APPENDIX 4D
HALF-YEAR REPORT

AUSTAL LIMITED
A.B.N. 73 009 250 266

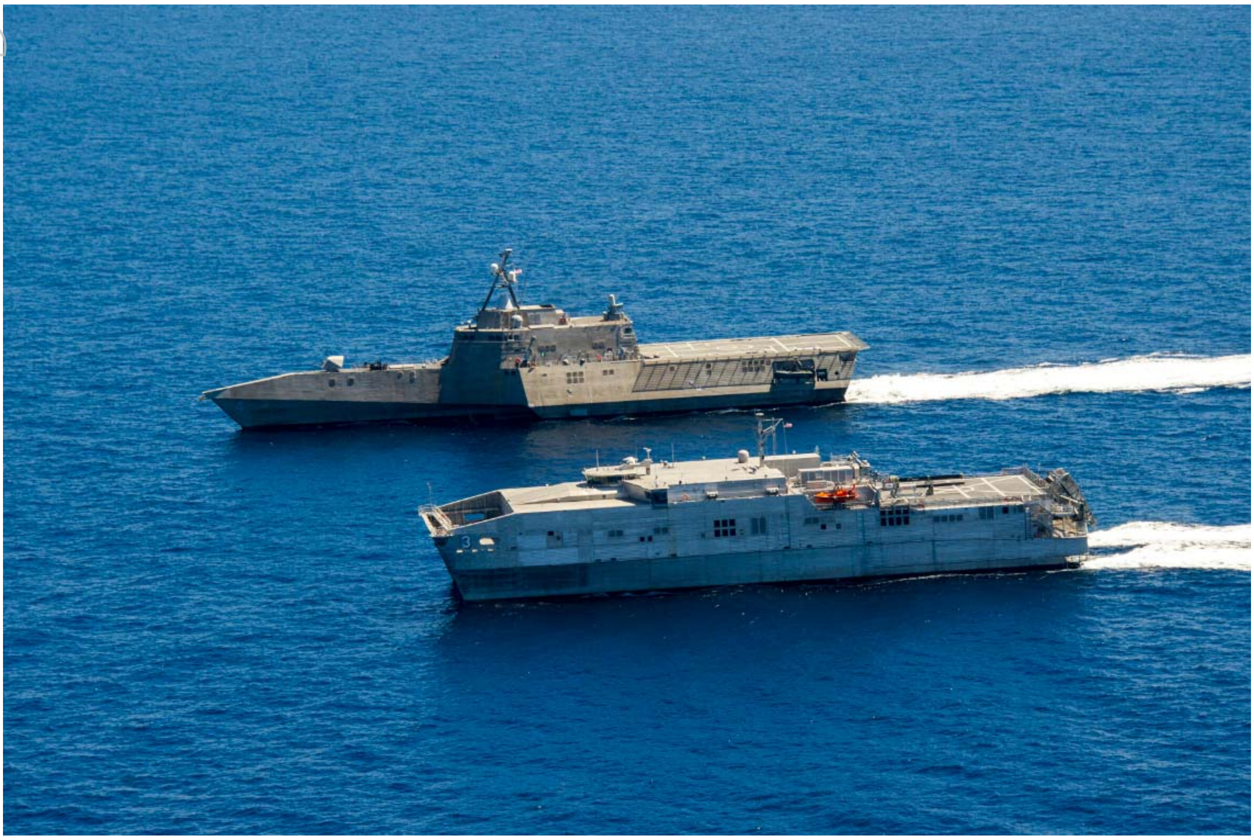
FOR THE PERIOD ENDED 31 DECEMBER 2014

1. The reporting period is 1 July 2014 to 31 December 2014. The previous corresponding period is 1 July 2013 to 31 December 2013. Both of these periods comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). The information contained in this document should be read in conjunction with the Austal Limited 30 June 2014 Annual Report.

2. Results for announcement to the market.

			A$'000
2.1	Revenue from ordinary activities	up 34.5% to	680,186
2.2	Profit (loss) from ordinary activities after tax attributable to members	up 208% to	28,942
2.3	Net profit (loss) for the period attributable to members	up 208% to	28,942
2.4	Dividend distributions		3,469
	The directors declared a fully franked interim dividend of 1 cent per share		
2.5	Record date for determining entitlements to the dividends:		16 March 2015
2.6	Explanation of figures in 2.1 to 2.4 that may be required. Refer to attached half year report page 2.		

3.	Net tangible assets per ordinary security:	
	Current period (cents/share)	135.7
	Previous corresponding period (cents/share)	123.8
4.	Control gained or lost over entities during the period	N/A
5.	Details of dividends or distributions:	As per Appendix 3A.1 lodged 26 February 2015.
6.	Details of dividend or distribution reinvestment plans:	As per announcement to ASX lodged on 26 February 2015.
7.	Details of associates and joint venture entities:	N/A
8.	Accounting standards used by foreign entities	
	The financial statements of subsidiaries are prepared using consistent accounting policies for the same reporting period as the parent company. The foreign entities including Austal USA prepare their accounts under accounting standards that are equivalent to International Financial Reporting Standards.	
9.	Qualifications of audit/review	No qualifications



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Directors' report

It is my pleasure to present to you the financial report for the half-year ended 31 December 2014 on behalf of the Board of Austal Limited.

Directors

The directors in office during the half-year and until the date of this report are:

John Rothwell (Chairman)
Andrew Bellamy (CEO)
David Singleton
Giles Everist
Dario Amara (resigned 30 October 2014)
Jim McDowell (appointed 31 December 2014)

Principal Activities

The principal activities of the consolidated Group entity during the financial half-year were the design, manufacture and support of high speed ships and systems for the defence, paramilitary and commercial markets. These activities are unchanged from the previous reporting period.

Results

Austal reported a Net Profit After Tax (NPAT) of $28.947 million for the half year ended 31 December 2014 compared with a NPAT for the prior corresponding period (PCP – half year ended 31 December 2013) of $9.507 million.

This result was driven by a strong increase in revenue across all operations, with FY2015 H1 revenue of $680.186 million which is 34 per cent higher than the PCP (FY2014 H1: $505.791 million).

The Group Profit Before Tax (PBT) for FY2015 H1 was $42.912 million compared with $13.804 million for the PCP.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was $56.164 million (FY2014 H1: $30.731 million). EBITDA was significantly improved because productivity improvements realised in the Cape Class Patrol Boat Program in Australia were better than the projected learning curve, Administration costs were lower because of less reliance upon expatriate employees in the Philippines business and efficiencies gained by integrating the Henderson shipbuilding and support activities onto one site.

EBITDA was also enhanced by non cash unrealised foreign exchange gains arising from the mark to market valuation of foreign denominated inter-company loans.

NPAT was enhanced by a 57 per cent reduction in net interest expense from $4.935 million in FY2014 H1 to $2.125 million in FY2015 H1. The reduction in net interest expense was driven by a reduction in net debt from $68.579 million at 30 June 2014 to a net cash position of $15.567 million at 31 December 2014 as well as the benefit of more favourable pricing available to Austal as a result of the improved balance sheet strength.

Strong Operating cash flow of $117.994 million was generated in the period which included the receipt of the final proceeds from the sale of Hull 270 to Condor Ferries. $38.430 million of cash was applied to the repayment of debt and Austal finished the period in a net cash position of $15.567 million. It is anticipated that the net cash position will diminish in the second half of FY2015 due to lower receipts of scheduled progress payments for contracted vessels and the consumption of cash that represented progress payments in advance at 31 December 2014.

Reconciliation of EBIT and EBITDA (unaudited)

	31 December 2014 $'000		31 December 2013 $'000	
Profit before income tax	$	42,912	$	13,804
Finance costs	$	2,757	$	5,106
Finance income		(632)		(171)
EBIT	$	45,037	$	18,739
Depreciation	$	10,451	$	10,861
Amortisation		676		1,131
EBITDA	$	56,164	$	30,731

Non-IFRS measures

Austal uses a number of non-IFRS measures to assess performance. Non-IFRS measures are defined as follows:

- EBIT – earnings before interest and tax.
- EBITDA – earnings before interest, tax, depreciation and amortisation.

The information is unaudited but is extracted from the financial statements which have been reviewed by the auditors of the Austal accounts. EBITDA is used by management to understand the cash flows within the group.

Review of Operations

USA Operations

Austal USA Revenue continued to grow period over period with a 19.2 per cent increase from the PCP to $498.346 million (FY2014 H1: $418.118 million). 13 percentage points of revenue growth were driven by increased production activity on the two major contracts; the US$1.6 billion, 10-vessel Joint High Speed Vessel contract and the US$3.5 billion, 10-vessel Littoral Combat Ship contract, the balance of the revenue growth was driven by favourable translation of USD revenue into AUD at a lower average exchange rate for the period.

Segment EBIT was $27.372 million (FY2014 H1: $26.912 million) and EBIT margin was 5.5 per cent (FY2014 H1: 6.4 per cent).

US shipbuilding margin remains in the target range at 7.8 per cent with steady results from the JHSV program despite some schedule pressure on first in class LCS 6. The LCS program is maturing with lessons learnt in the construction of LCS 6 flowing into subsequent ships in the form of productivity improvements and material cost reductions.

Construction progressed on four Joint High Speed Vessels (JHSV 4, 5, 6 and 7) in FY2015 H1. USNS Fall River (JHSV 4) completed acceptance trials in July 2014 and was delivered in September 2014 whilst construction of JHSV 7 commenced in the same month. JHSV 1, 2 and 3 participated in several international maritime exercises with JHSV 1 and 2 having been deployed to locations in both the Mediterranean and Caribbean Seas.

Six Independence-variant LCS were under construction in the half – LCS 6, 8, 10, 12, 14 and 16. USS Montgomery (LCS 8) was successfully launched in August and christened in November. The keel was laid and assembly began for LCS 12 shortly after the launch of LCS 8 in August and fabrication of LCS 16 commenced in September. A decision was made by U.S. Secretary of Defense Hagel to upgrade the existing LCS designs with additional weaponry and sensors in order to build the future Fast Frigate fleet (starting with ship 33).

USS Independence (LCS 2), USS Coronado (LCS 4), and USNS Millinocket (JHSV 3) all participated in the U.S. Navy's international Rim of the Pacific (RIMPAC) exercise in July 2014. RIMPAC is the world's largest international maritime exercise conducted every second year, 22 nations participated in 2014.

Funding for at least one of the two of the remaining two Littoral Combat Ships under Austal's 10-vessel contract is expected to be appropriated in FY2015 Q3. Work is underway to support the future acquisition plans of the Navy as the LCS program transitions into the future frigate program.

Australia Operations

Revenue in Australian operations was 51 per cent higher than the PCP at $109.974 million (FY2014 H1: $72.837 million). EBIT was $14.504 million (FY2014 H1: $2.976 million) and the EBIT margin was 13.2 per cent (FY2014 H1: 4.1 per cent) which exceeded expectations.

The substantial increase in EBIT margin resulted from high levels of production efficiency in the Cape Class Patrol Boat (CCPB) program whilst maintaining schedule and quality and the Service business delivered a result that was consistent with expectations.

Shipbuilding sales opportunities are maturing and it is likely that follow on contracts will be secured.

Major production activity during the period included construction of CCPB 5, 6, 7 & 8 with the launch of one vessel and the delivery of two more, and the design and construction of the two High Speed Support Vessels (HSSV) for the Royal Navy of Oman with keels laid for both vessels during the period.

Sustainment activity was focussed on CCPB 1, 2, 3 & 4 which are already in service as well as the completion of annual dockings for several assets in Asia and the Americas under long term sustainment contracts.

Philippines Operations

The Philippines Shipyard delivered 9.8 per cent revenue growth over the PCP to $20.313 million (FY2014 H1: $18.495 million).

Major construction activity during the period included the completion and delivery of a fifth wind farm support vessel to Church Bay in the United Kingdom, customisation of the 102 metre trimaran ferry (Hull 270) following completion of the sale to Condor ferries in August 2014, and construction of two ferries for the Abu Dhabi National Oil Company.

Austal continued the investment in skills development and the establishment of a Philippines based design team.

Other activity

Austal completed the sale of the 102 metre stock trimaran (Hull 270) after Condor ferries exercised their option to acquire the vessel for $61.500 million in August 2014.

A portion of the proceeds from the sale of the vessel were applied to reduce US infrastructure-related debt by ~ US$21.500 million during the period.

Austal has a range of banking facilities that are provided under a syndicated facility agreement (SFA) that is due to mature on 31 December 2015. The Gulf Opportunity Zone bonds (Go Zone Bonds) which are recognised as infrastructure debt in the balance sheet are secured by letters of credit that are issued under the SFA, and whilst the Go Zone Bonds will mature in 2041, the letters of credit are presently scheduled to mature on 31 December 2015, therefore the debt has been reclassified from non-current to current at the end of the reporting period.

Refinancing activities are underway and a new SFA will be finalised during CY2015.

Interim dividend

The Board has declared a fully-franked interim dividend of 1 cent per share, compared to no dividend in the previous corresponding period.

The interim dividend will be paid on 26 March 2015 to shareholders on the Company's register on 16 March 2015, the record date for the interim dividend. The ex-dividend date is 12 March 2015.

Rounding of Amounts

The entity is a company of the kind specified in Australian Securities and Investments Commission class order 98/0100. In accordance with that class order, amounts in the consolidated financial statements and the Directors' Report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

Auditor's Declaration of Independence

Austal has obtained an independence declaration from its auditors, Ernst & Young, which is on page 6 and forms part of the Directors' Report.

This report has been made in accordance with a resolution of directors.

John Rothwell
Chairman
25 February 2015

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Auditor's Independence Declaration to the Directors of Austal Limited

In relation to our review of the financial report of Austal Limited for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Robert A Kirkby
Partner
25 February 2015

Consolidated statement of profit or loss and other comprehensive income
for the half-year ended 31 December 2014

	Notes		31 December 2014 '000		31 December 2013 '000
Revenue	4	$	680,186	$	505,791
Cost of sales	4		(625,983)		(451,000)
Gross Profit		$	54,203	$	54,791
Other income	4	$	19,759	$	11,165
Administration expenses			(22,540)		(32,031)
Write down of inventory	4		-		(10,234)
Marketing expenses			(5,753)		(4,781)
Finance costs	4		(2,757)		(5,106)
Profit before income tax		$	42,912	$	13,804
Income tax expense	10	$	(13,965)	$	(4,297)
Profit after tax		$	28,947	$	9,507
Profit attributable to:					
Owners of the parent		$	28,942	$	9,408
Non-controlling interests			5		99
Total		$	28,947	$	9,507
Other comprehensive income					
Amounts that may subsequently be reclassified to profit and loss:					
Cash flow hedges:					
- (Loss) / gain on cash flow hedges taken to equity		$	(28,849)	$	15,828
- Loss recycled out of equity			(6,287)		(15,497)
- Income tax benefit			10,789		363
- Net		$	(24,347)	$	694
Foreign currency translations:					
- Gain taken to equity		$	36,876	$	9,723
- Income tax expense			(1,282)		(253)
- Net		$	35,594	$	9,470
Other comprehensive income for the period, net of tax		$	11,247	$	10,164
Total comprehensive income for the period		$	40,194	$	19,671
Total comprehensive income attributable to:					
Owners of the parent		$	40,189	$	19,572
Non-controlling interests			5		99
Total		$	40,194	$	19,671
Earnings per share (cents per share)					
			cents / share		**cents / share**
- basic profit for the period attributable to ordinary equity holders of the parent			8.5		2.7
- diluted profit for the period attributable to ordinary equity holders of the parent			8.4		2.7

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 31 December 2014

	Notes	31 December 2014 ’000	30 June 2014 ’000
Assets			
Current Assets			
Cash and cash equivalents	11	$ 142,198	$ 77,345
Restricted cash	11	11,415	9,532
Trade and other receivables		39,950	95,753
Inventories		321,557	328,142
Prepayments		2,879	4,054
Derivatives	6	479	2,701
Total		$ 518,478	$ 517,527
Non - Current Assets			
Trade and other receivables		$ 164	$ 1,020
Prepayments		1,870	1,968
Derivatives	6	-	5,787
Property, plant and equipment		406,539	366,500
Intangible assets and goodwill		9,814	9,473
Deferred tax assets		19,838	9,022
Total		$ 438,225	$ 393,770
Total Assets		$ 956,703	$ 911,297
Liabilities			
Current Liabilities			
Trade and other payables		$ (161,237)	$ (183,570)
Derivatives	6	(14,197)	(1,972)
Interest-bearing loans and borrowings	7	(138,046)	(13,192)
Provisions		(32,462)	(33,704)
Government grants		(3,483)	(3,550)
Income tax payable		(14,750)	(10,980)
Progress payments received in advance		(44,627)	(29,062)
Total		$ (408,802)	$ (276,030)
Non - Current Liabilities			
Derivatives	6	$ (16,180)	$ (2,229)
Interest-bearing loans and borrowings	7	-	(142,264)
Provisions		(923)	(1,023)
Government grants		(56,285)	(49,892)
Deferred tax liabilities		-	(6,627)
Total		$ (73,388)	$ (202,035)
Total Liabilities		$ (482,190)	$ (478,065)
Net Assets		$ 474,513	$ 433,232
Equity			
Contributed equity	8	$ 112,040	$ 111,598
Reserves		39,184	27,292
Retained earnings		322,983	294,041
Equity attributable to owners of the parent		$ 474,207	$ 432,931
Non - controlling interests		$ 306	$ 301
Total Equity		$ 474,513	$ 433,232

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

Consolidated statement of changes in equity

for the half-year ended 31 December 2014

	Issued Capital '000	* Reserved Shares '000	Retained Earnings '000	FCTR '000	Employee Benefits Reserve '000	Cash flow Hedge Reserve '000	Common Control Reserve '000	Asset Reval'n Reserve '000	Total '000	Non Controlling Interest '000	Total Equity '000
Equity at 1 July 2013	**$ 120,940**	**$ (9,612)**	**$ 258,560**	**$ 8,454**	**$ 6,212**	**$ 11,077**	**$ (15,925)**	**$ 27,490**	**$ 407,196**	**$ (10)**	**$ 407,186**
Comprehensive Income											
Profit for the year	$ -	$ -	$ 9,408	$ -	$ -	$ -	$ -	$ -	$ 9,408	$ 99	$ 9,507
Other Comprehensive Income	-	-	-	9,469	-	689	-	-	10,158	-	10,158
Total	$ -	$ -	$ 9,408	$ 9,469	$ -	$ 689	$ -	$ -	$ 19,566	$ 99	$ 19,665
Other equity transactions											
Shares issued	$ 270	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 270	$ -	$ 270
Equity transfer	-	-	5,045	-	-	-	-	(5,045)	-	-	-
Cost of share-based payments	-	-	-	-	953	-	-	-	953	-	953
Total	$ 270	$ -	$ 5,045	$ -	$ 953	$ -	$ -	$ (5,045)	$ 1,223	$ -	$ 1,223
Equity as at 31 December 2013	**$ 121,210**	**$ (9,612)**	**$ 273,013**	**$ 17,923**	**$ 7,165**	**$ 11,766**	**$ (15,925)**	**$ 22,445**	**$ 427,985**	**$ 89**	**$ 428,074**
Equity as at 1 July 2014	**$ 121,210**	**$ (9,612)**	**$ 294,041**	**$ 7,605**	**$ 5,086**	**$ 8,769**	**$ (15,925)**	**$ 21,757**	**$ 432,931**	**$ 301**	**$ 433,232**
Comprehensive Income											
Profit for the year	$ -	$ -	$ 28,942	$ -	$ -	$ -	$ -	$ -	$ 28,942	$ 5	$ 28,947
Other Comprehensive Income	-	-	-	35,594	-	(24,347)	-	-	11,247	-	11,247
Total	$ -	$ -	$ 28,942	$ 35,594	$ -	$ (24,347)	$ -	$ -	$ 40,189	$ 5	$ 40,194
Other equity transactions											
Shares issued	$ 442	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 442	$ -	$ 442
Cost of share-based payments	-	-	-	-	645	-	-	-	645	-	645
Total	$ 442	$ -	$ -	$ -	$ 645	$ -	$ -	$ -	$ 1,087	$ -	$ 1,087
Equity as at 31 December 2014	**$ 121,652**	**$ (9,612)**	**$ 322,983**	**$ 43,199**	**$ 5,731**	**$ (15,578)**	**$ (15,925)**	**$ 21,757**	**$ 474,207**	**$ 306**	**$ 474,513**

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

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

Consolidated statement of cash flows
for the half-year ended 31 December 2014

	Notes	31 December 2014 '000	31 December 2013 '000
Cash flows from operating activities			
Receipts from customers		$ 823,332	$ 538,806
Payments to suppliers and employees		(685,971)	(486,093)
Interest received	4	632	171
Interest paid	4	(2,388)	(4,823)
Settlement of derivatives		(645)	4,006
Income tax paid		(16,643)	(11,115)
GST (payments) / refunds		(323)	2,695
Net cash from operating activities		$ 117,994	$ 43,647
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		$ 270	$ -
Purchase of property, plant and equipment		(3,859)	(1,733)
Purchase of intangible assets		-	(299)
Net cash used in investing activities		$ (3,589)	$ (2,032)
Cash flows from financing activities			
Proceeds from borrowings		$ -	$ 36,025
Repayment of borrowings		(38,430)	(70,256)
Net cash used in financing activities		$ (38,430)	$ (34,231)
Net increase in cash and cash equivalents		$ 75,975	$ 7,384
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		$ 86,877	$ 107,703
Net foreign exchange differences		(9,239)	(4,793)
Net increase in cash and cash equivalents		75,975	7,384
Cash and cash equivalents at end of the period	11	$ 153,613	$ 110,294

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

Notes to the financial statements

For the half-year ended 31 December 2014

Note 1. Corporate information

The half-year consolidated financial report of Austal Limited and its controlled entities (the Company) for the period ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 25 February 2015.

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

Note 2. Basis of preparation

The Half-Year Financial Report is a general purpose condensed financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 "Interim Financial Reporting".

The Half-Year Financial report does not include all of the notes of the type normally included within the Annual Financial Report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the Annual Financial Report.

The Half-Year Financial Report should be read in conjunction with the Annual Financial Report of Austal Limited as at 30 June 2014.

It is also recommended that the half-year financial report be considered together with any public announcements made by Austal Limited and its controlled entities during the half-year ended 31 December 2014 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

The Half-Year Consolidated Financial Statements have been prepared using the same accounting policies as used in the Annual Financial Statements for the year ended 30 June 2014. The Group has adopted all of the mandatory Standards and Interpretations for annual reporting periods beginning 1 July 2014. The new standards applied during the period are set out below.

The Group has not elected to early adopt any new standards or interpretations that are not mandatorily effective.

Reference	Title	Impact on the Group
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. Application date for the Group: 1 July 2014	There was no impact on the Group's financial position or performance
Interpretation 21	Levies This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation. Application date for the Group: 1 July 2014	There was no impact on the Group's financial position or performance
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. Application date for the Group: 1 July 2014	There was no impact on the Group's financial position or performance
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139] AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. Application date for the Group: 1 July 2014	There was no impact on the Group's financial position or performance
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139] These amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 Business Combinations when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127. Application date for the Group: 1 July 2014	There was no impact on the Group's financial position or performance
AASB 2013-7	Amendments to AASB 1038 arising from AASB 10 in relation to Consolidation and Interests of Policyholders [AASB 1038] AASB 2013-7 removes the specific requirements in relation to consolidation from AASB 1038, which leaves AASB 10 as the sole source for consolidation requirements applicable to life insurer entities. Application date for the Group: 1 July 2014	There was no impact on the Group's financial position or performance

Reference	Title	Impact on the Group
AASB 1031	*Materiality* The revised AASB 1031 is an interim standard that cross-references to other Standards and the F*ramework (*issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed. AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014*. Application date for the Group: 1 July 2014	There was no impact on the Group's financial position or performance
AASB 2013-9	*Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments* The Standard contains three main parts and makes amendments to a number Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Application date for the Group: period ending 31 December 2013 Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Application date for the Group: period beginning 1 June 2014 Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 *Hedge Accounting* into AASB 9 *Financial Instruments*. Application date for the Group: period beginning 1 June 2015	There was no impact on the Group's financial position or performance

Note 3. Operating segments

	Australia '000	USA '000	Philippines '000	Unallocated '000	Elimination / Adjustments '000	Total '000
Half Year Ended 31 December 2014						
Revenues						
External customers	$ 98,031	$ 498,346	$ 14,870	$ 67,265	$ 1,042	$ 679,554
Inter-segment	11,943	-	5,443	-	(17,386)	-
Finance income	-	-	-	632	-	632
Total	$ 109,974	$ 498,346	$ 20,313	$ 67,897	$ (16,344)	$ 680,186
Segment result						
EBIT	$ 14,504	$ 27,372	$ 1,882	$ 6,120	$ (4,841)	$ 45,037
Finance income	-	-	-	632	-	632
Finance expenses	-	-	-	(2,757)	-	(2,757)
Total	$ 14,504	$ 27,372	$ 1,882	$ 3,995	$ (4,841)	$ 42,912
Balance Sheet						
Segment Assets	$ 195,867	$ 736,898	$ 34,402	$ 586,146	$ (596,610)	$ 956,703
Segment Liabilities	(161,857)	(449,727)	(24,446)	(141,692)	295,532	(482,190)

	Australia '000	USA '000	Philippines '000	Unallocated '000	Elimination / Adjustments '000	Total '000
Half Year Ended 31 December 2013						
Revenues						
External customers	$ 60,966	$ 418,118	$ 18,495	$ 8,041	$ -	$ 505,620
Inter-segment	11,871	-	-	1,558	(13,429)	-
Finance income	-	-	-	171	-	171
Total	$ 72,837	$ 418,118	$ 18,495	$ 9,770	$ (13,429)	$ 505,791
Segment result						
EBIT	$ 2,976	$ 26,912	$ 270	$ (10,958)	$ (461)	$ 18,739
Finance income	-	-	-	171	-	171
Finance expenses	-	-	-	(5,106)	-	(5,106)
Total	$ 2,976	$ 26,912	$ 270	$ (15,893)	$ (461)	$ 13,804
Balance Sheet as at 30 June 2014						
Segment Assets	$ 192,119	$ 662,948	$ 22,261	$ 577,205	$ (543,236)	$ 911,297
Segment Liabilities	(174,198)	(456,424)	(15,263)	(142,867)	310,687	(478,065)

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

Identification of reportable segments

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

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

Reportable segments

The reportable segments were Australia, USA and Philippines.

Australia

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

USA

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

Philippines

The Philippines business manufactures high performance commercial vessels for global markets excluding the USA.

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.

Unallocated

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

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

The Group sold Hull 270 to Condor Ferries during the period. The vessel was sold for $61.500 million and is presented in the unallocated revenue segment. The vessel was included in unallocated segment assets as at 30 June 2014.

Note 4. Revenue and expenses

Specific Items

Profit before income tax expense from continuing operations includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

		31 December 2014 '000		31 December 2013 '000
(i) Revenue				
Construction contract revenue	$	657,374	$	481,494
Service and charter revenue		22,180		23,931
Rental income		-		195
Interest from other unrelated parties		632		171
Total	$	680,186	$	505,791
(ii) Cost of sales				
Construction contract	$	(613,579)	$	(438,977)
Service and charter		(12,404)		(12,023)
Total	$	(625,983)	$	(451,000)
(iii) Other income				
Net foreign exchange gains	$	10,298	$	3,373
Government grants		5,780		1,889
(Loss) / Gain on disposal of property, plant and equipment		(331)		3,582
Sale of scrap		2,647		1,824
Other income		1,365		497
Total	$	19,759	$	11,165
(iv) Finance costs				
Amortisation of capitalised borrowing costs	$	(369)	$	(283)
Interest paid to unrelated parties		(2,388)		(4,823)
Total	$	(2,757)	$	(5,106)
(vi) Depreciation and amortisation summary				
Depreciation	$	(10,451)	$	(10,861)
Amortisation		(676)		(1,131)
Total	$	(11,127)	$	(11,992)
(vii) Inventory write down				
Inventory write down	$	-	$	(10,234)
Total	$	-	$	(10,234)

Note 5. Dividends

	31 December 2014 ’000	31 December 2013 ’000
Ordinary dividends		
Declared and paid during the period	$ -	$ -
Proposed and not recognised as a liability (fully franked at 30 per cent)		
Interim franked dividend for FY2015: 1 cent (FY2014: nil)	$ 3,469	$ -

Note 6. Financial instruments

An overview of financial instruments other than cash and short-term deposits held by the Group as at 31 December 2014 is set out below:

	Loans and receivables $’000	Fair value in profit or loss $’000	Fair value in other comprehensive income $’000
Financial assets:			
Trade and other receivables	$ 39,950	$ -	$ -
Forward exchange contracts	-	-	479
Total current	$ 39,950	$ -	$ 479
Trade and other receivables	$ 164	$ -	$ -
Total non-current	$ 164	$ -	$ -
Total	$ 40,114	$ -	$ 479
Financial liabilities:			
Go Zone bonds	$ (138,046)	$ -	$ -
Bank loan (unsecured)	-	-	-
Trade and other payables	(161,237)	-	-
Forward exchange contracts	-	-	(14,197)
Total current	$ (299,283)	$ -	$ (14,197)
Forward exchange contracts	-	-	(16,180)
Total non-current	$ -	$ -	$ (16,180)
Total	$ (299,283)	$ -	$ (30,377)

Instruments allocated to the column ‘fair value in other comprehensive income’ are derivative financial instruments designated as cash flow hedges.

i. Cash flow hedges for currency risks

Austal designated foreign currency forward contracts as hedges of highly probable purchases and receipts in USD, EUR, NOK, NZD, SEK and GBP from suppliers and customers in the United States, Europe, Norway, New Zealand, Sweden and the United Kingdom, respectively. The forecast purchases and receipts are expected to occur from the date of this report through to June 2020.

ii. Fair values

A comparison of the carrying amounts and fair values of financial instruments as at 31 December 2014 is set out below:

	31 December 2014 Carrying amount $'000	31 December 2014 Fair value $'000	30 June 2014 Carrying amount $'000	30 June 2014 Fair value $'000
Financial assets:				
Trade and other receivables	$ 39,950	$ 39,950	$ 95,753	$ 95,753
Forward exchange contracts	479	479	2,701	2,701
Total current	$ 40,429	$ 40,429	$ 98,454	$ 98,454
Trade and other receivables	$ 164	$ 164	$ 1,020	$ 1,020
Forward exchange contracts	-	-	5,787	5,787
Total non-current	$ 164	$ 164	$ 6,807	$ 6,807
Total	$ 40,593	$ 40,593	$ 105,261	$ 105,261
Financial liabilities:				
Go Zone bonds	$ (138,046)	$ (138,046)	$ -	$ -
Revolving credit facility	-	-	(12,000)	(12,000)
Bank loan (unsecured)	-	-	(1,192)	(1,192)
Overdrafts	-	-	-	-
Trade and other payables	(161,237)	(161,237)	(183,570)	(183,570)
Forward exchange contracts	(14,197)	(14,197)	(1,972)	(1,972)
Total current	$ (313,480)	$ (313,480)	$ (198,734)	$ (198,734)
Go Zone bonds	$ -	$ -	$ (142,264)	$ (142,264)
Forward exchange contracts	(16,180)	(16,180)	(2,229)	(2,229)
Total non-current	$ (16,180)	$ (16,180)	$ (144,493)	$ (144,493)
Total	$ (329,660)	$ (329,660)	$ (343,227)	$ (343,227)

iii. Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities.
Level 2 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable).
Level 3 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

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

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

The Group held the following classes of financial instruments measured at fair value at 31 December 2014:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Balance 31 December 2014				
Financial assets				
Forward exchange contracts used for hedging	$ -	$ 479	$ -	$ 479
Total	$ -	$ 479	$ -	$ 479
Financial liabilities				
Forward exchange contracts used for hedging	$ -	$ (30,377)	$ -	$ (30,377)
Total	$ -	$ (30,377)	$ -	$ (30,377)
Balance 30 June 2014				
Financial assets				
Forward exchange contracts used for hedging	$ -	$ 8,488	$ -	$ 8,488
Total	$ -	$ 8,488	$ -	$ 8,488
Financial liabilities				
Forward exchange contracts used for hedging	$ -	$ (4,201)	$ -	$ (4,201)
Total	$ -	$ (4,201)	$ -	$ (4,201)

iv. Valuation techniques

The Group enters into derivative financial instruments with counterparty banks with investment grade credit ratings. Derivatives are valued using valuation techniques with market observable inputs. These include foreign exchange forward and swap contracts. 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 currency.

The fair value of derivative asset positions 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.

Note 7. Interest bearing loans and borrowings

		31 December 2014 '000		30 June 2014 '000
Current				
Revolving credit facility (i)	$	-	$	(12,000)
Bank loan (unsecured) (ii)		-		(1,192)
Go Zone bonds (iii)		(138,046)		-
Total	$	(138,046)	$	(13,192)
Non - Current				
Go Zone bonds (iii)	$	-	$	(142,264)
Total	$	-	$	(142,264)
Total	$	(138,046)	$	(155,456)

Terms and conditions in relation to the above interest bearing liabilities:

(i) The Revolving Credit Facility is provided under a Syndicated Facility Agreement (SFA) which was executed on 19 July 2013. The maturity of the SFA is 31 December 2015. This facility was undrawn at 31 December 2014.

(ii) The Bank Loan was payable in instalments up to October 2014, with an average variable interest rate for FY2015 H1 of 4.3% (FY2014: 4.8%). This facility was repaid in full on 13 October 2014.

(iii) The Go Zone Bonds of US$113.540 million are variable rate demand bonds and mature on 1 May 2041, payable in US dollars. The Go Zone Bonds are wrapped by Letters of Credit that are provided under the Syndicated Facility Agreement. The letters of credit will expire 31 December 2015.

i. Go Zone Bonds

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

Go Zone Bonds are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 0.039% in FY2015 H1. GZB holders are secured by letters of credit issued by Austal's banking syndicate with a maturity date of 31 December 2015. The average cost of the letters of credit in FY2015 H1 was 2.237%.

Austal has redeemed (repaid) a cumulative amount of ~ US$111.460 million of GZB funds and owes US$113.540 million at 31 December 2014.

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

The Gulf Opportunity Zone bonds (Go Zone Bonds) which are recognised as infrastructure debt in the balance sheet are secured by letters of credit that are issued under the SFA, and whilst the Go Zone Bonds will mature in 2041, the letters of credit are presently scheduled to mature on 31 December 2015, therefore the debt has been reclassified from non-current to current at the end of the reporting period.

Refinancing activities are underway and a new SFA will be finalised during CY2015.

Note 8. Contributed equity

	Shares		'000	
	31 December 2014	30 June 2014	31 December 2014	30 June 2014
Ordinary Shares on Issue				
Opening	346,544,933	346,173,195	$ 121,210	$ 120,940
Shares issued during the year (i)	320,236	371,738	442	270
Closing	346,865,169	346,544,933	$ 121,652	$ 121,210
Reserved Shares				
Opening	(4,350,601)	(4,350,601)	$ (9,612)	$ (9,612)
Options exercised	-	-	-	-
Closing	(4,350,601)	(4,350,601)	$ (9,612)	$ (9,612)
Net	342,514,568	342,194,332	$ 112,040	$ 111,598

(i) During the period ended 31 December 2014:

a. 227,634 shares (2013: 371,738) were issued to Mr Andrew Bellamy on 17 November 2014 (2013: 26 November 2013) as part of his contract of employment for services provided during the financial year ended 30 June 2014.
b. 92,602 shares were issued to Mr Andrew Bellamy on 2 February 2015 as part of his contract of employment for services provided in FY2015 H1.

(ii) During the period ended 31 December 2014, the Group issued 1,173,456 performance rights which were accounted for as share based payments (2013: 1,049,022 performance rights).

Note 9. Share based payments

Two tranches of performance rights were granted under the Long Term Incentive plan (LTI) in October 2014,

- Tranche A - 794,066 rights were granted to Senior Executives, and
- Tranche B - 379,390 rights were granted to the Chief Executive Officer

Total Shareholder Return (TSR) and Return On Invested Capital (ROIC) will be used to determine performance rights under the LTI Plan to determine whether or not the rights will vest.

i. Total Shareholder Return (TSR)

Total Shareholder Return (TSR): 30% of the LTI Plan will be determined by TSR.

- TSR of 25% over three years results in 100% vesting of the performance rights relating to TSR.
- Zero rights vest with TSR of less than 15%.
- Performance rights will vest on a pro-rata, linear basis within those bands.
- The calculation of TSR will be based on a VWAP of 6 months prior to the offer date and again when calculating the relevant share price at the end of the performance period.

ii. Return on Invested Capital (ROIC)

Return On Invested Capital (ROIC): 70% of the LTI Plan will be determined by a ROIC (calculated as – net operating profit after tax (NOPAT) / net assets (excluding cash, debt, derivatives and tax accounts)

- ROIC of 8.8% per annum over the performance period results in 100% vesting of the performance rights relating to ROIC.
- Zero rights vest with ROIC of less than 6.9%.
- Performance rights will vest on a pro-rata, linear basis within those bands.

iii. Fair value of performance rights

The fair value of the rights is estimated at the date of grant using the Monte Carlo simulation method, taking into accounts the terms and conditions upon which the rights were granted.

The contractual life for each right granted for both of the tranches is three years. The fair value of the rights granted during the first six months ended 31 December 2015 was estimated on the date of grant using the following assumptions:

	Assumptions	
	Tranche A	Tranche B
Monte Carlo simulation method assumptions		
Discount Rate	2.6% p.a.	2.6% p.a.
Dividend Yield	Nil	Nil
Share Price Volatility	40% p.a.	40% p.a.
Staff Turnover	33%	33%
Grant Date	30 October 2014	21 October 2014

The weighted average fair value of the rights granted during the period was $1.13 per right (FY2014: $0.65).

The Group has recognised $640k of share-based payments transactions expenses in the statement of profit and loss (31 December 2013: $953k), for the period ended 31 December 2014.

Note 10. Income tax

		31 December 2014 '000		31 December 2013 '000
Major components of tax expense for the half years ended 31 December 2014 and 31 December 2013 are:				
Consolidated Profit & Loss				
Current Income Tax				
Current income tax charge	$	(19,876)	$	(10,522)
Deferred Income Tax				
Relating to origination and reversal of temporary differences	$	5,885	$	6,225
Adjustments in respect of deferred income tax of the previous year		26		-
Total income tax (expense)	$	(13,965)	$	(4,297)
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	$	9,507	$	109
Total benefit charged to OCI	$	9,507	$	109
Equity				
Current and deferred income tax related items charged or credited directly to other equity items				
Capital raising costs	$	-	$	784
Total benefit charged to other equity	$	-	$	784

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

		31 December 2014 '000		31 December 2013 '000
Accounting profit before income tax from continuing operations	$	42,912	$	13,804
Income Tax at the Group's statutory income tax rate of 30% (2013: 30%)	$	(12,874)	$	(4,141)
Adjustment for Austal USA statutory income tax rate of 36.9% (2013: 36.9%)	$	(1,437)	$	(651)
Other foreign tax rate differences		126		158
Branch (profit) / loss		(130)		12
US section 199 domestic manufacturing deduction		609		628
Research and development and other tax offsets and credits		746		-
Adjustments in respect of current and deferred income tax of the previous year		26		-
Other non-assessable or non-deductible items		(1,031)		(303)
Total Adjustments	$	(1,091)	$	(156)
Income tax (expense) reported in the statement of comprehensive income	$	(13,965)	$	(4,297)

Note 11. Cash and cash equivalents

Cash and cash equivalents, net of cash held as a guarantee, comprise the following at 31 December:

	31 December 2014 '000	30 June 2014 '000
Current		
Cash at bank and in hand	$ 142,198	$ 77,345
Restricted cash:		
Unutilised Go Zone bond funds (i)	11,415	9,532
Total cash per the cash flow statement	$ 153,613	$ 86,877

Cash at bank earns interest at floating rates on daily bank deposit rates.

(i) Unutilised Go Zone Bonds which are only spent on capital works projects that are specifically identified in the documentation to investors.

Note 12. Commitments and contingencies

There have been no material changes in commitments and contingencies since the last annual reporting date.

Note 13. Related party disclosure

There were no transactions with related parties outside the Group during the half-year. The Group has a policy that all transactions with related parties are conducted on commercial terms and conditions.

Note 14. Events after the reporting date

The directors declared an interim dividend on ordinary shares in respect of the FY2015 H1 on 25 February 2015. The total amount of the dividend is $3,468,652 which represents a fully franked dividend of 1 cent per share. The dividend has not been provided for in the 31 December 2014 financial statements.

Directors' Declaration

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

In the opinion of the directors:

(a) The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

  (i) Giving a true and fair view of the financial position as at 31 December 2014 and the performance for the half-year ended on that date of the consolidated entity

  (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001

(b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the board

John Rothwell
Chairman
25 February 2015

Independent review report

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To the members of Austal Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Austal Limited, which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Austal Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Austal Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Robert A Kirkby
Partner
Perth
25 February 2015