759)	91,122	(22.8)	(22.8)	-	-
Total	$ 2,234,090	$ 1,303,825	$ 22,405	$ 100,827	$ 172,566	$ 94,795	$ 324,234	$ 430,925	$ 4,683,667	16.1	37.0	$ -	$ 1,303,825

1 Mr Patrick Gregg was appointed Chief Operating Officer on 24 February 2017.
2 Mr Joselito Turano resigned on 13 July 2016.
3 Final STI paid was based on whether the KMP was still in employment at the end of the financial year, and met their respective KPI.

6. Equity instruments held by KMP

1. FY2016 Performance rights grant

i. FY2016 Performance rights grant

385,455 Performance rights were granted to KMP in FY2016, who were still employed by Austal and remained unvested at 30 June 2018.

ii. Measurement periods

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

iii. FY2016 Grant performance criteria

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

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

1. 100% is equal to the TSR of the All Ordinaries Total Return Index (XAOA).

iv. Vesting of Performance rights from the FY2016 grant

The actual TSR performance for the measurement period from 1 July 2015 – 30 June 2018 was 8.9% which is below threshold.

The actual ROIC performance for the measurement period from 1 July 2015 – 30 June 2018 will be calculated using the FY2018 audited accounts. The estimated ROIC performance in the measurement period from 1 July 2015 – 30 June 2018 is 1.4% which does not meet the minimum threshold for award.

All performance rights from the FY2016 grant are expected to lapse.

		Rights	Forfeiture		Estimated Vesting		
		Granted	Resigned	Lapsed[1]	ROIC	TSR	Total
Estimated Result					1.4%	8.9%	
Weight					60%	40%	100%
Award					-	-	-
Vesting %					-	-	-
Employee							
Greg Jason	Chief Financial Officer	152,244	-	(152,244)	-	-	-
Craig Perciavalle	President USA	233,211	-	(233,211)	-	-	-
Total		385,455	-	(385,455)	-	-	-

1. Did not meet vesting performance criteria

2. FY2017 Performance rights grant

i. FY2017 Grant Performance Rights grant

1,859,629 performance rights were granted to KMP in FY2017, who were still employed by Austal and remained unvested at 30 June 2018.

ii. Measurement period

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

iii. FY2017 Grant performance criteria

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

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

1. 100% is equal to the TSR of the All Ordinaries Total Return Index (XAOA).

3. FY2018 Performance rights grant

Performance rights granted to KMP in FY2018 are depicted in the table below.

Name	Grant date	Rights granted TSR	Rights granted ROIC	Assumed ROIC vesting	Fair value per right TSR	Fair value per right ROIC	Value at grant date
David Singleton	27 Oct 2017	238,612	357,918	50%	$ 0.86	$ 1.62	$ 495,060
Greg Jason	1 Jul 2017	82,704	124,055	50%	0.73	1.45	150,024
Craig Perciavalle	1 Jul 2017	94,724	142,087	50%	0.73	1.45	171,830
Paddy Gregg	1 Jul 2017	71,578	107,367	50%	0.73	1.45	129,842
Total							$ 946,757

i. Measurement period

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

ii. FY2018 Grant performance criteria

The ROIC and rTSR performance criteria relating to the FY2018 grant of performance rights to KMP are detailed below.

Measure	Weight	Threshold	Vesting %	Performance
Relative TSR[1]	40%	< 50th percentile	0%	Below Threshold
		= 50th percentile	50%	Threshold
			Pro-rata	
		>= 75th percentile	100%	Stretch or Above
ROIC	60%	< 6.6%	0%	At or below Threshold
			Pro-rata	
		6.6%	25%	Threshold
			Pro-rata	
		7.4%	50%	Target
			Pro-rata	
		> 8.3%	100%	Stretch or Above
Total	100%			

1. Percentile for TSR of stocks listed included in the All Ordinaries Total Return Index (XAOA).

4. Share rights earned during the period

Details of Share Rights provided as fixed remuneration to key management personnel are shown below.

Further information is set out in Note 34. These Share rights are in lieu of TFR normally paid in cash and are not a bonus nor performance based (i.e. on a salary sacrifice basis). The Share rights provided to CEO and NED were approved by shareholders during the 2017 Annual General Meeting.

Name	KMP	Measurement date	Earned	Average fair value per right	Fair value
David Singleton	CEO	Monthly 5 day VWAP	178,340	$ 1.77	$ 315,402
Greg Jason	CFO	Monthly 5 day VWAP	23,477	$ 1.77	$ 41,667
Jim McDowell	NED	27 Oct 2017	9,056	$ 1.75	$ 15,833
Giles Everist	NED	27 Oct 2017	9,056	$ 1.75	$ 15,833
Sarah Adam-Gedge	NED	27 Oct 2017	9,056	$ 1.75	$ 15,833

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5. Rights holdings

	Balance at 30 June 2017	FY2018 Movements Granted	Expired	Exercised	Balance at 30 June 2018	Vested and Exercisable	Unvested
Directors							
David Singleton							
Share Rights	288,213	178,340	-	-	466,553	466,553	-
Performance Rights	1,194,121	596,530	-	-	1,790,651	-	1,790,651
Executives							
Greg Jason							
Share Rights	-	23,477	-	-	23,477	23,477	-
Performance Rights	587,093	206,759	(120,374)	(51,588)	621,890	-	621,890
Craig Perciavalle							
Performance Rights	862,863	236,811	(158,923)	(68,108)	872,643	-	872,643
Patrick Gregg							
Performance Rights	-	178,945	-	-	178,945	-	178,945
Non-Executive Directors							
John Rothwell							
Share Rights	-	-	-	-	-	-	-
Jim McDowell							
Share Rights	-	9,056	-	-	9,056	9,056	-
Giles Everist							
Share Rights	-	9,056	-	-	9,056	9,056	-
Sarah Adam-Gedge							
Share Rights	-	9,056	-	-	9,056	9,056	-

6. Share holdings

	Balance at 30 June 2017	FY2018 Movements Share Rights Exercised	Performance Rights Vested	Acquired / (Disposed)	Balance at 30 June 2018
Non - Executive Directors					
John Rothwell	32,807,692	-	-	-	32,807,692
Jim McDowell	33,751	-	-	-	33,751
Giles Everist	10,000	-	-	-	10,000
Sarah Adam-Gedge	-	-	-	-	-
Executives					
David Singleton	28,600	-	-	-	28,600
Greg Jason	33,445	-	51,588	-	85,033
Craig Perciavalle	84,336	-	68,108	-	152,444
Patrick Gregg	-	-	-	-	-
Total	32,997,824	-	119,696	-	33,117,520

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

7. Other related matters

1. Board composition

The Nomination & Remuneration Committee (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 Non-Executive Directors on the Board should remain following the FY2018 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.

2. Details of contractual provisions for KMP

		Contract	Termination Notice Period	
Name	Employing company	Duration	Group	Individual
David Singleton	Austal Limited	Unlimited	3 months	3 months
Greg Jason	Austal Limited	Unlimited	12 weeks	12 weeks
Craig Perciavalle	Austal USA LLC	Unlimited	None	None
Patrick Gregg	Austal Ships Pty Ltd	Unlimited	3 months	3 months

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 permitted under the remuneration policy upon termination of employment.

3. Loans to KMP

There were no loans to Directors nor other KMP at any time during FY2018.

4. 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.

5. Use of independent remuneration consultants

No independent remuneration consultant were engaged by the NRC during FY2018.

End of Remuneration Report

Auditor independence

Deloitte.

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

29 August 2018

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 2018, 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

DELOITTE TOUCHE TOHMATSU

A T Richards
Partner
Chartered Accountants

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2018

	Notes	2018 '000	2017 '000
Continuing operations			
Revenue	4	$ 1,391,977	$ 1,310,128
Cost of sales		(1,260,178)	(1,192,969)
Gross Profit		$ 131,799	$ 117,159
Other income and expenses	5	$ 13,698	$ 2,356
Administration expenses		(64,061)	(55,850)
Marketing expenses		(15,854)	(16,493)
Finance costs	5	(8,532)	(7,198)
Share of profit / (loss) from joint venture	30	(266)	(109)
Profit / (loss) before income tax		$ 56,784	$ 39,865
Income tax benefit / (expense)	9	$ (17,756)	$ (24,515)
Profit / (loss) after tax		$ 39,028	$ 15,350
Profit attributable to:			
Owners of the parent		$ 39,028	$ 15,350
Non-controlling interests		-	-
Total		$ 39,028	$ 15,350
Other comprehensive income (OCI)			
Amounts that may subsequently be reclassified to profit and loss:			
Cash flow hedges			
- Gain / (loss) taken to equity		$ (7,500)	$ 8,639
- (Gain) / loss recycled out of equity		706	2,010
- Income tax benefit / (expense)		1,698	(4,482)
- Net		$ (5,096)	$ 6,167
Foreign currency translations			
- Gain / (loss) taken to equity		$ 15,543	$ (11,073)
- Net		$ 15,543	$ (11,073)
Other comprehensive income not to be reclassified to profit and loss in subsequent periods			
Asset Revaluation Reserve			
- Gain / (loss) taken to equity		$ 63,286	$ -
- Income tax benefit / (expense)		(10,067)	-
- Net		$ 53,219	$ -
Other comprehensive income net of tax for the period		$ 63,666	$ (4,906)
Total comprehensive income for the year		$ 102,694	$ 10,444
Total comprehensive income attributable to:			
Owners of the parent		$ 102,694	$ 10,444
Non-controlling interests		-	-
Total		$ 102,694	$ 10,444
Earnings per share ($ per share)			
- basic for profit for the year attributable to ordinary equity holders of the parent	6	$ 0.113	$ 0.044
- diluted for profit for the year attributable to ordinary equity holders of the parent	6	0.112	0.044

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

Consolidated statement of financial position as at 30 June 2018

	Notes	2018 '000	2017 '000
Assets			
Current			
Cash and cash equivalents	10	$ 162,024	$ 150,471
Trade and other receivables	15	97,349	91,148
Inventories	17	246,509	170,422
Prepayments		7,557	6,077
Derivatives	25, 27	1,608	1,051
Assets held for sale		-	2,529
Income tax refundable	9	4,523	706
Total		$ 519,570	$ 422,404
Non - Current			
Other financial assets	22	$ 10,160	$ 9,626
Investment in joint venture	30	1,804	1,847
Derivatives	25, 27	1,077	1,985
Property, plant and equipment	19	565,778	500,304
Intangible assets and goodwill	20	20,812	8,909
Deferred tax assets	9	7,844	5,630
Other non-current assets	23	21,751	9,296
Total		$ 629,226	$ 537,597
Total		$ 1,148,796	$ 960,001
Liabilities			
Current			
Trade and other payables	18	$ (177,848)	$ (141,465)
Derivatives	25, 27	(5,605)	(4,052)
Interest bearing loans and borrowings	11	(72,758)	(9,868)
Provisions	24	(70,050)	(60,035)
Deferred grant income	14	(8,903)	(7,934)
Progress payments received in advance	16	(53,759)	(15,554)
Total		$ (388,923)	$ (238,908)
Non - Current			
Derivatives	25, 27	$ (6,298)	$ (1,073)
Interest bearing loans and borrowings	11	(112,520)	(186,487)
Provisions	24	(1,546)	(2,864)
Deferred grant income	14	(58,050)	(62,881)
Deferred tax liabilities	9	(32,499)	(10,874)
Total		$ (210,913)	$ (264,179)
Total		$ (599,836)	$ (503,087)
Net Assets		$ 548,960	$ 456,914
Equity			
Equity attributable to owners of the parent			
Contributed equity		$ 118,329	$ 116,384
Reserves		156,719	91,637
Retained earnings		273,912	248,893
Total		$ 548,960	$ 456,914
Total		$ 548,960	$ 456,914

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 2018

	Issued Capital '000	Treasury Shares [1] '000	Retained Earnings '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
Equity at 1 July 2016	**$ 123,739**	**$ (9,001)**	**$ 242,142**	**$ 77,978**	**$ 6,434**	**$ (6,860)**	**$ (17,594)**	**$ 40,714**	**$ 457,552**
Comprehensive Income									
Profit for the year	$ -	$ -	$ 15,350	$ -	$ -	$ -	$ -	$ -	$ 15,350
Other Comprehensive Income	-	-	-	(11,073)	-	6,167	-	-	(4,906)
Total	$ -	$ -	$ 15,350	$ (11,073)	$ -	$ 6,167	$ -	$ -	$ 10,444
Other equity transactions									
Shares issued	$ 1,690	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,690
Dividends	-	-	(13,795)	-	-	-	-	-	(13,795)
Transfer between reserves [2]	-	-	5,196	(256)	(4,940)	-	-	-	-
Transfer between reserves [3]	2,891	(2,891)	-	-	-	-	-	-	-
Transfer between reserves	-		-	(2)	-	-	-	2	-
Tax expense - employee share plan	(44)	-	-	-	-	-	-	-	(44)
Share based payments expense	-	-	-	-	1,067	-	-	-	1,067
Total	$ 4,537	$ (2,891)	$ (8,599)	$ (258)	$ (3,873)	$ -	$ -	$ 2	$ (11,082)
Equity at 30 June 2017	**$ 128,276**	**$ (11,892)**	**$ 248,893**	**$ 66,647**	**$ 2,561**	**$ (693)**	**$ (17,594)**	**$ 40,716**	**$ 456,914**
Comprehensive Income									
Profit for the year	$ -	$ -	$ 39,028	$ -	$ -	$ -	$ -	$ -	$ 39,028
Other Comprehensive Income	-	-	-	15,543	-	(5,096)	-	53,219	63,666
Total	$ -	$ -	$ 39,028	$ 15,543	$ -	$ (5,096)	$ -	$ 53,219	$ 102,694
Other equity transactions									
Shares issued	$ 1,209	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,209
Dividends	-	-	(14,000)	-	-	-	-	-	(14,000)
Shares issued to employee share trust	812	(812)	-	-	-	-	-	-	-
Shares issued for vested performance rights	201	-	-	-	(201)	-	-	-	-
Dividend retained in relation to AGMSP	14	127	(1)	-	-	-	-	-	140
AGMSP options excercised	147	247	-	-	-	-	-	-	394
Transfer between reserves [3]	(494)	494	-	-	-	-	-	-	-
Share based payments expense	-	-	-	-	1,617	-	-	-	1,617
Other	-	-	(8)	-	-	-	-	-	-
Total	$ 1,889	$ 56	$ (14,009)	$ -	$ 1,416	$ -	$ -	$ -	$ (10,640)
Equity at 30 June 2018	**$ 130,165**	**$ (11,836)**	**$ 273,912**	**$ 82,190**	**$ 3,977**	**$ (5,789)**	**$ (17,594)**	**$ 93,935**	**$ 548,968**

1. Treasury Shares are held in relation to the Austal Group Management Share Plan (AGMSP) and Employee Share Trust.
2. Transfer of expired awards that have not been exercised.
3. Transfer of vested Treasury Shares.

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 2018

	Notes	2018 '000	2017 '000
Cash flows from operating activities			
Receipts from customers		$ 1,343,190	$ 1,256,187
Payments to suppliers and employees		(1,265,900)	(1,302,771)
Interest received	4	305	1,525
Interest paid		(4,931)	(5,033)
Income tax refunded / (paid)		(7,057)	12,198
Net cash from / (used in) operating activities	7	$ 65,607	$ (37,894)
Cash flows from investing activities			
Receipts of government infrastructure grants		$ 2,318	$ 1,134
Proceeds from sale of property, plant and equipment		262	110
Proceeds from sale of intangible assets		49	-
Purchase of property, plant and equipment		(19,924)	(9,195)
Purchase of intangible assets		(3,438)	(823)
Construction of Cape Class Patrol Boats 9 & 10		(3,005)	(42,776)
Investment in joint venture		(299)	(1,956)
Business acquisition	32	(9,826)	-
Net cash from / (used in) investing activities		$ (33,863)	$ (53,506)
Cash flows from financing activities			
Repayment of borrowings	12	$ (9,230)	$ (13,455)
Loans received for Cape Class Patrol Boats 9 & 10	12	-	38,074
Dividends paid (net of dividend reinvestment program)		(12,791)	(12,260)
Net cash from / (used in) financing activities		$ (22,021)	$ 12,359
Net increase / (decrease) in cash and cash equivalents		$ 9,723	$ (79,041)
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		$ 150,471	$ 224,318
Net foreign exchange differences		1,830	5,194
Net increase / (decrease) in cash and cash equivalents		9,723	(79,041)
Cash and cash equivalents at end of year	10	$ 162,024	$ 150,471

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

Notes to the financial statements

Basis of preparation

Note 1 Corporate information

The financial report of the Austal Limited Group of Companies (the Group) for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the Directors on 29 August 2018.

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 are unchanged from the previous year.

Note 2 Basis of preparation

i Introduction

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

The financial report 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 reserves and government grants.

3. Working capital

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

4. Infrastructure & other assets

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

5. Other liabilities

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

6. Financial risk management

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

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 2018.

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 functional currency for each entity within the Group and items included in the financial statements of each entity are measured using that functional currency.

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

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

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

v 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 to be 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:

Key accounting judgements and estimates	Note
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

vi Change of comparative financial information

Prior corresponding period information within the statement of financial position has been reclassified as follows to be comparable to the current year presentation:

- Trade and other receivables – an amount relating to USA R&D credits has been reclassified to Other non-current assets.
- Trade and other payables – an amount relating to USA STI has been reclassified to Provisions.

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

- Note 3 Operating segments – Philippines segment has been changed to Asia to include Austal Vietnam and the Aulong Joint Venture in China, note that Austal Vietnam, which is also included in the Asia segment did not exist in FY2017.

- Note 7 Net profit after tax to net cash flows from operations – adjustments have been added to separately identify CCPB 9 & 10 charter income and notional interest, amortization of capitalized borrowing costs and the Aulong joint venture result.

- Note 8 Dividend paid and proposed – franking credits transferred from Austal Darwin have been included and franking credits refund amount was adjusted for tax amendments.

- Note 26 Financial Risk Management – the foreign currency translation of USD denominated net assets has been included to reflect the reasonable possible movements in equity due to exchange rate changes.

- Note 27 Derivative financial instruments and hedging – the presentation of forward foreign exchange contracts has been modified to reflect the purchase (buy) and sale (sell) of the foreign currencies rather than AUD.

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 2017, including:

- Australian Accounting Standards Board (AASB) 2014-9 amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements. The amendments to AASB 127 Separate Financial Statements allow an entity to use the equity method as described in AASB 128 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

- AASB 2015-1 amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle.

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107 Statement of Cash Flows. The amendments require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The amendments clarify certain requirements in:

- AASB 7 Financial Instruments: Disclosures - servicing contracts; applicability of the amendments to AASB 7 to condensed interim financial statements.

- AASB 119 Employee Benefits - regional market issue regarding discount rate.

- AASB 134 Interim Financial Reporting - disclosure of information ‘elsewhere in the interim financial report.

- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101. This Standard amends AASB 101 Presentation of Financial Statements to clarify existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying the Standard in determining what information to disclose, where and in what order information is presented in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.

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

viii Pronouncements issued and not effective

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

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

1. AASB 15 Revenue from Contracts with Customers

Austal has analysed the implications associated with the adoption of AASB 15 which is detailed in Note 4 Revenue.

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

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

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

Classification and measurement

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

Impairment

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

Hedge accounting

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

The Group has assessed the potential impact of AASB 9, specifically in relation to hedging and impairment of receivables and concluded that the impact will be immaterial.

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

The key features of AASB 16 are as follows:

Lessee accounting

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- The Group has operating lease commitments of $12.600 million as at 30 June 2018. Austal has not yet finalised the assessment of the adoption of AASB 16 as disclosed in Note 28.

Current year performance

Note 3 Operating segments

	Australia '000	USA '000	Asia '000	Unallocated '000	Elimination / Adjustments '000	Total '000
Year ended 30 June 2018						
Revenue						
External customers	$ 187,378	$ 1,162,624	$ 38,323	$ 3,529	$ (182)	$ 1,391,672
Inter-segment	11,168	-	19,565	-	(30,733)	-
Finance income	-	-	-	305	-	305
Total	$ 198,546	$ 1,162,624	$ 57,888	$ 3,834	$ (30,915)	$ 1,391,977
Profit / (loss) before tax						
Earnings before interest and tax	$ (6,672)	$ 82,977	$ (1,627)	$ (9,485)	$ (182)	$ 65,011
Finance income	-	-	-	305	-	305
Finance expenses	-	-	-	(8,532)	-	(8,532)
Profit / (loss) before income tax	$ (6,672)	$ 82,977	$ (1,627)	$ (17,712)	$ (182)	$ 56,784
Depreciation and amortisation	$ (7,640)	$ (25,899)	$ (1,443)	$ (2,326)	$ -	$ (37,308)
Balance sheet						
Segment assets	$ 213,650	$ 839,155	$ 45,796	$ 54,287	$ (4,092)	$ 1,148,796
Segment liabilities	(152,354)	(384,045)	(25,443)	(37,994)	-	(599,836)

	Australia '000	USA '000	Asia '000	Unallocated '000	Elimination / Adjustments '000	Total '000
Year ended 30 June 2017						
Revenue						
External customers	$ 99,671	$ 1,172,066	$ 33,698	$ 3,080	$ 88	$ 1,308,603
Inter-segment	14,073	-	134	-	(14,207)	-
Finance income	-	-	-	1,525	-	1,525
Total	$ 113,744	$ 1,172,066	$ 33,832	$ 4,605	$ (14,119)	$ 1,310,128
Profit / (loss) before tax						
Earnings before interest and tax	$ (2,059)	$ 76,061	$ (83)	$ (28,519)	$ 138	$ 45,538
Finance income	-	-	-	1,525	-	1,525
Finance expenses	-	-	-	(7,198)	-	(7,198)
Profit / (loss) before income tax	$ (2,059)	$ 76,061	$ (83)	$ (34,192)	$ 138	$ 39,865
Depreciation and amortisation	$ (1,544)	$ (26,572)	$ (1,502)	$ (1,904)	$ -	$ (31,522)
Balance sheet						
Segment assets	$ 180,727	$ 705,163	$ 29,752	$ 48,286	$ (3,927)	$ 960,001
Segment liabilities	(118,163)	(359,895)	(9,300)	(15,729)	-	(503,087)

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

The Asia operating segment has been restated for FY2017 to include Philippines, and the Aulong Joint Venture in China. Austal Vietnam did not exist in FY2017. The standalone FY2018 Philippines results for comparative purposes are Revenue: $57.888 million and Profit / (loss) before income tax: $(0.350) million.

	2018 '000	2017 '000
Analysis of Unallocated		
Revenue		
Support / sustainment	$ 2,685	$ 2,068
Charter vessel revenue	844	1,012
Finance income	305	1,525
Total	$ 3,834	$ 4,605
Profit / (loss) before tax		
Foreign exchange gains / (losses)	$ (567)	$ (606)
Write down of charter vessel(s)	(1,064)	(379)
Settlement of Warranty Defects	-	(13,154)
Administration expenses	(11,698)	(11,529)
Marketing expenses	(10,672)	(12,415)
Charter vessel profit / (loss)	400	48
Research and development credits	14,116	9,516
Finance income	305	1,525
Finance expenses	(8,532)	(7,198)
Total	$ (17,712)	$ (34,192)
Segment assets		
Cash	$ 12,390	$ 23,813
Property, plant and equipment	5,877	4,099
Inventories	21	53
Other receivables	1,660	10,778
Deferred tax assets	7,844	5,588
Income tax receivable	4,422	1,075
Assets held for sale	-	2,529
Other non-current assets	21,751	-
Other	322	351
Total	$ 54,287	$ 48,286
Segment liabilities		
Deferred tax liabilities	$ (32,499)	$ (10,893)
Progress payments received in advance	(15)	(14)
Creditors & provisions	(5,480)	(4,822)
Total	$ (37,994)	$ (15,729)

	2018 '000	2017 '000
Revenue from external customers by geographical location of customers		
North America	$ 1,162,466	$ 1,172,154
Europe	99,767	20,740
Asia	21,032	29,932
Australia	104,525	70,630
Middle East	3,882	15,147
Total	$ 1,391,672	$ 1,308,603

One customer in the USA segment generated revenue of $1,162.466 million during FY2018 (FY2017: $1,172.154 million).

	2018 '000	2017 '000
Non-current assets, other than financial instruments, prepayments and deferred tax assets		
Geographical location		
North America	$ 446,019	$ 379,513
Asia	27,255	20,719
Europe	4,882	3,987
Australia	107,459	104,994
Total	$ 585,615	$ 509,213
Composition		
Property, plant and equipment	$ 565,778	$ 500,304
Intangible assets	20,812	8,909
Total	$ 586,590	$ 509,213

i Identification of reportable segments

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

1. Australia

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

2. USA

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

3. Asia

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

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

ii Aggregation of segments

No operating segments are aggregated.

iii Accounting policies and inter-segment transactions

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

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

iv Unallocated

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

- Cost of Group services
- Corporate overheads
- Finance revenue and costs
- Taxation
- Commercial vessel charter contracts
- Property, plant and equipment relating to the parent entity

Note 4 Revenue

Revenue	2018 '000	2017 '000
Vessel construction and support	$ 1,380,708	$ 1,306,178
Charter vessels	10,964	2,425
Total Revenue from customers	$ 1,391,672	$ 1,308,603
Finance income	$ 305	$ 1,525
Total	$ 1,391,977	$ 1,310,128

i Recognition and measurement

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

1. Construction and support contract revenue

Where contract outcome can be reliably estimated:

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

Where contract outcome cannot be reliably estimated:

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

Determination:

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

2. Charter vessel revenue

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

3. Finance income

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

ii Significant accounting judgements and estimates

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 Consolidated Statement of Comprehensive Income of FY2018 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.

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

iii AASB 15 Revenue from customers

1. Introduction

AASB 15 establishes the principles that an entity shall apply to report useful information to users of the financial statements about the recognition of revenue to depict the transfer of goods or services to customers to reflect the consideration to which the entity expects to be entitled in exchange for those goods and services.

AASB 15 requires application of a five step process to:

- identify the contract with the customer
- identify performance obligation(s) in the contract
- determine transaction price
- allocate the transaction price to the performance obligations
- recognise revenue when performance obligation(s) are satisfied.

Austal has evaluated the application of the five step process to its customer contracts utilising the elements of the five step process.

The only aspects of the current recognition methodology that will be significantly impacted by the adoption of AASB 15 are summarised below.

2. Combining shipbuilding contracts

Each LCS from LCS 6 – 26 were contracted with the US Navy with 3 individual contracts, one representing the seaframe (built by Austal), one primarily for the supply of the combat mission system, and one primarily for the integration of the combat mission system with the seaframe.

Austal has been individually recognising revenue for each of the three contracts per each vessel.

AASB 15 requires that each performance obligation must be distinct and have independent utility to the customer. The three elements do not individually meet this criteria because each element does not have value to the customer independently of the other two. e.g. a Littoral Combat Ship without a combat system is just a Littoral Ship.

Therefore the three elements will need to be combined into one performance obligation for the purposes of revenue and profit recognition.

LCS 28 and each following vessel have been contracted with a single contract that incorporates the three elements described above and therefore no combining will be required.

No other combining of contracts is required across the Austal Group.

3. Measuring progress

Austal has been measuring progress on the basis of direct cost percent complete across the Group whereby percent complete = direct costs project to date / direct costs estimate at completion. Direct costs include direct labour and material costs associated with a contract. Direct costs do not include business overheads.

The US Navy contracts require overheads to be allocated to each contract and permits billing to the US Navy on the basis of total cost which includes allocated overheads. Austal has determined that measuring progress for US contracts on the basis of total cost percent complete is better aligned with the AASB 15 principles of recognising an amount of revenue that reflects the delivery of performance obligations to the customer because of the US Navy contract and billing rules.

The financial impact of combining the three contracts for LCS 6 – 26 and changing the measure of progress for all US shipbuilding contracts is estimated to be:

- ~ US$(2.0) million reduction in FY2018 opening retained earnings at 1 July 2017; and
- ~ US$(1.0) million reduction to FY2018 EBIT.

The total restatement of ~ US$(3.0) million will be recognised as revenue over multiple future years until LCS 26 is 100% complete.

Austal considered the extent to which the purchase of long lead time materials across the Group represents genuine progress for the purposes of revenue recognition. A monitoring system is in place to determine when Austal has control of those materials and if there is any significant (financially material) delay in including those materials in the construction process. Materials that don't genuinely represent progress will be excluded from the measurement of progress until they are deemed to represent construction progress.

4. Sustainment contracts

The 5 step process was applied to Sustainment contracts and measuring progress was identified as the key consideration.

Austal determined that no change to revenue recognition is required under AASB 15 because the current methods of measuring progress are reasonable measures of delivering performance obligations.

5. Full Retrospective Adoption

Austal will be utilising a full retrospective approach for the adoption on 1 July 2018 as part of the FY2019 half year and full year financial accounts. This means that Opening Retained Earnings and Opening Work in Progress at 1 July 2017 will be restated by an equal and opposite amount, and FY2018 NPAT and Work in Progress will be restated to reflect the changes described above to provide a comparative prior corresponding period.

Note 5 Other profit and loss disclosures

		2018 '000		2017 '000
Other income and expenses				
Government infrastructure grants amortised	$	8,662	$	8,522
Training reimbursement grants		2,839		3,864
Gain / (loss) on disposal of property, plant and equipment		(46)		(23)
Net foreign exchange gains / (losses)		(387)		(742)
Sale of scrap materials		3,736		3,486
Gain on cessation of foreign operations		817		-
Other income		811		782
Warranty		(1,670)		-
Settlement of warranty defects		-		(13,154)
Write down of assets		(1,064)		(379)
Total	$	13,698	$	2,356
Finance costs				
Interest to unrelated parties	$	(7,233)	$	(5,998)
Amortisation of capitalised loan origination costs		(1,299)		(1,200)
Total	$	(8,532)	$	(7,198)
Share of profit from joint venture				
Share of profit / (loss) of Aulong Shipbuilding Co Ltd Joint Venture	$	(266)	$	(109)
Total	$	(266)	$	(109)
Depreciation and amortisation				
Depreciation	$	(35,712)	$	(30,379)
Amortisation of intangible assets		(1,596)		(1,143)
Total	$	(37,308)	$	(31,522)
Employee benefits				
Wages and salaries	$	(387,699)	$	(385,986)
Post-retirement benefits		(7,137)		(5,340)
Share based payments expense		(1,617)		(1,067)
Workers' compensation costs		(5,691)		(6,609)
Annual leave expense		(20,765)		(18,467)
Long service leave expense		(1,235)		(709)
Total	$	(424,144)	$	(418,178)

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

		2018 '000		2017 '000
Research & development credit recognised in cost of sales				
Research & development credit	$	14,116	$	9,516

Auditor's remuneration

	2018	2017
Amounts received or due and receivable by Deloitte Touche Tohmatsu Australia for:		
An audit or review of the financial report of the entity and any other entities in the Group	$ (180,000)	$ -
Other services in relation to the entity and any other entity in the Group	(62,813)	-
Tax advice	(6,530)	-
Total	$ (249,343)	$ -
Amounts received or due and receivable by Ernst & Young Australia for:		
An audit or review of the financial report of the entity and any other entities in the Group	$ -	$ (299,731)
Other services in relation to the entity and any other entity in the Group	-	(20,091)
Total	$ -	$ (319,822)
Amounts received or due and receivable by related practices of Deloitte Touche Tohmatsu for:		
An audit or review of the financial report of the entity and any other entities in the Group	$ (716,031)	$ -
Other services in relation to the entity and any other entity in the Group	(8,595)	-
Tax advice	(120,830)	-
Total	$ (845,456)	$ -
Amounts received or due and receivable by related practices of Ernst & Young for:		
An audit or review of the financial report of the entity and any other entities in the Group	$ -	$ (602,084)
Tax advice	-	(1,988)
Total	$ -	$ (604,072)

i Recognition & measurement

The following recognition and measurement criteria must be met before the following specific items are recognised in profit or 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 it relates 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) tax credit

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 tax credits are recognised as a reduction to each vessel's cost estimate at completion when there is reasonable assurance that the credits will be received and utilised. The 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 FY2018 is $14.116 million (FY2017: $9.516 million).

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. There are no qualifying assets in FY2018. All other finance costs are expensed in the period they occur.

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

4. Depreciation and amortisation

Refer to accounting policies for depreciation disclosed in Note 19, and to accounting policies related to amortisation of Intangible assets in Note 20.

5. Employee benefits

Refer to accounting policies for employee benefits 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 statement of comprehensive income on a straight-line basis over the lease term.

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.

ii Foreign exchange gains and losses included in profit and loss

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

- Fair value adjustments on non-derivative financial assets such as foreign currency denominated loans.
- 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 tax 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.

Further information about the R&D tax credits is provided above in Note 5, section i2.

Note 6 Earnings per share

		2018	2017
Net profit / (loss) after tax			
Net profit attributable to ordinary equity holders of the parent from continuing operations	$'000	$ 39,028	$ 15,350
Weighted average number of ordinary shares			
Basic	Number	346,229,344	345,094,616
Effect of dilution	Number	1,816,757	2,893,640
Diluted	Number	348,046,101	347,988,256
Earnings per share			
Basic earnings per share	$ / share	$ 0.113	$ 0.044
Diluted earnings per share	$ / share	$ 0.112	$ 0.044

i Measurement

Basic earnings per share amounts are 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 amounts are calculated by dividing the Net profit / (loss) after tax 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 dilutive potential ordinary shares into ordinary shares.

ii 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 balance sheet date. The rights are not included in the determination of basic earnings per share. There are 4,942,160 performance rights which are not dilutive to earnings per share.

Further information about the performance rights is provided in Note 34.

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 base 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. 178,340 share rights were issued during the year.

Share rights were introduced as a component of Non-Executive Directors' (NED) and CFO's remuneration during FY2018. 27,168 share rights were issued to NED and 23,477 share rights were issued to the CFO during the year.

Austal has issued shares to an employee share trust (EST) to support the share rights. Shares in the EST are not dilutive because share rights are treated as dilutive (avoid double dilution).

Further information about the share rights is provided in Note 34.

3. Options

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

Further information about the options is provided in Note 34.

4. Austal Group Management Share Plan (AGMSP)

The trustee holds a total of 3,702,000 shares at balance date on behalf of the AGMSP plans.

3,407,000 AGMSP shares are not dilutive to earnings per share.

Further information about the options is provided in Note 34.

5. New Employee Share Trust (EST)

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 463,697 shares to the trust during the year.

6. 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

	2018 '000	2017 '000
Net (loss) / profit after tax	$ 39,028	$ 15,350
Adjustments for:		
Depreciation and amortisation	$ 37,308	$ 31,522
Write down of charter vessels	1,064	379
Net (gain) / loss on disposal of property, plant and equipment	46	23
Share based payments expense	1,617	1,067
Net exchange differences	387	742
CCPB 9 & 10 Charter Income	(10,121)	(1,351)
CCPB 9 & 10 Notional Interest	2,063	1,276
Amortisation of borrowing costs	1,539	889
Aulong joint venture loss	342	109
Government infrastructure grants income	(8,662)	(8,522)
Total	$ 25,583	$ 26,134
Changes in assets and liabilities:		
Increase / (decrease) in provisions for:		
Income tax (current and deferred)	$ 1,478	$ 39,424
Workers' compensation insurance	(500)	203
Warranty	(2,112)	(854)
Employee benefits	10,120	16,228
Other provisions	1,189	3,979
(Increase) / decrease in trade & other receivables	(4,323)	24,590
(Increase) / decrease in inventories	(76,087)	(61,448)
(Increase) / decrease in prepayments	(1,480)	(669)
(Increase) / decrease in other financial assets	(534)	(1,988)
Increase / (decrease) in trade and other payables	30,391	(95,358)
Increase / (decrease) in progress payments in advance	38,205	2,742
Increase / (decrease) in derivative assets & liabilities	(151)	(5,030)
Increase / (decrease) in government grants	4,800	(1,197)
Total	$ 996	$ (79,378)
Net cash inflow / (outflow) from operating activities	$ 65,607	$ (37,894)

Note 8 Dividends paid and proposed

i Dividends on ordinary shares

	2018 '000		2017 '000	
Dividends paid on Ordinary Shares				
Fully franked final dividend for the prior year, 2 cps (2017: 2 cps)	$	(6,989)	$	(6,968)
Unfranked interim dividend for the current year, 2 cps (2017: fully franked, 2 cps)		(7,011)		(6,982)
Total	$	(14,000)	$	(13,950)
Dividend declared subsequent to the reporting period end (not recorded as liability)				
Unfranked final dividend 3 cps (2017: 2 cps)	$	(10,526)	$	(6,989)

ii Franking credit balance

	2018 '000		2017 '000	
Opening Balance	$	4,377	$	11,104
Franking credits movement from the payment / (refund) of income tax	$	(212)	$	(1,368)
Franking credits transferred from Austal Darwin		-		620
Franking credits distributed		(2,995)		(5,979)
Movement	$	(3,207)	$	(6,727)
Closing Balance	$	1,170	$	4,377

Note 9 Income and other taxes

i Income tax expense

	2018 '000	2017 '000
Major components of tax (expense) / benefit for the years ended 30 June 2018 and 2017 are:		
Consolidated Profit & Loss		
Current Income Tax		
Current income tax charge	$ (5,852)	$ 3,189
Adjustments in respect of current income tax of the previous year	(196)	7,461
Total	$ (6,048)	$ 10,650
Deferred Income Tax		
Relating to origination and reversal of temporary differences	$ (11,995)	$ (25,709)
Adjustments in respect of deferred income tax of the previous year	287	(9,456)
Total	$ (11,708)	$ (35,165)
Total income tax (expense) / benefit	$ (17,756)	$ (24,515)
Other Comprehensive Income (OCI)		
Current and deferred income tax related items charged or credited directly to OCI		
Current and deferred gains and losses on foreign currency contracts and consolidation adjustments	$ 1,698	$ (4,482)
Deferred gains on revaluation of property, plant and equipment	(10,067)	-
Total (expense) / benefit charged to OCI	$ (8,369)	$ (4,482)
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:		
Accounting profit / (loss) before income tax from continuing operations	$ 56,784	$ 39,865
Income Tax at the Group's statutory income tax rate of 30% (2017: 30%)	$ (17,035)	$ (11,960)
USA statutory income tax rate of 31.6% (FY2017: 36.9%)	$ (1,671)	$ (5,851)
Other foreign tax rate differences	666	(7)
USA revalue deferred balances for tax rate change	2,666	-
USA S.199 domestic manufacturing deduction	1,580	123
USA withholding tax leakage due to losses in Australia	(876)	(454)
Carry forward tax losses not recognised	(4,495)	(3,412)
Transfer pricing adjustments in respect of intercompany royalties	(3,414)	(1,361)
Non-assessable R&D credits in cost of sales	4,219	1,416
Other non-assessable or non-deductible items	513	(1,014)
Prior year current and deferred income tax adjustments	91	(1,995)
Total Adjustments	$ (721)	$ (12,555)
Income tax (expense) / benefit reported in Consolidated statement of profit or loss	$ (17,756)	$ (24,515)
Income tax payable		
Income tax receivable / (payable)	$ 4,523	$ 706

ii Analysis of temporary differences

	Statement of Financial Position 2018 '000	Statement of Financial Position 2017 '000	Consolidated Profit & Loss 2018 '000	Consolidated Profit & Loss 2017 '000
Deferred income tax - USA				
Deferred tax assets				
Trade & other receivables	$ -	$ 8,658	$ (11,075)	$ 8,863
Payables	5,334	5,162	(25)	(10,279)
Provisions	550	3,932	(3,401)	4,526
Deferred Grant Income	16,932	25,723	(9,411)	(2,372)
Losses available for offset against future taxable income - Federal	-	-	-	(45,140)
Losses available for offset against future taxable income - State	584	2,537	(1,974)	586
Alternative minimum tax credits	1,368	1,738	(420)	1,778
Deferred gains and losses on foreign currency contracts	406	1,041	(101)	51
Property, plant and equipment	-	1,796	(1,794)	-
Other	-	108	(108)	(220)
Total	$ 25,174	$ 50,695	$ (28,309)	$ (42,207)
Deferred tax liabilities				
Property, plant and equipment	$ (56,345)	$ (61,114)	$ 16,535	$ 4,663
Intangibles	(962)	-	12	-
Payables	(234)	(168)	101	-
Deferred gains and losses on foreign currency contracts	(132)	(287)	-	-
Total	$ (57,673)	$ (61,569)	$ 16,648	$ 4,663
Net deferred tax asset / (liability)	$ (32,499)	$ (10,874)	$ (11,661)	$ (37,544)
Deferred income tax - Australia				
Deferred tax assets				
Payables	$ 699	$ 400	$ 289	$ 233
Provisions	7,633	7,952	(319)	1,523
Deferred gains and losses on foreign currency contracts	2,521	511	(72)	119
CCPB 9 & 10 Book to Tax differences	732	970	(237)	140
Other	110	530	(420)	(188)
Total	$ 11,695	$ 10,363	$ (759)	$ 1,827
Deferred tax liabilities				
Property, plant and equipment	$ (3,288)	$ (4,120)	$ 833	$ 552
Deferred gains and losses on foreign currency contracts	(466)	(726)	52	-
Other	(97)	113	(173)	-
Total	$ (3,851)	$ (4,733)	$ 712	$ 552
Net deferred tax asset / (liability)	$ 7,844	$ 5,630	$ (47)	$ 2,379
Net deferred tax asset / (liability)	$ (24,655)	$ (5,244)	$ (11,708)	$ (35,165)

iii 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 by balance date.

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's financial year ends on 30 June 2018 and therefore FY2018 H1 was subject to Federal income tax at a rate of 35% and FY2018 H2 was subject to Federal income tax at 21%. The average rate of Federal income tax was 28% for FY2018.

The combination of the Federal rate of income tax at 28% and the weighted average of individual US states in which Austal operates was 31.6% for FY2018.

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 of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when 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, carry-forward of unused tax assets and unused tax losses to the extent that the availability of taxable profit against which the deductible temporary differences is probable, and the carry-forward of unused tax assets and unused tax losses can be utilised except:

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

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

Unrecognised deferred 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

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.

5. Income taxes relating to equity items

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of profit or loss.

iv Tax consolidation

Austal Limited (the Company) is the head entity in a Tax Consolidated Group comprising the Company and its 100% owned Australian resident subsidiaries 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 balance date.

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

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

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

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

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

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

v Significant accounting judgements and estimates

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

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

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

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

1. Unrecognised losses and credits

A deferred tax asset was not recognised for the following tax losses at 30 June 2018:

	2018 '000	2017 '000
Unrecognised Deferred Tax Assets		
Carried Forward Tax Losses		
Australia	$ 6,175	$ 1,918
Total	$ 6,175	$ 1,918

A deferred tax asset has not been recognised in relation to carry forward tax losses that have been generated in the Australian Consolidated Tax Group which includes the Australia segment and the majority of the Group Corporate overhead which is reported within the Unallocated segment (refer to Note 3). The generation of future taxable profit in Australia is dependent upon the award of new vessel contracts and hence the recognition criteria for a deferred tax asset were not met.

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 has resulted in differing interpretations of inter-company royalties associated with intellectual property deployed from Australia to the USA.

The ATO's position resulted in elevated tax liability in Australia which results in an increased effective tax rate for the Group. All amended notices of assessment have been paid.

Austal has obtained independent specialist advice in Australia and the USA that supports Austal's position and hence Austal has objected to the ATO's audit findings. Austal had not received an objection response from the ATO at 30 June 2018.

vi Other taxes

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

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

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

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

Capital Structure

Note 10 Cash and cash equivalents

		2018 '000		2017 '000
Current				
Cash at bank and in hand	$	162,024	$	150,471
Total Cash per cash flow statement	$	162,024	$	150,471

i 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 cash held as a guarantee.

Note 11 Interest bearing loans and borrowings

		2018 '000		2017 '000
Current				
Finance leases	$	(2,699)	$	(2,532)
Go Zone Bonds		(61,723)		-
Vessel finance for Cape Class Patrol Boats 9 & 10		(8,336)		(7,336)
Total	$	(72,758)	$	(9,868)
Non - Current				
Finance leases	$	(2,834)	$	(5,329)
Go Zone Bonds		(60,888)		(123,303)
Vessel finance for Cape Class Patrol Boats 9 & 10		(48,798)		(57,855)
Total	$	(112,520)	$	(186,487)
Total	$	(185,278)	$	(196,355)

i 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 statement of comprehensive income when the liabilities are derecognised.

ii Go Zone Bonds

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

Go Zone Bonds are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 1.17% in FY2018.

Austal has redeemed (repaid) a cumulative amount of US$132.460 million of GZB funds and owed US$92.540 million at 30 June 2018.

GZB Bondholders are secured by letters of credit issued by Austal's banking syndicate. 50% of the GZB debt is secured by a letter of credit with a maturity date of May 2021.

The other 50% of the GZB debt is secured by a letter of credit with a maturity date of May 2019 and therefore this portion of GZB (US$46.270 million) has been classified as a current liability at 30 June 2018. Austal is currently undertaking a substitution process to obtain a letter of credit from a new bank with a maturity date of May 2021.

Austal have two non-binding offers from international banks to provide a new letter of credit for the US$46.270 million of GZB. Austal has selected one of the banks and is completing the legal process to execute the substitution. Substitution is expected to occur before 31 December 2018.

The average cost of the letters of credit was 1.54% in FY2018.

iii Finance leases

Austal USA entered into 5 year Finance leases in FY2015 to fund mobile equipment and land in Mobile, Alabama, USA, and the following average interest rates were incurred in FY2018:

- mobile equipment 3.23%
- land 3.25%

iv 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 FY2018 was 3.19%.

Austal assesses that extension of the leases or a future sale of the two vessels is probable based on market conditions.

v Banking facilities

Austal has a Syndicated Facility Agreement which includes US$92.540 million for letters of credit to secure the Go Zone Bonds and a 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.

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, warranty bonds. Refer to Note 28 for more information in relation to commitments and contingencies.

The Syndicated Facility Agreement was extended on 1 May 2018. Three banks provided 3 years of tenor, maturing May 2021. One bank which provides credit enhancement for half of the GZB debt, extended their portion of the facility by 6 months to May 2019. For more information refer to Go Zone Bonds in section ii of this note.

An additional $100.000 million uncommitted and unsecured Surety facility for the issuance of non-financial contingent instruments was established in May 2018 to support commercial vessel contracts.

	2018 '000	2017 '000
Facilities used at reporting date		
Finance leases	$ (5,533)	$ (7,861)
Go Zone Bonds	(122,611)	(123,303)
Revolving Credit Facility	(102,359)	(57,597)
Surety Facility	-	-
Total	$ (230,503)	$ (188,761)
Facilities unused at reporting date		
Finance leases	$ -	$ -
Go Zone Bonds	-	-
Revolving Credit Facility	(77,641)	(112,403)
Surety Facility	(100,000)	-
Total	$ (177,641)	$ (112,403)
Total Facilities Available		
Finance Leases	$ (5,533)	$ (7,861)
Go Zone Bonds	(122,611)	(123,303)
Revolving Credit Facility	(180,000)	(170,000)
Surety Facility	(100,000)	-
Total	$ (408,144)	$ (301,164)

vi 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 Financing cash flow reconciliation to interest bearing debt

	30 June 2017 '000	Cashflows Repay / (Draw) '000	Non-cash changes: CCPB 9 & 10 Debt Reduction[1] '000	Non-cash changes: Foreign exchange movement '000	Non-cash changes: Amortisation of borrowing costs '000	Non-cash changes: Reclass '000	30 June 2018 '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	$ (196,355)	$ 9,230	$ 8,058	$ (4,672)	$ (1,539)	$ -	$ (185,278)

	30 June 2016 '000	Cashflows Repay / (Draw) '000	Non-cash changes: CCPB 9 & 10 Debt Reduction[1] '000	Non-cash changes: Foreign exchange movement '000	Non-cash changes: Amortisation of borrowing costs '000	Non-cash changes: Reclass '000	30 June 2017 '000
Current borrowings	$ (2,545)	$ (65)	$ -	$ 78	$ -	$ (7,336)	$ (9,868)
Non-current borrowings	(170,066)	(24,554)	75	1,611	(889)	7,336	(186,487)
Total financing liabilities	$ (172,611)	$ (24,619)	$ 75	$ 1,689	$ (889)	$ -	$ (196,355)

1. Debt reduction is equal to the difference between the notional charter income and the interest expense.

Note 13 Contributed equity and reserves

	Shares		'000	
	2018	2017	2018	2017
Ordinary shares on issue				
1 July	349,472,643	348,393,449	$ 128,276	$ 123,739
Shares issued for dividend reinvestment plan	703,878	1,079,194	$ 1,209	$ 1,690
Shares issued to new Employee Share Trust	463,697	-	812	-
Shares issued for performance rights vested	217,311	-	201	-
Dividend retained in relation to AGMSP[1]	-	-	23	-
AGMSP[1] options exercised	-	-	147	-
Transfer of vested Treasury Shares value	-	-	(494)	2,891
Tax expense on employee share plan (AGMSP[1])	-	-	(9)	(44)
30 June	350,857,529	349,472,643	$ 130,165	$ 128,276
Treasury shares				
1 July	(4,015,539)	(4,015,539)	$ (11,892)	$ (9,001)
Shares issued to employee share trust	(463,697)	-	$ (812)	$ -
Dividend retained in relation to AGMSP[1]	-	-	127	-
AGMSP[1] options exercised [2]	313,539	-	247	-
Transfer of vested Treasury Shares	-	-	494	(2,891)
30 June	(4,165,697)	(4,015,539)	$ (11,836)	$ (11,892)
Net	346,691,832	345,457,104	$ 118,329	$ 116,384

1. Austal Group Management Share Plan (AGMSP)
2. 10,693 options exercised from AGMSP Plan 1 and 302,846 options exercised from AGMSP Plan 2.

i Recognition and measurement

1. 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.

A transfer was booked between Treasury shares and Ordinary Shares on issue with zero movement in total Contributed Equity.

2. Treasury shares

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

Refer to Note 34 for more information in relation to the AGMSP.

ii Movements in ordinary share capital

The movement in ordinary shares during year ended 30 June 2018 is comprised of shares issued as part of dividends declared and paid during the year.

The Group announced a FY2017 final dividend of 2 cents per share with an option for dividend reinvestment of $1.66 per share on 20 October 2017, followed by a FY2018 interim dividend of 2 cents per share with an option for dividend reinvestment of $1.81 per share, which was announced on 23 April 2018.

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 463,697 shares to the trust during the year.

The movement in ordinary shares also includes 217,307 performance rights vested from the FY2014 and FY2015 LTI Grants.

iii Nature & purpose of reserves

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.

Refer to Note 34 for further details of share based payment plans for the Group.

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.

Note 14 Government grants relating to assets

Deferred grant income	2018 '000	2017 '000
Current		
Infrastructure development	$ (8,903)	$ (7,934)
Total	$ (8,903)	$ (7,934)
Non - Current		
Infrastructure development	$ (58,050)	$ (62,881)
Total	$ (58,050)	$ (62,881)
Total	$ (66,953)	$ (70,815)
Movements in Grants		
Opening Balance	$ (70,815)	$ (80,534)
Grants received during the year	$ (2,318)	$ (1,134)
Amortised to the profit and loss	8,662	8,522
Exchange rate adjustment	(2,482)	2,331
Closing Balance	$ (66,953)	$ (70,815)

i Recognition and measurement

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

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

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

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

Working Capital

Note 15 Trade and other receivables

	2018 '000	2017 '000
Current		
Trade amounts owing by unrelated entities	$ 98,700	$ 91,405
Allowance for doubtful debts	(1,351)	(257)
Total	$ 97,349	$ 91,148

i Recognition and measurement

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

ii Impaired trade receivables

Individual receivables which are known to be uncollectible are written off by directly reducing the carrying amount. The Group considers that there is evidence of impairment if any of the following indicators are present:

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

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

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

Refer to Note 26 for an analysis of the Group's credit risk.

iii Ageing analysis of current trade & other receivables

		Days outstanding					
		0-30	31-60	61-90	90+	Impaired	Total
2018	'000	$ 74,338	$ 11,025	$ 2,443	$ 10,894	$ (1,351)	$ 97,349
2017	'000	73,999	2,713	6,352	8,341	(257)	91,148

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

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

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

Austal received $8.989 million of the 90+ days outstanding receivables subsequent to the reporting date.

iv Fair values of current trade and other receivables

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

Note 16 Vessel construction and support contracts in progress

	2018 '000	2017 '000
Work in Progress		
Construction and support revenue recognised to date	$ 9,472,689	$ 8,010,526
less Progress payments received & receivable	(9,228,968)	(7,842,168)
Total due from customers	$ 243,721	$ 168,358
Progress Payments Received in Advance		
Construction and support revenue recognised to date	$ 170,805	$ 77,146
less Progress payments received & receivable	(224,564)	(92,700)
Total due to customers	$ (53,759)	$ (15,554)
Total due from / (to) customers	$ 189,962	$ 152,804

i Recognition and measurement

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

Refer to Note 26 for an analysis of the Group's credit risk.

ii Significant accounting judgements and estimates

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

Note 17 Inventories and work in progress

	Notes	2018 '000	2017 '000
Current			
Work in progress	16	$ 243,721	$ 168,358
Other inventory		2,788	2,064
Total		$ 246,509	$ 170,422

i Recognition and measurement

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

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

Note 18 Trade and other payables

	2018 '000	2017 '000
Current		
Trade & other payables owed to unrelated entities [1]	$ (177,848)	$ (141,465)
Total	$ (177,848)	$ (141,465)

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

i Recognition and measurement

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

ii Fair value of trade and other payables

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

Infrastructure & other assets

Note 19 Property, plant and equipment

i Net carrying amount

	Freehold Land & Buildings '000	Leasehold Improvements '000	Plant & Equipment '000	Capital WIP '000	Total '000
Balance 30 June 2017					
Gross carrying amount at fair value	$ 362,869	$ -	$ -	$ -	$ 362,869
Gross carrying amount at cost	-	44,879	218,761	5,670	269,310
Accumulated Depreciation & Impairment	(14,607)	(12,328)	(104,940)	-	(131,875)
Net Carrying Amount	$ 348,262	$ 32,551	$ 113,821	$ 5,670	$ 500,304
Balance 30 June 2018					
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

ii Reconciliation of movement for the year

	Freehold Land & Buildings '000	Leasehold Improvements '000	Plant & Equipment '000	Capital WIP '000	Total '000
Balance 1 July 2016	$ 367,649	$ 40,461	$ 64,622	$ 18,066	$ 490,798
Additions	$ 124	$ 6	$ 49,097	$ 3,597	$ 52,824
Transfer in / (out)	522	11	15,416	(15,949)	-
Disposals	-	-	(100)	-	(100)
Depreciation charge for the year	(9,892)	(6,817)	(13,670)	-	(30,379)
Exchange Adjustment	(10,141)	(1,110)	(1,544)	(44)	(12,839)
Total	$ (19,387)	$ (7,910)	$ 49,199	$ (12,396)	$ 9,506
Balance 30 June 2017	$ 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
Balance 30 June 2018	$ 414,816	$ 28,619	$ 111,840	$ 10,503	$ 565,778

iii Recognition and measurement

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

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

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

Land & Buildings valued using cost model	2018 '000	2017 '000
Cost	$ 371,442	$ 381,122
Accumulated Depreciation & Impairment	(84,147)	(77,063)
Net Carrying Amount	$ 287,295	$ 304,059

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 statement of comprehensive income, in which case the increase is recognised in the profit and loss.

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

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. 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.

Refer to Note 21 for impairment testing of non-current assets.

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

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

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

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

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

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

2. Estimation of useful lives of assets

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

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

The following useful lives have been adopted as follows:

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

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

3. Revaluation of land and buildings

The Company's land and buildings consist of office properties in Australia and USA. Management 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 between obtaining independent valuations to ensure that the latest independent valuation remains appropriate and representative of fair value as at balance sheet date.

The last independent revaluation of the Australian land and buildings occurred during FY2016. There has not been any indication of impairment nor any material change in the valuation of the assets since they were last revalued.

The last independent revaluation of the USA land and buildings occurred during FY2018. This resulted in a 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
Balance 1 July 2017				
Cost	$ 17,525	$ 6,463	$ -	$ 23,988
Accumulated Amortisation & Impairment	(15,079)	-	-	(15,079)
Net Carrying Amount	$ 2,446	$ 6,463	$ -	$ 8,909
Balance 30 June 2018				
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

ii Reconciliation of movement for the year

	Notes	Computer Software '000	Goodwill '000	Other Intangibles '000	Total '000
Balance 1 July 2016		$ 2,833	$ 6,463	$ -	$ 9,296
Additions		$ 822	$ -	$ -	$ 822
Amortisation for the year		(1,143)	-	-	(1,143)
Exchange Adjustment		(66)	-	-	(66)
Total		$ (387)	$ -	$ -	$ (387)
Balance 30 June 2017		$ 2,446	$ 6,463	$ -	$ 8,909
Balance 1 July 2017		$ 2,446	$ 6,463	$ -	$ 8,909
Additions		$ 1,826	$ -	$ -	$ 1,826
Transfer from Property, Plant and Equipment		1,612	-	-	1,612
Disposals		(49)	-	-	(49)
Business Acquisition	32	-	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
Balance 30 June 2018		$ 4,467	$ 12,543	$ 3,802	$ 20,812

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 profit or loss in the year in which the expenditure is incurred.

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

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

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 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 Cash Generating Unit (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:

- Australia
- USA
- Philippines

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:

- Australia - a carrying amount of $6.5 million
- USA – a carrying amount of $6.1million (refer to Note 32 for further information).

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:

CGU	Australia	USA	Philippines
Growth assumptions	Award of Projected vessels	Award of Projected vessels	Award of Projected vessels
Perpetuity growth rate	0.0%	0.0%	0.0%
Pre-tax discount factor	9.8%	13.6%	13.2%
Inflation on costs	2.0%	1.5%	2.5%

2. Growth assumptions

Growth assumptions are based on future vessel construction and service projects to be awarded. These contracts are based on tender price or historical experience on the size of the vessel.

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 (excluding charter vessels that are assessed independently). 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 Other financial assets

	2018 '000		2017 '000	
Other financial assets				
Collateral [1]	$	10,000	$	9,467
Security deposits		160		159
Total	$	10,160	$	9,626

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

i Recognition and measurement

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

Note 23 Other non-current assets

	2018 '000		2017 '000	
Recognised R&D Credits				
USA - recognised in Other Non-current Assets	$	21,751	$	9,296
USA - recognised in Deferred tax assets		-		8,658
Total	$	21,751	$	17,954
Unrecognised R&D Credits				
Australia	$	6,702	$	6,702
USA		3,410		17,357
Total	$	10,112	$	24,059

i Recognition and measurement

The Group recognised a non-current asset for $21.751 million of research and development (R&D) credits in June 2018. Comparative information within the statement of financial position relating to R&D credits of $9.296 million was reclassified from Current assets, Trade and other receivables to Other non-current assets, to be comparable to the current year presentation.

ii Unrecognised Research & Development (R&D) credits

A non-current asset has not been recognised in relation to $6.702 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 Australia segment and the majority of the Group Corporate overhead which is reported within the Unallocated segment (refer Note 3). The generation of future taxable profit in Australia is dependent upon the award of new vessel contracts and hence the recognition criteria for an asset were not met.

A non-current asset has not been recognised in relation to $3.410 million of carry forward R&D tax credits that have been generated in the USA.

Other liabilities

Note 24 Provisions

		Employee Benefits '000	Workers' Compensation '000	Warranty '000	Other '000		Total '000
Provisions at 30 June 2017	$	(39,421) $	(3,794) $	(13,534) $	(6,150)	$	(62,899)
Arising during the year	$	(102,292) $	(5,691) $	(1,689) $	(53,330)	$	(163,002)
Utilised		93,409	6,280	3,886	52,172		155,747
Unused amounts reversed		174	-	-	69		243
Effects of foreign exchange		(1,411)	(89)	(85)	(100)		(1,685)
Movement	$	(10,120) $	500 $	2,112 $	(1,189)	$	(8,697)
Provisions at 30 June 2018	$	(49,541) $	(3,294) $	(11,422) $	(7,339)	$	(71,596)

		Employee Benefits '000	Workers' Compensation '000	Warranty '000	Other '000		Total '000
2017							
Current	$	(38,077) $	(3,794) $	(13,534) $	(4,630)	$	(60,035)
Non-Current		(1,344)	-	-	(1,520)		(2,864)
Total	$	(39,421) $	(3,794) $	(13,534) $	(6,150)	$	(62,899)
2018							
Current	$	(48,315) $	(3,294) $	(11,422) $	(7,019)	$	(70,050)
Non-Current		(1,226)	-	-	(320)		(1,546)
Total	$	(49,541) $	(3,294) $	(11,422) $	(7,339)	$	(71,596)

i Recognition and measurement

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

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

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

ii Information about individual provisions and significant accounting estimates

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. Warranties

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.

3. 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.

4. Others

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 Statement of Comprehensive Income.

Other provisions at 30 June 2018 includes a $(2.818) million loss provision for the Cape Class Patrol Boat In Service Support Contract (CCPB ISS) with the Australian Border Force (ABF) which was deemed onerous at 30 June 2017. The cost of resources required to deliver upon the contracted services through to the maturity date on 1 August 2019 were estimated to exceed the contract revenues at the reporting date and hence a provision was booked in FY2017 with a corresponding expense.

The ABF has an option to extend the contract in unspecified increments up to a total duration of 12 years from 1 August 2019. A loss provision for an extension period beyond 1 August 2019 has not been recognised. Austal would negotiate the extension of an onerous contract beyond the original term but there is a risk that Austal may bear additional cost associated with this contract.

5. 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 2 cents per share was issued for the half year 31 December 2017 (FY2017 H1: 2 cents).

An unfranked dividend of 3 cents per share is proposed and not recognised as a liability for the year ended 30 June 2018 (FY2017 H2: 2 cents).

Note 25 Fair value measurements

i Financial assets and financial liabilities

The Group holds the following financial instruments:

Financial Assets	Notes	Derivatives used for hedging at fair value '000	Assets at amortised cost '000	Total '000
2018				
Cash and cash equivalents	10	$ -	$ 162,024	$ 162,024
Trade & other receivables	15	-	97,349	97,349
Other financial assets	22	-	10,160	10,160
Derivatives	25, 27	2,685	-	2,685
Total		$ 2,685	$ 269,533	$ 272,218
2017				
Cash and cash equivalents	10	$ -	$ 150,471	$ 150,471
Trade & other receivables	15	-	91,148	91,148
Other financial assets	22	-	9,626	9,626
Derivatives	25, 27	3,036	-	3,036
Total		$ 3,036	$ 251,245	$ 254,281

Financial Liabilities	Notes	Derivatives used for hedging at fair value '000	Liabilities at amortised cost '000	Total '000
2018				
Trade & other payables	18	$ -	$ (177,848)	$ (177,848)
Derivatives	25, 27	(11,903)	-	(11,903)
Interest bearing borrowings	11	-	(185,278)	(185,278)
Total		$ (11,903)	$ (363,126)	$ (375,029)
2017				
Trade & other payables	18	$ -	$ (141,465)	$ (141,465)
Derivatives	25, 27	(5,125)	-	(5,125)
Interest bearing borrowings	11	-	(196,355)	(196,355)
Total		$ (5,125)	$ (337,820)	$ (342,945)

The Group's exposure to various risks associated with the financial instruments is discussed in Note 26.

1. Fair value measurements - fair value hierarchy

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

Balance 30 June 2018	Notes	Level 1 '000	Level 2 '000	Level 3 '000	Total '000
Financial assets					
Derivatives	25, 27	$ -	$ 2,685	$ -	$ 2,685
Financial liabilities					
Derivatives	25, 27	$ -	$ (11,903)	$ -	$ (11,903)
Balance 30 June 2017					
Financial assets					
Derivatives	25, 27	$ -	$ 3,036	$ -	$ 3,036
Financial liabilities					
Derivatives	25, 27	$ -	$ (5,125)	$ -	$ (5,125)

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

Level 1

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

Level 2

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

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Foreign exchange forward contracts are valued using valuation techniques, which employs the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity. The fair value of derivative asset positions at 30 June 2018 is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

Level 3

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

ii Impairment – Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

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

Impairment testing of trade receivables is described in Note 15.

iii Non-financial assets and liabilities

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

Balance 30 June 2018	Notes	Level 1 '000	Level 2 '000	Level 3 '000	Total '000
Land & buildings	19	$ -	$ -	$ 414,816	$ 414,816
Balance 30 June 2017					
Land & buildings	19	$ -	$ -	$ 348,262	$ 348,262

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

2. Valuation techniques used to determine fair values

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

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

Refer to Note 19 for further information.

3. Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

Description	Fair value at 30 June 2018 '000	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Land - Mobile	US$34,000	Selection of land with similar approximate utility	US$4.16 - US$15.51 (US$11.39) per ft^2	Higher value of similar land increases estimated fair value
Buildings - Mobile	US$259,200	Cost per square foot floor area (ft^2)	US$61.82 - $202.08 (US$136.70) per ft^2	Higher cost per ft^2 increases fair value.
Land - Henderson	$ 12,250	Selection of land with similar approximate utility	$225-275 ($250) per m^2	Higher value of similar land increases estimated fair value
Buildings - Henderson	$ 19,206	Consumed economic benefit/ obsolescence of asset	2.50%	Greater consumption of economic benefit or increased obsolescence lowers fair value.
		Cost per square meter floor area (m^2)	$500 - $1,750 ($998) per m^2	Higher cost per m^2 increases fair value.

Financial Risk Management

Note 26 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.

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

i Objectives and policy

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

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

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

ii Market risk

1. Capital management

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

The Group's policy is to maintain a strong and flexible capital base to provide investor, creditor and market confidence to sustain future development of the business. The Group monitors the return on capital, which the Group defines as the Net operating profit after tax divided by Net Assets (excluding Cash, Debt, Derivatives and Tax accounts). The Board determines the level of dividends to distribute.

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

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

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

2. Interest rate risk exposure

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

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

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

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

	2018 '000	2017 '000
Financial Assets		
Cash and cash equivalents		
Australian variable rate interest	$ 10,386	$ 5,227
US variable rate interest	144,377	138,481
Other variable rate interest	7,261	6,791
Total	$ 162,024	$ 150,499
Financial Liabilities		
Interest bearing loans and borrowings		
US variable rate interest	$ (130,553)	$ (134,116)
Total	$ (130,553)	$ (134,116)
Net Exposure	$ 31,471	$ 16,383

Profit or loss is sensitive to higher / lower interest income from cash and cash equivalents and interest expenses on borrowings as a result of changes in interest rates. There would be no material impact on other components of Equity as a result of changes in interest rates. The sensitivity analysis below shows the impact on profit or loss after tax if a 25 basis point movement in interest rates occurred. 25 basis points was deemed to be a reasonable level of volatility based on FY2018 observations.

	2018 '000	2017 '000
Post tax gain / (loss)		
AUD		
+0.25% (25 basis points)	$ 73	$ 37
-0.25% (25 basis points)	(73)	(37)
USD		
+0.25% (25 basis points)	$ 97	$ 31
-0.25% (25 basis points)	(97)	(31)

iii Interest rate risk strategies, policies and procedures

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

iv Foreign currency 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. These transactions are primarily denominated are AUD, USD and EUR.

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
- use of natural hedges
- using financial instruments (Derivative financial instruments and hedging is described in Note 27).

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

The Group's financial assets and liabilities exposed to foreign currency risk at year end were as follows:

	All values are stated in AUD equivalent				
	AUD	USD [1]	EUR [2]	Other	Total
Balance 30 June 2018	'000	'000	'000	'000	'000
Financial assets					
Cash and cash equivalents	$ 123	$ 8,287	$ 4,460	$ 2,216	$ 15,086
Trade and other receivables	-	41	385	1,276	1,702
Derivatives	779	2,101	7,605	1,283	11,768
Total	$ 902	$ 10,429	$ 12,450	$ 4,775	$ 28,556
Financial liabilities					
Trade and other payables	$ (381)	$ (407)	$ (2,513)	$ (538)	$ (3,839)
Derivatives	(116)	(1,354)	(1,158)	(46)	(2,674)
Total	$ (497)	$ (1,761)	$ (3,671)	$ (584)	$ (6,513)

	All values are stated in AUD equivalent				
	AUD	USD [1]	EUR [2]	Other	Total
Balance 30 June 2017	'000	'000	'000	'000	'000
Financial assets					
Cash and cash equivalents	$ 41	$ 11,230	$ 1,951	$ 1,714	$ 14,936
Trade and other receivables	-	1,311	2,548	668	4,527
Derivatives	717	874	3,482	53	5,126
Total	$ 758	$ 13,415	$ 7,981	$ 2,435	$ 24,589
Financial liabilities					
Trade and other payables	$ (769)	$ (2,689)	$ (232)	$ (534)	$ (4,224)
Derivatives	(398)	(9)	(2,524)	(106)	(3,037)
Total	$ (1,167)	$ (2,698)	$ (2,756)	$ (640)	$ (7,261)

1. Spot USD / AUD rate at 30 June 2018 was 0.7402 (30 June 2017: 0.7686)
2. Spot EUR / AUD rate at 30 June 2018 was 0.6339 (30 June 2017: 0.6722)

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

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

	Post tax profit higher / (lower)		Equity higher / (lower)	
	2018	2017	2018	2017
Judgement of reasonable possible movements	'000	'000	'000	'000
USD / AUD				
+10%	$ 1,722	$ 1,581	$ (61,869)	$ (53,889)
-10%	(2,105)	(1,581)	76,128	66,172
EUR / AUD				
+10%	$ (373)	$ -	$ 20,007	$ 6,216
-10%	455	-	(24,453)	(7,598)
USD / EUR				
+10%	$ -	$ -	$ 3,821	$ 5,288
-10%	-	-	(3,088)	(5,288)

The foreign currency translation of USD denominated net assets would have significantly affected the equity at the reporting date. The Group had USD denominated net assets of US$556.437 million at 30 June 2018 (US$474.982 million at 30 June 2017).

Derivative financial instruments such as forward currency contracts and currency options are utilised to eliminate foreign currency exposures. Timing gaps are mitigated using foreign currency accounts or financial instruments such as swaps.

The Group's policy is to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

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

Foreign currency contracts designated as cash flow hedges to mitigate the movements in foreign exchange rates are outlined in Note 27.

v Credit risk

The Group trades only 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 credit rating of at least A-2, and for a period not exceeding 180 days to manage this risk.

The Group undertakes investments in short term deposits, term deposits or negotiable certificates of deposit in order to achieve this objective.

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

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

The Group's exposure to counter party credit default risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, is equal to the carrying amount of these instruments. The maximum exposure to credit risk at the reporting date is disclosed in Note 27.

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

vi Liquidity risk

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

The Group's policy is to continually review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

Austal has a Syndicated Facility Agreement which was extended on 1 May 2018. Three banks provided 3 years of tenor, maturing May 2021. One bank provided credit enhancement for 50% of the total GZB maturing May 2019 and Austal is in the process of completing legal documentation to obtain a new source of credit enhancement for the 50% of the GZB that is maturing in May 2019 that will extend out to May 2021.

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

Balance 30 June 2018	Years to maturity 0 - 1 '000	1 - 5 '000	> 5 '000	Total[1] '000
Derivative financial assets / (liabilities)				
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)
Non Derivative financial liabilities				
Trade & other payables	$ (177,848)	$ -	$ -	$ (177,848)
Go Zone Bond facility	(62,668)	(63,131)	-	(125,799)
Finance lease	(2,797)	(2,831)	-	(5,628)
Vessel finance for Cape Class Patrol Boats 9 & 10[2]	-	(42,000)	-	(42,000)
Total	$ (243,313)	$ (107,962)	$ -	$ (351,275)

Balance 30 June 2017	Years to maturity 0 - 1 '000	1 - 5 '000	> 5 '000	Total[1] '000
Derivative financial assets / (liabilities)				
Outflow	$ (160,799)	$ (97,366)	$ -	$ (258,165)
Inflow	139,341	81,829	-	221,170
Net derivative financial assets / (liabilities)	$ (21,458)	$ (15,537)	$ -	$ (36,995)
Non Derivative financial liabilities				
Trade & other payables	$ (154,914)	$ -	$ -	$ (154,914)
Go Zone Bond facility	(77)	(126,325)	-	(126,402)
Finance lease	(2,684)	(5,409)	-	(8,093)
Vessel finance for Cape Class Patrol Boats 9 & 10[2]	-	(42,000)	-	(42,000)
Total	$ (157,675)	$ (173,734)	$ -	$ (331,409)

1. Contractual cash flows include interest
2. Contractual cashflows are equal to the residual value of the vessels. Refer to Note 11 for further information.

The Group had $50.000 million (FY2017: $50.000 million) of unused cash loan credit facilities available for immediate use at the reporting date and $162.024 million (FY2017: $150.471 million) in cash and cash equivalents, which can be used to meet its liquidity needs.

Refer to Note 11 for more information in relation to interest bearing loans and borrowings.

Note 27 Derivative financial instruments and hedging

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

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

i Recognition and measurement

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

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

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

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

Refer to Note 25 for more information in relation to Fair value measurements.

ii Hedge designation

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

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

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

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

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

iii Fair value hedge accounting

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

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

iv Cash flow hedge accounting

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

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

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

v Summary of forward foreign exchange contracts

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

	2018				2017			
	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
USD / AUD		Buy USD		(Sell USD)		Buy USD		(Sell USD)
less than 3 months	-	$ -	0.7399	$ (518)	0.7666	$ 130	0.7670	$ (8,915)
3 - 12 months	0.7403	731	0.7421	(21,805)	-	-	0.7653	(4,139)
> 12 months	0.7444	1,599	0.7458	(18,221)	-	-	0.7617	(24,658)
Total		$ 2,329		$ (40,544)		$ 130		$ (37,711)
EUR / AUD		Buy EUR		(Sell EUR)		Buy EUR		(Sell EUR)
less than 3 months	0.6332	$ 287	0.6293	$ (24,389)	0.6702	$ 78	0.6684	$ (7,455)
3 - 12 months	-	-	0.6237	(88,219)	0.6654	22	0.6623	(13,472)
> 12 months	-	-	0.6050	(114,648)	-	-	0.6467	(49,624)
Total		$ 287		$ (227,255)		$ 100		$ (70,551)
SEK / AUD		Buy SEK		(Sell SEK)		Buy SEK		(Sell SEK)
less than 3 months	-	$ -	-	$ -	-	$ -	-	$ -
3 - 12 months	6.5693	776	-	-	-	-	-	-
> 12 months	6.3861	7,812	-	-	-	-	-	-
Total		$ 8,588		$ -		$ -		$ -
SEK / USD		Buy SEK		(Sell SEK)		Buy SEK		(Sell SEK)
less than 3 months	8.9013	$ 459	-	$ -	-	$ -	-	$ -
3-12 months	-	-	-	-	8.3708	1,223	-	-
13 months or greater	8.5975	6,361	-	-	-	-	-	-
Total		$ 6,820		$ -		$ 1,223		$ -
USD / EUR		Buy EUR		(Sell EUR)		Buy EUR		(Sell EUR)
less than 3 months	1.1733	$ 5,377	1.1759	$ (4,340)	1.1438	$ 1,827	1.1458	$ (3,061)
3 - 12 months	1.1877	18,469	1.2212	(6,145)	1.1568	38,062	1.1561	(7,050)
> 12 months	1.2478	76,134	1.2505	(22,112)	1.1870	24,383	-	-
Total		$ 99,980		$ (32,597)		$ 64,272		$ (10,110)

vi Offsetting financial instruments

The Group presents its assets and liabilities on a gross basis. Derivative financial instruments entered into by the Group are subject to enforceable master netting arrangements such as 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 table above represent the derivative financial assets and liabilities of the Group that are subject to the above arrangements and are presented on a gross basis.

Unrecognised items

Note 28 Commitments and contingencies

The Group entities may have potential financial liabilities that could arise from historical commercial contracts. No material losses are anticipated in respect of any of those contingencies.

	2018 '000	2017 '000
Operating lease commitments		
Future minimum rentals payable under non-cancellable leases as at 30 June are as follows		
Within one year	$ (4,176)	$ (2,552)
After one year but not more than five years	(4,567)	(2,184)
More than five years	(3,857)	(4,060)
Total	$ (12,600)	$ (8,796)
Capital commitments		
Other Capital Equipment	$ (1,470)	$ -
Total	$ (1,470)	$ -
Guarantees		
Bank performance guarantees[1]	$ (102,359)	$ (57,597)

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

The Group occasionally receives claims and writs for damages and other matters arising from its operations in the course of its normal business.

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 2018 requiring disclosure in the financial statements.

Note 29 Events after the balance date

i Dividend proposed

An unfranked final dividend of 3 cents per share has been proposed (FY2017 final: 2 cents).

The Group, management and related parties

Note 30 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 2018	2017
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 [1]	Australia	100%	-
Austal Viet Nam Co Ltd	Vietnam	100%	-
Austal Holdings Inc	USA	100%	100%
Austal USA LLC	USA	100%	100%
Austal USA Service LLC	USA	100%	100%
ElectraWatch Inc [2]	USA	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%

1. Austal Holdings Vietnam Pty Ltd incorporated in FY2018
2. ElectraWatch Inc acquired in FY2018. Refer to Note 32

i Investment in joint venture

Investment In Joint Venture	2018 '000	2017 '000
Investment in Aulong Shipbuilding Co Ltd Joint Venture	$ 1,804	$ 1,847
Total	$ 1,804	$ 1,847

Share of profit of joint venture	2018 '000	2017 '000
Share of profit / (loss) of joint venture	$ (266)	$ (109)
Total	$ (266)	$ (109)

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

Note 31 Related party disclosure

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 32 Business Combination – ElectraWatch

i Consideration transferred

Austal USA LLC acquired 100% interest of ElectraWatch Inc, a United States based aluminium non-destructive testing technology company on 1 May 2018.

	'000
Cash	$ 9,013
Contingent consideration	-
Total purchase consideration	$ 9,013

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 profit and loss, within the 'Other expenses' line item.

	'000
Current assets	
Cash and cash equivalents	$ 66
Trade receivables[1]	100
Other current assets	2
Non-current assets	
Plant and equipment	-
Intangible assets	3,807
Total Assets	$ 3,975
Non-current liabilities	
Other long-term liabilities	$ (7)
Total Liabilities	$ (7)
Net Assets	$ 3,968

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.

	’000
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	$ 6,019

iv Net cash flow arising on acquisition

	’000
Consideration paid in cash	$ 9,013
Less: cash and cash equivalent balances acquired	(66)
Net cash outflow arising on acquisition	$ 8,947

v Impact of acquisition on the results of the Group

ElectraWatch contributed $0.047 million to the consolidated profit for the 2 months from 1 May 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 33 KMP compensation

	2018 ’000	2017 ’000
Short-term employee benefits	$ 4,613	$ 3,560
Post-employment benefits	203	173
Termination benefits	-	95
Long term benefits	55	101
Share-based payment	1,069	755
Total	$ 5,940	$ 4,684

Detailed remuneration disclosures are provided in the Remuneration Report commencing on page 31.

Note 34 Share based payments

i Rights issued and valuation

2,484,222 Performance Rights were issued during the year (FY2017: 3,103,111).

Grant	Balance at 30 June 2017	Issued	Exercised	Forfeited / Lapsed	Balance at 30 June 2018	Expiry date
FY2014	249,669	-	(74,899)	(174,770)	-	30 Jun 2017
FY2015	474,715	-	(142,412)	(332,303)	-	30 Jun 2017
FY2016	759,212	-	-	-	759,212	30 Jun 2018
FY2017	3,060,132	-	-	(27,690)	3,032,442	30 Jun 2019
FY2018	-	2,484,222	-	(120,746)	2,363,476	30 Jun 2020
Total	4,543,728	2,484,222	(217,311)	(655,509)	6,155,130	

The board has the discretion to decide if Performance Rights will lapse or vest.

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

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. The third tranche did not vest. The remaining two tranches were as follows:

- 687,098 of zero priced options as part of the equity consideration. The number of options was adjusted based on EBIT targets for the 3 years post acquisition. The options expire on 5 October 2018.
- 687,098 options to acquire shares as an executive incentive to the owners who remained employed as managers. The number of options was adjusted based on EBIT targets for the 3 years post acquisition. The options expire on 4 March 2019.
- The total number of options vested and exercisable is 1,374,196.

iii Austal Group Management Share Plans (AGMSP)

The trustee holds a total of 3,702,000 shares at the reporting date on behalf of the AGMSP plans, represented by:

- 295,000 shares allocated to current employees under Plan 2 with a weighted average price of $1.72 each, with no contractual life;
- 3,407,000 shares that are unallocated.

1. Plan 2

Plan 2 was established by the Company in FY2000.

- Austal offered loans to participants for up to 100% of the purchase consideration for their shares on a limited recourse basis.
- The shares were made available to the participants at market value.
- The Board determined the number of shares that were made available to each participant.
- The shares are required to be held by a trustee on behalf of the participant.
- All shares have vested and may be transferred to participants provided that any loan in respect of these shares has been repaid.
- The shares must be sold and the loan (if any) repaid upon termination of employment or contract arrangements.
- The interest on loans offered under Plan 2 is calculated as 60% of any dividends paid on any shares acquired by the person to whom the loan was made.

2. Summary of movement

Details of the movement in the number of options issued under the AGMSP are shown below:

	2018 '000	2017 '000
Summary of options granted under AGMSP		
1 July	4,016	4,016
Exercised	(314)	-
30 June	3,702	4,016

iv CEO fixed remuneration share rights issue

The structure of base remuneration for the CEO, David Singleton, for the period ended 30 June 2018 was:

- Fixed cash remuneration is 70% of Total Fixed Remuneration (TFR).
- Fixed share based remuneration equal to 30% of TFR.

30% of the CEO's fixed remuneration is provided in shares which are subject to a 12 month holding period from the date at which the shares are released to the CEO and no performance condition exists because it is considered to be part of his base remuneration. 178,340 share rights were earned for FY2018. The number of share rights are based upon the volume weighted average closing price of Austal Limited (ASX Ticker: ASB) shares in the last 5 trading days of each month.

v Recognition – equity settled transactions

The Group provides benefits to employees (including executive Directors and 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 Austal Group Management Share Plan (AGMSP)
- 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, in the opinion of the Directors of the Group, will ultimately vest. 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 statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

An expense is recognised as if the terms had not been modified. An expense 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 AGMSP and EST are classified and disclosed as Treasury Shares and deducted from equity in Statement of Changes in Equity. For further information regarding Treasury Shares refer to Note 6.

vi Recognised share-based payment expenses

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

	2018 '000	2017 '000
Share Based Payments Expense		
Expense arising from equity-settled share-based payment transactions	$ (1,617)	$ (1,067)

Note 35 Parent entity

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

Balance sheet	2018 '000	2017 '000
Assets		
Current	$ 22,051	$ 42,860
Non - Current	312,779	292,440
Total	$ 334,830	$ 335,300
Liabilities		
Current	$ (4,981)	$ (3,918)
Non - Current	(19,173)	(3,537)
Total	$ (24,154)	$ (7,455)
Net Assets	$ 310,676	$ 327,845
Equity		
Contributed equity	$ 118,330	$ 116,384
Employee benefits reserve	3,977	2,561
Asset revaluation reserve	10,656	10,656
Cash flow hedge reserve	29	(153)
Retained earnings	177,684	198,397
Total	$ 310,676	$ 327,845
Income		
Net Profit / (Loss) after tax	$ (6,712)	$ (22,246)
Total Comprehensive Income	(6,530)	(20,822)

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 2018 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 2018.

John Rothwell AO

Chairman

on behalf of the Board

29 August 2018

Independent audit report to the members of Austal Limited

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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 2018, 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 2018 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**
Revenue recognition As at 30 June 2018, construction revenues totalling $1.38 million are recognised based on the stage of completion as disclosed in Note 4. 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: • Determination of stage of completion; • Estimation of total contract revenue and costs including the estimation of cost contingencies; • Determination of contractual entitlement and assessment of the probability of customer approval of variations and acceptance of claims; and • Estimation of project completion date.	Our audit procedures included, but were not limited to: • 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: o The contract acceptance process; and o The preparation, review and authorisation of monthly project reports for all significant contracts. • On sample basis, testing contracts for delay risk, contract percentage of completion, history of contract issues, significant unapproved variations or claims; • Reading relevant agreements to understand the key terms and conditions, and confirming our understanding of the agreement terms with management; • Assessing the accuracy of the forecast costs to complete based on: o The costs incurred to date; o Historical budgeting accuracy; o Physical inspection of key vessels using our internal engineering specialists; o Inquiry of key project managers and executives; and o Review of correspondence with customers. • Evaluating changes in profit margin on material contracts from prior periods; and • Assessing variations and claims including review of correspondence with customers concerning the merits and status of those variations and claims. We also assessed the appropriateness of the disclosures in Note 4 to the financial statements.

Taxation	
The Group's geographic operations resulted in an income tax expense totalling $17.8 million across two main jurisdictions, being the USA and Australia for the year ended 30 June 2018. As disclosed in Note 23, the carrying value of deferred tax assets recognised in relation to the Group's USA Research and Development (R&D) credits as at 30 June 2018 was $21.7 million. In addition, the Group continue to pay additional tax in relation to intercompany royalties between the USA and Australia (refer Note 9). Significant judgement is required to assess: • The extent to which R&D credits will be utilised; and • 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.	Our audit procedures included, but were not limited to: • Engaging our tax specialists to assess the Group's tax-related balances and the underlying assumptions and calculations including, evaluating the available R&D credits and utilisation profile; • 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; • Assessing the independence, competence and objectivity of the Group's tax advisors and evaluating correspondence between the Group and those advisors; and • Testing the underlying accuracy of the tax effect calculations. We also assessed the appropriateness of the disclosures in Note 9 and Note 23 to the financial statements.

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 31 to 50 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Austal Limited, for the year ended 30 June 2018, 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 Australi an Auditing Standards.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

Tim Richards

Partner

Chartered Accountants

Perth, 29 August 2018

Shareholder information

The following information was extracted from the Company's register at 30 June 2018.

Distribution of shares

Individual shareholding	Number of shares	% of Total issued capital	Number of holders
1 - 1000	719,062	0.20%	1,695
1,001 - 5,000	4,974,593	1.42%	1,999
5,001 - 10,000	5,463,620	1.56%	805
10,001 - 100,000	19,349,185	5.52%	809
100,001 and over	320,351,069	91.30%	68
Total	350,857,529	100.00%	5,376

Twenty largest shareholders

Rank	Shareholder	Number of shares	% of Total issued capital	Substantial shareholder
1	HSBC Custody Nominees (Australia) Limited	116,239,193	33.13%	Yes
2	J P Morgan Nominees Australia Limited	52,636,106	15.00%	Yes
3	Citicorp Nominees Pty Ltd	44,929,159	12.81%	Yes
4	Austro Pty Ltd	32,807,692	9.35%	Yes
5	National Nominees Limited	22,217,132	6.33%	Yes
6	Onyx (WA) Pty Ltd	6,600,000	1.88%	
7	BNP Paribas Nominees Pty Ltd	5,970,849	1.70%	
8	Zero Nominees Pty Ltd	4,509,486	1.29%	
9	BNP Paribas Noms Pty Ltd	4,356,354	1.24%	
10	Austal Group Management Share Plan Pty Ltd	3,702,002	1.06%	
11	Mr William Robert Chambers	3,150,000	0.90%	
12	Mr Garry Heys & Mrs Dorothy Heys	2,844,670	0.81%	
13	Sandhurst Trustees Ltd	2,716,807	0.77%	
14	AMP Life Limited	2,240,347	0.64%	
15	Lavinia Shipping Limited	1,991,000	0.57%	
16	Mossisberg Pty Ltd	1,937,000	0.55%	
17	Citicorp Nominees Pty Ltd	1,142,607	0.33%	
18	ACE Property Holdings Pty Ltd	1,110,000	0.32%	
19	BNP Paribas Noms Pty Ltd	733,963	0.21%	
20	Kenny Nominees (NT) Pty Ltd	670,783	0.19%	
	Total	312,505,150	89.08%	

Voting rights

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

Corporate governance statement

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

Corporate directory

Directors

Executive Directors

Mr David Singleton

Non-Executive Directors

Mr John Rothwell
Mr Giles Everist
Mr Jim McDowell
Mrs Sarah Adam-Gedge

Auditor

Deloitte Touche Tohmatsu
Brookfield Place, Tower 2
123 St Georges Terrace
Perth 6000
Western Australia

Company Secretary

Mr Adrian Strang

Registered office

100 Clarence Beach Road
Henderson 6166
Western Australia
Telephone: +61 8 9410 1111

Share registry

Link Market Services Limited
QV1 Building, Level 12
250 St Georges Terrace
Perth 6000
Western Australia
Telephone: +61 1300 554 474

ABN

73 009 250 266

Email: info@austal.com
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