



AUSTAL LIMITED | 31 DECEMBER 2018 | 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 2018 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)
- Sarah Adam-Gedge (Non-Executive Director)
- Jim McDowell (Non-Executive Director – resigned 28 August 2018)
- Chris Indermaur (Non-Executive Director – appointed 19 October 2018)

## 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 as follows:

- FY2019 H1 revenue was \$851.504 million which is higher than the prior corresponding period (PCP) (FY2018 H1 Restated: \$650.290 million).
- Profit Before Tax (PBT) was \$36.304 million (FY2018 H1 Restated: \$22.601 million).
- Earnings Before Interest and Tax (EBIT) was \$40.374 million (FY2018 H1 Restated: \$26.502 million).
- Net Profit After Tax (NPAT) was \$23.667 million (FY2018 H1 Restated: \$23.190 million).

## Reconciliation of EBIT and EBITDA (unaudited)

	2019 H1	2018 H1
	\$'000	Restated <sup>1</sup>
	\$	\$
<b>Profit Before Tax</b>	36,304	22,601
Finance costs	4,321	4,032
Finance income	(251)	(131)
<b>EBIT</b>	40,374	26,502
Depreciation	19,152	16,777
Amortisation	1,138	488
<b>EBITDA</b>	60,664	43,767

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

Austal uses a number of non-AASB 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 \$686.823 million (FY2018 H1 Restated: \$555.006 million), and EBIT was \$49.137 million (FY2018 H1 Restated: \$33.489 million). The segment result is a combination of shipbuilding and support activities.

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

- Increased throughput on the Expeditionary Fast Transport (EPF) and Littoral Combat Ship (LCS) programs
- Higher proportion of newly awarded LCS contracts delivering higher revenues
- Higher support earnings due to the award of new contracts
- A weaker average USD / AUD exchange rate, positively impacting the translation of USD revenue and earnings into AUD.

Austal was awarded contracts to build LCS 32, LCS 34, LCS 36 and LCS 38 in FY2019 H1 with a total congressional cost cap of US\$2.3 billion. Austal has now delivered nine LCS and has a forward order book of a further ten ships. The total value of the LCS program is ~US\$7.7 billion, which now extends out to 2025.

LCS 20 USS Cincinnati successfully completed builder's trials in the Gulf of Mexico during December 2018 and is scheduled for delivery in FY2019 H2. LCS 22 USS Kansas City was launched in October 2018 and is undergoing final outfitting for trials. Final assembly is well underway on LCS 24 USS Oakland and LCS 26 USS Mobile and modules are under construction for the future LCS 28 USS Savannah. Initial planning and ordering of materials has commenced on LCS 30, LCS 32 and LCS 34.

Austal was also awarded two contracts totalling US\$98.2 million, to fund the procurement of long lead time materials for the construction of EPF 13 & 14. These contracts have historically been precursors to full contract awards and will add additional backlog to the remaining EPF currently under construction in the USA. The total value of the EPF program is ~US\$2.0 billion.

EPF 11 USNS Puerto Rico was launched in November 2018 and is preparing for sea trials, and EPF 12 USNS Newport is in the final stages of construction.

Two vessels were delivered by USA in FY2019 H1 after completion of United States Navy (USN) acceptance trials, LCS 18 USS Charleston in September 2018 and EPF 10 USNS Burlington in November 2018.

Support revenue continues to expand providing a significant source of recurring earnings from Austal's San Diego and Mobile support locations. Austal was awarded two LCS service contracts during the period, totalling US\$31.2 million, for engineering and management services of LCS 16 USS Tulsa and LCS 18 USS Charleston. These contracts are to support work specification development, prefabrication effort and materials procurement for post-shakedown availability which occurs after each vessel delivery.

Austal was awarded a US\$16 million support activities contract to undertake a dry-docking of LCS 14 USS Manchester. This award was particularly significant because it will be the first time that Austal has acted as the prime contractor on the docking of an LCS.

## Australasia Operations

The Australasia segment reported revenue of \$169.677 million (FY2018 H1: \$98.353 million), and EBIT was \$4.148 million (FY2018 H1 EBIT loss: \$(1.120) million).

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

Revenue and earnings in FY2019 H1 were higher than the prior corresponding period, principally due to:

- Higher facility utilisation and throughput across all of the Australasian shipbuilding operations
- Establishment of a new shipyard in Vung Tau, Vietnam and progress on two vessel projects
- Significant expansion of Austal's shipyard in Cebu, Philippines to construct 100+ metre ferries
- Delivery of Guardian Class Patrol Boat (GCPB) 1 and launch of GCPB 2 within the \$340 million 21-ship program
- Launch and sea trials of the \$108 million, 109 metre Molslinjen vehicle passenger ferry, subsequently delivered in January 2019
- Strong progress on awarded vessel contracts:
  - The 109 metre \$108 million Fjord Line ferry (awarded in August 2017)
  - Two 117 metre Fred Olsen trimaran ferries, \$190 million contract (awarded in October 2017)
  - The 83 metre \$68 million trimaran ferry for JR Kyushu of Japan (awarded in March 2018)
  - Two 50 metre ferries for Taiwan's Brave Line valued at \$44 million (awarded in September 2017)
  - The 49 metre high-speed ferry for SNC Aremiti, \$30 million contract (awarded in December 2017)
- Delivery of a \$5.5 million, 30 metre, high speed catamaran to VS Grand Ferries in September 2018

A ~\$100m contract for a 94 metre catamaran ferry for the Government of the Republic of Trinidad and Tobago was awarded in FY2019 H1, to be delivered in mid-2020. This vessel is a derivative of the 109 metre AutoExpress ships being built for Molslinjen and Fjord Line following an intensive development program. This vessel is currently being built in Austal's new shipyard in Vung Tau, Vietnam. This new facility commenced operations on 1 November 2018 and has already successfully delivered large aluminium modules for the 109 metre Fjord Line ferry being built in the Philippines. Austal expects the new shipyard in Vietnam will be profitable in its first year of operations and will quickly expand to over 450 people as a result of this contract award.

The Government of the Republic of Trinidad and Tobago has also announced its intention to purchase two 58 metre Austal Cape Class Patrol Boats to enhance the border protection capabilities of its country. Austal have since received a US\$6 million deposit against the potential order (which is valued at ~\$100 million) and parties are working towards signing the full contract. Austal is planning to re-establish a service centre in Trinidad to support these vessels.

Sustainment activity in FY2019 H1 includes the continuation of servicing and support for the Cape Class Patrol Boat (CCPB) fleet 1 to 8, operated by the Australian Border Force throughout Northern Australia, plus a sustainment contract worth up to \$18 million over three years for CCPB 9 & 10, Cape Fourcroy and Cape Inscription being operated by the Royal Australian Navy.

## Cash management & dividends

The Group's net cash / (net debt) position continues to be impacted by the Cape Class Patrol Boat 9 & 10 leasing program, where the accounting treatment of the residual value guarantee increased debt by \$(53.001) million at 31 December 2018. The net cash position was \$107.403 million at 31 December 2018 (net cash of \$29.747 million at 30 June 2018) excluding this impact. The net cash position as per the balance sheet, including CCPB 9 & 10 debt, was \$54.402 million at 31 December 2018 (net debt of \$(23.254) million at 30 June 2018).

Importantly, Austal has maintained a strong cash balance of \$233.280 million at 31 December 2018 (30 June 2018: \$162.024 million), demonstrating the ongoing cash generating strength of the business and ability to declare dividends. An unfranked interim dividend of 3 cents per share was declared post 31 December 2018.

\$9.961 million cash was returned to shareholders via an unfranked dividend following the declaration by the Board of a 3 cents per share dividend on 30 August 2018, compared to a dividend of 2 cents per share on 28 August 2017 in the previous corresponding period. The dividend was paid to shareholders on 10 October 2018.

US\$5.000 million of cash was applied to the repayment of the Go Zone Bonds during the period. The Go Zone debt at 31 December was \$87.500 million (\$121.604 million).

## 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

27 February 2019

## Auditor independence

# Deloitte.

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

27 February 2019

Dear Board Members

### Austal Limited

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

As lead audit partner for the review of the financial statements of Austal Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the 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 2018

		2019 H1	2018 H1
	Notes	'000	Restated <sup>1</sup> '000
<b>Continuing operations</b>			
Revenue	4	\$ 851,504	\$ 650,290
Cost of sales	4	(774,145)	(596,693)
<b>Gross Profit</b>		<b>\$ 77,359</b>	<b>\$ 53,597</b>
Other income and expenses	4	\$ 5,983	\$ 8,836
Administration expenses		(34,019)	(28,824)
Marketing expenses		(8,698)	(6,976)
Finance costs		(4,321)	(4,032)
<b>Profit / (loss) before income tax</b>		<b>\$ 36,304</b>	<b>\$ 22,601</b>
Income tax benefit / (expense)	10	\$ (12,637)	\$ 589
<b>Profit / (loss) after tax</b>		<b>\$ 23,667</b>	<b>\$ 23,190</b>
<b>Profit attributable to:</b>			
Owners of the parent		\$ 23,667	\$ 23,190
Total		<b>\$ 23,667</b>	<b>\$ 23,190</b>
<b>Other comprehensive income (OCI)</b>			
<b>Amounts that may subsequently be reclassified to profit and loss:</b>			
Cash flow hedges			
- Gain / (loss) taken to equity		\$ (3,060)	\$ (423)
-(Gain) / loss recycled out of equity		378	(403)
- Income tax benefit / (expense)		1,277	95
- Net		<b>\$ (1,405)</b>	<b>\$ (731)</b>
Foreign currency translations			
- Gain / (loss) taken to equity		\$ 24,929	\$ (7,091)
- Income tax benefit / (expense)		-	-
- Net		<b>\$ 24,929</b>	<b>\$ (7,091)</b>
<b>Other comprehensive income not to be reclassified to profit and loss in subsequent periods</b>			
Asset Revaluation Reserve			
- Gain taken to equity		\$ 2,103	\$ -
- Income tax expense		(637)	-
- Net		<b>\$ 1,466</b>	<b>\$ -</b>
<b>Other comprehensive income net of tax for the period</b>		<b>\$ 24,990</b>	<b>\$ (7,822)</b>
<b>Total comprehensive income for the period</b>		<b>\$ 48,657</b>	<b>\$ 15,368</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent		\$ 48,657	\$ 15,368
Total		<b>\$ 48,657</b>	<b>\$ 15,368</b>
<b>Earnings per share (cents per share)</b>			
		<b>cents / share</b>	<b>cents / share</b>
- basic for profit for the period attributable to ordinary equity holders of the parent		6.7	6.7
- diluted for profit for the period attributable to ordinary equity holders of the parent		6.6	6.7

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

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 2018

		31 December 2018	30 June 2018
	Notes	'000	Restated <sup>1</sup> '000
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	11	\$ 233,280	\$ 162,024
Trade and other receivables		97,935	97,349
Inventories		173,651	241,896
Prepayments		9,944	7,557
Derivatives	6	2,250	1,608
Income tax refundable		3,672	4,523
<b>Total</b>		<b>\$ 520,732</b>	<b>\$ 514,957</b>
<b>Non - Current</b>			
Other financial assets		\$ 10,883	\$ 10,160
Investment in joint venture	7	1,804	1,804
Derivatives	6	203	1,077
Property, plant and equipment		587,849	565,778
Intangible assets and goodwill		21,437	20,812
Deferred tax assets		6,495	9,075
Other non-current assets		17,883	21,751
<b>Total</b>		<b>\$ 646,554</b>	<b>\$ 630,457</b>
<b>Total</b>		<b>\$ 1,167,286</b>	<b>\$ 1,145,414</b>
<b>Liabilities</b>			
<b>Current</b>			
Trade and other payables		\$ (137,004)	\$ (177,848)
Derivatives	6	(8,645)	(5,605)
Interest bearing loans and borrowings	8	(11,372)	(72,758)
Provisions		(53,445)	(70,050)
Deferred grant income		(9,136)	(8,903)
Progress payments received in advance		(94,057)	(53,759)
<b>Total</b>		<b>\$ (313,659)</b>	<b>\$ (388,923)</b>
<b>Non - Current</b>			
Derivatives	6	\$ (8,569)	\$ (6,298)
Interest bearing loans and borrowings	8	(167,506)	(112,520)
Provisions		(1,310)	(1,546)
Deferred grant income		(56,461)	(58,050)
Deferred tax liabilities		(34,595)	(32,499)
<b>Total</b>		<b>\$ (268,441)</b>	<b>\$ (210,913)</b>
<b>Total</b>		<b>\$ (582,100)</b>	<b>\$ (599,836)</b>
<b>Net Assets</b>		<b>\$ 585,186</b>	<b>\$ 545,578</b>
<b>Equity</b>			
<b>Equity attributable to owners of the parent</b>			
Contributed equity	9	\$ 119,335	\$ 118,329
Reserves		182,204	156,719
Retained earnings		283,647	270,530
<b>Total</b>		<b>\$ 585,186</b>	<b>\$ 545,578</b>
<b>Total</b>		<b>\$ 585,186</b>	<b>\$ 545,578</b>

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

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 2018

	Issued Capital '000	Reserved Shares <sup>1</sup> '000	Retained Earnings <sup>2</sup> '000	Foreign Currency Trans'l'n Reserve '000	Employee Benefits Reserve '000	Cash Flow Hedge Reserve '000	Common Control Reserve '000	Asset Reval'n Reserve '000	Total Equity '000
<b>Equity at 1 July 2017</b>	<b>\$ 128,276</b>	<b>\$ (11,892)</b>	<b>\$ 247,006</b>	<b>\$ 66,647</b>	<b>\$ 2,561</b>	<b>\$ (693)</b>	<b>\$ (17,594)</b>	<b>\$ 40,716</b>	<b>\$ 455,027</b>
<b>Comprehensive Income</b>									
Profit for the period	\$ -	\$ -	\$ 23,190	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,190
Other Comprehensive Income	-	-	-	(7,091)	-	(731)	-	-	(7,822)
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,190</b>	<b>\$ (7,091)</b>	<b>\$ -</b>	<b>\$ (731)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,368</b>
<b>Other equity transactions</b>									
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 <sup>3</sup>	8	63	-	-	-	-	-	-	71
Transfer	(494)	494	-	-	-	-	-	-	-
Share based payments expense	-	-	-	-	679	-	-	-	679
<b>Total</b>	<b>\$ 1,152</b>	<b>\$ (164)</b>	<b>\$ (6,989)</b>	<b>\$ -</b>	<b>\$ 478</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (5,523)</b>
<b>Equity at 31 December 2017</b>	<b>\$ 129,428</b>	<b>\$ (12,056)</b>	<b>\$ 263,207</b>	<b>\$ 59,556</b>	<b>\$ 3,039</b>	<b>\$ (1,424)</b>	<b>\$ (17,594)</b>	<b>\$ 40,716</b>	<b>\$ 464,872</b>
<b>Equity at 1 July 2018</b>	<b>\$ 130,165</b>	<b>\$ (11,836)</b>	<b>\$ 270,530</b>	<b>\$ 82,190</b>	<b>\$ 3,977</b>	<b>\$ (5,789)</b>	<b>\$ (17,594)</b>	<b>\$ 93,935</b>	<b>\$ 545,578</b>
<b>Comprehensive Income</b>									
Profit for the period	\$ -	\$ -	\$ 23,667	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,667
Other Comprehensive Income	-	-	-	24,929	-	(1,405)	-	1,466	24,990
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 23,667</b>	<b>\$ 24,929</b>	<b>\$ -</b>	<b>\$ (1,405)</b>	<b>\$ -</b>	<b>\$ 1,466</b>	<b>\$ 48,657</b>
<b>Other equity transactions</b>									
Shares issued for dividend reinvestment plan	\$ 589	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 589
Dividends	-	-	(10,550)	-	-	-	-	-	(10,550)
Shares issued to employee share trust	202	(202)	-	-	-	-	-	-	-
Shares issued for vested performance rights	313	-	-	-	(313)	-	-	-	-
Dividend retained in relation to AGMSP <sup>3</sup>	9	95	-	-	-	-	-	-	104
Share based payments expense	-	-	-	-	808	-	-	-	808
<b>Total</b>	<b>\$ 1,113</b>	<b>\$ (107)</b>	<b>\$ (10,550)</b>	<b>\$ -</b>	<b>\$ 495</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (9,049)</b>
<b>Equity at 31 December 2018</b>	<b>\$ 131,278</b>	<b>\$ (11,943)</b>	<b>\$ 283,647</b>	<b>\$ 107,119</b>	<b>\$ 4,472</b>	<b>\$ (7,194)</b>	<b>\$ (17,594)</b>	<b>\$ 95,401</b>	<b>\$ 585,186</b>

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

2. Retained earnings for the prior corresponding period have been restated in accordance with AASB 15. See note 2 for further details.

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 2018

	Notes	2019 H1 '000	2018 H1 '000
<b>Cash flows from operating activities</b>			
Receipts from customers		\$ 954,525	\$ 643,554
Payments to suppliers and employees		(848,131)	(654,615)
Interest received	4	251	131
Interest paid		(2,149)	(2,527)
Income tax refunded / (paid)		(2,602)	(3,428)
Net cash from / (used in) operating activities		<u>\$ 101,894</u>	<u>\$ (16,885)</u>
<b>Cash flows from investing activities</b>			
Receipts of government grants		\$ -	\$ 1,217
Proceeds from sale of property, plant and equipment		1,153	171
Purchase of property, plant and equipment		(19,732)	(4,314)
Purchase of intangible assets		(1,057)	(420)
Construction of Cape Class Patrol Boats 9 & 10		-	(3,005)
Investment in joint venture	7	-	(298)
Net cash from / (used in) investing activities		<u>\$ (19,636)</u>	<u>\$ (6,649)</u>
<b>Cash flows from financing activities</b>			
Repayment of Go Zone bonds		\$ (6,991)	\$ (5,767)
Repayment of finance lease		(1,495)	(1,109)
Dividends paid (net of dividend reinvestment program)		(9,961)	(6,252)
Net cash from / (used in) financing activities		<u>\$ (18,447)</u>	<u>\$ (13,128)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<u>\$ 63,811</u>	<u>\$ (36,662)</u>
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at beginning of period		\$ 162,024	\$ 150,471
Net foreign exchange differences		7,445	(1,805)
Net increase / (decrease) in cash and cash equivalents		63,811	(36,662)
Cash and cash equivalents at end of period	11	<u>\$ 233,280</u>	<u>\$ 112,004</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 2018

## 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 2018 was authorised for issue in accordance with a resolution of the directors on 27 February 2019.

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 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 2018 and considered together with any public announcements made by Austal Limited and its controlled entities up to the release date of this report 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 2018, except for the implementation of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

### i Change in accounting policies

This note explains the impact of the adoption of AASB 9 Financial Instruments, and AASB 15 Revenue from Contracts with Customers, on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different from those applied in earlier periods.

#### 1. Impact on financial statements

Prior year financial statements have been restated for the adoption of AASB 15 Revenue from Contracts with Customers and the resulting changes in the Group's accounting policies. AASB 9 was adopted without restating comparative information.

The following tables show the adjustments recognised for each individual line item. Line items that are not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

## 2. AASB 15 Revenue from Contracts with Customers – impact of adoption

Austral has utilised a full retrospective approach for the adoption on 1 July 2018 as part of the FY2019 half year financial report. Opening retained earnings, work in progress and revenue are restated below:

	FY 2018 H1		FY 2018 H2	
	Original '000	Restated '000	Original '000	Restated '000
Revenue	\$ 653,016	\$ 650,290	\$ 738,961	\$ 740,165
Income tax (expense) / benefit	241	589	(18,006)	(18,327)

  

	1 July 2017		31 December 2017		30 June 2018	
	Original '000	Restated '000	Original '000	Restated '000	Original '000	Restated '000
Inventories (WIP)	\$ 170,422	\$ 167,331	\$ 196,388	\$ 190,571	\$ 246,509	\$ 241,896
Deferred tax assets	5,630	6,834	6,614	8,166	7,844	9,075
Retained Earnings	248,893	247,006	267,472	263,207	273,912	270,530

## 3. AASB 9 Financial Instruments – accounting policies applied since 1 July 2018

### Investments and other financial assets

#### Classification

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

- Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss); and
- Those to be measured at amortised cost.

#### Measurement

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

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

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

#### Impairment

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

## Derivatives and hedging

### Cash Flow hedges

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

### Fair value hedges

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

### Fair value through profit or loss

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

### Financial liabilities

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

## 4. AASB 15 Revenue from Contracts with Customers – accounting policies applied since 1 July 2018

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

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

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

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

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

## Performance obligations

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

## Transaction price

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

## Revenue and profit recognition

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

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

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

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

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

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

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

### Contract modifications

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

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

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

### Costs to obtain a contract

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

### Costs to fulfil a contract

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

### Inventories

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

## 5. AASB 16 Leases

The new leasing standard, effective 1 July 2019, replaces AASB 117 Leases and requires that:

- All leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment.
- A financial liability is recognised representing obligations to make future lease payments.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The standard will affect primarily the accounting for the Group's operating leases. The Group had non-cancellable operating lease commitments of \$13.274 million as at 31 December 2018 (30 June 2018: \$12.600 million).

The Group is currently completing its assessment of the effects of applying the new standard on the Group's financial statements, including the extent to which these commitments will result in the recognition of lease assets and liabilities for future lease payments and how this will affect the Group's net assets, profit and classification of cash flows.

The Group's activities as a lessor include notional lease income in relation to CCPB 9 & 10. The Group does not expect any significant impact on the financial statements in relation to these agreements.



## Note 3 Reporting segments

	Australasia '000	USA '000	Unallocated '000	Elimination / Adjustments '000	Total '000
<b>2019 H1</b>					
<b>Revenue</b>					
External customers	\$ 163,498	\$ 686,823	\$ 908	\$ 24	\$ 851,253
Inter-segment	6,179	-	-	(6,179)	-
Finance income	-	-	251	-	251
<b>Total</b>	<b>\$ 169,677</b>	<b>\$ 686,823</b>	<b>\$ 1,159</b>	<b>\$ (6,155)</b>	<b>\$ 851,504</b>
<b>Profit / (loss) before tax</b>					
EBIT	\$ 4,148	\$ 49,137	\$ (12,937)	\$ 26	\$ 40,374
Finance income	-	-	251	-	251
Finance expenses	-	-	(4,321)	-	(4,321)
<b>Total</b>	<b>\$ 4,148</b>	<b>\$ 49,137</b>	<b>\$ (17,007)</b>	<b>\$ 26</b>	<b>\$ 36,304</b>
<b>Balance at 31 December 2018</b>					
Segment Assets	\$ 310,783	\$ 813,725	\$ 46,846	\$ (4,068)	\$ 1,167,286
Segment Liabilities	(209,547)	(367,144)	(5,409)	-	(582,100)
<b>2018 H1</b>					
<b>Revenue</b>					
External customers	\$ 93,248	\$ 555,006	\$ 1,358	\$ 547	\$ 650,159
Inter-segment	5,105	-	-	(5,105)	-
Finance income	-	-	131	-	131
<b>Total</b>	<b>\$ 98,353</b>	<b>\$ 555,006</b>	<b>\$ 1,489</b>	<b>\$ (4,558)</b>	<b>\$ 650,290</b>
<b>Profit / (loss) before tax</b>					
EBIT	\$ (1,120)	\$ 33,489	\$ (6,136)	\$ 269	\$ 26,502
Finance income	-	-	131	-	131
Finance expenses	-	-	(4,032)	-	(4,032)
<b>Total</b>	<b>\$ (1,120)</b>	<b>\$ 33,489</b>	<b>\$ (10,037)</b>	<b>\$ 269</b>	<b>\$ 22,601</b>
<b>Balance at 30 June 2018</b>					
Segment Assets	\$ 259,446	\$ 835,773	\$ 54,287	\$ (4,092)	\$ 1,145,414
Segment Liabilities	(177,797)	(384,045)	(37,994)	-	(599,836)

1. Financial results for the prior corresponding period have been restated in accordance with AASB 15. See Note 2 for further details. Inter-segment revenues, investments, receivables and payables are eliminated on consolidation.

## **i Identification of reportable segments**

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

The Chief Executive Officer, who is the Chief Operating Decision Maker (CODM), monitors the performance of the business segments separately for the purpose of making decisions 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 Australasia and USA.

### **1. Australasia**

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

The Australasia business manufactures high performance vessels for markets worldwide, excluding the USA and provides training 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.

## **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 includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

	2019 H1	2018 H1
	'000	Restated <sup>1</sup>
	<u>'000</u>	<u>'000</u>
<b>(i) Revenue</b>		
Vessel construction and support	\$ 846,127	\$ 644,567
Charter vessels	5,126	5,592
Finance income	251	131
Total	<u>\$ 851,504</u>	<u>\$ 650,290</u>
<b>(ii) Cost of sales</b>		
Vessel construction and support	\$ (774,145)	\$ (593,422)
Charter vessels	-	(3,271)
Total	<u>\$ (774,145)</u>	<u>\$ (596,693)</u>
<b>(iii) Other income and expenses</b>		
Net foreign exchange gains / (losses)	\$ (198)	\$ (289)
Government grants	5,888	5,493
Sale of scrap	1,528	1,697
Gain on cessation of foreign operation <sup>2</sup>	-	1,157
Warranty	(1,029)	608
Gain / (loss) on sale of assets	(130)	-
Impairment	(1,200)	-
Other income	1,124	170
Total	<u>\$ 5,983</u>	<u>\$ 8,836</u>
<b>(iv) Depreciation and amortisation</b>		
Depreciation	\$ (19,152)	\$ (16,777)
Amortisation	(1,138)	(488)
Total	<u>\$ (20,290)</u>	<u>\$ (17,265)</u>

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

2. Transfer of Foreign Currency Translation Reserve balance to Profit & Loss on cessation of Hull 130, a foreign operation of Austal.

## **i Recognition and measurement**

### **1. Construction and support contract revenue**

Refer to Note 2 for details of the Group's Revenue recognition policy for construction and support contracts.

### **2. Charter vessel revenue**

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

### **3. Finance income**

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

## **ii Significant accounting judgements and estimates**

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

The assessment of contract revenue in accordance with the Group's accounting policies requires certain estimates to be made of total contract revenues, total contract costs and the current percentage of completion, which if ultimately inaccurate will impact the level of revenue recognised in the Consolidated Statement of Comprehensive Income of FY2019 H1 and future years.

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

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

## Note 5 Dividends paid and proposed

	2019 H1 '000	2018 H1 '000
<b>Dividends paid on Ordinary Shares</b>		
Unfranked final dividend for the prior year, 3 cps (FY2018 H1: fully franked, 2 cps)	\$ 10,550	\$ 6,989
<b>Dividend declared subsequent to the reporting period end (not recorded as liability)</b>		
Unfranked interim dividend for the current year 3 cps (FY2018 H1: unfranked, 2 cps)	\$ 10,560	\$ 7,011

## 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 2018 is set out below:

	31 December 2018		30 June 2018	
	Carrying amount '000	Fair value '000	Carrying amount '000	Fair value '000
<b>Financial assets</b>				
<b>Loans and receivables</b>				
Trade and other receivables	\$ 97,935	\$ 97,935	\$ 97,349	\$ 97,349
Other financial assets	10,883	10,883	10,160	10,160
Total	<u>\$ 108,818</u>	<u>\$ 108,818</u>	<u>\$ 107,509</u>	<u>\$ 107,509</u>
<b>Fair value in other comprehensive income</b>				
Derivatives	\$ 2,453	\$ 2,453	\$ 2,685	\$ 2,685
Total	<u>\$ 2,453</u>	<u>\$ 2,453</u>	<u>\$ 2,685</u>	<u>\$ 2,685</u>
<b>Total</b>	<u>\$ 111,271</u>	<u>\$ 111,271</u>	<u>\$ 110,194</u>	<u>\$ 110,194</u>
<b>Financial liabilities</b>				
<b>Loans and receivables</b>				
Finance leases	\$ (4,273)	\$ (4,273)	\$ (5,533)	\$ (5,533)
Trade and other payables	(137,004)	(137,004)	(177,848)	(177,848)
Vessel finance for Cape Class Patrol Boats 9 & 10	(53,001)	(53,001)	(57,134)	(57,134)
Go Zone bonds	(121,604)	(121,604)	(122,611)	(122,611)
Total	<u>\$ (315,882)</u>	<u>\$ (315,882)</u>	<u>\$ (363,126)</u>	<u>\$ (363,126)</u>
<b>Fair value in other comprehensive income</b>				
Derivatives	\$ (17,214)	\$ (17,214)	\$ (11,903)	\$ (11,903)
Total	<u>\$ (17,214)</u>	<u>\$ (17,214)</u>	<u>\$ (11,903)</u>	<u>\$ (11,903)</u>
<b>Total</b>	<u>\$ (333,096)</u>	<u>\$ (333,096)</u>	<u>\$ (375,029)</u>	<u>\$ (375,029)</u>

Instruments allocated to the section '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, CNH, JPY, SGD and NZD from suppliers and customers in the United States, Euro Zone, Norway, Sweden, Denmark, United Kingdom, China, Japan, Singapore and New Zealand. The forecast purchases and receipts are expected to occur from the date of this report through to September 2024.

#### 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 2018:

	Level 1 '000	Level 2 '000	Level 3 '000	Total '000
<b>Balance at 31 December 2018</b>				
<b>Financial assets</b>				
Derivatives	\$ -	\$ 2,453	\$ -	\$ 2,453
<b>Financial liabilities</b>				
Derivatives	\$ -	\$ (17,214)	\$ -	\$ (17,214)
<b>Balance 30 June 2018</b>				
<b>Financial assets</b>				
Derivatives	\$ -	\$ 2,685	\$ -	\$ 2,685
<b>Financial liabilities</b>				
Derivatives	\$ -	\$ (11,903)	\$ -	\$ (11,903)

#### iii Valuation techniques

The Group enters into derivative financial instruments including forward exchange, 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 2018	30 June 2018
	<u>'000</u>	<u>'000</u>
Investment In Joint Venture		
Investment in Aulong Shipbuilding Co Ltd Joint Venture	\$ 1,804	\$ 1,804

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 Interest bearing loans and borrowings

	31 December 2018	30 June 2018
	<u>'000</u>	<u>'000</u>
<b>Current</b>		
Finance Leases	\$ (2,806)	\$ (2,699)
Go Zone Bonds	(88)	(61,723)
Vessel finance for Cape Class Patrol Boats 9 & 10	(8,478)	(8,336)
Total	<u>\$ (11,372)</u>	<u>\$ (72,758)</u>
<b>Non - Current</b>		
Finance Leases	\$ (1,467)	\$ (2,834)
Go Zone Bonds	(121,516)	(60,888)
Vessel finance for Cape Class Patrol Boats 9 & 10	(44,523)	(48,798)
Total	<u>\$ (167,506)</u>	<u>\$ (112,520)</u>
<b>Total</b>	<u>\$ (178,878)</u>	<u>\$ (185,278)</u>

### i Finance leases

Austal USA entered into finance leases to fund mobile equipment and a plot of land in Mobile, Alabama, USA in late FY2015 with terms of 5 years each, and an average interest rate of 3.33% was incurred in FY2019 H1.

### ii Go Zone Bonds

Go Zone Bonds (GZB) are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 1.54% in FY2019 H1. GZB holders are secured by letters of credit issued by Austal's banking syndicate with a maturity date of 1 May 2021. The average cost of the letters of credit in FY2019 H1 was 1.53%.

Austal has repaid a cumulative amount of ~ US\$137 million, including US\$5.0 million repaid during FY2019 H1, and owed US\$87.500 million (A\$121.604 million) at 31 December 2018.

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 (ABF) 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 ABF. The CCPB 9 lease commenced in April 2017 and the CCPB 10 lease commenced in May 2017. The contract contains an option for NAB to sell the vessels back to Austal at the end of a 3 year term at an option price equal to the residual value of \$21 million per vessel. Extensions or a future sale of the two vessels are considered to be probable. The notional effective interest rate incurred in FY2019 H1 for accounting purposes was 2.89%. No cash interest was or is physically payable on the debt.

## Note 9 Contributed equity

	Shares		'000	
	31 December 2018	30 June 2018	31 December 2018	30 June 2018
<b>Ordinary Shares on Issue</b>				
Opening	350,857,529	349,472,643	\$ 130,165	\$ 128,276
Shares issued for dividend reinvestment plan	345,470	703,878	\$ 589	\$ 1,209
Shares issued to Employee Share Trust	104,859	463,697	202	812
Shares issued for performance rights vested	687,098	217,311	313	201
Dividend retained in relation to AGMSP <sup>1</sup>	-	-	13	23
AGMSP <sup>1</sup> options exercised	-	-	-	147
Transfer of vested Treasury Shares value	-	-	-	(494)
Tax expense on employee share plan (AGMSP <sup>1</sup> )	-	-	(4)	(9)
Closing	351,994,956	350,857,529	\$ 131,278	\$ 130,165
<b>Reserved Shares</b>				
Opening	(4,165,697)	(4,015,539)	\$ (11,836)	\$ (11,892)
Shares issued to employee share trust	(104,859)	(463,697)	\$ (202)	\$ (812)
Dividend retained in relation to AGMSP <sup>1</sup>	-	-	95	127
AGMSP <sup>1</sup> options exercised	-	313,539	-	247
Transfer of vested Treasury Shares	-	-	-	494
Closing	(4,270,556)	(4,165,697)	\$ (11,943)	\$ (11,836)
<b>Net</b>	<b>347,724,400</b>	<b>346,691,832</b>	<b>\$ 119,335</b>	<b>\$ 118,329</b>
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 34 in the FY2018 Annual Report for further information regarding the AGMSP.



## Note 10 Income tax

	2019 H1 '000	2018 H1 '000
<b>Major components of income tax expense for the half years ended 31 December 2018 and 31 December 2017 are:</b>		
<b>Consolidated Profit &amp; Loss</b>		
<b>Current Income Tax</b>		
Current income tax charge	\$ (3,632)	\$ (1,470)
Adjustments in respect of current income tax of the previous year	(610)	225
Total	<u>\$ (4,242)</u>	<u>\$ (1,245)</u>
<b>Deferred Income Tax</b>		
Relating to origination and reversal of temporary differences	\$ (8,669)	\$ 86
Adjustments in respect of deferred income tax of the previous year	274	1,748
Total	<u>\$ (8,395)</u>	<u>\$ 1,834</u>
<b>Total income tax (expense) / benefit</b>	<u>\$ (12,637)</u>	<u>\$ 589</u>
<b>Other Comprehensive Income (OCI)</b>		
<b>Current and deferred income tax related items charged or credited directly to OCI</b>		
Current and deferred gains and losses on foreign currency contracts and consolidation adjustments	\$ 1,275	\$ 95
Deferred gains on revaluation of property, plant and equipment	(637)	-
<b>Total (expense) / benefit charged to OCI</b>	<u>\$ 638</u>	<u>\$ 95</u>
<b>A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:</b>		
<b>Accounting profit / (loss) before income tax from continuing operations</b>	\$ 36,304	\$ 22,601
<b>Income Tax at the Group's statutory income tax rate of 30% (2018 H1: 30%)</b>	\$ (10,891)	\$ (6,736)
Adjustment for USA income tax rate of 25.3% (2018 H1: 36.9%)	\$ 1,766	\$ (782)
Other foreign tax rate differences (primarily Philippines)	1,735	(661)
Restatement of US deferred tax liability following US tax reform	-	7,376
USA revalue deferred balances for change in average state tax rate	(421)	-
US section 199 domestic manufacturing deduction	-	520
USA withholding tax leakage due to losses in Australia	(590)	(188)
Non-deductible share based payments expense	(178)	(184)
Revenue losses not recognised (primarily Australia)	(1,589)	(582)
Transfer pricing adjustments in respect of intercompany royalties	(1,729)	(1,564)
Other non-assessable or non-deductible items	(404)	1,417
Adjustments in respect of current and deferred income tax of the previous year	(336)	1,973
Total Adjustments	<u>\$ (1,746)</u>	<u>\$ 7,325</u>
<b>Income tax (expense) / benefit reported in Consolidated statement of profit or loss</b>	<u>\$ (12,637)</u>	<u>\$ 589</u>

## 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 jurisdiction of the Group companies.

An Australian Taxation Office (ATO) transfer pricing audit of Austal Limited concluded with the ATO having a different assessment of the appropriate value of inter-company royalties associated with intellectual property deployed from Australia to the USA for the LCS and EPF programs. The ATO's position increases Austal's Australian tax liability and the Group's effective tax rate.

Austal has objected to the audit findings based on independent specialist advice. The ATO had not finalised its response to Austal's objection at 31 December 2018.

## ii US tax reform

The reduced US federal corporate tax rate of 21% applied from 1 January 2018 onwards.

The combination of the Federal rate and the weighted average of the individual US states in which Austal operated for FY2019 H1 was 25.3% (FY2018 H1: 36.9%)

## Note 11 Cash and cash equivalents

	<b>31 December 2018</b>	<b>30 June 2018</b>
	<b>'000</b>	<b>'000</b>
<b>Current</b>		
Cash at bank and in hand	\$ 233,280	\$ 162,024
<b>Total Cash per Cash Flow Statement</b>	<b>\$ 233,280</b>	<b>\$ 162,024</b>

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 12 Asset revaluation reserve

The asset revaluation 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.

	<b>Total</b>
	<b>'000</b>
<b>Balance at 30 June 2018</b>	\$ 93,935
Revaluation during period	\$ 2,103
Tax-effect on revaluation	(637)
	<hr/>
Movement in Other Comprehensive Income	\$ 1,466
	<hr/>
<b>Balance at 31 December 2018</b>	<b>\$ 95,401</b>

The Henderson shipyard was revalued upwards by \$2.103 million during the period ended 31 December 2018, resulting in a net increase in the reserve of \$1.466 million.

The revaluation was performed by independent valuers, with a valuation date of 31 December 2018. 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

The Group occasionally receives claims and writs for damages and other matters arising from its operations in the course of its normal business. A specific provision is made where it is deemed appropriate in the opinion of the Directors. Otherwise the Directors deem such matters are either without merit or of such kind, or involve such amounts, that would not have a material adverse effect on the operating results or financial position of the economic entity if disposed of unfavourably.

The Cape Class Patrol Boat In Service Support Contract (CCPB ISS) with the Australian Border Force (ABF) was deemed onerous at 30 June 2017. The cost of the resources required to deliver upon the contracted services through to the maturity date of 1 August 2019 was estimated to exceed the contract revenues at the reporting date and hence a provision was booked in FY2017 with a corresponding expense. The ABF notified Austal at the end of January 2019 of a 12 month contract extension until 1 August 2020. The ABF has an option to further extend the contract in unspecified increments up to a total duration of 11 years from 1 August 2020. A loss provision for an extension period beyond 1 August 2020 has not been recognised. Austal would negotiate the extension of an onerous contract beyond 1 August 2020 but there is a risk that Austal may bear additional cost associated with this contract. The Group reviewed its existing provision and deemed it appropriate to deliver the contracted services through to 1 August 2020. Austal has a \$(2.496) million provision at 31 December 2018.

The Directors are not aware of any other material contingent liabilities in existence as at 31 December 2018 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**

Austal Limited is assisting an investigation by ASIC in Australia and relevant regulatory authorities in the USA into market announcements made by the Company with respect to earnings from its Littoral Combat Ship program over a number of years, including in relation to the write back of profits announced by the Company in July 2016. The investigation in the USA also covers the reporting of costs and profits, and some procurement measures. The Group provided company announcements to the ASX on 24 January 2019 and 29 January 2019.

The Directors declared an unfranked interim dividend for FY2019 H1 of 3 cents per ordinary share on 27 February 2019. The dividend has not been provided for in the 31 December 2018 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 2018 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

A handwritten signature in black ink, appearing to be 'John Rothwell', written over a faint horizontal line.

John Rothwell

Chairman

27 February 2019

# Independent review report to the members of Austal Limited



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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 2018, 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 27.

#### *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 2018 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 2018 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, 27 February 2019