



AUSTAL LIMITED | 31 DECEMBER 2017 | HALF YEAR REPORT

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Directors' report

It is my pleasure to present the financial report for the half-year ended 31 December 2017 to you on behalf of the Board of Austal Limited.

Directors

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

- John Rothwell (Chairman)
- David Singleton (Chief Executive Officer)
- Giles Everist (Non-Executive Director)
- Jim McDowell (Non-Executive Director)
- Sarah Adam-Gedge (Non-Executive Director - appointed 28 August 2017)

Principal Activities

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

Results

Austal reported key financial results are as follows:

- FY2018 H1 revenue was \$653.016 million which is marginally higher than the prior corresponding period (PCP) (FY2017 H1: \$649.234 million).
- Group Profit Before Tax (PBT) was \$25.327 million (FY2017 H1: \$15.045 million).
- Earnings Before Interest and Tax (EBIT) was \$29.228 million (FY2017 H1: \$18.079 million).
- Net Profit After Tax (NPAT) of \$25.568 million (FY2017 H1: \$9.345 million).
- Operating cash flow was \$(16.885) million (FY2017 H1: \$(43.844) million).

Reconciliation of EBIT and EBITDA (unaudited)

	31 December 2017	31 December 2016
	\$'000	\$'000
Profit before income tax	\$ 25,327	\$ 15,045
Finance costs	\$ 4,032	\$ 3,762
Finance income	(131)	(728)
EBIT	\$ 29,228	\$ 18,079
Depreciation	\$ 16,777	\$ 14,694
Amortisation	488	555
EBITDA	\$ 46,493	\$ 33,328

Austal uses a number of non-IFRS measures to assess performance which 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 Group. EBIT and EBITDA are used by management to understand operating performance of the Group.

Review of Operations

USA Operations

USA segment revenue was \$557.732 million (FY2017 H1: \$594.277 million), and EBIT was \$36.215 million (FY2017 H1: \$41.115 million). Total EBIT margin was 6.5 per cent (FY2017 H1: 6.9 per cent). The segment result is a combination of shipbuilding, systems and support activities.

Revenue and earnings were lower than the prior corresponding period, principally due to:

- Lower production activity given a moderation in the order intake over the past three years.
- A stronger average USD / AUD exchange rate, negatively impacting the translation of USD revenue and earnings into AUD.
- Lower first half Support earnings due to the timing of contract award fees.

Austal was awarded a contract to build LCS 30 during FY2018 H1, the 15th LCS to be constructed by the Company. Austal was awarded two of the three LCS vessels contracted in CY2017 under a competitive tender process against the Freedom-class variant, built by Lockheed Martin.

Austal USA now has 12 ships on order across the its two major defence vessel contracts for the US Navy, the ~ US\$5.2 billion Littoral Combat Ship (LCS) program and the ~ US\$2.2 billion Expeditionary Fast Transport (EPF) program.

Two vessels were delivered in FY2018 H1 after completion of United States Navy (USN) acceptance trials, LCS 12 USS Omaha in September 2017 and EPF 9, USNS City of Bismarck in December 2017.

LCS 14 USS Manchester successfully completed acceptance trials in the Gulf of Mexico during December 2017 and is scheduled for delivery in CY2018 H1 and another six LCS are currently under construction. LCS 16 USS Tulsa, LCS 18 USS Charleston and LCS 20 USS Cincinnati are preparing for trials and final assembly is well underway on LCS 22 USS Kansas City and LCS 24 USS Oakland. The first aluminium plate was cut for the future LCS 26 USS Mobile in December 2017.

Australia Operations

The Australia segment reported revenue of \$80.846 million (FY2017 H1: \$47.386 million), with a close to breakeven EBIT loss of \$(0.008) million (FY2017 H1 EBIT: \$1.744 million).

Throughput at Austal's Henderson shipyard has increased significantly over the past 18 months, delivering revenue growth based on the growing order book of commercial and defence programs, including:

- construction work on the \$305 million 19-ship Pacific Patrol Boat Replacement (PPBR) program and the ~ \$90 million, 109-metre Mols vehicle passenger ferry.
- design work on the ~ \$108 million 109 metre Fjord Line ferry (awarded in August 2017) and the ~\$190 million contract for 2 Fred Olsen trimaran ferries (awarded in October 2017).
- sustainment work on the Cape Class Patrol Boat support contract and Armidale Class Patrol Boat remediation contract.
- Cape Class Patrol Boats 9 & 10, constructed for NAB which are both under charter to the Royal Australian Navy since delivery in late FY2017.

The breakeven result in Australia reflected:

- zero profit recognition for Pacific Patrol Boat 1 until it is delivered in FY2019.
- no contribution from the CCPB Sustainment contract which was declared to be onerous in FY2017.
- inadequate shipbuilding throughput.

Austal was disappointed that it did not win the Royal Australian Navy's Offshore Patrol Vessel program outright but the Government's indication that it wishes Austal to be involved in the program has the potential to provide a backbone of work for the Henderson shipyard over the next 15 - 20 years. This outcome would ensure that the export of commercial ships from Henderson can continue thereby providing that hundreds of jobs in Western Australia are maintained in addition to those employed directly on the OPV program. When awarding the contract in November 2017, the Federal Government indicated that the prime contractor Lürssen would include Austal in building the 10 OPV in Henderson, subject to satisfactory commercial negotiations.

Two new contracts were awarded in FY2018 H1. A \$108 million contract to design and build a 109 metre high-speed vehicle passenger ferry for Fjord Line in Norway was awarded in August 2017. The design phase has substantially progressed by December 2017. Construction is due to commence in February 2018 at the Philippines shipyard. The vessel will be transported to Australia for final sea trials and handover to the client in January 2020 following launch and commissioning in the Philippines.

Austral was awarded a \$190 million contract to design and build two 117 metre high-speed vehicle passenger trimaran ferries for long term customer Fred Olsen of the Canary Islands, Spain in October 2017. The design phase commenced at the Henderson shipyard in November 2017 and is anticipated to conclude in November 2018. The build location is yet to be announced. The vessels are scheduled to be delivered in April 2020 and January 2021.

Sustainment activity in FY2018 H1 included the continuation of servicing and support for the 8 vessel Cape Class Patrol Boat (CCPB) fleet, operated by the Australian Border Force throughout Northern Australia and mid-life remediation works for four Armidale Class Patrol Boats for the Royal Australian Navy and continues through FY2018 H2. Austral was awarded a sustainment contract worth up to \$18 million over three years for CCPB 9 & 10, Cape Fourcroy and Cape Inscription.

Other opportunities include the Commonwealth of Australia's announcement in November 2017 stating its intent to purchase two additional Pacific Patrol Boats. This will increase the total production quantity to 21 from 19 already committed. Austral announced the establishment of a Memorandum of Understanding with JR Kyushu Jet Ferry to develop a new 80 metre high speed trimaran passenger ferry concept for JR Kyushu Jet Ferry's route from Japan to South Korea.

Philippines Operations

The Philippines reported revenue of \$22.614 million (FY2017 H1: \$12.724 million) and an EBIT loss of \$(1.087) million (FY2017 H1: \$(2.819) million).

The Philippines shipyard increased throughput during FY2018 H1, progressing towards a level of throughput that will enable consistent delivery of earnings when larger commercial ferry contracts transition from the design to construction phase. Revenue is expected to rise significantly in FY2019.

Austral's footprint in Asia is critical in maintaining its leading position in the fast ferry market. Austral is closely analysing the best options for its planned US\$30 million investment in expanded Asian construction capacity given the significant contracts awarded to Austral and ongoing opportunities for additional commercial ferries. In particular, the Company is identifying options that would enable it to double its construction capability from one large (100m+) ferry to the parallel construction of two large ferries at a time in Asia.

The order book in the Philippines now includes VS Ferries Corporation of Samar in the Philippines who awarded a \$5.5 m contract to Austral for the construction of a 30 metre all-aluminium catamaran, designed by Incat Crowther. Construction commenced in September 2017, with delivery scheduled for August 2018.

A contract to design and build two 50 metre high speed catamarans for Taiwan's Braveline was awarded in September 2017. This represents the first commercial contract award in Taiwan, valued at \$44 million. Construction of the two vessels will commence in FY2018 H2, with delivery scheduled for February 2019 and April 2019.

SNC Aremiti (part of Groupe Degage) awarded a \$30 million contract to design and build a new 49 metre high-speed passenger catamaran ferry in December 2017. This represents the fifth vessel Austral will deliver to French Polynesia since 2002. The vessel will be designed in Australia and construction of the vessel will commence in the Philippines in June 2018, with delivery scheduled for July 2019.

The 56 metre high speed passenger ferry for FRS of Germany, awarded in December 2016 is well under construction, with delivery scheduled for February 2018.

The Philippines will play a significant role in the construction of the 109 metre high-speed vehicle passenger ferry for Fjord Line in Norway. Construction is anticipated to commence in February 2018, with launch expected in September 2019. The vessel will be shipped to Australia in October 2019 for completion of final sea trials and vessel handover in January 2020.

Cash management & dividends

\$6.252 million cash (net of participation in the dividend reinvestment plan) was returned to shareholders via a fully franked dividend and the Board declared a fully franked dividend of 2 cents per share on 28 August 2017, compared to a dividend of 2 cents per share on 28 August 2016 in the previous corresponding period. The dividend was paid to shareholders on 6 October 2017. US\$4.500 million of cash was applied to the repayment of Go Zone Bonds.

Austal has historically fluctuated between a net cash / (debt) position over recent years given the nature of lump sum milestone payments in shipbuilding contracts and the net debt position has continued to be impacted by the Cape Class Patrol Boat 9 & 10 leasing program, where the accounting treatment of the residual value guarantee increased net debt by \$(61.197) million at 31 December 2017.

The net debt position was \$(10.781) million at 31 December 2017 (net cash of \$19.308 million at 30 June 2017) excluding this impact. Net debt including CCPB 9 & 10 was \$(71.978) million at 31 December 2017 (net debt of \$(45.884) million at 30 June 2017).

Importantly, Austal has maintained a strong cash balance of \$112.004 million (30 June 2017: \$150.471 million), supporting the ongoing payment of dividends. An unfranked interim dividend of 2 cents per share was declared post 31 December 2017.

Rounding of Amounts

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.

Auditor's Declaration of Independence

Austal has obtained an independence declaration from its auditors, Deloitte Touche Tohmatsu, 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

26 February 2018



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

26 February 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 review of the financial statements of Austal Limited for the half year ended 31 December 2017, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

A T Richards
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Consolidated statement of profit and loss and other comprehensive income for the half-year ended 31 December 2017

	Notes	31 December 2017 '000	31 December 2016 '000
Continuing operations			
Revenue	4	\$ 653,016	\$ 649,234
Cost of sales	4	(596,693)	(592,653)
Gross Profit		\$ 56,323	\$ 56,581
Other income and expenses	4	\$ 8,836	\$ (4,078)
Administration expenses		(28,824)	(26,379)
Marketing expenses		(6,976)	(7,317)
Finance costs		(4,032)	(3,762)
Profit / (loss) before income tax		\$ 25,327	\$ 15,045
Income tax benefit / (expense)	11	\$ 241	\$ (5,700)
Profit / (loss) after tax		\$ 25,568	\$ 9,345
Profit attributable to:			
Owners of the parent		\$ 25,568	\$ 9,345
Total		\$ 25,568	\$ 9,345
Other comprehensive income (OCI)			
Amounts that may subsequently be reclassified to profit and loss:			
Cash flow hedges			
- Gain / (loss) taken to equity		\$ (423)	\$ 556
- (Gain) / loss recycled out of equity		(403)	2,680
- Income tax benefit / (expense)		95	(959)
- Net		\$ (731)	\$ 2,277
Foreign currency translations			
- Gain / (loss) taken to equity		\$ (7,091)	\$ 11,999
- Income tax benefit / (expense)		-	(46)
- Net		\$ (7,091)	\$ 11,953
Other comprehensive income net of tax for the period		\$ (7,822)	\$ 14,230
Total comprehensive income for the period		\$ 17,746	\$ 23,575
Total comprehensive income attributable to:			
Owners of the parent		\$ 17,746	\$ 23,575
Total		\$ 17,746	\$ 23,575
Earnings per share (cents per share)			
		cents / share	cents / share
- basic for profit for the period attributable to ordinary equity holders of the parent		7.4	2.7
- diluted for profit for the period attributable to ordinary equity holders of the parent		7.4	2.6

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 2017

	Notes	31 December 2017 '000	30 June 2017 '000
Assets			
Current			
Cash and cash equivalents	12	\$ 112,004	\$ 150,471
Trade and other receivables		98,131	91,148
Inventories		196,388	170,422
Prepayments		5,395	6,077
Derivatives	6	1,404	1,051
Assets held for sale		-	2,529
Income tax refundable		3,045	706
Total		\$ 416,367	\$ 422,404
Non - Current			
Other financial assets		\$ 9,814	\$ 9,626
Investment in joint venture	7	2,145	1,847
Derivatives	6	2,738	1,985
Property, plant and equipment		487,588	500,304
Intangible assets and goodwill		8,804	8,909
Deferred tax assets		6,614	5,630
Other non-current assets	8	13,226	9,296
Total		\$ 530,929	\$ 537,597
Total		\$ 947,296	\$ 960,001
Liabilities			
Current			
Trade and other payables		\$ (117,975)	\$ (154,914)
Derivatives	6	(2,927)	(4,052)
Interest bearing loans and borrowings	9	(127,003)	(9,868)
Provisions		(39,306)	(46,586)
Deferred grant income		(7,669)	(7,934)
Progress payments received in advance		(50,737)	(15,554)
Total		\$ (345,617)	\$ (238,908)
Non - Current			
Derivatives	6	\$ (2,969)	\$ (1,073)
Interest bearing loans and borrowings	9	(56,979)	(186,487)
Provisions		(3,054)	(2,864)
Deferred grant income		(59,319)	(62,881)
Deferred tax liabilities		(10,221)	(10,874)
Total		\$ (132,542)	\$ (264,179)
Total		\$ (478,159)	\$ (503,087)
Net Assets		\$ 469,137	\$ 456,914
Equity			
Equity attributable to owners of the parent			
Contributed equity	10	\$ 117,372	\$ 116,384
Reserves		84,293	91,637
Retained earnings		267,472	248,893
Total		\$ 469,137	\$ 456,914
Total		\$ 469,137	\$ 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 half-year ended 31 December 2017

	Issued Capital '000	Reserved 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 period	\$ -	\$ -	\$ 9,345	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,345
Other Comprehensive Income	-	-	-	11,953	-	2,277	-	-	14,230
Total	\$ -	\$ -	\$ 9,345	\$ 11,953	\$ -	\$ 2,277	\$ -	\$ -	\$ 23,575
Other equity transactions									
Shares issued	\$ 1,073	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,073
Dividends	-	-	(6,968)	-	-	-	-	-	(6,968)
Repayment of shareholder loans	-	79	-	-	-	-	-	-	79
Acquisition of minority stake	-	-	-	-	-	-	-	-	-
Transfer between reserves ²	-	-	4,105	-	(4,105)	-	-	-	-
Share based payments expense	-	-	-	-	506	-	-	-	506
Total	\$ 1,073	\$ 79	\$ (2,863)	\$ -	\$ (3,599)	\$ -	\$ -	\$ -	\$ (5,310)
Equity at 31 December 2016	\$ 124,812	\$ (8,922)	\$ 248,624	\$ 89,931	\$ 2,835	\$ (4,583)	\$ (17,594)	\$ 40,714	\$ 475,817
Equity at 1 July 2017	\$ 128,276	\$ (11,892)	\$ 248,893	\$ 66,647	\$ 2,561	\$ (693)	\$ (17,594)	\$ 40,716	\$ 456,914
Comprehensive Income									
Profit for the period	\$ -	\$ -	\$ 25,568	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,568
Other Comprehensive Income	-	-	-	(7,091)	-	(731)	-	-	(7,822)
Total	\$ -	\$ -	\$ 25,568	\$ (7,091)	\$ -	\$ (731)	\$ -	\$ -	\$ 17,746
Other equity transactions									
Shares issued for dividend reinvestment plan	\$ 716	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 716
Dividends	-	-	(6,989)	-	-	-	-	-	(6,989)
Shares issued to employee share trust	721	(721)	-	-	-	-	-	-	-
Shares issued for vested performance rights	201	-	-	-	(201)	-	-	-	-
Dividend retained in relation to AGMSP ³	8	63	-	-	-	-	-	-	71
Transfer	(494)	494	-	-	-	-	-	-	-
Share based payments expense	-	-	-	-	679	-	-	-	679
Total	\$ 1,152	\$ (164)	\$ (6,989)	\$ -	\$ 478	\$ -	\$ -	\$ -	\$ (5,523)
Equity at 31 December 2017	\$ 129,428	\$ (12,056)	\$ 267,472	\$ 59,556	\$ 3,039	\$ (1,424)	\$ (17,594)	\$ 40,716	\$ 469,137

1. Reserved Shares are held in relation to employee share trust.
2. Transfer of completed unvested equity benefit schemes, which had not met their respective performance criteria, to Retained Earnings.
3. 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 2017

	Notes	31 December 2017 '000	31 December 2016 '000
Cash flows from operating activities			
Receipts from customers		\$ 643,554	\$ 627,186
Payments to suppliers and employees		(654,615)	(671,528)
Interest received	4	131	728
Interest paid		(2,527)	(2,322)
Income tax refunded / (paid)		(3,428)	2,092
Net cash from / (used in) operating activities		<u>\$ (16,885)</u>	<u>\$ (43,844)</u>
Cash flows from investing activities			
Receipts of government grants		\$ 1,217	\$ -
Proceeds from sale of property, plant and equipment		171	155
Purchase of property, plant and equipment		(4,314)	(2,533)
Purchase of intangible assets		(420)	(133)
Construction of Cape Class Patrol Boats 9 & 10		(3,005)	(30,003)
Investment in joint venture	7	(298)	(280)
Net cash from / (used in) investing activities		<u>\$ (6,649)</u>	<u>\$ (32,794)</u>
Cash flows from financing activities			
Repayment of borrowings		\$ (6,876)	\$ (11,657)
Loans received for Cape Class Patrol Boats 9 & 10		-	18,900
Dividends paid (net of dividend reinvestment program)		(6,252)	(5,895)
Net cash from / (used in) financing activities		<u>\$ (13,128)</u>	<u>\$ 1,348</u>
Net increase / (decrease) in cash and cash equivalents		<u>\$ (36,662)</u>	<u>\$ (75,290)</u>
Cash and cash equivalents			
Cash and cash equivalents at beginning of period		\$ 150,471	\$ 224,318
Net foreign exchange differences		(1,805)	4,440
Net increase / (decrease) in cash and cash equivalents		(36,662)	(75,290)
Cash and cash equivalents at end of period	12	<u>\$ 112,004</u>	<u>\$ 153,468</u>

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 2017

Note 1 Corporate information

The Half-Year Financial Report of Austal Limited and its controlled entities (the Company, Group or consolidated entity) for the period ended 31 December 2017 was authorised for issue in accordance with a resolution of the directors on 26 February 2018.

Austal Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities 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 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 at 30 June 2017 and considered together with any public announcements made by Austal Limited and its controlled entities during the half-year ended 31 December 2017 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Australian Securities Exchange Listing Rules.

The Half-Year Financial Report has been prepared using the same accounting policies as used in the Annual Financial Report for the year ended 30 June 2017.

Note 3 Operating segments

	Australia '000	USA '000	Philippines '000	Unallocated '000	Elimination / Adjustments '000	Total '000
Half-Year ended 31 December 2017						
Revenue						
External customers	\$ 74,780	\$ 557,732	\$ 18,468	\$ 1,358	\$ 547	\$ 652,885
Inter-segment	6,066	-	4,146	-	(10,212)	-
Finance income	-	-	-	131	-	131
Total	\$ 80,846	\$ 557,732	\$ 22,614	\$ 1,489	\$ (9,665)	\$ 653,016
Profit / (loss) before tax						
EBIT	\$ (8)	\$ 36,215	\$ (1,087)	\$ (6,161)	\$ 269	\$ 29,228
Finance income	-	-	-	131	-	131
Finance expenses	-	-	-	(4,032)	-	(4,032)
Total	\$ (8)	\$ 36,215	\$ (1,087)	\$ (10,062)	\$ 269	\$ 25,327
Balance sheet						
Segment Assets	\$ 197,786	\$ 667,305	\$ 25,266	\$ 47,541	\$ 9,398	\$ 947,296
Segment Liabilities	(128,117)	(306,270)	(28,398)	(15,374)	-	(478,159)
Half-Year ended 31 December 2016						
Revenue						
External customers	\$ 40,065	\$ 594,277	\$ 12,724	\$ 1,395	\$ 45	\$ 648,506
Inter-segment	7,321	-	-	-	(7,321)	-
Finance income	-	-	-	728	-	728
Total	\$ 47,386	\$ 594,277	\$ 12,724	\$ 2,123	\$ (7,276)	\$ 649,234
Profit / (loss) before tax						
EBIT	\$ 1,744	\$ 41,115	\$ (2,819)	\$ (21,912)	\$ (49)	\$ 18,079
Finance income	-	-	-	728	-	728
Finance expenses	-	-	-	(3,762)	-	(3,762)
Total	\$ 1,744	\$ 41,115	\$ (2,819)	\$ (24,946)	\$ (49)	\$ 15,045
Balance sheet as at 30 June 2017						
Segment Assets	\$ 180,727	\$ 705,163	\$ 27,379	\$ 50,659	\$ (3,927)	\$ 960,001
Segment Liabilities	(118,163)	(359,895)	(9,128)	(15,901)	-	(503,087)

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

i Identification of reportable segments

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

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

ii Reportable segments

The reportable segments are Australia, USA and Philippines.

1. Australia

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

2. USA

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

3. Philippines

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

iii Accounting policies, inter-segment transactions and unallocated items

The accounting policies used for reporting segments internally are the same as those utilised for reporting the accounts of the Group. Inter-entity sales are recognised based on an arm's length pricing structure. Certain unallocated items are not considered to be part of the core operations of any segment.

Note 4 Revenue and expenses

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 2017 '000	31 December 2016 '000
(i) Revenue		
Vessel construction and support	\$ 647,293	\$ 647,955
Charter vessels	5,592	551
Finance income	131	728
Total	<u>\$ 653,016</u>	<u>\$ 649,234</u>
(ii) Cost of sales		
Vessel construction and support	\$ (593,422)	\$ (592,227)
Charter vessels	(3,271)	(426)
Total	<u>\$ (596,693)</u>	<u>\$ (592,653)</u>
(iii) Other income and expenses		
Net foreign exchange gains / (losses)	\$ (289)	\$ 682
Government grants	5,493	6,495
Settlement of warranty defects	-	(13,154)
Sale of scrap	1,697	1,948
Gain on cessation of foreign operation ¹	1,157	-
Release of warranty provision	608	-
Other income	170	244
Other expenses	-	(293)
Total	<u>\$ 8,836</u>	<u>\$ (4,078)</u>
(iv) Depreciation and amortisation		
Depreciation	\$ (16,777)	\$ (14,694)
Amortisation	(488)	(555)
Total	<u>\$ (17,265)</u>	<u>\$ (15,249)</u>

1. Transfer of Foreign Currency Translation Reserve balance to Profit & Loss on cessation of a foreign operation.

Note 5 Dividends

	31 December 2017 '000	31 December 2016 '000
Dividends		
Fully franked final FY2017 dividend: 2 cents per share (FY2017 H1: 2 cents per share)	\$ 6,989	\$ 6,968

Note 6 Financial instruments

A comparison of the carrying amounts and fair values of financial instruments other than cash and short-term deposits held by the Group at 31 December 2017 is set out below:

	31 December 2017		30 June 2017	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Financial assets				
Loans and receivables				
Trade and other receivables	\$ 98,131	\$ 98,131	\$ 91,148	\$ 91,148
Other financial assets	9,814	9,814	9,626	9,626
Total	\$ 107,945	\$ 107,945	\$ 100,774	\$ 100,774
Fair value in other comprehensive income				
Derivatives	\$ 4,142	\$ 4,142	\$ 3,036	\$ 3,036
Total	\$ 4,142	\$ 4,142	\$ 3,036	\$ 3,036
Total	\$ 112,087	\$ 112,087	\$ 103,810	\$ 103,810
Financial liabilities				
Loans and receivables				
Finance leases	\$ (6,504)	\$ (6,504)	\$ (7,861)	\$ (7,861)
Trade and other payables	(117,975)	(117,975)	(154,914)	(154,914)
Vessel finance for Cape Class Patrol Boats 9 & 10	(61,197)	(61,197)	(65,191)	(65,191)
Go Zone bonds	(116,281)	(116,281)	(123,303)	(123,303)
Total	\$ (301,957)	\$ (301,957)	\$ (351,269)	\$ (351,269)
Fair value in other comprehensive income				
Derivatives	\$ (5,896)	\$ (5,896)	\$ (5,125)	\$ (5,125)
Total	\$ (5,896)	\$ (5,896)	\$ (5,125)	\$ (5,125)
Total	\$ (307,853)	\$ (307,853)	\$ (356,394)	\$ (356,394)

Instruments allocated to the column 'fair value in other comprehensive income' are derivative financial instruments designated as cash flow hedges, and represent the full value of those derivative financial instruments. No other financial instruments have their movement in fair value recognised within the profit and loss.

i Cash flow hedges for currency risks

Austral designated foreign currency forward contracts as hedges of highly probable purchases and receipts in USD, EUR, NOK, SEK, DKK, GBP and CNH from suppliers and customers in the United States, Euro Zone, Norway, Sweden, Denmark, United Kingdom and China. The forecast purchases and receipts are expected to occur from the date of this report through to August 2022.

ii Fair value hierarchy

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

The Group held the following classes of financial instruments measured at fair value at 31 December 2017:

	Level 1 '000	Level 2 '000	Level 3 '000	Total '000
Balance 31 December 2017				
Financial assets				
Derivatives	\$ -	\$ 4,142	\$ -	\$ 4,142
Financial liabilities				
Derivatives	\$ -	\$ (5,896)	\$ -	\$ (5,896)
Balance 30 June 2017				
Financial assets				
Derivatives	\$ -	\$ 3,036	\$ -	\$ 3,036
Financial liabilities				
Derivatives	\$ -	\$ (5,125)	\$ -	\$ (5,125)

iii Valuation techniques

The Group enters into derivative financial instruments including forward exchange contracts and currency swaps, with counterparty banks with investment grade credit ratings. Derivatives are valued using techniques with 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 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 Investment in joint venture

	31 December 2017 '000	30 June 2017 '000
Investment In Joint Venture		
Investment in Aulong Shipbuilding Co Ltd Joint Venture	\$ 2,145	\$ 1,847

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 8 Other non-current assets

The Group recognised \$3.930 million of research and development (R&D) credits in December 2017.

Comparative information within the statement of financial position relating to R&D credits of \$9.296 million has been reclassified from Current Assets, Trade and Other Receivables to Other Non-current Assets, to be comparable to the current year presentation.

Note 9 Interest bearing loans and borrowings

	31 December 2017 '000	30 June 2017 '000
Current		
Finance Leases	\$ (2,527)	\$ (2,532)
Go Zone Bonds	(116,281)	-
Vessel finance for Cape Class Patrol Boats 9 & 10	(8,195)	(7,336)
Total	\$ (127,003)	\$ (9,868)
Non - Current		
Finance Leases	\$ (3,977)	\$ (5,329)
Go Zone Bonds	-	(123,303)
Vessel finance for Cape Class Patrol Boats 9 & 10	(53,002)	(57,855)
Total	\$ (56,979)	\$ (186,487)
Total	\$ (183,982)	\$ (196,355)

i Finance leases

Austal USA entered into finance leases to fund mobile equipment and a plot of land in Mobile, Alabama, USA. The leases entered into in late FY2015 have a term of 5 years each, and an average interest rate of 3.20% was incurred in FY2018 H1.

ii Go Zone Bonds

Go Zone Bonds are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 0.94% in FY2018 H1. GZB holders are secured by letters of credit issued by Austal's banking syndicate with a maturity date of 18 November 2018, so GZB have been classified as a current liability at 31 December 2017. Austal is working with the syndicate banks to extend the tenor of the syndicated facility agreement to 3 years from the date of extension. The extension process is well advanced and is expected to be completed during FY2018 H2. The average cost of the letters of credit in FY2018 H1 was 1.56%.

Austal has repaid a cumulative amount of ~ US\$132 million, including US\$4.5 million repaid during FY2018 H1, and owed US\$92.5 million at 31 December 2017.

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.

iii Vessel finance for Cape Class Patrol Boats 9 & 10

Austal entered into a finance arrangement with National Australia Bank (NAB) and the Australian Border Force for the construction of two Cape Class Patrol Boats (CCPB 9 & CCPB 10) in December 2015. The arrangement is such that NAB financed the construction of the vessels and is leasing them to the Australian Border Force for an initial 3 year term. The CCPB 9 lease commenced in April 2017 and the lease for CCPB 10 commenced in May 2017. The contract contains an option for NAB to sell the vessels back to Austal at the end of the 3 year term at an option price equal to the residual value of \$21 million per vessel, however extensions or a future sale of the two vessels are considered to be probable. The notional effective interest rate incurred in FY2018 H1 for accounting purposes was 3.4%. No cash interest was or is actually payable on the debt.

Note 10 Contributed equity

	Shares		'000	
	31 December 2017	30 June 2017	31 December 2017	30 June 2017
Ordinary Shares on Issue				
Opening	349,472,643	348,393,449	\$ 128,276	\$ 123,739
Shares issued for dividend reinvestment plan	431,021	1,079,194	\$ 716	\$ 1,690
Shares issued to employee share trust	413,578	-	721	-
Shares issued for performance rights vested	217,311	-	201	-
Dividend retained in relation to AGMSP ¹	-	-	14	-
Transfer	-	-	(494)	2,891
Tax expense on employee share plan (AGMSP ¹)	-	-	(6)	(44)
Closing	350,534,553	349,472,643	\$ 129,428	\$ 128,276
Reserved Shares				
Opening	(4,015,539)	(4,015,539)	\$ (11,892)	\$ (9,001)
Shares issued to employee share trust	(413,578)	-	\$ (721)	\$ -
Dividend retained in relation to AGMSP ¹	-	-	63	-
Transfer	-	-	494	(2,891)
Closing	(4,429,117)	(4,015,539)	\$ (12,056)	\$ (11,892)
Net	346,105,436	345,457,104	\$ 117,372	\$ 116,384

1. Austal Group Management Share Plan

The movement in Reserved Shares relates to the shares issued to the new employee trust as well as the payment of dividends on shares held within Austal Group Management Share Plan (AGMSP). Refer to Note 30 in the FY2017 Annual Report for further information regarding the AGMSP.

Note 11 Income tax

	31 December 2017 '000	31 December 2016 '000
Major components of income tax expense for the half years ended 31 December 2017 and 31 December 2016 are:		
Consolidated Profit & Loss		
Current Income Tax		
Current income tax charge	\$ (1,470)	\$ (544)
Adjustments in respect of current income tax of the previous year	225	1,092
Total	\$ (1,245)	\$ 547
Deferred Income Tax		
Relating to origination and reversal of temporary differences	\$ (262)	\$ (7,179)
Adjustments in respect of deferred income tax of the previous year	1,748	932
Total	\$ 1,486	\$ (6,247)
Total income tax (expense) / benefit	\$ 241	\$ (5,700)
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	\$ 95	\$ (959)
Current gains and losses in FCTR	-	(46)
Total (expense) / benefit charged to OCI	\$ 95	\$ (1,005)
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	\$ 25,327	\$ 15,045
Income Tax at the Group's statutory income tax rate of 30% (2016: 30%)	(7,598)	(4,514)
Adjustment for USA income tax rate of 28.1% (2016: 36.9%)	\$ (727)	\$ (2,677)
Other foreign tax rate differences	(661)	(988)
Restatement of US deferred tax liability to new rate (28.1%)	7,835	-
US section 199 domestic manufacturing deduction	520	-
Foreign withholding tax leakage due to losses in Australia	(188)	-
Non-deductible share based payments expense	(184)	-
Australian Tax Group losses not recognised	(582)	-
Transfer pricing adjustments in respect of intercompany royalties	(1,564)	-
Other non-assessable or non-deductible items	1,417	455
Adjustments in respect of current and deferred income tax of the previous year	1,973	2,024
Total Adjustments	\$ 7,839	\$ (1,186)
Income tax (expense) / benefit reported in Consolidated statement of profit or loss	\$ 241	\$ (5,700)

i Revenue authority audits

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) transfer pricing audit of Austal Limited has resulted in differing interpretations of technical items. The ATO have enforced their position following the conclusion of the audit and issued amended assessments in respect of these matters, that were fully provided for at 30 June 2017.

Austal continues to recognise additional tax expense in accordance with the ATO's position, whilst having received independent advice which supports the Group's position. Management has filed objections to the amended assessments issued by the ATO and are assisting the ATO in assessing the grounds of the objections. The objection proceedings remain ongoing at 31 December 2017.

ii US tax reform

US Tax reform legislation was substantively enacted on 22 December 2017, which reduced the US federal corporate income tax from 35% to 21% and introduced a broad range of other reforms.

The tax reform was effective from 1 January 2018. Austal will have a pro-rata federal rate of 28.1% for FY2018 and 21.0% for FY2019 onwards. The estimated combined state and federal tax rate is 32.0% from FY2018 and 25.3% for FY2019 onwards.

Closing deferred tax balances have been reviewed and assessed as likely to reverse beyond 30 June 2018 and therefore measured at 25.3%. Opening deferred tax balances have been restated from 36.9% to 25.3%, which generated a credit to tax expense of \$7.835 million.

The tax reform is estimated to deliver \$5 million of reduced cash tax payable for FY2018.

Note 12 Cash and cash equivalents

Cash and cash equivalents comprise the following at 31 December 2017:

	31 December 2017 '000	30 June 2017 '000
Current		
Cash at bank and in hand	\$ 112,004	\$ 150,471
Total Cash per Cash Flow Statement	\$ 112,004	\$ 150,471

Cash at bank earns interest at variable daily bank deposit rates. Cash equivalents include term deposits, which earn interest at fixed rates for terms of up to 90 days.

Note 13 Commitments and contingencies

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

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 31 December 2017 requiring disclosure in the financial statements.

Note 14 Related party disclosure

The Group has a policy that all transactions with related parties are conducted on commercial terms and conditions.

There were no other transactions with related parties outside the Group during the period.

Note 15 Events after the reporting date

The directors declared an unfranked interim dividend for FY2018 H1 of 2 cents per ordinary share on 26 February 2018. The dividend has not been provided for in the 31 December 2017 financial statements.

Directors' Declaration

In accordance with a resolution of the Directors of Austal Limited, I state that in the opinion of the Directors:

- The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - Giving a true and fair view of the financial position as at 31 December 2017 and the performance for the half-year ended on that date of the consolidated entity
 - Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001
- 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

26 February 2018



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Independent Auditor's Review Report 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 consolidated statement of financial position as at 31 December 2017, consolidated statement of profit and loss and comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity 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 end of the half-year or from time to time during the half-year as set out on pages 7 to 22.

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 control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and 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 half-year 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 2017 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, 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.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Austal Limited, would be in the same terms if given to the directors as at the time of this auditor's review 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 2017 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*.



DELOITTE TOUCHE TOHMATSU



A T Richards
Partner
Chartered Accountants
Perth, 26 February 2017