APPENDIX 4D
HALF-YEAR REPORT

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

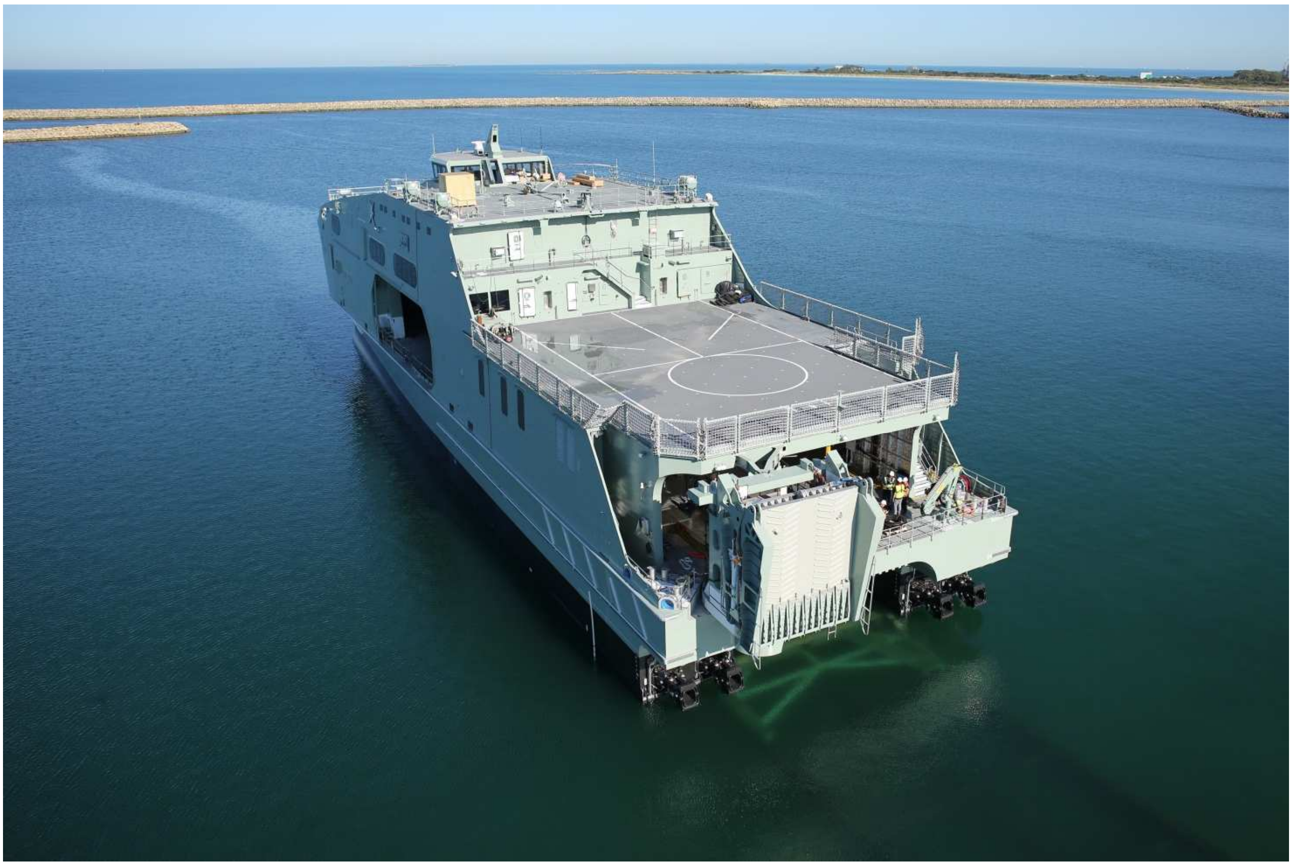
FOR THE PERIOD ENDED 31 DECEMBER 2015

1. The reporting period is 1 July 2015 to 31 December 2015. The previous corresponding period is 1 July 2014 to 31 December 2014. Both of these periods were prepared in accordance with AASB 134 Interim Financial Reporting. The information contained in this document should be read in conjunction with the Austal Limited 30 June 2015 Annual Report.

2. Results for announcement to the market.

			A$'000
2.1	Revenue from ordinary activities	up 9.9% to	747,396
2.2	Profit (loss) from ordinary activities after tax attributable to members	down 42.3% to	16,711
2.3	Net profit (loss) for the period attributable to members	down 42.3% to	16,711
2.4	Dividend distributions The directors declared a fully franked dividend of 3 cents per share		10,423
2.5	Record date for determining entitlements to the dividends:		14 September 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)	160.1
	Previous corresponding period (cents / share)	135.7
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 August 2015.
6.	Details of dividend or distribution reinvestment plans:	As per announcement to ASX lodged on 26 August 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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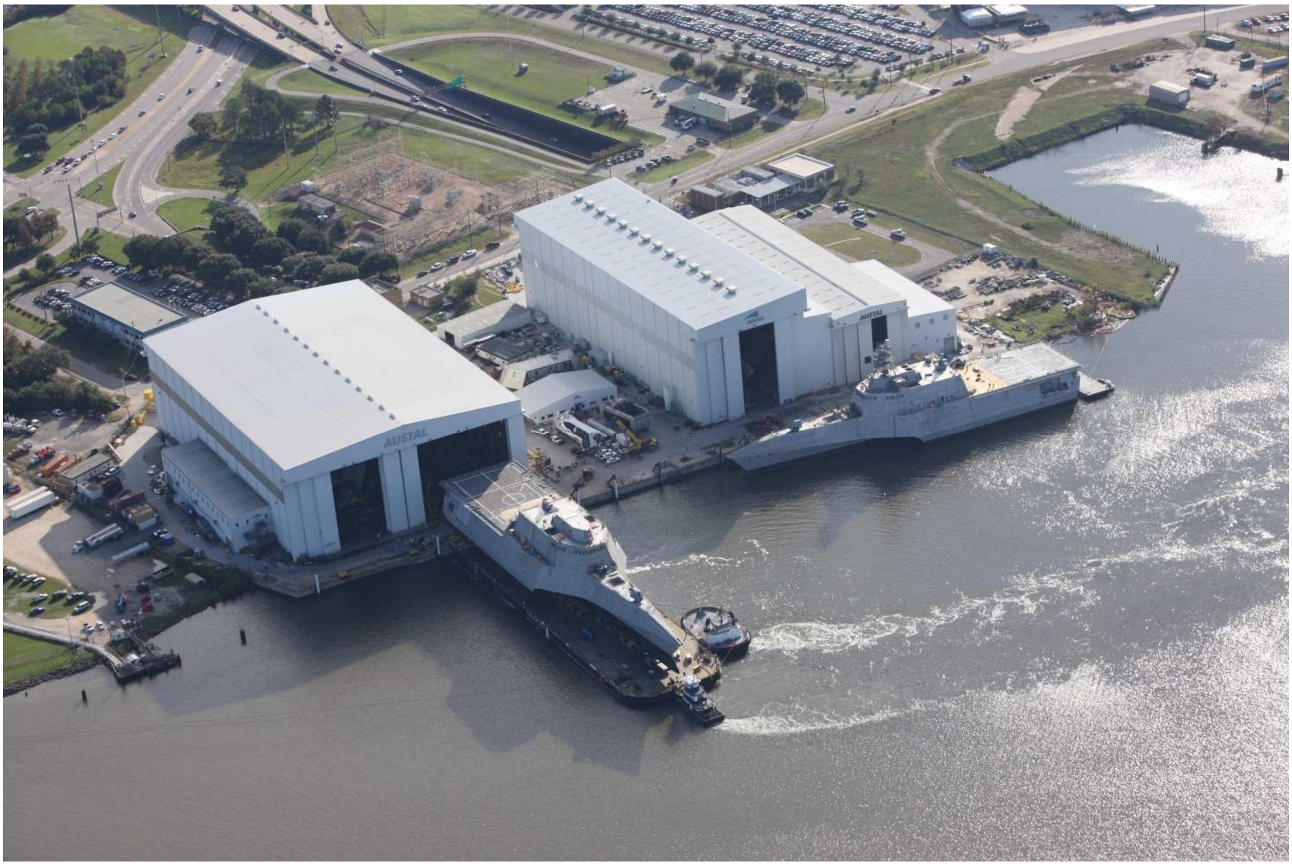


Directors' report

It is my pleasure to present the financial report for the half-year ended 31 December 2015 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 are:

John Rothwell (Chairman)
Andrew Bellamy (Chief Executive Officer up to 4 April 2016)
David Singleton (Chief Executive Officer from 4 April 2016)
Giles Everist
Jim McDowell

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 defence, paramilitary and commercial markets. These activities are unchanged from the previous reporting period.

Results

Austal reported a Net Profit After Tax (NPAT) of $16.810 million for the half year ended 31 December 2015 compared with a NPAT for the prior corresponding period (PCP – half year ended 31 December 2014) of $28.947 million.

FY2016 H1 revenue was $747.396 million which is 9.9 per cent higher than the PCP (FY2015 H1: $680.186 million).

The Group Profit Before Tax (PBT) for FY2016 H1 was $26.758 million compared with $42.912 million for the PCP.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was $41.787 million (FY2015 H1: $56.164 million). There were three primary drivers of the reduction in EBITDA from the PCP:

- FY2015 H1 included $11.300 million in non-recurring foreign exchange gains recognised on the translation of inter-company loans that were converted to equity in FY2015 H2.
- reduced shipbuilding margins were generated in the USA due to non-recurring costs incurred in the construction of the first in class LCS 6 impacting LCS 8 and LCS 10 which were built concurrently with LCS 6.
- lower throughput and margin in Australia following the completion of the Cape Class Patrol Boat Program, and investment in Australia to prepare for the future Federal Government shipbuilding programs.

$51.773 million of Operating cash flow of was generated in the period (FY2015 H1: $117.994 million). FY2015 H1 was enhanced by the receipt of the final proceeds from the sale of Hull 270 to Condor Ferries. $9.882 million cash (net of participation in the dividend reinvestment plan) was returned to shareholders via a fully franked dividend and US$7.206 million of cash was applied to the repayment of Go Zone Bonds. Austal finished the period in a net cash position of $30.637 million.

Reconciliation of EBIT and EBITDA (unaudited)

	31 December 2015 $'000		31 December 2014 $'000	
Profit before income tax	$	26,758	$	42,912
Finance costs	$	2,581	$	2,757
Finance income		(298)		(632)
EBIT	$	29,041	$	45,037
Depreciation	$	12,099	$	10,451
Amortisation		647		676
EBITDA	$	41,787	$	56,164

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 Group. EBITDA is used by management to understand operating performance of the Group.

Review of Operations

USA Operations

USA Revenue continued to grow period over period with a 28.1 per cent increase from the PCP to $638.435 million (FY2015 H1: $498.346 million). 5 percentage points of revenue growth were driven by increased production activity on the two major contracts; the US$1.6 billion, 10-vessel Expeditionary Fast Transport (EPF) 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 than the prior corresponding period.

USA EBIT was $26.867 million (FY2015 H1: $27.372 million) and total segment EBIT margin was 4.2 per cent (FY2015 H1: 5.5 per cent). The segment result is a weighted average of shipbuilding, systems and sustainment activities.

US shipbuilding margin decreased as a result of non-recurring costs incurred in the construction of the first in class LCS 6 impacting LCS 8 and LCS 10 which were built concurrently with LCS 6.

Construction progressed on four Expeditionary Fast Transports (EPF 6, 7, 8 and 9) in FY2016 H1. The US Navy designated the Joint High Speed Vessels as the Expeditionary Fast Transport during the calendar year 2015. USNS Brunswick (EPF 6) completed acceptance trials in November 2015 and was delivered in January 2016. USNS Carson City (EPF 7) has been launched and is preparing for acceptance trials and delivery near the end of FY2016 H2. EPF 1, 2, and 3 participated in several international maritime exercises with EPF 1 and 2 having been deployed to locations in both the Mediterranean and Caribbean Seas and EPF 3 operating in the Pacific, at one point partnering with the USNS Mercy, a US Navy hospital ship.

Funding for EPF 11 and 12 has been appropriated by Congress. Austal has received a contract from the US Navy to procure long lead time materials for EPF 11 and management are negotiating to execute a contract for the entire vessel during CY2016.

Seven Independence-variant Littoral Combat Ships (LCS) were under construction during FY2016 H1, LCS 6, 8, 10, 12, 14, 16 and 18. USS Jackson (LCS 6) was delivered in August and commissioned into service in December 2015. LCS 8 is progressing towards acceptance trials during CY2016. LCS 12 was christened in December 2015 and is currently preparing for acceptance trials. LCS 4 is scheduled for her first deployment to the Pacific in mid CY2016.

Funding for LCS 26 is expected to be appropriated in CY2016, which was added as an option to the original contract for 10-vessels in FY2015.

Austal was awarded a US$51.685 million contract for design services to upgrade the LCS and undertake preliminary design for the US Navy's future frigate. The contract is expected to increase to US$198.386 million if all options are exercised by the US Navy.

Australia Operations

Revenue in the Australia operations was 3.9 per cent lower than the PCP at $105.631 million (FY2015 H1: $109.974 million). EBIT was $11.304 million (FY2015 H1: $14.504 million) and the EBIT margin was 10.7 per cent (FY2015 H1: 13.2 per cent) which was consistent with expectations.

The reduction in revenue and EBIT margin reflected a reduction in shipbuilding activity and a normalisation of earnings following the completion of the first Cape Class Patrol Boat (CCPB) construction contract for 8 vessels in August 2015.

EBIT margin also diminished as a result of a capability investment through operating overheads in preparation for competing for future contracts under the Federal Government's new policy of continuous shipbuilding programs.

Major production activity during the period included the completion of CCPB 7 & 8, continued construction of the two High Speed Support Vessels (HSSV) for the Royal Navy of Oman and the launch of one of the two vessels, and commencement of a high speed crew transfer vessel for Caspian Marine Services in Azerbaijan.

New orders were received for an additional two Cape Class Patrol Boats for the Commonwealth of Australia and the high speed crew transfer vessel for Caspian Marine Services.

Shipbuilding sales opportunities in the Middle East, Asia and Europe continue to progress.

Sustainment activity was focussed on the entire CCPB fleet that is now in service and the annual dockings for several vessels in Asia and Europe.

Philippines Operations

The Philippines Operation generated revenue of $16.290 million (FY2015 H1: $20.313 million) and EBIT of $0.574 million (FY2015 H1: $1.882 million).

Major construction activity during the period included the completion and delivery of two high speed crew transfer vessels to the Abu Dhabi National Oil Company, award of a contract for another high speed crew transfer vessel in Asia and construction of hull modules for the high speed crew transfer vessel for Caspian Marine Services in Azerbaijan vessel being outfitted and completed in Australia.

Other activity

Austal completed the refinancing of its banking facilities that are provided under a new syndicated facility agreement (SFA) that is due to mature on 18 October 2018 with a mechanism for extending the tenor of the facility by mutual agreement between Austal and the syndicate members.

The Gulf Opportunity Zone bonds (Go Zone Bonds) which are recognised as debt in the balance sheet are secured by letters of credit that are issued under the SFA. The letters of credit issued under the previous SFA had a maturity date of 31 December 2015, and they have been substituted with letters of credit provided by new banks under the new SFA with a maturity date of 18 October 2018, and therefore the debt has been reclassified from current to non-current at the end of the reporting period.

The Chief Executive Officer, Mr Andrew Bellamy announced that he will be resigning from Austal effective from April 2016 and the Chairman announced that Mr David Singleton, an existing director on the Board of Austal Limited will be assuming the role of Managing Director and Chief Executive Officer from April 2016. A three month transition plan is in place.

Dividend

The Board declared a fully-franked dividend of 3 cents per share on 27 August 2015, compared to no dividend in the previous corresponding period. The dividend was paid to shareholders on 1 October 2015. A further fully franked dividend of 2 cents per share has been declared.

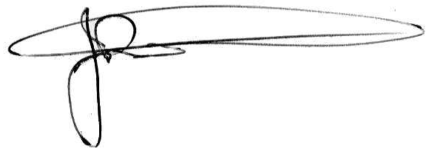
Rounding of Amounts

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

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

22 February 2016

Auditor independence

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

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

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
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Auditor's Independence Declaration to the Directors of Austal Limited

As lead auditor for the review of Austal Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Austal Limited and the entities it controlled during the financial period.

Ernst & Young

Robert A Kirkby
Partner
22 February 2016

Consolidated statement of profit and loss and other comprehensive income
for the half-year ended 31 December 2015

	Notes	31 December 2015 '000	31 December 2014 '000
Profit and loss			
Revenue	4	$ 747,396	$ 680,186
Cost of sales	4	(691,431)	(625,983)
Gross Profit		$ 55,965	$ 54,203
Other income and expense	4	$ 10,646	$ 19,759
Administration expenses		(30,486)	(23,608)
Marketing expenses		(6,786)	(4,685)
Finance costs		(2,581)	(2,757)
Profit before income tax		$ 26,758	$ 42,912
Income tax expense	10	$ (9,948)	$ (13,965)
Profit after tax		$ 16,810	$ 28,947
Profit attributable to:			
Owners of the parent		$ 16,711	$ 28,942
Non-controlling interests		99	5
Total		$ 16,810	$ 28,947
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		$ (6,330)	$ (28,849)
- Loss / (gain) recycled out of equity		9,825	(6,287)
- Income tax (expense) / benefit		(1,162)	10,789
- Net		$ 2,333	$ (24,347)
Foreign currency translations:			
- Gain taken to equity		$ 21,045	$ 36,876
- Income tax expense		(19)	(1,282)
- Net		$ 21,026	$ 35,594
Asset Revaluation Reserve:			
- Gain taken to equity		$ 29,667	$ -
- Income tax expense		(10,710)	-
- Net	12	$ 18,957	$ -
Other comprehensive income for the period, net of tax		$ 42,316	$ 11,247
Total comprehensive income for the period		$ 59,126	$ 40,194
Total comprehensive income attributable to:			
Owners of the parent		$ 59,027	$ 40,189
Non-controlling interests		99	5
Total		$ 59,126	$ 40,194
Earnings per share (cents per share)		cents / share	cents / share
- basic for the period attributable to ordinary equity holders of the parent		4.8	8.5
- diluted for the period attributable to ordinary equity holders of the parent		4.7	8.4

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

Consolidated statement of financial position

as at 31 December 2015

	Notes	31 December 2015 '000	30 June 2015 '000
Assets			
Current Assets			
Cash and cash equivalents	11	$ 181,471	$ 138,413
Restricted cash	11	-	10,055
Trade and other receivables		132,499	104,342
Inventories		255,675	339,703
Prepayments		3,771	6,321
Income tax receivable		8,066	-
Derivatives	6	391	106
Total		$ 581,873	$ 598,940
Non - Current Assets			
Other financial assets		$ 6,513	$ 3,600
Trade and other receivables		156	157
Derivatives	6	-	9
Property, plant and equipment		494,526	442,522
Intangible assets and goodwill		9,730	9,637
Deferred tax assets		9,030	14,089
Total		$ 519,955	$ 470,014
Total Assets		$ 1,101,828	$ 1,068,954
Liabilities			
Current Liabilities			
Trade and other payables		$ (200,844)	$ (223,497)
Derivatives	6	(16,662)	(21,337)
Interest-bearing loans and borrowings	7	(2,572)	(144,979)
Provisions		(34,091)	(33,830)
Government grants		(3,171)	(3,244)
Income tax payable		(2,740)	(7,493)
Progress payments received in advance		(25,804)	(26,177)
Total		$ (285,884)	$ (460,557)
Non - Current Liabilities			
Derivatives	6	$ (11,359)	$ (14,737)
Interest-bearing loans and borrowings	7	(148,262)	(7,658)
Provisions		(1,137)	(1,139)
Government grants		(74,722)	(63,722)
Deferred tax liabilities		(20,689)	(8,742)
Total		$ (256,169)	$ (95,998)
Total Liabilities		$ (542,053)	$ (556,555)
Net Assets		$ 559,775	$ 512,399
Equity			
Contributed equity	8	$ 113,442	$ 112,523
Reserves		96,247	55,846
Retained earnings		350,086	343,798
Equity attributable to owners of the parent		$ 559,775	$ 512,167
Non - controlling interests		$ -	$ 232
Total Equity		$ 559,775	$ 512,399

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 2015

	Issued Capital '000	* Reserved Shares '000	Retained Earnings '000	Foreign Currency Translation Reserve '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 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**
Equity as at 1 July 2015	**$ 121,753**	**$ (9,230)**	**$ 343,798**	**$ 63,676**	**$ 6,016**	**$ (19,678)**	**$ (15,925)**	**$ 21,757**	**$ 512,167**	**$ 232**	**$ 512,399**
Comprehensive Income											
Profit for the year	$ -	$ -	$ 16,711	$ -	$ -	$ -	$ -	$ -	$ 16,711	$ 99	$ 16,810
Other Comprehensive Income	-	-	-	21,026	-	2,333	-	18,957	42,316	-	42,316
Total	$ -	$ -	$ 16,711	$ 21,026	$ -	$ 2,333	$ -	$ 18,957	$ 59,027	$ 99	$ 59,126
Other equity transactions											
Shares issued	$ 541	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 541	$ -	$ 541
Dividends	-	-	(10,423)	-	-	-	-	-	(10,423)	-	(10,423)
Acquisition of minority stake in Austal Service Darwin Pty Ltd	-	-	-	-	-	-	(1,669)	-	(1,669)	(331)	(2,000)
Vesting performance rights converted to issued shares	378	-	-	-	(378)	-	-	-	-	-	-
Cost of share-based payments	-	-	-	-	132	-	-	-	132	-	132
Total	$ 919	$ -	$ (10,423)	$ -	$ (246)	$ -	$ (1,669)	$ -	$ (11,419)	$ (331)	$ (11,750)
Equity as at 31 December 2015	**$ 122,672**	**$ (9,230)**	**$ 350,086**	**$ 84,702**	**$ 5,770**	**$ (17,345)**	**$ (17,594)**	**$ 40,714**	**$ 559,775**	**$ -**	**$ 559,775**

*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 2015

	Notes	31 December 2015 '000	31 December 2014 '000
Cash flows from operating activities			
Receipts from customers		$ 815,584	$ 823,332
Payments to suppliers and employees		(744,435)	(686,939)
Interest received	4	298	632
Interest paid	4	(2,067)	(2,388)
Income tax paid		(17,607)	(16,643)
Net cash from operating activities		$ 51,773	$ 117,994
Cash flows from investing activities			
Receipts of Infrastructure government grants		$ 9,149	$ -
Proceeds from sale of property, plant and equipment		234	270
Purchase of property, plant and equipment		(11,052)	(3,859)
Purchase of intangible assets		(740)	-
Net cash used in investing activities		$ (2,409)	$ (3,589)
Cash flows from financing activities			
Repayment of borrowings		$ (9,707)	$ (38,430)
Loan origination fees		(2,624)	-
Dividends paid		(9,882)	-
Net cash used in financing activities		$ (22,213)	$ (38,430)
Net increase in cash and cash equivalents		$ 27,151	$ 75,975
Cash and cash equivalents			
Cash and cash equivalents at beginning of year		$ 148,468	$ 86,877
Net foreign exchange differences		5,852	(9,239)
Net increase in cash and cash equivalents		27,151	75,975
Cash and cash equivalents at end of the period	11	$ 181,471	$ 153,613

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 2015

Note 1. Corporate information

The Half-Year Financial Report of Austal Limited and its controlled entities (the Company) for the period ended 31 December 2015 was authorised for issue in accordance with a resolution of the directors on 22 February 2016.

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 at 30 June 2015.

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 2015 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Australian Stock 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 2015. The Group has adopted all of the mandatory Standards and Interpretations for annual reporting periods beginning 1 July 2015. 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 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 *Materiality* The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards. Application date for the Group: period beginning 1 July 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 2015						
Revenues						
External customers	$ 95,761	$ 638,435	$ 11,813	$ 3,490	$ (2,401)	$ 747,098
Inter-segment	9,870	-	4,477	-	(14,347)	-
Finance income	-	-	-	298	-	298
Total	$ 105,631	$ 638,435	$ 16,290	$ 3,788	$ (16,748)	$ 747,396
Segment result						
EBIT	$ 11,304	$ 26,867	$ 574	$ (7,283)	$ (2,421)	$ 29,041
Finance income	-	-	-	298	-	298
Finance expenses	-	-	-	(2,581)	-	(2,581)
Total	$ 11,304	$ 26,867	$ 574	$ (9,566)	$ (2,421)	$ 26,758
Balance Sheet						
Segment Assets	$ 70,056	$ 872,473	$ 34,888	$ 174,130	$ (49,719)	$ 1,101,828
Segment Liabilities	(12,099)	(423,100)	(12,381)	(62,140)	(32,333)	(542,053)

	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 as at 30 June 2015						
Segment Assets	$ 130,101	$ 816,745	$ 42,376	$ 108,960	$ (29,228)	$ 1,068,954
Segment Liabilities	(78,731)	(437,017)	(21,435)	(58,322)	38,950	(556,555)

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

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 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 key assets included in unallocated are Cash $97.749 million, Property Plant & Equipment $46.867 million and Deferred Tax Assets $8.474 million.

The key liabilities included in unallocated are Derivatives ($28.021) million and Deferred Tax Liabilities of ($20.689) million.

The key profit before tax items in unallocated are Overheads of ($11.192) million offset by Foreign Currency Gains recognised on the revaluation of inter-company loans of $2.336 million.

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 2015 '000	31 December 2014 '000
(i) Revenue		
Construction and service	$ 731,973	$ 666,826
Charter vessels	15,125	12,728
Finance income	298	632
Total	$ 747,396	$ 680,186
(ii) Cost of sales		
Construction and service	$ (679,537)	$ (616,201)
Charter vessels	(11,894)	(9,782)
Total	$ (691,431)	$ (625,983)
(iii) Other income		
Net foreign exchange gains	$ 2,232	$ 10,298
Government grants	6,063	5,780
(Loss) / gain on disposal of property, plant and equipment	(1)	(331)
Sale of scrap	1,930	2,647
Other income	422	1,365
Total	$ 10,646	$ 19,759
(iv) Depreciation and amortisation summary		
Depreciation	$ (12,099)	$ (10,451)
Amortisation	(647)	(676)
Total	$ (12,746)	$ (11,127)

Certain estimates were made by management with respect to total contract revenues, and total contract costs, which had a resulting impact on the percentage of completion, in line with the Group's accounting policy for construction contract revenue.

Several non-recurring costs were incurred on the first in class LCS 6, which had an additional impact on the margins of LCS 8 and LCS 10 during the period, because the latter vessels are being constructed concurrently with LCS 6.

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

Note 5. Dividends

	31 December 2015 '000		31 December 2014 '000	
Dividends				
Fully franked dividend: 3 cents per share	$	10,423	$	-

The dividend has been declared and paid on ordinary shares only.

Note 6. Financial instruments

An overview of financial instruments other than cash and short-term deposits held by the Group at 31 December 2015 is set out below:

	31 December 2015 Loans and receivables $'000		31 December 2015 Fair value in other comprehensive income $'000		30 June 2015 Loans and receivables $'000		30 June 2015 Fair value in other comprehensive income $'000	
Financial assets:								
Trade and other receivables	$	132,499	$	-	$	104,342	$	-
Derivatives		-		391		-		106
Total current	$	132,499	$	391	$	104,342	$	106
Trade and other receivables	$	156	$	-	$	157	$	-
Derivatives		-		-		-		9
Total non-current	$	156	$	-	$	157	$	9
Total	$	132,655	$	391	$	104,499	$	115
Financial liabilities:								
Finance Leases	$	(2,572)	$	-	$	(1,791)	$	-
Go Zone Bonds		-		-		(143,188)		-
Trade and other payables		(200,844)		-		(223,497)		-
Derivatives		(16,662)		(16,662)		(21,337)		(21,337)
Total current	$	(220,078)	$	(16,662)	$	(389,813)	$	(21,337)
Finance Leases	$	(9,606)	$	-	$	(7,658)	$	-
Go Zone Bonds		(138,656)		-		-		-
Derivatives		(11,359)		(11,359)		(14,737)		(14,737)
Total non-current	$	(159,621)	$	(11,359)	$	(22,395)	$	(14,737)
Total	$	(379,699)	$	(28,021)	$	(412,208)	$	(36,074)

Instruments allocated to the column 'fair value in other comprehensive income' are derivative financial instruments designated as cash flow hedges. Austal Group's financial instruments are not fair valued through profit and loss.

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 2015 is set out below:

	31 December 2015 Carrying amount $'000	31 December 2015 Fair value $'000	30 June 2015 Carrying amount $'000	30 June 2015 Fair value $'000
Financial assets:				
Trade and other receivables	$ 132,499	$ 132,499	$ 104,342	$ 104,342
Derivatives	391	391	106	106
Total current	$ 132,890	$ 132,890	$ 104,448	$ 104,448
Trade and other receivables	$ 156	$ 156	$ 157	$ 157
Derivatives	-	-	9	9
Total non-current	$ 156	$ 156	$ 166	$ 166
Total	$ 133,046	$ 133,046	$ 104,614	$ 104,614
Financial liabilities:				
Finance leases	$ (2,572)	$ (2,572)	$ (1,791)	$ (1,791)
Go Zone bonds	-	-	(143,188)	(143,188)
Trade and other payables	(200,844)	(200,844)	(223,497)	(223,497)
Derivatives	(16,662)	(16,662)	(21,337)	(21,337)
Total current	$ (220,078)	$ (220,078)	$ (389,813)	$ (389,813)
Finance leases	$ (9,606)	$ (9,606)	$ (7,658)	$ (7,658)
Go Zone bonds	(138,656)	(138,656)	-	-
Derivatives	(11,359)	(11,359)	(14,737)	(14,737)
Total non-current	$ (159,621)	$ (159,621)	$ (22,395)	$ (22,395)
Total	$ (379,699)	$ (379,699)	$ (412,208)	$ (412,208)

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).

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation for financial instruments that are recognised at fair value on a recurring basis (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 2015:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Balance 31 December 2015				
Financial assets				
Derivatives	$ -	$ 391	$ -	$ 391
Total	$ -	$ 391	$ -	$ 391
Financial liabilities				
Derivatives	$ -	$ (28,021)	$ -	$ (28,021)
Total	$ -	$ (28,021)	$ -	$ (28,021)
Balance 30 June 2015				
Financial assets				
Derivatives	$ -	$ 115	$ -	$ 115
Total	$ -	$ 115	$ -	$ 115
Financial liabilities				
Derivatives	$ -	$ (36,074)	$ -	$ (36,074)
Total	$ -	$ (36,074)	$ -	$ (36,074)

iv. 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. Interest bearing loans and borrowings

	31 December 2015 '000		30 June 2015 '000	
Current				
Finance Leases	$	(2,572)	$	(1,791)
Go Zone Bonds		-		(143,188)
Total	$	(2,572)	$	(144,979)
Non - Current				
Finance Leases	$	(9,606)	$	(7,658)
Go Zone Bonds		(138,656)		-
Total	$	(148,262)	$	(7,658)
Total	$	(150,834)	$	(152,637)

i. Re-financing of Syndicated Facility Agreement

Austal re-financed its Syndicated Facility Agreement for a three year period to October 2018. The new agreement includes US$104.540 million for letters of credit to secure the Go Zone Bonds and a A$170.000 million revolving credit facility. The entire revolving credit facility can be used for contingent non-financial instruments, up to $50.000 million of any unused part of the facility can be used for cash advances and up to $20.000 million of any unused part of the facility can be used for contingent financial instruments.

ii. 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$225.000 million with a 30 year maturity to invest in the development of shipbuilding infrastructure in the USA between FY2008 and FY2013.

GZB bondholders were secured by letters of credit issued by Austal's former banking syndicate with a maturity date of 31 December 2015. Austal's syndicated facility agreement was refinanced during the period, and replacement letters of credit were issued under the new facility with a maturity date in October 2018 and therefore the Go Zone Bond debt has been reclassified as a non-current liability. The average cost of the letters of credit in FY2016 H1 was 2.14%. The Go Zone Bonds are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 0.015% in FY2016 H1.

Austal has redeemed (repaid) a cumulative amount of ~ US$120 million of GZB funds and owes US$104.540 million at 31 December 2015.

iii. Finance leases

Austal USA entered into Finance leases to fund mobile equipment and a plot of land in Mobile, Alabama. The leases have a term of 5 years each, and the mobile equipment and land incurred interest at an average rate of 1.50% and 1.75% respectively in FY2016 H1.

Note 8. Contributed equity

	Shares		'000	
	31 December 2015	30 June 2015	31 December 2015	30 June 2015
Ordinary Shares on Issue				
Opening	346,923,451	346,544,933	$ 121,753	$ 121,210
Shares issued during the year (i)	742,699	378,518	919	543
Closing	347,666,150	346,923,451	$ 122,672	$ 121,753
Reserved Shares				
Opening	(4,015,539)	(4,350,601)	$ (9,230)	$ (9,612)
Options exercised	-	335,062	-	382
Closing	(4,015,539)	(4,015,539)	$ (9,230)	$ (9,230)
Net	343,650,611	342,907,912	$ 113,442	$ 112,523

(i) During the period ended 31 December 2015:

a. 245,515 shares were issued on 15 October 2015 as part of the Group's Dividend Reinvestment Plan
b. 497,184 shares were issued to Senior Executives in relation to the vesting period under the Long Term Incentive Plan set up in November 2013.

Note 9. Share based payments

Three tranches of performance rights were granted under the Long Term Incentive plan (LTI) in September and October 2015:

- Tranche A – 594,513 rights were granted to the Chief Executive Officer,
- Tranche B – 382,070 rights were granted to Corporate and Filipino executives, and
- Tranche C – 524,944 rights were granted to USA senior executives

Indexed Total Shareholder Return (iTSR) and Return on Invested Capital (ROIC) measured over a three year period will be used to determine performance rights under the LTI Plan to determine whether or not the rights will vest.

i. Indexed Total Shareholder Return (iTSR)

Indexed Total Shareholder Return (iTSR): 40% of the LTI plan performance rights issued will be determined by iTSR. This is calculated by comparing the actual shareholder return of Austal Limited, measured over the three year measurement period, to the All Ordinary Share Cumulative Index (ASX XAOA) for the same period.

Performance Level	Company TSR v iTSR	Vesting %
Below Threshold	Less than 100%	0%
Threshold	100%	25%
Between Threshold and Target	More than 100% but less than 150%	Pro-rata
Target	150%	50%
Between Target and Stretch	More than 150% but less than 200%	Pro-rata
Stretch	200% or greater	100%

ii. Return on Invested Capital (ROIC)

Return on Invested Capital (ROIC): 60% of the LTI Plan will be determined by ROIC (calculated as – net operating profit after tax (NOPAT) / net assets (excluding cash, debt, derivatives and tax accounts)).

Performance Level	Company TSR v iTSR	Vesting %
Below Threshold	Less than 8%	0%
Threshold	8%	25%
Between Threshold and Target	More than 8% but less than 10%	Pro-rata
Target	10%	50%
Between Target and Stretch	More than 10% but less than 12%	Pro-rata
Stretch	12% or greater	100%

iii. Fair value of performance rights

The fair value of the rights with iTSR vesting conditions is estimated at the date of grant using the Monte Carlo simulation method for iTSR, taking into accounts the terms and conditions upon which the rights were granted. The share price at the grant date was adopted as the fair value for rights with ROIC vesting conditions. ROIC is accounted for based on estimating the amount of grants that will vest using company forecasted ROIC through the measurement period.

The contractual life for each right granted for all the three tranches is three years. The fair value for iTSR was estimated on the date of grant for the rights granted using the following assumptions:

	Tranche A	Tranche B	Tranche C
Monte Carlo simulation method assumptions:			
Discount Rate	1.8% p.a.	1.8% p.a.	1.9% p.a.
Share Price Volatility	40% p.a.	40% p.a.	40% p.a.
Grant Date	30 October 2015	13 October 2015	23 September 2015
The fair values of the rights at grant date were as follows:			
Fair value per performance right - TSR	$1.71	$1.52	$1.63
Fair value per performance right - ROIC	$2.16	$2.00	$2.06

Note 10. Income tax

	31 December 2015 '000		31 December 2014 '000	
Major components of income tax expense for the half years ended 31 December 2015 and 31 December 2014 are:				
Consolidated Profit & Loss				
Current Income Tax				
Current income tax charge	$	(6,362)	$	(19,876)
Adjustments in respect of current income tax of the previous year		(429)		-
Deferred Income Tax				
Relating to origination and reversal of temporary differences	$	(3,157)	$	5,885
Adjustments in respect of deferred income tax of the previous year		-		26
Total income tax (expense)	$	(9,948)	$	(13,965)
Other Comprehensive Income (OCI)				
Current and deferred income tax related items charged or credited directly to OCI				
Current and deferred gains and losses on foreign currency contracts and consolidation adjustments	$	(1,162)	$	10,789
Current gains and losses in FCTR		(19)		(1,282)
Deferred gains on revaluation of property, plant and equipment		(10,709)		-
Total (expense) / benefit charged to OCI	$	(11,890)	$	9,507

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 2015 '000		31 December 2014 '000	
Accounting profit before income tax from continuing operations	$	26,758	$	42,912
Income Tax at the Group's statutory income tax rate of 30% (2014: 30%)	$	(8,027)	$	(12,874)
Adjustment for Austal USA statutory income tax rate of 36.9% (2014: 36.9%)	$	(941)	$	(1,437)
Other foreign tax rate differences		(296)		126
Branch (profit) / loss		(55)		(130)
US section 199 domestic manufacturing deduction		426		609
Utilisation of research and development and other tax offsets and credits		97		746
Adjustments in respect of current and deferred income tax of the previous year		(487)		26
Other non-assessable or non-deductible items		(665)		(1,031)
Total Adjustments	$	(1,921)	$	(1,091)
Income tax (expense) reported in the statement of comprehensive income	$	(9,948)	$	(13,965)

Note 11. Cash and cash equivalents

Cash and cash equivalents comprise the following at 31 December:

	31 December 2015 ’000		30 June 2015 ’000	
Current				
Cash at bank and in hand (i)	$	181,471	$	138,413
Restricted Cash (ii)		-		10,055
Total cash per the cash flow statement	$	181,471	$	148,468

(i) Cash at bank earns interest at floating rates on daily bank deposit rates.
(ii) The restricted cash was used to pay down the Go Zone Bond debt during the period ended 31 December 2015.

Note 12. Asset revaluation reserve

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

Any revaluation surplus is recorded in other comprehensive income and hence credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case, the increase is recognised in the profit and loss.

	Australia ’000		USA ’000		Total ’000	
Asset revaluation reserve at 30 June 2015	$	8,246	$	13,511	$	21,757
Revaluations during period(i)	$	3,443	$	26,224	$	29,667
Tax-effect on revaluation(i)		(1,033)		(9,677)		(10,710)
Movement in OCI	$	2,410	$	16,547	$	18,957
Asset revaluation reserve at 31 December 2015	$	10,656	$	30,058	$	40,714

(i) During the period ended 31 December 2015:
  a. Australian assets were revalued upwards by $3.443 million, resulting in a net increase in the reserve of $2.410 million; and
  b. USA assets were revalued upwards by $26.224 million, resulting in a net increase in the reserve of $16.547 million.

The revaluations were performed by independent valuers, with valuation dates of 31 December 2015. The valuation methodology utilised a market comparison approach based on highest and best use, which is consistent with the Group’s current use of the assets. This valuation method is classified as level 3, under the fair value hierarchy.

Note 13. Commitments and contingencies

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

Note 14. Related party disclosure

The Group received notification that the minority shareholders of Austal Service Darwin Pty Ltd were selling their shares to Austal in line with the Shareholders' agreement signed on 3 October 2012. A non-controlling interest in Austal Service Darwin Pty Ltd no longer exists, from 30 November 2015.

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 interim dividend of 2 cents per ordinary share in respect of the FY2016 H1 on 22 February 2016. The dividend has not been provided for in the 31 December 2015 financial statements.

Austal announced on 11 January 2016 that the Chief Executive Officer, Mr Andrew Bellamy will be resigning from Austal effective from 4 April 2016 and that Mr David Singleton, an existing director on the Board of Austal Limited will be assuming the role of Managing Director and Chief Executive Officer from 4 April 2016. A three month transition plan is in place.

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 2015 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
22 February 2016

Independent review report to the members of Austal Limited

Building a better working world

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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 2015, 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 2015 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 2015 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
22 February 2016