Austal Limited Annual Report 2020

AUSTAL

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Company Overview

Embarking on the company's fourth decade, Austal continues to design and develop innovative new products and services, shipbuilding and sustainment processes and value-adding technologies that help both defence and commercial operators protect and transport people around the world.

Delivering 9 major new vessels worldwide over FY2020 and receiving orders for a further 10 vessels, Austal is building upon a portfolio of success that exceeds 340 vessels contracted to 121 operators in 59 countries.

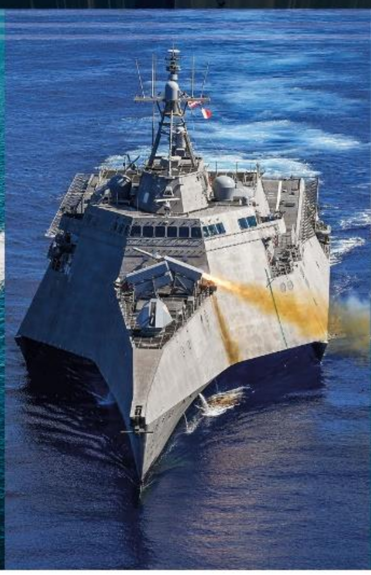
Austal's evolution from the world's largest aluminium shipbuilder to an advanced maritime technology company with capability to manufacture vessels in both aluminium and steel, in multiple locations around the world, has begun.

Further extending Austal's steel manufacturing capability, developed through the ongoing delivery of the 21 vessel Pacific Patrol Boat Replacement (PPBR) Project in Western Australia, Austal USA is investing in additional, 'future-ready' infrastructure to provide capacity for steel naval vessel construction at the Mobile, Alabama shipyard.

Adding to the company's 7 shipyards in 5 countries, Austal's capabilities include a growing sustainment portfolio that offers in-service support to both commercial and defence operators around the world, backed by proven technology including the growing MARINELINK suite of products that is helping operators achieve new levels of efficiency and customer satisfaction.

As new commercial and defence shipbuilding opportunities emerge from this challenging time in world history, Austal is well positioned with the skills and expertise, the drive and the vision; with the best people, infrastructure and technology to continue delivering the world's best ships and support.






2020 Highlights

$2.1B
Revenue

$4.3B
Order Book

10
New ships ordered

45
Ships scheduled or under construction

9
Ships delivered

31
Vessels under sustainment

7 shipyards in **5** countries

6 Service Centres

6,800 Employees

Shipyards

MOBILE

20 YEARS

Austal USA celebrated its 20th anniversary on December 8 2019

FY2020 Vessel Deliveries

2

1

US$100M

Future joint investment with US Government in Shipbuilding and Maintenance Capacity

HENDERSON

A$324M contract to build

6

Cape Class Patrol Boats for the Royal Australian Navy is the biggest contract awarded for Australian vessels in Austal's history

118 metre Trimaran Launched

Hull 394

The 'Bajamar Express', the first of two high speed vehicle/passenger ferries for Fred.Olsen Express of Canary Islands

83 metre Trimaran Launched

Hull 396

The 'Queen Beetle' high speed passenger ferry for JR Kyushu of Japan

NAVAL BASE

50% build process COMPLETE

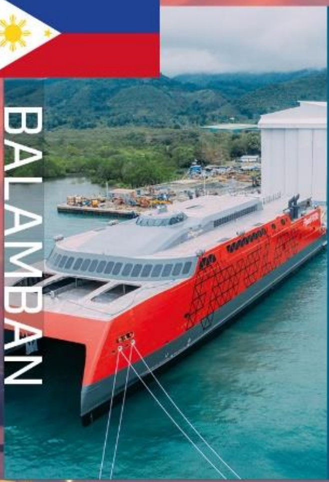
Pacific Patrol Boat Replacement Program started in April 2017 and will conclude September 2023

6 of 21 Guardian Class Patrol Boats (GCPBs) Delivered

3 months

between each vessel completion has been maintained in FY2020

BALAMBAN



Largest aluminium vessel ever launched in the Philippines

Hull 419

109m high speed vehicle/ passenger ferry the 'FSTR' for Fjord Line of Norway

>840
Employees

98%
Local Filipino

Hull 395

The 'Bañaderos Express', the second of two high speed vehicle/passenger ferries for Fred.Olsen Express commenced construction

VUNG TAU

First Vessel Launched

Hull 397

94m high speed vehicle/ passenger ferry the 'APT James' for NIDCO of Trinidad and Tobago is the first vessel to be constructed by Austal Vietnam

>360
Employees

97%
Local Vietnamese

Hull 424

The 'Maria Galanta II', a 41m high speed passenger ferry passenger ferry for SGTM Mauritius commenced construction

AULONG

The largest high speed catamaran ferry built in China

Hull AL008

70.6m passenger ferry for Beibi Gulf currently in build

5
Vessels under construction in FY2020

2
42 metre passenger ferries delivered in FY2020

Ships in build

Littoral Combat Ship (LCS)
US Navy
LCS 22 and 24 delivered
LCS 26, 28, 30, 32 and 34 under construction

Expeditionary Fast Transport (EPF)
US Navy
EPF 11 delivered
EPF 12 launched
EPF 13 under construction

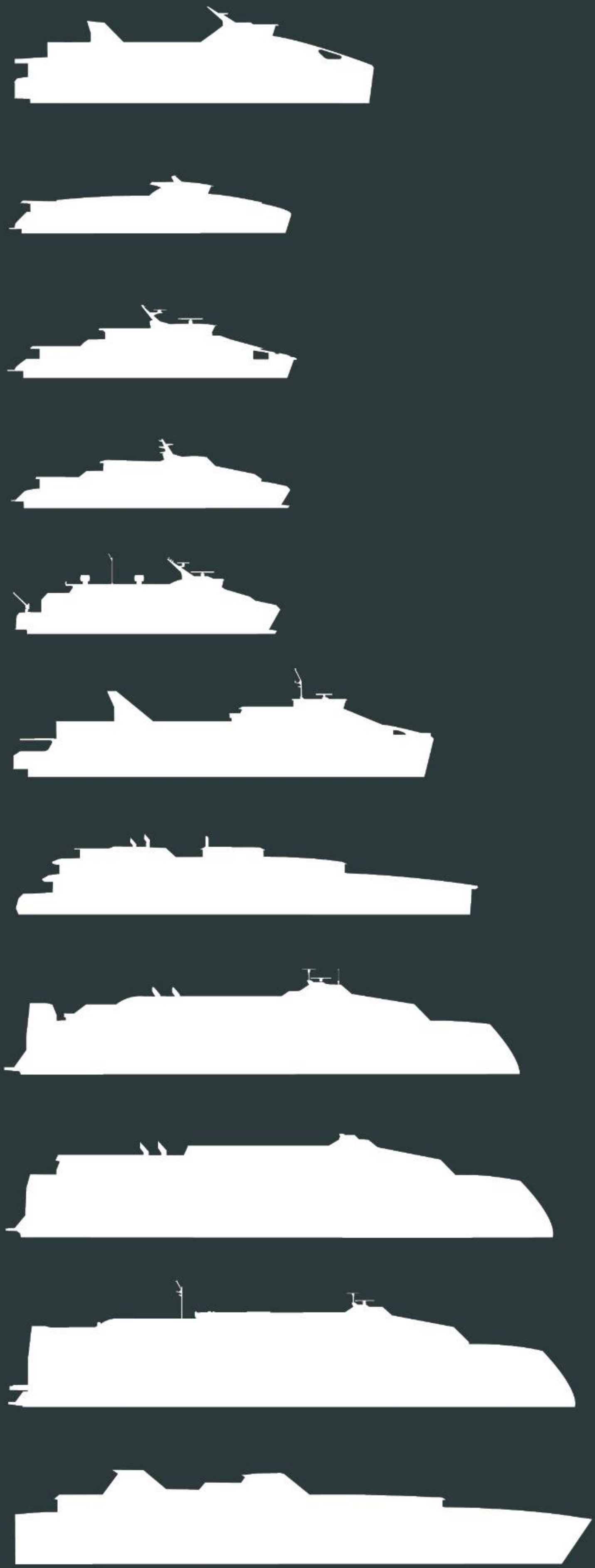
Guardian Class Patrol Boat (GCPB)
Commonwealth of Australia
Hull 524, 525 and 526 delivered
Hull 527 and 528 launched
Hull 529 , 530, 531 and 532 under construction

Austal Patrol 58
Trinidad and Tobago Coast Guard
Hull 398 and 399 under construction

Cape Class Patrol Boat (CCPB)
Royal Australian Navy
Hull 811 under construction

Austal was awarded an A$324 million contract to build six Cape Class Patrol Boats (CCPBs) for the Royal Australian Navy in May 2020.

Commercial



49m Passenger Ferry
SNC Aremiti
Hull 421 delivered

42m Passenger Ferry
Xidao Dazhou Tourism Co Ltd
AL004 delivered
AL005 and AL006 under construction

42m Passenger Ferry
Shenzhen Airport
AL007 delivered
AL010 under construction

42m Passenger Ferry
Blue Sea Jet
AL009 under construction

41m Passenger Ferry
SGTM
Hull 424 under construction

71m Passenger Ferry
Beibi Gulf
AL008 under construction

83m Passenger Ferry
JR Kyushu Jet Ferry
Hull 396 under construction

94m Passenger and Vehicle Ferry
National Infrastructure Development Company (NIDCO)
Hull 397 under construction

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

115m Passenger Ferry
Molslinjen
Hull 423 under construction

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

Sustainment

Austal's sustainment business is growing, throughout our operations and around the world. One of Austal's key differentiators is its ability to provide in-service support (ISS), integrated logistics support (ILS) and vessel sustainment services to both commercial and defence operators in-country and remotely, as required; from shipyards in Australia, the USA, Philippines and dedicated service centres in Australia, the USA, Singapore and Oman.

Just some of the major achievements in the area of sustainment in FY2020 included the qualification of Austal Australia's sustainment team to bid for and provide support services to visiting US Naval ships to Australia, and the commencement of in-service support for Guardian Class Patrol Boats from Austal's Cairns service centre in Far North Queensland, Australia.

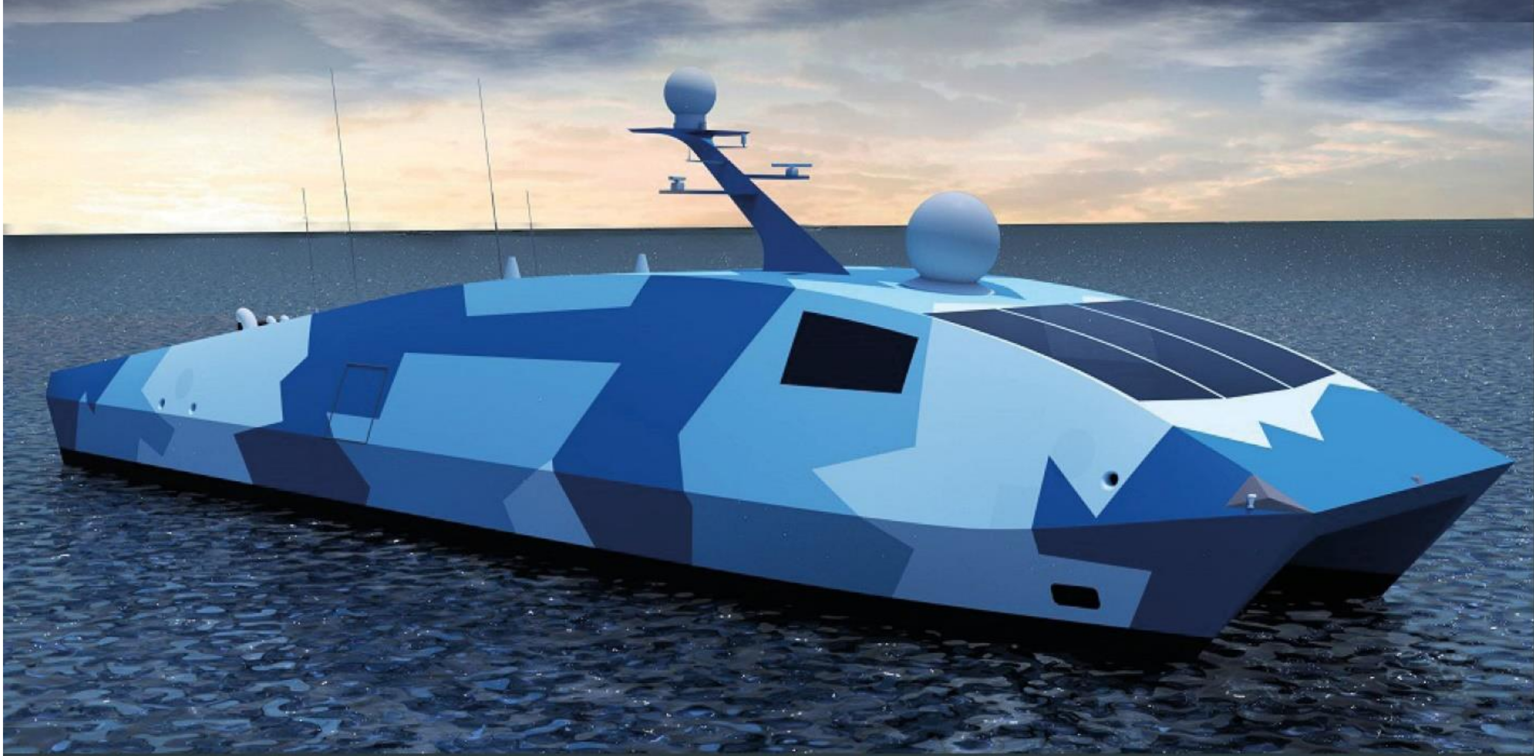
Capitalising on a strong relationship

The strong, enduring and valuable relationship between Australia and the USA was highlighted over FY2020 when firstly, the President of the United States, Donald Trump gifted a scale model of the 'USS Canberra' (LCS 30) to Australian Prime Minister Scott Morrison, during a State Visit to Washington in September 2019.

The great honour bestowed by the US Navy in naming the 15th Independence-class Littoral Combat Ship, constructed by Austal USA, was further promoted when Australia's Foreign Affairs Minister, Senator The Hon. Marise Payne laid the keel of the USS Canberra in Mobile, Alabama in March 2020.

The future USS Canberra (LCS 30) will be the only current US Navy ship named for a foreign capital city and only the second ever, in the 244 year history of the US Navy.

Emerging Technologies Driving Innovation



Autonomous Vessels

Austal is proactively pursuing the development of autonomous vessel technology as an emerging solution for naval forces, worldwide.

In FY2020, Austal USA announced and promoted a number of flexible, unmanned and autonomous surface vessel designs, based on Austal's proven catamaran and trimaran hull forms.

The new designs incorporate artificial intelligence and machine learning capabilities and range in size from 30 to 110 metres in length, providing both mid and large-size autonomous vessel solutions.

The networked platforms may be tailored to meet requirements to provide fleets with increased, unmanned lethality and intelligence, surveillance and reconnaissance capability.

MARINELINK

In Australia, Austal's dedicated Technology Development team continues to expand and promote the MARINELINK product range that offers the original Integrated Platform Management System (IPMS), fitted to over 160 high speed ferries since 1996, plus new value-adding programs that further help operators achieve optimum vessel performance and efficiency, seakeeping and passenger comfort.

The original MARINELINK on-board vessel monitoring, alarm and control system has been upgraded to include a 3D user interface and a more robust and lower cost hardware architecture, making it more appealing than ever to vessel operators.

In addition to MARINELINK-Smart and the new MARINELINK-Fleet, launched over the past year, Austal will be releasing additional MARINELINK modules in 2020 to 2021 that offer operators even greater flexibility to configure on-board and remote analysis and management of their vessels and systems.

These new, industry leading products are the result of a successful collaboration between Austal and some of our largest commercial customers such as Fred. Olsen Express and Molslinjen, enabling effective product development and testing in real-world operations.

Impressive from any perspective

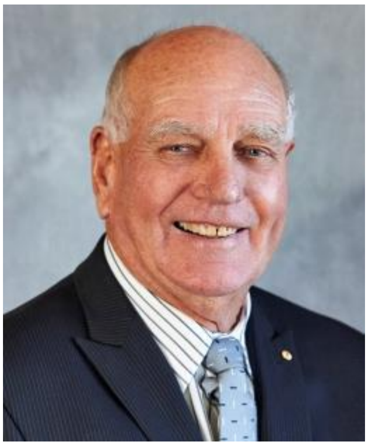
Austal's trimaran technology selected by a growing number of operators

Austal celebrated the company's success in high-speed trimaran technology following a successful side-by-side 'sprint' by the 118 metre 'Bajamar Express' and 83 metre 'Queen Beetle' trimaran ferries off the coast of Perth, Western Australia in July 2020.

The two trimarans, designed and constructed by Austal Australia, are the latest designs of a proven hull form first developed for Fred. Olsen Express' 127 metre Benchijigua Express, in 2005.

Twenty five trimarans have been contracted in total since then, with 16 vessels delivered and a further 9 under construction or scheduled for construction at Austal's shipyards around the world.

Chairman's report



Financial Year Highlights

- Record earnings amid unprecedented global economic volatility.
- Ongoing strong contribution from LCS and EPF programs in the USA and enhanced earnings from expanded commercial operations in Australasia.
- Strong $4.3 billion order book to underpin business as Austal pursues vessel opportunities and invests in steel shipbuilding capability in USA.
- Challenges presented by COVID-19 well navigated, with a strong team in place to mitigate ongoing impacts that Austal is not immune to.

I am pleased to present the FY2020 Annual Report to shareholders on behalf of the Board of Austal Limited.

Despite significant global disruption and economic uncertainty due to the COVID-19 pandemic, the 2020 financial year saw Austal surpass its record earnings set in FY2019. This result is testament to Austal's ability to adapt its operations in an increasingly volatile global environment, whilst maintaining efficiency and consistency across our shipbuilding programs and support services.

It reflects the work done in each of our shipyards - the USA, Australia, Philippines, and Vietnam – all of which remained fully operational throughout the year, including during the COVID-19 pandemic. We are cognisant though, that the COVID-19 situation remains dynamic and has the potential to have an impact on our operations by way of a slowdown of ferry orders and the health of our workforce. Austal continues to implement a range of health and wellbeing measures to protect our 6,800-strong workforce and will continue to monitor the situation closely and adapt as we seek to mitigate the potential impacts from the virus.

Austal's Net Profit After Tax (NPAT) was $88.978 million in FY2020, 45.0% higher than the prior corresponding period (pcp), and Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $176.139 million, up 30.5% on the pcp. Apart from being another record result, FY2020 was the fourth time that EBITDA exceeded the $100 million mark in the Company's history and the third year in a row. These strong results helped enable the Board to increase the dividend payment irrespective of the pandemic, with a total of 8.0 cents per share (unfranked) in FY2020, up from 6.0 cents per share (unfranked) in FY2019.

Austal's earnings were generated off a record $2,086.001 million in revenue, the first time in the Company's history that revenue has exceeded $2 billion. The investments made in our Australasia shipyards to increase throughput is translating into stronger financial performance, accounting for one-quarter of Group revenue in FY2020 despite ongoing revenue growth from Austal USA. By way of comparison, Australasia contributed just over 11% of Austal's revenue in FY2017.

Looking at our two segments, Austal USA reached a significant milestone during FY2020, celebrating 20 years of operations in December 2019. In just two decades Austal USA has grown to become a world-leading shipbuilder, being the only foreign-owned prime contractor designing, constructing and sustaining ships for the US Navy during that time. Austal USA has become the core driver of our financial performance, constituting approximately three-quarters of our revenue in FY2020 as it continued the efficient delivery of high-quality aluminium vessels to the US Navy, delivering three Expeditionary Fast Transport and Littoral Combat Ships during the year.

Meanwhile, we saw increasing contribution and improved margins from Australasia resulting from the completion of the investment and reorganisation of this division over the past three years. Led by a high-calibre team, the reinvigorated Australasian business is in a robust position to adapt and navigate through future obstacles. In Australasia, we are conscious that COVID-19 presents both logistical challenges for our integrated network of shipyards as well as the impact travel restrictions may have in softening demand for large vehicle ferries.

Our support business also continued to grow in the year, with revenue up 28.4% compared to FY2019, and 28.0% on a compounded basis over the last four years. This revenue growth highlights the success in our strategy to grow our global support business as an increasing number of Austal-designed and built vessels are being commissioned and deployed by the US Navy. We have grown Austal's presence globally – such as on the west coast of the USA and Singapore – and are further building our support capabilities in Australia. Providing support services will deliver a long-term, stable income stream that will underpin sustained shareholder returns.

Looking ahead, Austal has entered FY2021 with a $4.3 billion order book. This was lower than 12 months ago, reflecting the delivery of our work in hand and the award of no additional vessels in the USA as the US Navy Guided-Missile Frigate Program competitive tender process took place. While the award of this program to an alternate bidder in May 2020 was clearly disappointing, our contracted orders for the US Navy extend through to 2024. The LCS and EPF contracts are at a mature phase and Austal is undertaking initiatives to expand our Mobile, Alabama shipyard. This includes the agreement we reached with the US Government during FY2020 to co-invest in building steel shipbuilding capability at the facility. These initiatives provide Austal with reasonable confidence that we will be positioned to participate in other US Navy programs in the medium-term.

Outside of the USA, in FY2020 we secured a $324 million contract to design and construct six evolved Cape Class Patrol Boats (CCPB) for the Royal Australian Navy. This is the largest contract for an Australian vessel construction program ever awarded to Austal in the Company's 30-year history, and will assist in providing stability for our Australian shipyard and workforce in the years ahead as we look to navigate the economic challenges presented by COVID-19.

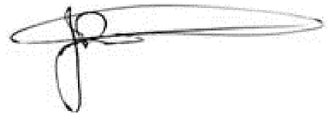
Austal continues to invest across the business and advance strategic initiatives that position us to win future vessel programs and support work. Chief Executive Officer David Singleton goes into more detail about these initiatives in his report. Refining and building on this strategy will be a key focus for our incoming CEO, Patrick Gregg, who will take the helm from David Singleton on 1 January 2021 following a planned six month transition period, as announced in June 2020.

Prior to joining Austal as Chief Operating Officer in February 2017, Mr Gregg most notably served in several senior project manager roles at BAE Systems, one of the world's largest defence companies, over a period of 11 years. Since his appointment, Austal has set up operations in Vietnam, expanded its operations in the Philippines and won a new Cape class contract with the Australian Government. Austal's shipyards in Australia, the Philippines, Vietnam and China are working well whilst producing quality defence and commercial vessels, which is a reflection of Mr Gregg's drive, commitment and ability to engender similar characteristics from the workforce. Mr Gregg was appointed as COO with a view to him being a natural successor for the CEO role in the future and his achievements, skills and personal qualities exhibited over the past 3.5 years made him an ideal choice to take over from Mr Singleton. I would like to take this opportunity to thank Mr Singleton for his contribution on what will be almost five years as CEO at Austal when he finishes at the Company and wish him all the best for the future.

In order to maintain growth in the longer term, Austal must focus on ensuring its operations continue to evolve in a sustainable manner. Following the release of our inaugural Environmental, Social, and Governance (ESG) report last year, our focus is to build on these initiatives with a particular focus on environmental and social risks and opportunities in the year ahead. For example, Austal has active research and development projects targeting ways to design and construct vessels with increased fuel efficiency and reduced emissions, such as battery-powered smaller (up to 60 metres) ferries and larger vessels that could convert from diesel to LNG. Further details on our achievements and initiatives are contained in our FY2020 ESG report, which I encourage you to read.

We further enhanced the Company's executive remuneration structures in this area led by Sarah Adam-Gedge as Chair of the Nomination & Remuneration Committee. As always, we welcome further feedback from shareholders about the Remuneration Report.

On behalf of the Board I would like to thank each and every one of our people for their adaptability and resilience during a period of unprecedented global uncertainty. Austal's record FY2020 results are testament to their commitment during the year. I would like to acknowledge the Austal executive team and support managers for their leadership in guiding the Company through an unprecedented period. I also want to express my appreciation to Austal's loyal shareholders.



John Rothwell AO

Chairman

Chief Executive Officer's report

Financial Year Highlights

- New records set for Group revenue and profit, profit increased by 45.0%.
- Support revenue has grown at 28.0% compound annual growth rate (CAGR) over 4 years to $360.158 million.
- Repositioning in Asia complete with expanded shipyards successfully launching their first major vessels.
- Austal investing in steel shipbuilding as a foundation for new growth.
- USA and Australia increasing defence expenditure, including in shipbuilding.

When we announced a record annual profit and revenue result this time last year, I told shareholders that it represented not a peak but rather a new normal for the business. I am delighted to announce that Austal has not only delivered but exceeded on this commitment, with the Company setting a new revenue and profit benchmark in the 2020 financial year. This was all the more impressive given the unprecedented events in the second half of FY2020, as the COVID-19 virus spread globally.

Austal exceeded its original revenue guidance for FY2020 by 10%, delivering more than $2 billion revenue for the first time in its history and a Net Profit After Tax of $88.978 million, up 45.0% on FY2019.

This record performance was driven by a clear strategy and strong operational momentum across our USA and Australasia operations, as we constructed and delivered naval vessels, large ferries, and provided ongoing support services.

A key development in this strategy has been growing our defence business, which is on a different economic cycle to other sectors and now represents circa 85% of our revenue base, a percentage which is set to grow further.

As detailed in the Chairman's Report, Austal's FY2020 operational performance was strong, with these record earnings importantly translating into robust cashflow and a further enhanced balance sheet. During FY2019, we indicated that this balance sheet strength would enable the next growth phase for the business by allowing Austal to focus on the strategic opportunities ahead.

USA

The US Congress now requires the US Navy to increase the number of ships in its fleet to 355, an increase of around 20%, with some reports of an intent to do this by as early as 2030. Further to this, it is being reported that the US Navy's emphasis has pivoted towards smaller, highly-lethal and possibly unmanned vessels. This is due to the Navy seeking a more distributed lethality model than is represented by the large aircraft carrier style of its fleet, which has formed the core of naval sea power since the Second World War. This reorientation to mid-size ships, fits comfortably with the size speciality of Austal's manufacturing capabilities both today and in the future.

Following the award of the Guided Missile Frigate FFG(X) contract to an Austal competitor, Austal USA committed to a major investment that represents the biggest strategic step with our most valuable customer since we expanded our Mobile, Alabama shipyard over a decade ago. On 22 June 2020, Austal announced its intention to invest US$100 million in building a modern steel ship extension to the current shipyard in Mobile Alabama, to be ready in two years' time, to contribute to a significant series of new shipbuilding programs for the US Navy. The investment is being funded in part through a Defense Production Act (DPA) agreement between Austal USA and the Department of Defense that would see the US Government contribute up to US$50 million of this investment.

This represents a significant strategic step to augment our current aluminium based operations to include a steel shipbuilding future, significantly broadening the opportunity horizon for the Company. This is at a time when a number of new, major steel shipbuilding programs in our size range are expected to come up for tender in the medium term. The strategic investment by the US Government also highlights Austal USA's continued significance in the country's defence industrial base. Austal is well primed to capitalise on these growth opportunities as we continue to develop new vessels, including EPF variants and unmanned ships.

The DPA agreement is designed to create employment and defence industrial capability at a time of increasing global tensions and an expanding US Navy. The published US Navy and Coast Guard acquisition plan includes multiple new ship types that will begin to be manufactured during the FY2023 timescale. Many of these ships can be built in the new Austal steel shipbuilding facilities, which is planned to be completed in CY2022. This strategic move to steel ships in the United States, in addition to our aluminium shipbuilding heritage, is an exciting long-term opportunity for Austal.

Australasia

The same macro factors driving growth of the US Navy are also apparent in Australia. We have seen the Australian Government commit to a major increase in defence expenditure to counter the increasing threats in the region. For example, Austal's 21-vessel Guardian Class Patrol Boat program is a product of Australia's increased commitment to the South Pacific islands.

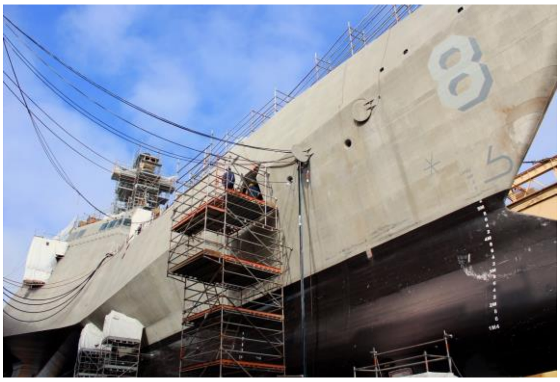
The more recent, $324 million Cape Class Patrol Boat (CCPB) contract for the Royal Australian Navy – which will help underpin the Henderson shipyard over the next three years – is another example of the Australian Government stepping up its commitment to Defence.

The Defence White Paper has committed significant additional funds for new heavy steel ships, which has potential to be a very important area for Austal in the future.

This focus on large steel ships also presents an opportunity for Austal in Asia, where – in a not dissimilar way to the USA – we could for the first time have the capacity to build large steel navy vessels. This could open up a whole new area for us, not only for Australia, but also in Asia which we believe will be a strong naval market for many years to come. The Offshore Patrol Vessel program in the Philippines is a good example of how this can develop over time – a substantial growth opportunity which could potentially be replicated with the new large naval vessels for the Royal Australian Navy.

Support

Our strategic initiative to build our support business continues but with increased emphasis. This emphasis has been successful based on a compounded annual growth rate of 28.0% over the last four years, and our ratio of support revenue to new build revenue in the USA has increased from 11.6% two years ago to 18.3% now.



For some years building this long term income stream in support has been a priority and the focus has seen further milestones in the year which includes developing Austal's support operations in San Diego and our presence in Singapore to support the Littoral Combat Ships when they are deployed to the region. In addition, we were recently accredited by the US Navy to undertake support work at any of Austal's Australian locations. We also continue to plan and focus on more opportunities out of the Philippines and in other areas, which have the ability to see major growth over the next few years again primarily for the US Navy.

Another positive which has come from our financial success has been the ability to invest aggressively in Research and Development, both in the USA and Australia. Austal has now, for the first time, appointed a Chief Digital Officer. This move recognises the tangible advances that bolstering our R&D capabilities has, and will continue to have, in improving both our products and our processes.

The MARINELINK-Smart system, which started development 3 years ago, is now being fitted to production vessels and offers Austal a unique competitive advantage by reducing fuel usage and improving passenger comfort, with further software applications to be developed to create expanded functionality. In addition to this, we are developing a sophisticated, cloud native, maintenance planning system that directly interacts with the ship it is installed in. This product was initially developed through our R&D department and has now been sold to the Royal Australian Navy.

One of Austal's most interesting R&D initiatives has been in the USA and now Australia – developing large autonomous or unmanned defence vessels that can operate at sea for extended durations. Together with electric boats, LNG vessels and other technologies, we are determined that Austal maintains its leading technology focus to build and support the advanced vessels demanded by defence and commercial operators alike.

Conclusion

Whilst business performance improvement at Austal over the last few years has been very obvious to investors, I believe that the strategic steps that we have taken and have underway across the board for steel shipbuilding, support and technology development will continue to see the business flourish in the future.

David Singleton

Managing Director and Chief Executive Officer

Review of operations

Group financial results

	2020 '000	2019 '000
Revenue	$ 2,086,001	$ 1,851,021
EBITDA [1]	176,139	135,001
EBIT [2]	130,396	92,795
NPAT [3]	88,978	61,384
EBITDA margin	8.4%	7.3%
EBIT margin	6.3%	5.0%
Net assets	$ 748,743	$ 630,783
Net cash position [4]	272,412	150,709
Net cash flow	121,002	113,641
Earnings per share ($ per share)	$ 0.250	$ 0.176
Dividends per share ($ per share)	0.080	0.060
Payout ratio	32.0%	34.2%

1. Earnings before interest, tax, depreciation and amortisation (EBITDA).
2. Earnings before interest and tax (EBIT).
3. Net Profit / (loss) after tax (NPAT)
4. Excludes CCPB 9 & 10 notional lease debt

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

- Total revenue for the year increased by 12.7% to $2,086.001 million in FY2020.
- FY2020 earnings before interest and tax (EBIT) increased by 40.5% to $130.396 million compared to $92.795 million in FY2019.
- Austal reported a net profit after tax (NPAT) of $88.978 million in FY2020 compared to $61.384 million in FY2019.
- The Group delivered operating cash flow of $164.472 million, in-line with FY2019, and FY2020 net cash flow of $121.002 million up by 6.5% on FY2019.
- Austal has maintained a strong cash balance of $396.667 million at 30 June 2020 demonstrating the ongoing cash generating strength of the business (30 June 2019: $275.665 million).
- Net cash (excluding the accounting treatment of the notional CCPB 9 & 10 leasing program) was $272.412 million at 30 June 2020 (30 June 2019: $150.709 million).
- Total unfranked dividends of 8.0 cents per share were declared in respect of FY2020, representing a 32.0% payout ratio (FY2019: 6.0 cents per share, unfranked).

People & Safety

The COVID-19 pandemic has rapidly emerged as one of the biggest global health challenges in modern history and was a major focus in FY2020. As at the date of this report, 156 Austal employees have tested positive to COVID-19 (2 in the Philippines, 3 in Australia, and 151 in Mobile, USA). All of these employees are currently in isolation or have completed a comprehensive isolation period and are recovering well or have already recovered. Austal has placed a strong emphasis on supporting the health and wellbeing of these employees and their colleagues, with comprehensive sanitisation at worksites implemented in addition to the isolation measures.

Austal's proactive implementation of these initiatives, in conjunction with other preventative measures, such as social distancing and the broad use of virtual meetings, has helped to mitigate the risk of a large-scale virus outbreak among our employees.

We have seamlessly integrated these significant measures into our existing Health, Safety, Environment & Quality (HSEQ) Integrated Management System, to ensure that our 'Zero Harm' approach to health and safety has been maintained as the primary value of our Company.

Our HSEQ department has continued to regularly reinforce this important program to all of our 6,800 - strong workforce.

The department undertakes daily pre-start meetings, monthly HSEQ Toolbox sessions, offers nationally accredited training, and provides ongoing education and awareness briefings to underpin this hands-on, data-driven approach to managing safety risks.

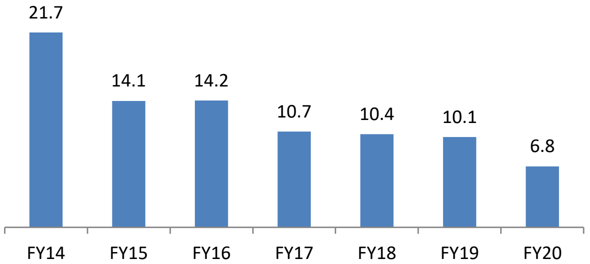
This has yielded tangible results, as we made positive progress on our overarching 'Zero Harm' objective during FY2020.

Across our Group operations, the 12-month rolling Medically Treated Injury Frequency Rate (MTIFR) was reduced by 32.4% compared to the prior corresponding period, and our Lost Time Injury Frequency Rate (LTIFR) was reduced by 18.8% compared to the prior corresponding period.

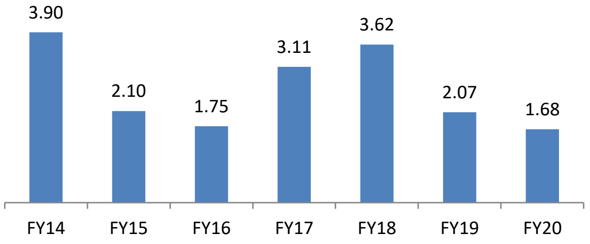
The Company is not taking these positive results for granted – we are perennially enhancing our HSEQ policies to ensure our Group Safety performance indicators continue to improve.

For example, Austal Australia launched a new health and safety campaign during FY2020 – 'Safety is Everyone's Responsibility', which incorporates refined messaging to individual employees, ensuring everyone in Austal is aware of the specific role they have to play in the Group achieving its Zero Harm goal.

Continuous improvement in our Group Safety performance indicators will grow our business in a sustainable way. This benefits our employees, shareholders, and the broader community in which we operate



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



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

Further details on Health, Safety and Environmental initiatives at Austal can be found in Austal's Environmental, Social and Governance (ESG) Report.

New contract awards

Austal received $852 million of new contract awards during FY2020 to bring the order book to $4.3 billion at 30 June 2020.

USA

- Austal was awarded a modification contract worth up to US$43 million. The modification relates to a previously awarded Littoral Contract Ship contract and exercises options for LCS Class design services, material to support LCS Class design services and the US Navy's Integrated Data Product Model Environment (IDPME).
- The Company received a Post Shakedown Availability service contract totalling US$23 million for support activities, including dry docking, on the USS Tulsa. The USS Tulsa is an Independence Class Littoral Combat Ship manufactured by Austal.

Australasia

- A $324 million contract was awarded to design and construct six Cape Class Patrol Boats (CCPB) for the Royal Australian Navy (RAN). The six vessels will be added to the RAN's existing fleet of two CCPB delivered in 2017 and extends Austal's Cape Class Patrol Boat program to a total of 16 vessels in Australia.
- A contract worth approximately $126 million to construct two CCPB for the Government of the Republic of Trinidad & Tobago.
- A $136 million contract secured for the design and construction of a 115 metre high-speed catamaran for Molslinjen of Denmark. The catamaran will be designed in Henderson and then built at our shipbuilding facility in Balamban in the Philippines.
- Awarded a $16 million contract for a 41 metre, high-speed catamaran, to be built at Austal's Vietnam shipyard.

A financial summary for each segment has been included below, including AASB and non-AASB information. This information has been extracted from the audited financial statements and included in order to demonstrate performance across the operating segments.

US operations

US segment financial performance

	2020 $'000	2019 $'000
Revenue		
Shipbuilding	$ 1,310,747	$ 1,248,079
Support	293,017	224,600
Total	$ 1,603,764	$ 1,472,679
EBIT		
Shipbuilding	$ 106,802	$ 98,633
Support	16,868	16,322
Other	(653)	(8,533)
Total	$ 123,017	$ 106,422
EBIT Margin		
Shipbuilding	8.1%	7.9%
Support	5.8%	7.3%
Total	7.7%	7.2%

USA revenue increased by $131.085 million (8.9%) compared to FY2019 to deliver $1,603.764 million in FY2020.

EBIT also increased by $16.595 million (15.6%) on FY2019 to $123.017 million representing further year on year improvement in profitability.

Revenue and earnings in FY2020 were higher than the prior corresponding period, principally due to:

- Increased throughput on the EPF program.
- Increasing maturity of the LCS and EPF programs, delivering greater efficiencies.
- Strong support earnings as the Austal fleet of vessels grow.
- A weaker average USD / AUD exchange rate positively impacted the translation of USD EBIT into AUD by $7.258 million.

Vessel construction & deliveries

Austal USA delivered three vessels to the United States Navy (USN) in FY2020; EPF 11 USNS Puerto Rico in December 2019, LCS 22 USS Kansas City in February 2020, and LCS 24 USS Oakland in June 2020.

Two additional EPF remain under construction at Austal USA's shipyard – EPF 12, the USNS Newport, is in final assembly, while construction recently began on EPF 13, the future USNS Apalachicola and EPF 14, the future USNS Cody is under contract.

Five LCS are presently under various stages of construction. LCS 26, the future USS Mobile, is preparing for sea trials. Assembly is underway on LCS 28, the future USS Savannah, and LCS 30, the future USS Canberra. Modules are under construction in the module manufacturing facility (MMF) for LCS 32, the future USS Santa Barbara and LCS 34, the future USS Augusta. LCS 36, the future USS Kingsville and LCS 38, the future USS Pierre, are under contract.

Sustainment

With a growing fleet of LCS and EPF Austal USA's sustainment business has continued to experience organic growth. The sustainment business's growth has also been driven by Austal's growing service presence in San Diego, California, which is the home port for the Independence-class LCS constructed by Austal.

Sustainment revenue increased by $68.417 million (30.5%) compared to FY2019 to $293.017 million in FY2020. EBIT increased by $0.546 million (3.3%) on FY2019 to contribute $16.868 million.

Future US defense programs

In June 2020, Austal entered into a significant strategic investment that will see the US Government contribute up to US$50 million under a Defense Production Act Title III Agreement (DPA Agreement) between Austal USA and the Department of Defense. Austal will match the DPA Agreement funding, which would take the total co-investment to circa US$100 million. This investment has the potential to extend Austal USA's operations into a steel shipbuilding future because a number of new, major steel shipbuilding programs are expected to be tendered in the medium term.

Further details about the purpose and specific use of these funds will be released as they are agreed between Austal and the DoD in FY2021.

Australasia operations

Reporting of Austal's Australia, Philippines, Vietnam, Aulong Joint Venture and Muscat operations are combined into a single Australasia operations reporting segment.

These locations act as a single business unit for tendering, scheduling, resource planning and management accountability.

Australasia financial performance

	2020 $'000	2019 $'000
Revenue		
Shipbuilding	$ 426,020	$ 323,055
Support	70,754	70,100
Total	$ 496,774	$ 393,155
EBIT		
Shipbuilding	$ 17,839	$ 6,352
Support	13,047	5,321
Total	$ 30,886	$ 11,673
EBIT Margin		
Shipbuilding	4.2%	2.0%
Support	18.4%	7.6%
Total	6.2%	3.0%

The Australasia segment reported revenue increase of $103.619 million (26.4%) compared to FY2019, to reach $496.774 million for FY2020.

EBIT also increased by $19.213 million (164.6%) relative to FY2019. EBIT for FY2020 was $30.886 million.

Revenue and earnings in FY2020 were higher than the prior corresponding period, predominantly due to:

- The award of a $324 million contract to design and construct six evolved CCPB for the Royal Australian Navy (RAN) on 1 May 2020, the largest contract for an Australian vessel construction program ever awarded to Austal in the Company's 30-year history.
- Higher sustainment activity, including the continuation of servicing and support the CCPB fleet of vessels operated by the Australian Border Force and the RAN.
- Expanded shipyard in the Philippines and new shipyard in Vietnam both launching their first major commercial ferry vessels and experiencing strong construction activity.
- Significant progress on a $126 million contract to construct two 58 metre aluminium monohull CCPB for the Government of the Republic of Trinidad and Tobago, which was awarded in August 2019.

Vessel deliveries

Four vessels were delivered from Australasia during the year:

- Three GCPB for the Commonwealth of Australia in August 2019, November 2019, and March 2020. The first 6 vessels of the 21-ship Guardian Class Patrol Boat (GCPB) program have now been delivered.
- A 49 metre high-speed passenger ferry to SNC Aremiti in August 2019.

Vessel construction

Progress was made on the vessels currently under construction:

- 109 metre, $108 million Fjord Line ferry (awarded in August 2017).
- Two 117 metre Fred Olsen trimaran ferries in a $190 million total contract (awarded in October 2017).
- 83 metre, $68 million trimaran ferry for JR Kyushu of Japan (awarded in March 2018).
- Two Cape Class Patrol Boats for the Government of the Republic of Trinidad & Tobago in a contract worth $126 million (awarded in August 2019).
- $136 million contract for a 115 metre high-speed catamaran for Molslinjen of Denmark (awarded in October 2019).
- 41 metre, $16 million high-speed catamaran ferry for STGM Mauritius (awarded in January 2020).
- $324 million contract for six CCPB for the Royal Australian Navy (awarded in May 2020).

Sustainment

Sustainment activity in FY2020 included the continuation of servicing and support for the fleet of 8 Cape Class Patrol Boats operated by the Australian Border Force throughout Northern Australia, plus a sustainment contract worth up to $24 million over two years for CCPB 9 & 10, Cape Fourcroy and Cape Inscription, being operated by the Royal Australian Navy.

Innovating for the future

Austal continues to invest in bolstering its technological capabilities in order to enhance our products and our processes. This will provide us with substantial competitive advantages in the future.

The company is prioritising innovative solutions to increase the energy efficiency and broader artificial intelligence/machine learning capabilities of its vessels.

In Australasia, we have developed a sophisticated maintenance planning system that directly interacts with the ship it is installed in, which has been sold to the Royal Australian Navy.

Directors' report

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2020.

Directors

The names and details of the Company's Directors in office at the date of this report are detailed below:

John Rothwell AO – Non-Executive Chairman

John has played a major role in the development of the Australian aluminium shipbuilding industry approaching 50 years of experience in boat and shipbuilding. He is the architect responsible for the establishment of Austal and was the founding Managing Director. John identified markets for high speed ferries throughout Asia which resulted in Austal's rapid growth. He saw the potential for US Defense contracts for high speed aluminium naval ships and he led the formation of a new shipyard in Mobile, Alabama in 1999.

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

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

David Singleton – Chief Executive Officer

David has spent much of his career in the defence industry around the world in roles encompassing design, heavy manufacturing, customer support and international sales. He was a Non-Executive Director of Austal for four years before becoming CEO in April 2016.

David has held numerous senior roles with BAE Systems, one of the world's largest defence companies, including Group Head of Strategy and Mergers & Acquisitions in London from 1997 to 1998 and again in 2003.

David was the Chief Executive Officer of Alenia Marconi Systems (AMS) in the intervening years; a joint venture between BAE Systems and Finmeccanica that had turnover of circa €1.4 billion and employed 7,500 people across the UK, Italy, USA and Germany. AMS was a European leader of naval warfare and air defence systems, C4I (command, control, communications, computers and intelligence), ground and naval radars, naval command and control training systems and long term naval support.

David started his career with the UK Ministry of Defence and worked in research, development and manufacturing as well as in senior management roles in Royal Ordnance, which was eventually acquired by BAE. Most recently, David was the CEO and Managing Director of Perth based mining company Poseidon Nickel Limited. Prior to this role, he served as CEO and Managing Director of Clough Limited between 2003 and 2007. David has a degree in Mechanical Engineering from University College London and has an Honorary Doctorate of Engineering from Edith Cowen University in Western Australia.

On 3 June 2020 the Company announced that David will be stepping down from the CEO role and leaving Austal on 31 December 2020, following 9 years with Austal including 5 years as CEO.

Giles Everist – Independent Non-Executive Director

Giles has a breadth of board and executive experience gained over his 30 year career. He has worked for a range of production and service based businesses, within the resources, engineering and construction sectors, both in Australia and overseas in the UK and Africa.

Giles was appointed as a Non-Executive Director of the Company in November 2013 and Audit & Risk Committee Chair in November 2015. Giles holds a mechanical engineering degree and is a qualified chartered accountant. Giles is currently a Non-Executive Director of Norwood Systems and Chief Financial Officer of Macmahon Holdings Limited. He was Chairman of ASX listed Decmil Group Limited between 2011 and 2014 and was formerly the Chief Financial Officer and Company Secretary of Monadelphous Group Limited between 2003 and 2009. He has held senior financial executive roles during his career with Rio Tinto in the United Kingdom and Australia, as well as major US design engineering group Fluor Corporation.

Giles has held a number of other Non-Executive Director and Audit & Risk Committee Chair roles with ASX listed companies including Decmil Group Limited, Logicamms Limited and Macmahon Holdings Limited, as well as for a number of private and not for profit organisations.

Sarah Adam-Gedge – Independent Non-Executive Director

Sarah was appointed as a Non-Executive Director of the Company in August 2018, became Chair of the Nomination and Remuneration Committee in September 2018 and Deputy Chair of the Austal Limited Board in September 2019. She brings strong consulting, customer experience, digital and technology expertise to Austal through her experience in executive roles in the information technology and consulting sectors.

Sarah is currently the Managing Director for Publicis Sapient Australia, which is the digital business transformation hub of the Publicis Groupe. Previously, she has been the Managing Director of Avanade Australia, Managing Partner and Vice President, Global Business Services at IBM and has also previously held senior executive roles at PwC and Arthur Andersen, leading the development and implementation of numerous digital enterprise transformation engagements across many industries. Sarah has worked extensively across Asia-Pacific, as well as the Middle East and Africa, and Latin America.

Sarah is a Chartered Accountant and member of the Institute of Chartered Accountants Australia / New Zealand. Sarah holds a Bachelor of Business (Accounting) from the Queensland University of Technology and is a Graduate of the Australian Institute of Company Directors, is a member of the Diversity Council for the Australian Computer Society, was previously a Non-Executive Director, and Chair of the Finance, Audit and Risk Committee for Ovarian Cancer Australia.

Chris Indermaur – Independent Non-Executive Director

Chris was appointed as a Non-Executive Director of the Company in October 2018 and to the Nomination and Remuneration Committee in August 2019. Chris has over 30 years of experience in large Australian companies in Engineering and Commercial roles. Amongst these roles he was the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Limited.

Chris holds a Bachelor of Engineering (Mechanical) and a Graduate Diploma of Engineering (Chemical) from the West Australian Institute of Technology (now Curtin University). He also holds a Bachelor of Laws and a Master of Laws from the Queensland University of Technology and a Graduate Diploma in Legal Practice from the Australian National University.

Chris is also a Director of Austin Engineering Limited.

Interests in the shares and options of the company and related corporate bodies

The interests of the Directors in the shares of Austal Limited at the date of this report were as follows:

Director	Ordinary Shares	Share Rights	Indeterminate Rights
Mr John Rothwell	32,307,692	-	-
Mr David Singleton	1,222,721	1,222,192	106,251
Mr Giles Everist	30,441	-	-
Mrs Sarah Adam-Gedge	10,000	27,909	-
Mr Chris Indermaur	-	13,741	-

Principal activities

The principal activities of the companies within the consolidated entity during the year were the design, manufacture and support of high performance vessels for commercial and defence customers worldwide. These activities are unchanged from the previous year.

Results

The net profit after tax of the consolidated entity for the financial year was $88.978 million (FY2019: $61.384 million).

Review of operations

A review of the operations and financial position of the consolidated entity is outlined in the Review of Operations on page 21.

Share price at 30 June 2020

The closing share price of Austal at 30 June 2020 was $3.23 (30 June 2019: $3.41).

Dividends

An unfranked dividend of 3.0 cents per share was paid after the FY2020 H1 results (FY2019 H1: 3.0 cent per share) and a further dividend of 5.0 cents per share has been proposed for FY2020 (FY2019 final: 3.0 cents per share).

Significant events after the balance date

The Directors have declared an unfranked dividend of 5.0 cents per share in respect of the year ended 30 June 2020 as described above.

Austal entered into a purchase agreement with Modern American Recycling and Repair Services (MARRS) to acquire over 15 acres of waterfront land, buildings and assets including an existing dry dock on the MARRS Mobile riverfront property in Mobile, Alabama on 21 August 2020.

Further information is provided on Page 126 and in the ASX announcement dated 21 August 2020.

Likely developments and future results

A general discussion of the Group's outlook is included in the Chairman's report on page 16, the CEO's report on page 18 and the Review of Operations on page 21.

Significant changes in the state of the affairs

Mr David Singleton gave notice from his role as CEO on 3 June 2020 and will remain in this role until 31 December 2020. Please refer to the ASX announcement titled 'Austal CEO Transition' on 3 June 2020 for further information.

There were no other significant changes to the structure or operations of the Group during the financial year.

Environmental regulation and performance

The Group has a policy of at least complying with, but in most cases exceeding, environmental performance requirements. No environmental breaches have been notified by any Government agency during the year ended 30 June 2020.

Share rights, performance rights, indeterminate rights and service rights

There were 3,117,967 un-vested performance rights, 3,032,101 share rights, 214,440 indeterminate rights and 330,704 service rights at 30 June 2020.

1,229,304 performance rights and 14,352 share rights, 214,440 indeterminate rights and 338,677 service rights were granted during FY2020.

Indemnification and insurance of Directors and Officers

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

The parent entity paid premiums during the financial year in respect of a contract insuring the Directors and Officers of the Group in respect of liability resulting from these indemnities. The terms of the insurance arrangements and premiums payable are subject to a confidentiality clause.

Indemnification of auditors

The parent entity has agreed to indemnify its auditors, Deloitte Touche Tohmatsu, against claims by third parties arising from the audit (for an unspecified amount) to the extent permitted by law, as part of the terms of its audit engagement agreement. No payment has been made to indemnify Deloitte Touche Tohmatsu during or since the financial year.

Committee membership

The Company has an Audit & Risk Committee and a Nomination & Remuneration Committee of the Board of Directors. Members acting on the committees of the Board during the year were:

Audit & Risk	Nomination & Remuneration
Mr Giles Everist [1]	Mrs Sarah Adam-Gedge [1]
Mrs Sarah Adam-Gedge	Mr John Rothwell
Mr Chris Indermaur	Mr Giles Everist
	Mr Chris Indermaur [2]

1. Chair of the committee.
2. Appointed on 28 August 2019.

Directors' meetings

The number of Board and committee meetings of Directors and the attendance by each Director during the year was as follows:

	Meeting		
	Board	Audit & Risk Committee	Nomination & Remuneration Committee
Number of meetings held	8	4	3
Number of meetings attended:			
Mr John Rothwell	8	-	3
Mr David Singleton	8	4 [1]	3 [1]
Mr Giles Everist	8	4	3
Mrs Sarah Adam-Gedge	8	4	3
Mr Chris Indermaur	8	4	3

1. Attended as a guest.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016 / 191. The Company is an entity to which the instrument applies.

Nomination **& Remuneration Committee Chair's** message

Dear Shareholder,

The Board of Directors is pleased to present the Remuneration Report for FY2020, outlining the nature and amount of remuneration for Austal's Non-Executive Directors and other Key Management Personnel (KMP).

2019 remuneration resolutions

I would like to thank shareholders for the overwhelmingly positive support provided in favour of remuneration related resolutions at the 2019 AGM.

KMP remuneration

Despite the global pandemic impacting many industries, Austal achieved record performance and has been largely unaffected by COVID-19 to date. This performance has led to the KMP being awarded short-term incentives through the achievement of objectives detailed within this report. In addition, the consistent and improved performance over the last three years supports the achievement of long-term incentives, aligned to the interests of shareholders.

KMP update

In June 2020 Austal announced that its Chief Operating Officer (COO) Patrick Gregg, will be promoted to the position of Chief Executive Officer (CEO) effective 1 January 2021, following a six month transition with current Managing Director and CEO David Singleton. The details of Mr Singleton's departure objectives and Mr Gregg's CEO remuneration are included within this report.

Austal announced the promotion of Andrew Malcolm to the newly created KMP role of Chief Digital Officer in July 2020. This new role recognises the increasing importance of digital technologies both in improving Austal's products and within operational business processes.

Given the uncertainty created by COVID-19, the Board determined to freeze remuneration for KMP for FY2021. This applies to KMP outside of the USA, and does not apply to KMP who change roles during the course of the year.

NED update

As part of the remuneration reviews undertaken by the Board, NED remuneration was also subject to external benchmarking analysis, and appropriate fee increases were provided at the 50th percentile (where 50% of the comparator group are above the median level and 50% are below the median level) for FY2020. This is the first time NED remuneration has been increased since 2016.

During the year, NEDs were formally reviewed against Austal's skills matrix, included within the Company's Corporate Governance Statement, which confirmed the appropriate mix of skills exist within the Board.

In support of Chairman John Rothwell, the Board decided to create a role of Deputy Chair to the Board and I was appointed into this role in September 2019.

Commitment to ongoing feedback, and shareholder support

In noting the excellent performance of the Company together with the ongoing moderation of KMP remuneration, the Board looks forward to the continued support of shareholders for remuneration related resolutions at the upcoming AGM. The Board will continue to consider further improvements to remuneration governance, policies, and practices, and commits to engaging with shareholders and their representatives on these matters.

The Board will be pleased to receive feedback in relation to this report.

Yours sincerely,

Adam-Gedge

Sarah Adam-Gedge
Chair, Nomination & Remuneration Committee

Remuneration report [audited]

This Remuneration Report for the year ended 30 June 2020 outlines the remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

1. Key management personnel

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

The KMP for the year ended 30 June 2020 were:

Senior Executives

Mr David Singleton	Independent Non-Executive Director from December 2011 to April 2016 Chief Executive Officer and Managing Director since April 2016 Mr Singleton has tendered his resignation and will continue as CEO until 31 December 2020.
Mr Greg Jason	Group Chief Financial Officer since January 2013
Mr Craig Perciavalle	President USA since November 2012
Mr Patrick Gregg	Chief Operating Officer Australasia since February 2017

Non-Executive Directors

Mr John Rothwell	Chairman since 1998 Member of the Nomination & Remuneration Committee since December 1998
Mr Giles Everist	Independent Non-Executive Director since November 2013 Member of the Nomination & Remuneration Committee since February 2014 Chair of the Audit & Risk Committee since October 2014
Mrs Sarah Adam-Gedge	Independent Non-Executive Director since August 2017 Member of the Audit & Risk Committee since August 2017 Chair of the Nomination & Remuneration Committee since September 2018 Deputy Chair of the Board since September 2019
Mr Chris Indermaur	Independent Non-Executive Director since October 2018 Member of the Audit & Risk Committee since October 2018 Member of the Nomination & Remuneration Committee since August 2019

2. Remuneration governance framework

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

I. Nomination & Remuneration Committee Charter

The role and responsibilities of the committee are outlined in the Nomination & Remuneration Committee Charter (the Charter), which is available on the Austal website.

The role of the Nomination & Remuneration Committee (NRC) is to ensure that appropriate remuneration policies are in place which are designed to meet the needs of the Company and to enhance corporate and individual performance.

The Committee also oversees the implementation of the policies in setting remuneration and performance objectives related to the Short Term Incentive (STI) and Long Term Incentive (LTI) plans.

The remit of the NRC also includes succession planning which was undertaken for the Directors of the Board during FY2020.

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

II. Share trading policy

The Share Trading Policy of Austal is available on the Austal website. The Policy contains the standard references to insider trading restrictions that are a legal requirement under the Corporations Act, as well as conditions associated with good corporate governance. The Policy specifies 'Closed Periods' during which Directors and related parties, KMP, Senior Executives, and any employee in possession of inside information must not trade in the securities of the Company, unless written permission is provided by the Board following an assessment of the circumstances.

All equity based remuneration awards which have vested are subject to the Group's Share Trading Policy.

III. Executive remuneration consultant engagement policy

Austal has an executive remuneration consultant (ERC) engagement policy which is intended to manage the interactions between the Company and the ERC. The policy is intended to ensure independence of advice and to provide clarity to the NRC regarding the extent of any interactions between management and the ERC. This policy enables the Board to state with confidence that advice received has been independent. The policy states that ERC are to be approved and engaged by the Board before any advice is received and that such advice may only be provided to a NED.
Any interactions between management and the ERC must be approved and overseen by the NRC, this includes the collection of factual internal records (e.g. superannuation paid or allowances and benefits).

IV. Stakeholder engagement

The Company seeks input regarding the governance of KMP remuneration from a wide range of sources, including:

- Shareholders
- NRC Members
- Stakeholder groups including proxy advisors
- External remuneration consultants (ERC)
- Other experts and professionals such as tax advisors and lawyers
- Company management to understand roles and issues facing the Company.

V. Remuneration framework

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

Remuneration should contribute to the Group's achievements in a way that supports the Group's culture and goals. The Remuneration Policy Framework set out below summarises the key features of the Group's remuneration approach. The Company's remuneration structures and practices were thoroughly reviewed and substantially modified in FY2019 following feedback at the 2018 Annual General Meeting.

Our Vision

Maintain a responsible, performance-based Remuneration Policy aligned with the long-term interests of shareholders.
Certain incentive metrics are utilised on the Remuneration framework to capture the impact of the Group's strategy.

Our Goal

Strike the right balance between meeting shareholders' expectations, paying our employees competitively, and responding appropriately to the regulatory environment.

Our Approach

Governance

Clearly defined and documented governance procedure.
Independent Nomination and Remuneration Committee (NRC).
Independent External Remuneration Consultants (ERC).
Annual assessment of Remuneration Policy.

Individual Remuneration

Reward annual performance of Group relative to planned key performance indicators.
Aligned with business performance.
Recognise and reward teamwork and development of the culture of the organisation.
Award and differentiate based on individual performance and contributions.

Individual Remuneration Determination

Total remuneration based approach.
Facilitate competitiveness by paying remuneration for comparable roles and experience, subject to performance.
Promote meritocracy by recognising individual performance, with an emphasis on contribution, ethics and safety.
Equal remuneration opportunity.

Remuneration Structure

Provide the appropriate balance of fixed and variable remuneration consistent with the position and role.
Significant portion of variable remuneration deferred and aligned with the long-term performance of the Group.
Promote ethical behaviour and do not create incentives to expose the Group to inappropriate risk.

3. Executive KMP remuneration policy

I. Structure

The following policy applies to executive KMP:

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

II. Total fixed remuneration

i. Framework

- Base Packages should be set with reference to the market practice of ASX listed companies at the 50th percentile, where 50% of the comparator group are above the median level and 50% are below the median level.
- Total Remuneration Package (TRP) at Target bonus levels (being the Base Package plus incentive awards intended to be paid for targeted levels of performance) should be between the 50th and 75th percentile range of the relevant market practice to create a strong incentive to achieve targeted objectives in both the short and long term.
- Remuneration will be managed within a range to allow for the recognition of individual differences such as individual experience, knowledge or competency with which they fulfil a role (a range of + / - 20% is generally targeted in line with common market practices).

ii. CEO minimum equity holding

The CEO must accumulate and hold a minimum equity holding that is equal to or greater in value than 1 year of TFR. The minimum equity holding includes shares, share rights and vested indeterminate rights, but does not include unvested performance rights.

The minimum equity holding may be achieved by the vesting of LTI grants, personal purchase of shares on market by the CEO, or the CEO and the Board may agree at the commencement of each year for up to 30% of TFR to be unconditionally (not subject to performance conditions since it is part of TFR) payable in share rights.

The number of share rights issued will be calculated monthly based upon the volume weighted average closing price of Austal Limited's shares in the last 5 share ASX trading days of each month.

The balance of the CEO's TFR is to be paid in cash (i.e. TFR less the component granted in equity).

Mr Singleton exceeded his minimum equity holding target by the end of FY2019 and therefore none of Mr Singleton's TFR was paid in share rights during FY2020.

III. Short term incentive (STI) policy

The short term incentive policy provides for a component of annual remuneration of executives to be at-risk, payable in a mix of cash and equity and based upon an assessment of performance measured using Key Performance Indicators (KPI) that are aligned to the relevant business unit of each individual and the Company performance.

i. Purpose

The purpose of the STI Plan is to incentivise KMP to deliver and outperform KPI and annual business plans that are challenging but achievable. This is intended to lead to sustainable superior returns for shareholders and to modulate the cost of employing KMP such that the cost of employment reflects the performance of the Company.

ii. Principles

The principles of the plan are that:

- STI should be aligned with clear and measurable targets which are set at the start of the financial year, and the targets will be aligned with the achievement of the Company's business plan.
- STI payments will be determined after the end of the financial year and the full year accounts have been approved by the Board.
- STI payments are at the full discretion of the Board even if hurdles are met in order to avoid inappropriate outcomes.

iii. Form of remuneration - cash and equity

STI awarded to all non-USA Executive KMP will be paid as follows:

- 50% in cash.
- 50% in Indeterminate Rights (refer to the definition below) with a minimum holding period of 3 years irrespective of continued employment.

The Austal USA President receives 100% of STI in cash.

iv. Indeterminate Rights

Indeterminate Rights are contractual rights to the value of a share in the Company which are typically settled in the form of shares but which may, at the Board's discretion, be settled in cash. All issuances of equity under STI and LTI arrangements from FY2019 onwards are in the form of Indeterminate Rights, based on the recommendations of an independent External Remuneration Consultant (ERC) engaged by the Board during FY2019, and issuance subject to shareholder approval where required.

v. Measurement period

The Measurement Period for STI awards is the financial year of the Group.

vi. Determination of STI award

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

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

vii. Key performance indicators (KPI)

KPI are customised for each KMP, Senior Executive and Manager and reflect the nature of their role, whilst creating shared objectives where appropriate.

Weightings are applied to the KPI selected for each participant to reflect the relative importance of each KPI whilst ensuring that financial metrics always constitute at least 50% of the total.

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

The FY2020 KPI are contained in the STI KPI target and outcomes section on page 44.

viii. Cessation of employment during a measurement period

STI awards will only be made to those participants that are still employed at the end of the Measurement Period (30 June each year).

ix. Cessation of employment post measurement period

Resignation after the completion of the measurement period will not impact the 50% of STI that is paid in cash.

STI recipients who resign after the completion of the measurement period will be subject to good leaver / bad leaver provisions. An employee may forfeit their Indeterminate Rights if they are a ‘bad leaver’. A bad leaver is defined as an employee whose employment is terminated for cause, resigns upon being asked to do so or an ex-employee who acts against the interests of the company.

STI awards may be determined at the discretion of the Board in the case of either resignation or termination due to serious illness or disability.

x. Change of control

The Board has determined that in the event of a Change of Control (including a takeover), Indeterminate Rights will vest on a pro-rata basis at the ‘Target’ level for the portion of the Performance Period that has elapsed at the date of the change of control. The Board retains discretion to vary this approach if it considers it would generate an inappropriate outcome.

xi. Profit gate

The Company’s EBIT (Earnings Before Interest and Tax) result must be at least 85% of budget in order for STI to be awarded.

xii. Individual performance gate

Individual performance ratings for the year must be at least “Meets Expectations” on the following scale:

- Does not meet expectations.
- Meets expectations.
- Exceeds expectations.

The Board will have discretion to vary award outcomes in the circumstances that the outcomes would otherwise be inappropriate.

xiii. Fraud or gross misconduct

All entitlements in relation to the Measurement Period will be forfeited by a participant if the Board forms the view that a participant has committed fraud, defalcation or gross misconduct in relation to the Company.

xiv. Clawback policy

The Board has implemented a Clawback Policy which provides for the potential forfeiture of the unvested equity based STI entitlements in the event of a material misstatement in the Company's financial statements for any of the three financial years contained within the holding lock period.

The Clawback policy only applies to the Indeterminate Rights awarded from STI and does not apply to the cash portion of STI that has already been paid to participants.

xv. STI award opportunities

The FY2020 STI award opportunities are contained in the STI KPI target and outcomes section on page 44.

IV. Long term incentive (LTI) policy

The LTI policy of the Company is to set a component of annual remuneration of executives to be at risk, payable in equity in the Company and based on an assessment of long term performance over not less than three years. A share disposal restriction applies for one year from the expiry of the performance measurement period which extends the effective remuneration deferral to a total of four years.

The Board has conducted a review of the LTI plan and a new plan was introduced from FY2019 onwards with details disclosed below:

i. Purpose

The purpose of the LTI Plan is to incentivise Senior Executives to deliver long term Group performance that will lead to sustainable superior returns for shareholders and to modulate the remuneration of Senior Executives relative to this performance.

ii. Form of incentive

The LTI is a grant of Indeterminate Performance Rights that vest based on an assessment of performance against objectives over a defined Measurement Period. No dividends are payable nor accrued on Performance Rights which are unvested.

iii. Measurement period

The Measurement Period is three financial years.

iv. LTI grant

The number of LTI Rights granted are calculated with reference to the stretch (maximum) LTI value divided by the volume weighted average closing share price in the first month of the measurement period less the expected value of dividends that will not accrue to Rights holders (Rights are not eligible to receive dividends).

Details of the FY2020 LTI grant are contained on page 54.

v. FY2018 measures of long term performance

The Company used two long term performance measures for FY2018:

- Relative Total Shareholder Return (rTSR) as an external measure of performance.
- Return on Invested Capital (ROIC) as an internal measure of performance.

vi. FY2019 & FY2020 measures of long term performance

The NRC undertook a comprehensive review of LTI metrics with the assistance of an external remuneration consultant and selected three equally weighted (i.e. 1/3 each) measures of long term performance for the FY2019 and FY2020 LTI plans:

- Indexed Total Shareholder Return (iTSR).
- Earnings per Share Growth (EPSG).
- Return on Equity (ROE).

Metrics are set so that Target performance is expected to be achieved 50 – 60% of the time and Stretch or Maximum performance is expected to be achieved 10 – 20% of the time. The metrics are disclosed below:

vii. Total shareholder return (TSR) measure

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

The FY2019 and FY2020 grants were offered based on iTSR, which sets an absolute TSR premium to indexed TSR outcomes, and avoids windfall gains / (losses) from changes in broad market movements in share prices.

Austal's iTSR will be computed by comparing Austal's TSR index against the ASX 300 Industrials Total Return Index.

Austal's TSR is the sum of Share price appreciation and dividends (assumed to be reinvested in Shares) during the Measurement Period. Share price appreciation is measured utilising a 1 month VWAP at the beginning and the end of the measurement period (i.e. July in year 1 and June in year 3).

viii. Earnings per share growth (EPSG) measure

EPSG is an internal measure of performance which the Board encourages management to focus on. Earnings per share links to the Company's ability to satisfy its dividend policy and is therefore highly relevant.

EPSG will be calculated by dividing EPS in the final year of the 3 year measurement period by the EPS in the last financial year prior to the 3 year measurement period. EPSG is converted into a cumulative annual growth rate (CAGR) for the purposes of the vesting scale.

- EPS will equal Basic EPS as reported in the financial accounts.
- Actual EPSG results will be compared against internal targets set by the Board.

ix. Return on equity (ROE) measure

Sustainability of ROE is a key element of creating sustainable shareholder wealth and hence ROE was adopted to help ensure that this is taken into account by management. ROIC was used previously however it was decided that ROE is more easily understood by both internal and external stakeholders, since it is subject to fewer accounting adjustments.

ROE will be calculated by dividing:

- The average NPAT over the 3 year measurement period by
- The day weighted average Contributed Equity + Retained Profits + Reserved Shares balance over the 3 year measurement period.

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

x. TSR gate

The Company TSR metric must be positive for the measurement period, to ensure that the LTI will not reward executives when shareholders have lost value. If the Company TSR metric is negative then none of the iTSR tranche will vest.

xi. Board discretion

The Board retains a discretion to adjust vesting outcomes in the circumstances that the outcomes from applying the vesting scales alone would be deemed to be inappropriate. In exercising this discretion, the Board is required to take into account the Company performance from the perspective of Shareholders over the relevant Measurement Period and consider whether specific participants:

- engaged in any activities or communications that may cause harm to the operations or reputation of the Company or the Board,
- took actions that caused harm or will cause harm to the Company's stakeholders,
- took excessive risks or contributed to or may otherwise benefit from unacceptable cultures within the Company,
- exposed employees, the broader community or environment to excessive risks, including risks to health and safety.

The Board will also consider whether there has been a material misstatement in the Company's financial reports, which would unduly increase any award under the scheme.

xii. Vesting of performance rights

Performance Rights meeting the performance hurdles will vest at the end of the measurement period.

Participants are not required to make any payments at grant or at vesting.

xiii. Holding period

A one year holding period applies to all vesting performance rights:

- Recipients are permitted to exercise their rights in order to receive shares, however
- Recipients are prevented from selling their shares during the holding period.

This effectively extends the incentive period to four years and increases the accumulation of equity by executives to strengthen their alignment with shareholders.

xiv. Specified disposal restrictions

Performance Rights may not be disposed of or otherwise dealt with prior to exercise.

All shares acquired by Participants as a consequence of exercising vested Performance Rights, shall be subject to a dealing restriction detailed in Austal's Share Trading Policy and insider trading restrictions.

xv. Cessation of employment during a measurement period

A Participant who resigns prior to the elapsing of the Measurement Period in respect of which the grant is made will forfeit their entire unvested Performance Rights grant.

The Board may exercise its discretion to award some proportion of LTI under certain circumstances including consideration of whether the KMP was a good leaver up to the point of vesting.

Vested rights already held by a Participant are not forfeited.

xvi. Clawback policy

The Board may determine that a Participant found to have harmed the interests of the Company or its Shareholders, will forfeit some or all of their unvested entitlements at any time. This includes fraud, defalcation, joining a competitor etc.

Unvested Performance Rights held that are not forfeited, will be retained for testing against the vesting conditions at the normal time.

xvii. Change of control of the company

Target LTI will vest in proportion to the portion of the measurement period that has elapsed in the event that a change of control of the Company occurs.

The LTI will be valued based upon the value of the share price immediately before the change of control event occurs.

5. Executive KMP remuneration

I. FY2020 award opportunities

i. Target remuneration

The table below depicts the Target remuneration for KMP in FY2020 including:

- The Total Fixed Remuneration,
- STI award opportunity if Target STI KPI results are achieved,
- LTI award opportunity if Target LTI results are achieved.

Target awards are applied to Total Fixed Remuneration.

KMP	TFR	STI Opportunity		LTI Opportunity		Total
		Target	$	Target	$	
Mr David Singleton	$ 1,093,833	60%	$ 656,300	40%	$ 437,533	$ 2,187,666
Mr Greg Jason	568,006	40%	227,202	35%	198,802	994,011
Mr Craig Perciavalle	1,092,173	30%	327,652	50%	546,087	1,965,911
Mr Patrick Gregg	510,000	40%	204,000	35%	178,500	892,500
% of Total						
Mr David Singleton	50%		30%		20%	100%
Mr Greg Jason	57%		23%		20%	100%
Mr Craig Perciavalle	56%		17%		28%	100%
Mr Patrick Gregg	57%		23%		20%	100%

ii. Stretch (Maximum) remuneration

The table below depicts the Stretch (Maximum) remuneration for KMP in FY2020 including:

- The Total Fixed Remuneration
- STI award opportunity if Stretch STI KPI results are achieved
- LTI award opportunity if Stretch LTI results are achieved

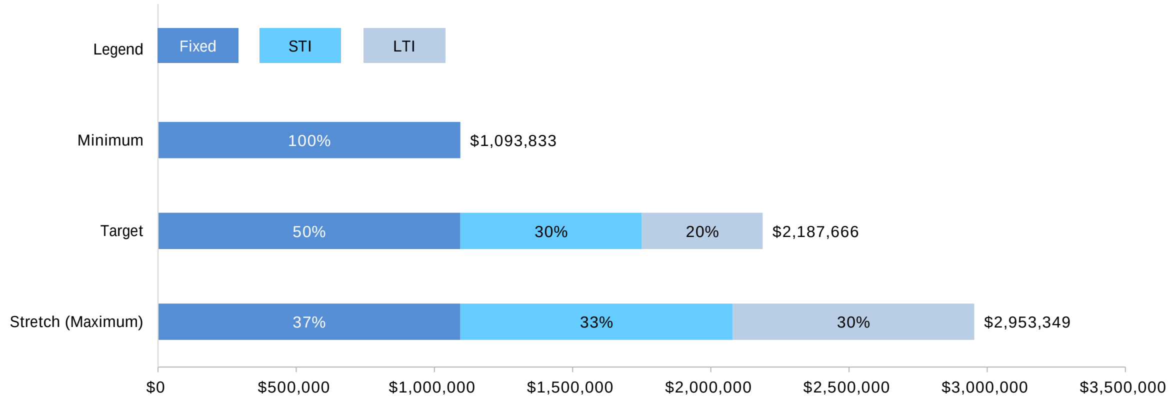
Stretch awards are applied to Total Fixed Remuneration.

KMP	TFR	STI Opportunity		LTI Opportunity		Total
		Stretch	$	Stretch	$	
Mr David Singleton	$ 1,093,833	90%	$ 984,450	80%	$ 875,066	$ 2,953,349
Mr Greg Jason	568,006	60%	340,804	70%	397,604	1,306,414
Mr Craig Perciavalle	1,092,173	60%	655,304	100%	1,092,173	2,839,650
Mr Patrick Gregg	510,000	60%	306,000	70%	357,000	1,173,000
% of Total						
Mr David Singleton	37%		33%		30%	100%
Mr Greg Jason	43%		27%		30%	100%
Mr Craig Perciavalle	38%		24%		38%	100%
Mr Patrick Gregg	43%		27%		30%	100%

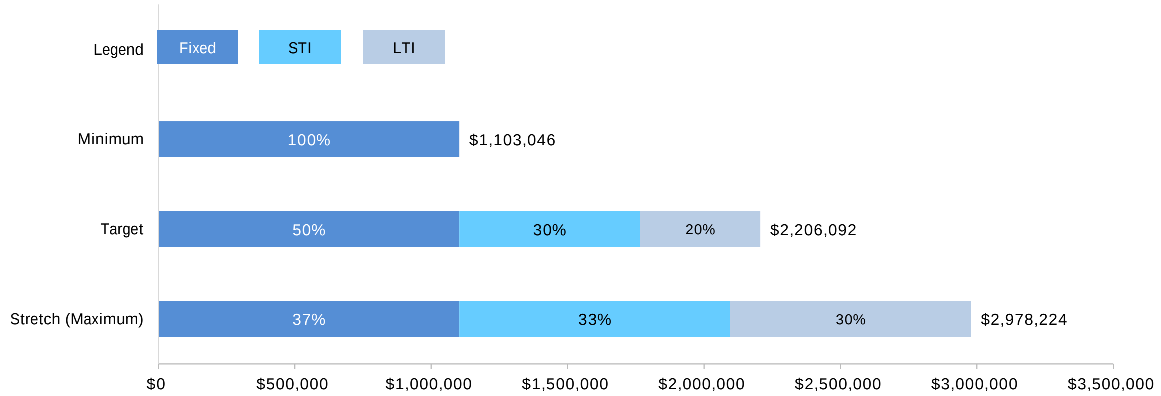
II. CEO remuneration

This chart depicts the Minimum, Target and Maximum remuneration opportunity that was available to the CEO and the breakdown between fixed remuneration (TFR) and variable remuneration (STI and LTI).

FY2020 CEO Remuneration



FY2019 CEO Remuneration



III. STI targets and outcomes

The following KPI were selected because they were the most significant matters for each of the KMP that were expected to contribute to the success of the Company during FY2020, given the business plans approved by the Board at the commencement of the financial year.

Chief Executive Officer - Mr David Singleton

		Actual Performance			Targets			
Measures	Weight	Below	Stretch	Award	Threshold	Target	Stretch	Actual
Group EBIT	20%			100%	$ 105 m	$ 112 m	$ 120 m	$ 130 m
Group Free Cashflow	20%			100%	$ 35 m	$ 53 m	$ 73 m	$ 139 m
Australasia EBIT margin	10%			-	7.6%	7.6%	9.0%	6.2%
Group Order Intake	27%			88%	Further detail is provided below			
Business Development	18%			86%	Further detail is provided below			
Overhead Cost Reduction	5%			100%	Further detail is provided below			
Total	100%			84%				

Chief Financial Officer - Mr Greg Jason

		Actual Performance			Targets			
Measures	Weight	Below	Stretch	Award	Threshold	Target	Stretch	Actual
Group EBIT	30%			100%	$ 105 m	$ 112 m	$ 120 m	$ 130 m
Group Free Cashflow	10%			100%	$ 35 m	$ 53 m	$ 73 m	$ 139 m
Group Order Intake	20%			88%	Further detail is provided below			
Individual Targets	40%			66%	Further detail is provided below			
Total	100%			84%				

President USA - Mr Craig Perciavalle

		Actual Performance			Targets			
Measures	Weight	Below	Stretch	Award	Threshold	Target	Stretch	Actual
USA EBIT (USD)	20%			67%	$ 75 m	$ 79 m	$ 86 m	$ 82 m
USA Free Cashflow (USD)	20%			100%	$ 117 m	$ 130 m	$ 143 m	$ 145 m
Sustainment Revenue (USD)	15%			100%	$ 151 m	$ 168 m	$ 185 m	$ 195 m
Sustainment Growth	10%			70%	Further detail is provided below			
Productivity	20%			100%	Further detail is provided below			
USA Order Intake	15%			70%	Further detail is provided below			
Total	100%			86%				

Chief Operating Officer - Australasia - Mr Patrick Gregg

		Actual Performance			Targets			
Measures	Weight	Below	Stretch	Award	Threshold	Target	Stretch	Actual
Australasia EBIT margin	25%			-	7.6%	7.6%	9.0%	6.2%
Australasia Free Cashflow	15%			100%	$ (97) m	$ (87) m	$ (77) m	$ (43) m
Australasia Order Intake	20%			100%	Further detail is provided below			
Individual Targets	40%			88%	Further detail is provided below			
Total	100%			70%				

Chief Executive Officer - Mr David Singleton

Growth & Order Intake KPI (88% Award)

Multiple ship awards (commercial in confidence).
Significant progress on new defence vessel programs.
Growth in USA sustainment revenue by 20%.

Business Development KPI (86% Award)

Future development of US business.
Future continuity of Henderson operations.

Overhead Cost Reduction KPI (100% Award)

Corporate & Australasia overhead reduction program.

Chief Financial Officer - Mr Greg Jason

Growth & Order Intake KPI (88% Award)

As per the CEO.

Major Personal KPI (66% Award)

Corporate & Australasia overhead reduction program.
Deliver CCPB funding structure.
Governance improvements.

President USA - Mr Craig Perciavalle

Sustainment Growth (70% Award)

Growth in USA sustainment revenue by 20%.

Productivity (100% Award)

LCS & EPF Productivity targets met - (commercial in confidence).

USA Order Intake (70% Award)

Vessel design awards for Offshore Patrol Cutter & Unmanned systems.
Steel shipbuilding capability grant under US Defense Production Act.

Chief Operating Officer - Australasia - Mr Patrick Gregg

Growth & Order Intake KPI (100% Award)

As per the CEO (Australasia only).

Major Personal KPI (88% Award)

Australasia cost & productivity performance - (commercial in confidence).
Deliver Australasia vessel programs to quality and schedule (noting COVID-19 impact).
Develop world class procurement against metrics.
Enterprise Resource Planning software implementation progress.
Future continuity of Henderson operations.
Maintain safety standards in bigger and broader based business.

IV. LTI grant and outcomes

i. Performance rights grant

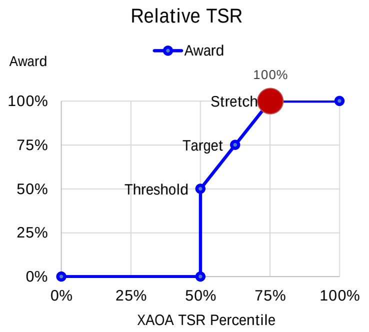
2,363,476 Performance Rights were granted to KMP in FY2018, who were still employed by Austal at 30 June 2020.

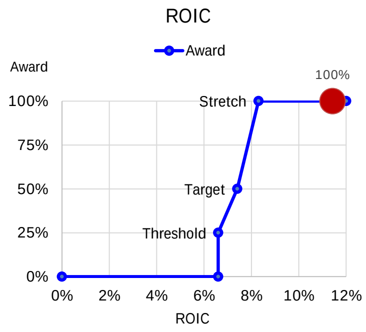
ii. Measurement period

100% of the Performance Rights granted in FY2018 had a 3 year Measurement Period from 1 July 2018 – 30 June 2020.

iii. FY2018 LTI vesting performance

The Return on Invested Capital (ROIC) and Relative Total Shareholder Return (rTSR) performance criteria relating to the FY2018 Performance Rights grant to KMP are detailed below. The actual vesting performance is indicated by the red dot. rTSR equals Austal's TSR percentile ranking against the Market TSR results. The Market TSR references the XAOA All Ordinaries Total Return Index. ROIC is calculated by dividing Net Operating Profit after Tax (NOPAT) by average Invested Capital over the measurement period.





Relative TSR = Austal TSR Percentile of Market
XAOA - All Ordinaries Total Return Index

ROIC = NOPAT / Invested Capital

iv. FY2018 LTI vesting awards

KMP	Tranche	Weight	Granted	Vesting %	Vesting Number	Value @ Grant Date
VWAP @ Grant Date						$ 1.80
Mr David Singleton	rTSR	40%	238,612	100%	238,612	$ 428,604
	ROIC	60%	357,918	100%	357,918	642,907
	Total		596,530	100%	596,530	$ 1,071,511
Mr Greg Jason	rTSR	40%	82,704	100%	82,704	$ 148,556
	ROIC	60%	124,055	100%	124,055	222,833
	Total		206,759	100%	206,759	$ 371,389
Mr Craig Perciavalle	rTSR	40%	94,725	100%	94,725	$ 170,149
	ROIC	60%	142,086	100%	142,086	255,221
	Total		236,811	100%	236,811	$ 425,369
Mr Patrick Gregg	rTSR	40%	71,578	100%	71,578	$ 128,571
	ROIC	60%	107,367	100%	107,367	192,857
	Total		178,945	100%	178,945	$ 321,428

V. Realised remuneration (non-statutory disclosure)

The Realised Remuneration tables below are provided to convey the actual remuneration awarded to KMP during FY2020 and FY2019 rather than the statutory disclosure required under the accounting standards and includes:

- The portion of Total Fixed Remuneration (TFR) paid in cash.
- The portion of TFR converted and granted as Share Rights.
- The portion of TFR contributed to superannuation plans or pension schemes.
- STI awarded but not yet paid for results on page 44.
- The value of LTI rights vesting following the conclusion of the relevant Measurement Period using the Volume Weighted Average Price (VWAP) at the Grant Date.

FY2020

	Total Fixed Remuneration					Legacy Buy Out [1]	FY2020 STI Awarded			LTI	Total
KMP	Cash	Share Rights	Super-annuation / Pension	Other	Total	Leave Loading	Cash	Indeterminate Rights	Total	FY2018 Vesting	
Value @ Grant VWAP[2]										$ 1.80	
Mr David Singleton	$ 1,072,830	$ -	$ 21,003	$ -	$ 1,093,833	$ 45,278	$ 413,016	$ 413,016	$ 826,032	$ 1,071,511	$ 3,036,654
Mr Greg Jason	547,003	-	21,003	-	568,006	25,497	143,139	143,139	286,278	371,389	1,251,170
Mr Craig Perciavalle	894,188	-	109,230	88,755	1,092,173	-	505,395	-	505,395	425,369	2,022,937
Mr Patrick Gregg	488,998	-	21,002	-	510,000	-	107,100	107,100	214,200	321,428	1,045,628
Total	$ 3,003,019	$ -	$ 172,238	$ 88,755	$ 3,264,012	$ 70,775	$ 1,168,650	$ 663,255	$ 1,831,905	$ 2,189,697	$ 7,356,389
% of Total											
Mr David Singleton					36.0%	1.5%			27.2%	35.3%	100.0%
Mr Greg Jason					45.4%	2.0%			22.9%	29.7%	100.0%
Mr Craig Perciavalle					54.0%	-			25.0%	21.0%	100.0%
Mr Patrick Gregg					48.8%	-			20.5%	30.7%	100.0%

FY2019

	Total Fixed Remuneration					Legacy Buy Out	FY2019 STI Awarded			LTI	Total
KMP	Cash	Share Rights	Super-annuation / Pension	Other	Total	Leave Loading	Cash	Indeterminate Rights	Total	FY2017 Vesting	
Value @ Grant VWAP[2]										$ 1.10	
Mr David Singleton	$ 747,448	$ 334,767	$ 20,831	$ -	$ 1,103,046	$ -	$ 372,156	$ 372,156	$ 744,312	$ 1,310,002	$ 3,157,360
Mr Greg Jason	496,397	50,950	20,531	-	567,878	-	127,237	127,237	254,474	288,398	1,110,750
Mr Craig Perciavalle[3]	797,203	-	97,154	67,478	961,835	-	478,322	-	478,322	441,692	1,881,849
Mr Patrick Gregg	447,173	-	35,827	-	483,000	-	109,862	109,862	219,724	-	702,724
Total	$ 2,488,221	$ 385,717	$ 174,343	$ 67,478	$ 3,115,759	$ -	$ 1,087,577	$ 609,255	$ 1,696,832	$ 2,040,092	$ 6,852,683
% of Total											
Mr David Singleton					34.9%	-			23.6%	41.5%	100.0%
Mr Greg Jason					51.1%	-			22.9%	26.0%	100.0%
Mr Craig Perciavalle					51.1%	-			25.4%	23.5%	100.0%
Mr Patrick Gregg					68.7%	-			31.3%	-	100.0%

1. Refer to the explanation below.
2. Value @ Grant VWAP is the Volume Weighted Average Share Price utilised for the respective LTI grant.
3. Mr Perciavalle's prior year disclosure in 'Other' TFR has been updated to include $33,897 of healthcare related post-employment benefits.

The CEO and the CFO had a leave loading entitlement embedded in their employment contracts. The leave loading entitlement was terminated during FY2020. All accrued leave loading entitlements were paid to Mr Singleton and Mr Jason during FY2020 and are disclosed in the realised and statutory remuneration tables. Future leave loading entitlements were converted into a TFR increase for FY2021 onwards of $14,724 for Mr Singleton and $7,651 for Mr Jason.

VI. Statutory remuneration disclosure

The following table outlines the remuneration received by Executive KMP during FY2020 and FY2019, prepared according to statutory disclosure requirements and accounting standards:

FY2020	Fixed Remuneration					Legacy Buy Out [1]	Variable Remuneration		Other	Total
KMP	Salary[2]	Share Rights	Super-annuation / Pension	Other Monetary Benefits	Total	Leave Loading	STI Accrued	LTI Accounting Expense[3]	Long Service Leave Accrued	
Mr David Singleton[4]	$ 983,402	$ -	$ 21,003	$ -	$ 1,004,405	$ 45,278	$ 826,032	$ (41,090)	$ 14,071	$ 1,848,696
Mr Greg Jason	550,834	-	21,003	-	571,837	25,497	286,278	353,673	13,200	1,250,485
Mr Craig Perciavalle	913,712	-	109,230	88,755	1,111,697	-	505,395	556,346	-	2,173,438
Mr Patrick Gregg	508,344	-	21,002	-	529,346	-	214,200	309,153	3,959	1,056,658
Total	$ 2,956,292	$ -	$ 172,238	$ 88,755	$ 3,217,285	$ 70,775	$ 1,831,905	$ 1,178,082	$ 31,230	$ 6,329,277
% of Total										
Mr David Singleton					54.3%	2.4%	44.7%	(2.2%)	0.8%	100.0%
Mr Greg Jason					45.7%	2.0%	22.9%	28.3%	1.1%	100.0%
Mr Craig Perciavalle					51.1%	-	23.3%	25.6%	-	100.0%
Mr Patrick Gregg					50.1%	-	20.3%	29.3%	0.4%	100.0%

FY2019	Fixed Remuneration					Legacy Buy Out	Variable Remuneration		Other	Total
	Salary[2]	Share Rights	Super-annuation / Pension	Other Monetary Benefits	Total	Leave Loading	STI Accrued	LTI Accounting Expense[3]	Long Service Leave Accrued	
Mr David Singleton[4]	$ 814,049	$ 334,767	$ 20,831	$ -	$ 1,169,647	$ -	$ 744,312	$ 1,776,504	$ 18,231	$ 3,708,694
Mr Greg Jason	493,029	50,950	20,531	-	564,510	-	254,474	420,664	9,350	1,248,998
Mr Craig Perciavalle[5]	821,011	-	97,154	67,478	985,643	-	478,322	672,126	-	2,136,091
Mr Patrick Gregg	478,758	-	35,827	-	514,585	-	219,724	218,086	8,050	960,446
Total	$ 2,606,847	$ 385,717	$ 174,343	$ 67,478	$ 3,234,385	$ -	$ 1,696,832	$ 3,087,380	$ 35,631	$ 8,054,229
% of Total										
Mr David Singleton					31.5%	-	20.1%	47.9%	0.5%	100.0%
Mr Greg Jason					45.2%	-	20.4%	33.7%	0.7%	100.0%
Mr Craig Perciavalle					46.1%	-	22.4%	31.5%	-	100.0%
Mr Patrick Gregg					53.6%	-	22.9%	22.7%	0.8%	100.0%

1. Refer to the explanation below.
2. Salary represents cash-based salary expensed during the reporting period including annual leave provision adjustments and therefore may not equal the cash received by the KMP.
3. The LTI expense represents the portion of the independent valuation of active LTI plans expensed through the Profit and Loss in accordance with AASB 2.
4. Mr Singleton's FY2019 and FY2020 LTI grants were forfeited in accordance with his resignation in June 2020 and the life to date Profit and Loss expense of these plans were reversed.
5. Mr Perciavalle's prior year disclosure in 'Other Monetary Benefits' has been updated to include $33,897 of healthcare post-employment benefits and the movemement in leave balances of $23,808.

The CEO and the CFO had a leave loading entitlement embedded in their employment contracts. The leave loading entitlement was terminated during FY2020. All accrued leave loading entitlements were paid to Mr Singleton and Mr Jason during FY2020 and are disclosed in the realised and statutory remuneration tables. Future leave loading entitlements were converted into a TFR increase for FY2021 onwards of $14,724 for Mr Singleton and $7,651 for Mr Jason.

The Corporations Act mandate the manner in which the cost of all forms of remuneration are disclosed within the Remuneration Report such as the following matters:

- Share based payments expense for LTI plans represents the portion of the actuarial valuation of all relevant Performance Rights (grants across multiple years) expensed within the reporting period including adjustments for forfeiture and vesting outcomes for internal measures of performance.
- Salary represents the amount expensed in the Profit and Loss statement during the reporting period which will be influenced by the number of leave days taken (e.g. salary and fees expensed will be higher for a KMP who didn't take any annual leave days during the reporting period because the expense will represent the 12 months worked plus the value of leave accrued (e.g. 4 weeks in Australia)).

VII. Reconciliation of realised remuneration and statutory remuneration

The following table reconciles the realised remuneration received by Executive KMP during FY2020 and FY2019 with the statutory remuneration disclosures for those years.

FY2020	Remuneration			Explanation of Variance			
KMP	Realised	Statutory	Variance	LTI Vesting Versus Expense	Long Service Leave Provision	Leave Provision Movement	Total
Mr David Singleton[1]	$ 3,036,654	$ 1,848,696	$ 1,187,958	$ 1,112,601	$ (14,071)	$ 89,428	$ 1,187,958
Mr Greg Jason	1,251,170	1,250,485	685	17,716	(13,200)	(3,831)	685
Mr Craig Perciavalle	2,022,937	2,173,438	(150,501)	(130,977)	-	(19,524)	(150,501)
Mr Patrick Gregg	1,045,628	1,056,658	(11,030)	12,275	(3,959)	(19,346)	(11,030)

1. Mr Singleton's significant 'LTI Vesting Versus Expense' variance represents the difference between the FY2018 LTI grant fully vesting as shown in the Realised Remuneration table and the reversal of the previously booked Share Based Payment expense in relation to the forfeited FY2019 and FY2020 grants within the Statutory Remuneration table.

FY2019	Remuneration			Explanation of Variance			
KMP	Realised	Statutory	Variance	LTI Vesting Versus Expense	Long Service Leave Movement	Leave Provision Movement	Total
Mr David Singleton	$ 3,157,360	$ 3,708,694	$ (551,334)	$ (466,502)	$ (18,231)	$ (66,601)	$ (551,334)
Mr Greg Jason	1,110,750	1,248,998	(138,248)	(132,266)	(9,350)	3,368	(138,248)
Mr Craig Perciavalle	1,881,849	2,136,091	(254,242)	(230,434)	-	(23,808)	(254,242)
Mr Patrick Gregg	702,724	960,446	(257,722)	(218,087)	(8,050)	(31,585)	(257,722)

VIII. CEO Transition

i. Resignation of Mr David Singleton

In June 2020 Austal announced that its Chief Operating Officer (COO) Patrick Gregg will be promoted to the position of Chief Executive Officer (CEO) effective 1 January 2021, following a six month transition from current Managing Director and CEO David Singleton.

Mr Singleton will be eligible to receive an FY2021 STI of up to a maximum of 6 months TFR for achievement of the following objectives:

- Subic Bay Acquisition
- Progress Philippines Offshore Patrol Vessel Program
- San Diego Dry Dock Strategy
- Post LCS Strategy and USA Steel Shipbuilding Capability
- Refresh Company Strategy
- Effective transition to new CEO

ii. Appointment of Mr Patrick Gregg

The key details of Mr Gregg's CEO remuneration from 1 January 2021 are included below:

- Total Fixed Remuneration $875,000
- Target STI award 45% / Stretch STI award 67.5%
- Target LTI award 50% / Stretch LTI award 100%

6. Non-Executive Director remuneration

I. Application

The Non-Executive Director Remuneration Policy applies to Non-Executive Directors (NED) of the Company in their capacity as directors and as members of committees.

II. Fee policy

The fee policy is designed to ensure that remuneration is reasonable, appropriate, and produces outcomes that fall within the fee limit, at each point of being assessed.

i. Fee cap

The Remuneration for NED is managed within the aggregate fee limit (AFL) of $3,000,000 approved by shareholders of the Company. The cap has remained unchanged since listing on the Australian Securities Exchange (ASX) in 1998.

ii. Board & committee fees

- Remuneration is composed of Board fees and Committee fees. Both fee types include superannuation to the extent applicable to the incumbent.
- NED remuneration was externally benchmarked, and appropriate fee increases were provided at the 50th percentile (where 50% of the comparator group are above the median level and 50% are below the median level) for FY2020. This is the first time NED remuneration has been increased since 2016.
- Remuneration for the current Chairman of the Board reflects his continued high level of contribution to the company and the Board. The Board increased the Chairman's FY2020 total remuneration fee to $210,000, inclusive of committee fees.
- Committee fees recognise additional contributions to the work of the Board by members of committees. They are similarly referenced to the benchmark group as above.

iii. NED fee rates

The following table outlines the NED fee policy rates that were applicable:

FY2020	Role		
	Chair	Deputy Chair	Member
Main Board	$ 200,000	$ 110,000	$ 100,000
Audit & Risk Committee	20,000	N/A	10,000
Nomination & Remuneration Committee	20,000	N/A	10,000

FY2019	Role		
	Chair	Deputy Chair	Member
Main Board	$ 192,500	N/A	$ 95,000
Audit & Risk Committee	20,000	N/A	10,000
Nomination & Remuneration Committee	15,000	N/A	7,500

iv. Termination benefits

Termination benefits are not paid to NED.

III. Share rights

The NED have agreed annually with the Company to receive 25% of their Board fees (excluding Committee fees) in the form of share rights in order to accumulate equity holdings up to the equivalent of one year of Board fees (excluding Committee fees). The issuance of share rights to NED was approved by shareholders at the 2018 and 2019 Annual General Meetings.

The Chairman of the Board does not presently receive share rights because of his significant shareholding in the Company.

IV. NED remuneration in FY2020

The following table outlines the remuneration received by NED of the Company during FY2020 and the previous year, prepared according to statutory disclosure requirements and applicable accounting standards:

FY2020	Board Fees				Committee Fees			Total
	Cash	Super-annuation	Share Rights	Total	Cash	Super-annuation	Total	
Mr John Rothwell	$ 182,648	$ 17,352	$ -	$ 200,000	$ 9,132	$ 868	$ 10,000	$ 210,000
Mr Giles Everist	91,324	8,676	-	100,000	27,397	2,603	30,000	130,000
Mrs Sarah Adam-Gedge	75,723	7,194	27,083	110,000	29,456	126	29,583	139,583
Mr Chris Indermaur	68,493	6,507	25,000	100,000	18,626	1,374	20,000	120,000
Total	$ 418,189	$ 39,728	$ 52,083	$ 510,000	$ 84,613	$ 4,970	$ 89,583	$ 599,583

FY2019	Board Fees				Committee Fees			Total
	Cash	Super-annuation	Share Rights	Total	Cash	Super-annuation	Total	
Mr John Rothwell	$ 175,799	$ 16,701	$ -	$ 192,500	$ 6,849	$ 651	$ 7,500	$ 200,000
Mr Giles Everist	65,068	6,182	23,750	95,000	25,114	2,386	27,500	122,500
Mrs Sarah Adam-Gedge	65,068	6,182	23,750	95,000	20,758	1,972	22,731	117,731
Mr Chris Indermaur [1]	45,681	4,340	15,833	65,854	6,355	604	6,959	72,812
Mr Jim McDowell [2]	10,845	1,030	3,958	15,833	3,805	361	4,167	20,000
Total	$ 362,461	$ 34,434	$ 67,292	$ 464,187	$ 62,882	$ 5,974	$ 68,856	$ 533,043

1. Mr Chris Indermaur became a NED in October 2018.
2. Mr Jim McDowell resigned in August 2018.

8. Equity instruments held by KMP

I. FY2018 performance rights vesting

Further information relating to the FY2018 Performance Rights vesting is provided on page 46.

II. FY2019 performance rights

i. Performance rights

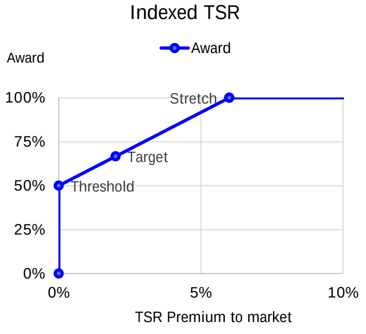
714,374 Performance Rights were granted to KMP in FY2019, who were still employed by Austal and whose rights were not lapsed, forfeited or vested at 30 June 2020.

ii. Measurement period

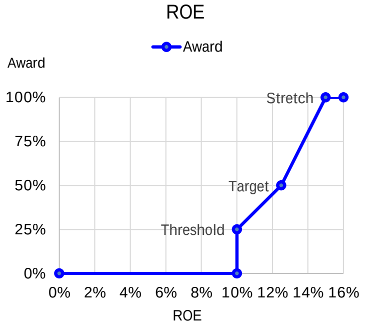
100% of the Performance Rights granted in FY2019 have a 3 year Measurement Period from 1 July 2018 – 30 June 2021.

iii. Performance criteria

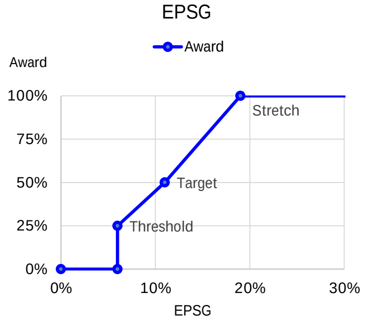
The performance criteria relating to the FY2019 grant of Performance Rights to KMP are detailed below:



Indexed TSR = Austal TSR Premium to Market



ROE = NPAT / Equity (Excluding Reserves)



EPSG = EPS (Final Year) / CAGR EPS (Base Year)

III. FY2020 performance rights grant

i. Performance rights grant

Performance rights granted to KMP in FY2020 are depicted in the table below.

The Fair Value per right has been determined by an independent valuer in accordance with AASB 2 Share Based Payments and does not match the Stretch LTI opportunity as detailed earlier in the report.

	Rights granted				Value @
Name	iTSR	ROE	EPSG	Total	grant date
Fair Value per right	$ 2.33	$ 3.81	$ 3.81	$ 3.31	$ 3.31
Mr David Singleton[1]	76,410	76,410	76,411	229,231	$ 759,519
Mr Greg Jason	34,718	34,718	34,720	104,156	345,105
Mr Craig Perciavalle	75,082	75,082	75,084	225,248	746,323
Mr Patrick Gregg	31,173	31,173	31,175	93,521	309,867
Total	217,383	217,383	217,390	652,156	$2,160,814

1. Mr Singleton's FY2020 LTI grant was forfeited in accordance with his resignation in June 2020.

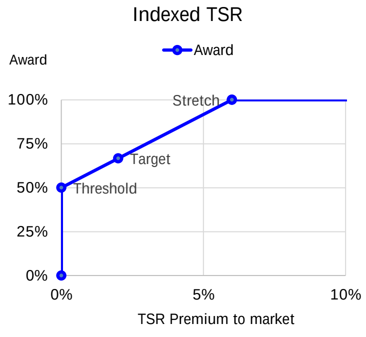
422,925 Performance Rights were granted to KMP in FY2020, who were still employed by Austal and whose rights were not lapsed, forfeited or vested at 30 June 2020.

ii. Measurement period

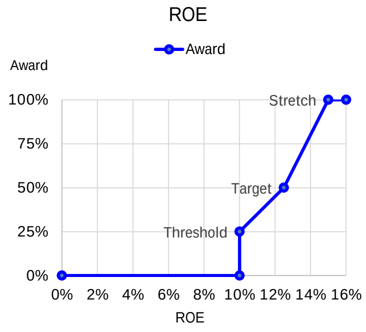
100% of the Performance Rights granted in FY2020 have a 3 year Measurement Period from 1 July 2019 – 30 June 2022.

iii. Performance criteria

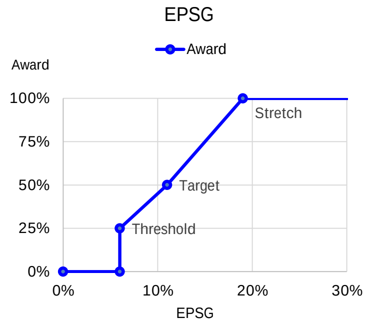
The performance criteria relating to the FY2020 grant of Performance Rights to KMP are detailed below:



Indexed TSR = Austal TSR Premium to Market



ROE = NPAT / Equity (Excluding Reserves)



EPSG = EPS (Final Year) / CAGR EPS (Base Year)

IV. TFR share rights

Details of Share Rights earned during the period and provided to KMP in FY2020 are shown below and further information is provided in Note 34.

These Share Rights are in lieu of TFR normally paid in cash and are not a bonus nor performance based. The measurement date for the Share Rights is the VWAP of the last 5 trading days of each month. The share rights provided to the NED were approved by Shareholders during the 2019 Annual General Meeting.

KMP	Earned	Average fair value per right	Fair value
Mrs Sarah Adam-Gedge	7,468	$ 3.63	$ 27,083
Mr Chris Indermaur	6,884	3.63	25,000

V. Changes in equity held by KMP

	Balance at 30 June 2019	FY2020 Movements: Granted	Vested	Exercised	Lapsed / Forfeited	Bought (Sold)	Balance at 30 June 2020	Vested	Unvested
Executives									
Mr David Singleton									
Shares	28,600	-	-	1,194,121	-	-	1,222,721	1,222,721	-
Share Rights	1,819,783	-	596,530	(1,194,121)	-	-	1,222,192	1,222,192	-
Performance Rights	1,088,932	229,231	(596,530)	-	(721,633)	-	-	-	-
Indeterminate Rights[1]	-	106,251	-	-	-	-	106,251	106,251	-
Total	2,937,315	335,482	-	-	(721,633)	-	2,551,164	2,551,164	-
Mr Greg Jason									
Shares	59,089	-	-	310,491	-	(106,693)	262,887	262,887	-
Share Rights	310,491	-	206,759	(310,491)	-	-	206,759	206,759	-
Performance Rights	427,717	104,156	(206,759)	-	-	-	325,114	-	325,114
Indeterminate Rights[1]	-	36,664	-	-	-	-	36,664	36,664	-
Total	797,297	140,820	-	-	-	(106,693)	831,424	506,310	325,114
Mr Craig Perciavalle									
Shares	112,444	-	-	402,621	-	(313,755)	201,310	201,310	-
Share Rights	402,621		236,811	(402,621)	-	-	236,811	236,811	-
Performance Rights	539,974	225,248	(236,811)	-	-	-	528,411	528,411	-
Total	1,055,039	225,248	-	-	-	(313,755)	966,532	966,532	-
Mr Patrick Gregg									
Shares	-	-	-	-	-	-	-	-	-
Share Rights	-	-	178,945	-	-	-	178,945	178,945	-
Performance Rights	369,198	93,521	(178,945)	-	-	-	283,774	-	283,774
Indeterminate Rights[1]	-	30,406	-	-	-	-	30,406	30,406	-
Total	369,198	123,927	-	-	-	-	493,125	209,351	283,774
Non-Executive Directors									
Mr John Rothwell									
Shares	32,307,692	-	-	-	-	-	32,307,692	32,307,692	-
Total	32,307,692	-	-	-	-	-	32,307,692	32,307,692	-
Mr Giles Everist									
Shares	10,000	-	-	20,441	-	-	30,441	30,441	-
Share Rights	20,441	-	-	(20,441)	-	-	-	-	-
Total	30,441	-	-	-	-	-	30,441	30,441	-
Mrs Sarah Adam-Gedge									
Shares	10,000	-	-	-	-	-	10,000	10,000	-
Share Rights	20,441	7,468	-	-	-	-	27,909	27,909	-
Total	30,441	7,468	-	-	-	-	37,909	37,909	-
Mr Chris Indermaur									
Share Rights	6,857	6,884	-	-	-	-	13,741	13,741	-
Total	6,857	6,884	-	-	-	-	13,741	13,741	-

1. Indeterminate rights are contractual rights to the value of a share with a minimum holding period of 3 years irrespective of continued employment.

VI. Minimum equity holdings

Some KMP and all NED are required to accumulate and maintain a minimum level of equity holding with value equivalent to a specified percentage of annual TFR as detailed in the table below:

	Balance at 30 Jun 2020	Value @ 30 Jun 2020	FY2020 TFR	Equity Holding % of TFR 30 Jun 2020	Equity Holding % of TFR Target	Target Introduced
Value / share		$ 3.23				
Executives						
Mr David Singleton	2,551,164	$ 8,240,260	$ 1,093,833	753%	100%	Feb 2016
Mr Greg Jason	506,310	1,635,381	568,006	288%	50%	Sep 2017
Mr Craig Perciavalle	966,532	3,121,898	1,092,173	286%	-	-
Mr Patrick Gregg[1]	209,351	676,204	510,000	133%	-	-

	Balance at 30 Jun 2020	Value @ 30 Jun 2020	FY2020 Board Fees [2]	Equity Holding % of TFR 30 Jun 2020	Equity Holding % of TFR Target	Target Introduced
Non-Executive Directors						
Mr John Rothwell	32,307,692	$ 104,353,845	$ 200,000	52177%	100%	Nov 2017
Mr Giles Everist	30,441	98,324	100,000	98%	100%	Nov 2017
Mrs Sarah Adam-Gedge	37,909	122,446	110,000	111%	100%	Nov 2017
Mr Chris Indermaur	13,741	44,383	100,000	44%	100%	Oct 2018

1. Mr Gregg will be required to maintain a minimum level of equity holding at a value equivalent to 1 year TFR once be becomes CEO.
2. Includes Board Fees and excludes Committee Fees

9. Other related matters

I. Board composition

The NRC reviews the structure, size and composition of the Board annually, taking inputs from investors and other independent advisors received during the year into account. The NRC has recommended that the current practice of maintaining three independent NED on the Board should remain following the FY2020 review.

The Committee also undertook an annual review of the position of Chairman at Austal, in part because he is aged over 70 years. The Board (excluding the Chairman) unanimously agreed that the Chairman's intimate knowledge of the shipbuilding industry, of Austal and its major customers, together with his demonstrated high level of commitment, meant that he remains a significant asset to the Group and he was requested to remain as Chairman, to which he has agreed.

During the year Mrs Sarah Adam-Gedge was appointed as Deputy Chair of the Board.

II. Details of contractual provisions for KMP

Name	Employer	Duration	Termination Notice Period		Termination
			Group	Individual	Benefits [1]
Mr David Singleton	Austal Limited	Unlimited	3 months	3 months	3 months
Mr Greg Jason	Austal Limited	Unlimited	12 weeks	12 weeks	12 weeks
Mr Craig Perciavalle	Austal USA LLC	Unlimited	None	None	None
Mr Patrick Gregg	Austal Ships Pty Ltd	Unlimited	3 months	3 months	3 months

1. Termination Benefit Limit under the Corporations Act is 12 months of the average prior 3 years salary unless Shareholder approval is obtained.

Austal may choose to terminate the contracts immediately by making a payment equal to the Group Notice Period fixed remuneration in lieu of notice. Executives are not entitled to this termination payment in the event of termination for serious misconduct or other nominated circumstances.

Executives will be entitled to the payment of any fixed remuneration calculated up to the termination date, any leave entitlement accrued at the termination date and any payment or award of STI or LTI permitted under the remuneration policy upon termination of employment is described in the relevant sections of this report.

All NED enter into a service agreement with the Company in the form of a letter of appointment on appointment to the Board. The letter summarises the Board policies and terms, including compensation relevant to each director. The appointment letters specify a term of three years before each NED is required to be put forward for re-election in accordance with regulatory requirements.

III. Other transactions with KMP

There were no transactions involving KMP other than compensation and transactions concerning shares and performance rights as discussed in other sections of the Remuneration Report.

IV. Use of external remuneration consultants

The Board approved and engaged an external remuneration consultant to provide KMP remuneration recommendations and advice during the reporting period. The consultants and the amount payable for the information and work that led to their recommendations are listed below:

i. Godfrey Remuneration Group Pty Limited (GRG)

GRG were engaged for the following services during FY2020:

- NED and Executive Remuneration Recommendations.
- Total fees $77,550 excluding GST.

ii. Independence from Executive KMP

The Board is satisfied that the KMP remuneration recommendations received were free from undue influence from KMP to whom the recommendations related for the following reasons:

- the policy for engaging external remuneration consultants is being adhered to and is operating as intended,
- the Board has been closely involved in all dealings with the external remuneration consultants,
- each KMP remuneration recommendation received during the year was accompanied by a legal declaration from the consultant to the effect that their advice was provided free from undue influence from the KMP to whom the recommendations related.

End of Remuneration Report

Auditor independence

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

21 August 2020

Dear Board Members,

Austal Limited

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

As lead audit partner for the audit of the financial statements of Austal Limited for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A T Richards
Partner
Chartered Accountants

Consolidated statement of profit and loss and other comprehensive income for the year ended 30 June 2020

	Notes	2020 '000	2019 '000
Continuing operations			
Revenue	4	$ 2,086,001	$ 1,851,021
Cost of sales		(1,846,707)	(1,661,113)
Gross Profit		$ 239,294	$ 189,908
Other income and expenses	5	$ 9,771	$ 13,301
Administration expenses		(94,793)	(92,265)
Marketing expenses		(23,876)	(18,149)
Finance income [1]	5	1,384	1,053
Finance costs	5	(8,267)	(8,284)
Profit / (loss) before income tax		$ 123,513	$ 85,564
Income tax benefit / (expense)	9	$ (34,535)	$ (24,180)
Profit / (loss) after tax		$ 88,978	$ 61,384
Other comprehensive income (OCI)			
Amounts that may subsequently be reclassified to profit and loss:			
Cash flow hedges			
- Net gain / (loss)		$ 4,907	$ (1,693)
- Income tax benefit / (expense)		(1,474)	460
		$ 3,433	$ (1,233)
Foreign currency translations			
- Net gain / (loss)		$ 9,245	$ 27,912
		$ 9,245	$ 27,912
Amounts not to be reclassified to profit and loss in subsequent periods:			
Asset revaluation reserve			
- Net gain / (loss)		$ 42,556	$ 2,103
- Income tax benefit / (expense)		(10,713)	(578)
		$ 31,843	$ 1,525
Other comprehensive income for the period		$ 44,521	$ 28,204
Total comprehensive income for the year		$ 133,499	$ 89,588
Earnings per share ($ per share)			
Basic earnings per share	6	$ 0.250	$ 0.176
Diluted earnings per share	6	0.247	0.173

1. Finance income was previously included within Revenue and has been reclassified below Gross Profit for the current and comparative period.

Consolidated statement of financial position as at 30 June 2020

	Notes	2020 '000	2019 '000
Assets			
Current			
Cash and cash equivalents	10	$ 396,667	$ 275,665
Inventories and work in progress	17	143,799	167,042
Trade and other receivables	15	144,217	225,268
Prepayments		11,444	9,480
Derivatives	26, 27	1,218	1,932
Income tax refundable	9	-	1,701
Total		$ 697,345	$ 681,088
Non - current			
Property, plant and equipment	19	$ 610,199	$ 588,384
Intangible assets and goodwill	20	22,192	20,743
Investment in joint venture	31	1,729	1,729
Derivatives	26, 27	1,186	258
Right of use lease assets	2	9,736	-
Other financial assets	22	13,197	11,859
Other non-current assets	23	7,767	14,838
Deferred tax assets	9	4,757	8,402
Total		$ 670,763	$ 646,213
Total		$ 1,368,108	$ 1,327,301
Liabilities			
Current			
Interest bearing loans and borrowings	11	$ (8,719)	$ (51,211)
Progress payments received in advance	16	(94,502)	(120,402)
Trade and other payables	18	(156,910)	(202,308)
Provisions	24	(80,132)	(85,305)
Derivatives	26, 27	(3,352)	(8,992)
Income tax payable	9	(259)	-
Lease liabilities	2	(2,627)	-
Deferred grant income	14	(3,232)	(6,445)
Total		$ (349,733)	$ (474,663)
Non - current			
Interest bearing loans and borrowings	11	$ (156,461)	$ (122,543)
Provisions	24	(2,521)	(1,707)
Derivatives	26, 27	(6,026)	(7,552)
Lease liabilities	2	(7,449)	-
Deferred grant income	14	(54,046)	(56,214)
Deferred tax liabilities	9	(43,129)	(33,839)
Total		$ (269,632)	$ (221,855)
Total		$ (619,365)	$ (696,518)
Net assets		$ 748,743	$ 630,783
Equity attributable to owners of the parent			
Contributed equity	13	$ 135,340	$ 130,570
Reserves		235,122	189,520
Retained earnings		378,281	310,693
Total		$ 748,743	$ 630,783

Consolidated statement of changes in equity for the year ended 30 June 2020

	Issued Capital '000	Reserved Shares [1] '000	Retained Earnings '000	Foreign Currency Transl'n Reserve '000	Employee Benefits Reserve '000	Cash Flow Hedge Reserve '000	Common Control Reserve '000	Asset Reval'n Reserve '000	Total Equity '000
Equity at 1 July 2018	$ 130,165	$ (11,836)	$ 270,530	$ 82,190	$ 3,977	$ (5,789)	$ (17,594)	$ 93,935	$ 545,578
Comprehensive income									
Profit for the year	$ -	$ -	$ 61,384	$ -	$ -	$ -	$ -	$ -	$ 61,384
Other comprehensive income	-	-	-	27,912	-	(1,233)	-	1,525	28,204
Total	$ -	$ -	$ 61,384	$ 27,912	$ -	$ (1,233)	$ -	$ 1,525	$ 89,588
Other equity transactions									
Shares issued for dividend reinvestment plan	$ 1,922	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,922
Dividends	-	-	(21,133)	-	-	-	-	-	(21,133)
Share based payments expense	-	-	-	-	5,975	-	-	-	5,975
Shares issued to employee share trust	454	(454)	-	-	-	-	-	-	-
AGMSP shares sold [2]	(2,763)	10,929	-	-	-	-	-	-	8,166
Dividend retained in relation to AGMSP [2]	13	95	-	-	-	-	-	-	108
Tax expense on sale of AGMSP shares [2]	(65)	-	-	-	-	-	-	-	(65)
Rights exercised	2,110	-	-	-	(1,142)	-	-	-	968
Transfer between reserves [4]	-	-	313	-	(313)	-	-	-	-
Transfer between reserves [5]	-	-	(401)	-	401	-	-	-	-
Remeasurement gain on retirement benefits	-	-	-	-	(324)	-	-	-	(324)
Total	$ 1,671	$ 10,570	$ (21,221)	$ -	$ 4,597	$ -	$ -	$ -	$ (4,383)
Movement	$ 1,671	$ 10,570	$ 40,163	$ 27,912	$ 4,597	$ (1,233)	$ -	$ 1,525	$ 85,205
Equity at 30 June 2019	$ 131,836	$ (1,266)	$ 310,693	$ 110,102	$ 8,574	$ (7,022)	$ (17,594)	$ 95,460	$ 630,783
Comprehensive income									
Profit for the year	$ -	$ -	$ 88,978	$ -	$ -	$ -	$ -	$ -	$ 88,978
Other comprehensive income	-	-	-	9,245	-	3,433	-	31,843	44,521
Total	$ -	$ -	$ 88,978	$ 9,245	$ -	$ 3,433	$ -	$ 31,843	$ 133,499
Other equity transactions									
Shares issued for dividend reinvestment plan	$ 804	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 804
Dividends	-	-	(21,390)	-	-	-	-	-	(21,390)
Share based payments expense	-	-	-	-	4,599	-	-	-	4,599
Shares issued to employee share trust	1,861	(1,861)	-	-	-	-	-	-	-
Shares or proceeds transferred to beneficiaries	(1,096)	1,771	-	-	(675)	-	-	-	-
Shares issued for vested performance rights	3,291	-	-	-	(3,291)	-	-	-	-
Reclassification of long term incentives [6]	-	-	-	-	751	-	-	-	751
Remeasurement gain on retirement benefits	-	-	-	-	(303)	-	-	-	(303)
Total	$ 4,860	$ (90)	$ (21,390)	$ -	$ 1,081	$ -	$ -	$ -	$ (15,539)
Movement	$ 4,860	$ (90)	$ 67,588	$ 9,245	$ 1,081	$ 3,433	$ -	$ 31,843	$ 117,960
Equity at 30 June 2020	$ 136,696	$ (1,356)	$ 378,281	$ 119,347	$ 9,655	$ (3,589)	$ (17,594)	$ 127,303	$ 748,743

1. Reserved shares are held in relation to employee share trusts.
2. The Trustee sold all of the shares in the Austal Group Management Share Plan (AGMSP) during FY2019.
3. Transfer of reserved shares relating to vested AGMSP.
4. Transfer of lapsed LTI balance.
5. Transfer of retirement reserve opening balance.
6. Reclassification of FY2019 Indeterminate Rights to equity from provisions

Consolidated statement of cash flows for the year ended 30 June 2020

	Notes		2020 '000		2019 '000
Cash flows from operating activities					
Receipts from customers (exclusive of GST)		$	2,165,269	$	1,865,442
Payments to suppliers and employees (exclusive of GST)			(1,982,563)		(1,688,944)
Income tax refunded / (paid)			(13,584)		(7,261)
Interest paid			(6,034)		(5,773)
Interest received	5		1,384		1,053
Net cash from / (used in) operating activities	7	$	164,472	$	164,517
Cash flows from investing activities					
Purchase of property, plant and equipment	19	$	(16,700)	$	(41,542)
Payment for intangible assets	20		(1,661)		(1,556)
Proceeds from sale of property, plant and equipment			186		3,867
Receipts of government infrastructure grants			-		1,482
Net cash from / (used in) investing activities		$	(18,175)	$	(37,749)
Cash flows from financing activities					
Dividends paid (net of dividend reinvestment program)		$	(20,586)	$	(19,211)
Principal component of lease payments			(6,010)		-
Repayment of borrowings	12		-		(10,744)
Payment of borrowing costs	12		(642)		-
Sale of surplus AGMSP Shares [1]			-		7,674
Exercise of rights			-		968
Net cash from / (used in) financing activities		$	(27,238)	$	(21,313)
Net increase / (decrease) in cash and cash equivalents		$	119,059	$	105,455
Cash and cash equivalents					
Cash and cash equivalents at beginning of year		$	275,665	$	162,024
Net increase / (decrease) in cash and cash equivalents			119,059		105,455
Net foreign exchange differences			1,943		8,186
Cash and cash equivalents at end of year	10	$	396,667	$	275,665

1. The Trustee sold all of the shares in the Austal Group Management Share Plan (AGMSP) during FY2019.

Notes to the consolidated financial statements

Basis of preparation

Note 1 Corporate information

The financial report of the Austal Limited Group of Companies (the Group or the Company) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 21 August 2020.

Austal Limited is a limited liability company incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX) under the code ASB.

The principal activities of the Group during the year were the design, manufacture and sustainment of high performance vessels. These activities were unchanged from the previous year.

Note 2 Basis of preparation

I Introduction

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

The financial report also complies with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for derivative financial instruments and land and buildings that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) (unless otherwise stated) under the option available to the Group under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016 / 191. The Company is an entity to which the Instrument applies.

The financial report presents the figures of the consolidated entity, unless otherwise stated.

Austal Limited is a for profit entity.

II Reporting structure

The notes to the consolidated financial statements have been divided into 8 main sections which are summarised as follows:

1. Current year performance

This section focuses on the results and performance of the Group, including profitability, earnings per share, cash generation, and the return of cash to shareholders via dividends.

2. Capital structure

This section focuses on the long term funding of the Group including cash, interest bearing loans and borrowings, contributed equity and Government grants.

3. Working capital

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

4. Infrastructure & other assets

This section focuses on property, plant and equipment, intangible assets of the Group, impairment and other assets.

5. Other liabilities

This section focuses on provisions such as employee benefits, workers compensation and warranty.

6. Financial risk management

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

7. Unrecognised items

This section focuses on commitments and contingencies that are not recognised in the financial statements and events occurring after the balance date.

8. The Group, management and related parties

This section focuses on the corporate structure of the Group, parent entity data, key management personnel compensation and related party transactions.

III Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group for the year ended 30 June 2020.

Subsidiaries are all of those entities over which the Group has power over the entity, exposure or rights to variable returns from its involvement with the entity and the ability to use its power over the entity to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Financial statements of foreign controlled entities presented in accordance with overseas accounting principles are adjusted to comply with Group policy and generally accepted accounting principles in Australia for consolidation purposes. All intercompany balances, transactions, unrealised gains and losses resulting from intra-Group transactions and dividends have been eliminated in preparing the consolidated financial statements.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Austal Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

IV Foreign currency transactions and translation

Both the functional and presentation currency of Austal Limited and its Australian subsidiaries are Australian dollars (AUD). The Company determines the most appropriate functional currency for each entity within the Group and items included in the financial statements of each entity are measured using that functional currency.

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

The functional currency of the subsidiaries undertaking the Group's operations in the USA, Vietnam and the Philippines is United States Dollars (USD).

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

V Accounting judgements and estimates

The Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities in the application of the Group's accounting policies. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information on material estimates and judgements considered when applying the accounting policies can be found in the following notes:

Key accounting judgements and estimates	Note
Leases	2
Contract revenue and expected construction profits at completion	4
Research and development tax credits	5
Deferred tax assets	9
Impairment of non-financial assets	19, 21
Estimation of useful lives of assets	19
Provisions	24
Share based payments	34

VI New and amended standards adopted by the Group

The nature and effect of changes as a result of the adoption of new accounting standards are described below. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

1. AASB 16 Leases

AASB 16 Leases is applicable for financial years commencing from 1 January 2019. This note explains the impact of the adoption of AASB 16 on the Group's financial statements and discloses the new accounting policies.

The Group has adopted AASB 16 retrospectively with a cumulative effect applied from 1 July 2019, but has not restated the prior corresponding period, as is permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

Adjustments recognised on adoption of AASB 16

The Group recognised lease liabilities in relation to the adoption of AASB 16 which had been previously classified as 'operating leases' under the principles of AASB 117 Leases. These lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rates (IBR) as of 1 July 2019. The weighted average IBR applied to the lease liabilities on 1 July 2019 was 3.31%.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the Right-of-Use Asset and the Lease Liability at the date of initial application, 1 July 2019. The measurement principles of AASB 16 are only applied after that date. The re-measurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

The table below reconciles the operating lease commitments disclosed at 30 June 2019 and the opening lease liability position under AASB 16:

		1 July 2019 '000
Operating lease commitments disclosed at 30 June 2019	$	(11,661)
Less: short-term leases recognised on a straight-line basis as expense	$	1,059
Less: discount using IBR at the date of initial application		1,591
Add: finance lease liabilities recognised as at 30 June 2019		(2,670)
Lease liability recognised as at 1 July 2019	$	(11,681)

Accounting treatment of the Group's leasing activities

In applying AASB 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position;
  - Lease liabilities are initially measured at the present value of the future lease payments.
  - Right-of-use assets are initially measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.
- Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.
- There were no onerous lease contracts.

The table below shows the split of the lease liability between current and non-current:

	30 June 2020 '000	1 July 2019 '000
Lease liability		
Current lease liability	$ (2,627)	$ (4,852)
Non-current lease liability	(7,449)	(6,829)
Total	$ (10,076)	$ (11,681)

The table below shows the right-of-use asset composition:

	30 June 2020 '000	1 July 2019 '000
Right-of-use assets		
Properties	$ 9,346	$ 9,011
Equipment	262	2,670
Motor vehicles	128	-
Total	$ 9,736	$ 11,681

The tables below show the impact to the Profit and Loss:

		2020 '000
Amounts recognised in the Profit and Loss		
Depreciation for right-of-use assets		
Properties	$	(3,112)
Equipment		(2,524)
Motor vehicles		(87)
Total	$	(5,723)
Interest expense (included in finance cost)	$	(436)

		2020 '000
Profit and Loss impact assessment		
Rental expense decreased	$	6,010
EBITDA	$	6,010
Depreciation increased		(5,723)
EBIT	$	287
Interest expense increased		(436)
PBT	$	(149)

Practical expedients applied

The Group has used the following practical expedients permitted by the standard in applying AASB 16 Leases for the first time:

- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 are classified as short-term leases and excluded.
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- Payments associated with leases with a lease term of 12 months and leases of low-value assets are recognised on a straight-line basis as an expense in the Profit and Loss.

Significant accounting judgements and estimates

The Group determines the lease term as the non-cancellable term of the lease. The non-cancellable term is adjusted for periods covered by an option to extend the lease if it is reasonably certain the option will be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain that it will exercise the option to renew or terminate the lease. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The interest rate implicit in the lease cannot readily be determined. The Group therefore uses an IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, in a similar economic environment, over a similar term and with a similar security. The use of an IBR therefore requires estimation when no observable rates are available.

2. IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

International Financial Reporting Interpretations Committee (IFRIC) 23 became applicable from 1 July 2019 and addresses the accounting for income taxes under AASB 12 Income Taxes when tax treatments involve uncertainty. IFRIC 23 does not apply to taxes outside the scope of AASB 12 nor does it specifically include the treatment of interest and penalties associated with uncertain tax treatments.

IFRIC 23 specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

Since the Group operates in a multinational environment, it has assessed whether IFRIC 23 had an impact on the consolidated financial statements. The Group considers that it is probable that the tax treatments applied by the Group will be accepted by the respective tax authorities of the Group entities. IFRIC 23 did not have an impact on the consolidated financial statements.

VII Other new accounting standards in issue but not yet effective:

The following new or amended standards in issue but not yet effective are not expected to have a significant impact on the Group's consolidated financial statements:

- Definition of a Business – AASB 2018-6 Amendments to AASB 3
- Definition of Material – AASB 2018-7 Amendments to AASB 1 and AASB 8
- Interest Rate Benchmark Reform – AASB 2019-3 Amendments to AASB 7 and AASB 9
- Conceptual Framework for Financial Reporting – AASB 2019-1 Amendments to References
- Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia – AASB 2019-5 Amendments to the Australian Accounting Standards

Current year performance

Note 3 Operating segments

I Disclosures

	USA '000	Australasia '000	Unallocated '000	Elimination / Adjustments '000	Total '000
Year ended 30 June 2020					
Revenue					
External customers	$ 1,603,764	$ 482,216	$ -	$ 21	$ 2,086,001
Inter-segment [1]	-	14,558	-	(14,558)	-
Total	$ 1,603,764	$ 496,774	$ -	$ (14,537)	$ 2,086,001
Profit / (loss) before tax					
Earnings before interest and tax	$ 123,017	$ 30,886	$ (23,074)	$ (433)	$ 130,396
Finance income	-	-	1,384	-	1,384
Finance expenses	-	-	(8,267)	-	(8,267)
Profit / (loss) before income tax	$ 123,017	$ 30,886	$ (29,957)	$ (433)	$ 123,513
Depreciation and amortisation	$ (27,230)	$ (17,015)	$ (1,498)	$ -	$ (45,743)
Balance sheet					
Segment assets	$ 977,872	$ 321,851	$ 77,890	$ (9,505)	$ 1,368,108
Segment liabilities	(355,020)	(207,093)	(57,252)	-	(619,365)

	USA '000	Australasia '000	Unallocated '000	Elimination / Adjustments '000	Total '000
Year ended 30 June 2019					
Revenue					
External customers	$ 1,472,679	$ 378,076	$ 108	$ 158	$ 1,851,021
Inter-segment [1]	-	15,079	-	(15,079)	-
Total	$ 1,472,679	$ 393,155	$ 108	$ (14,921)	$ 1,851,021
Profit / (loss) before tax					
Earnings before interest and tax	$ 106,422	$ 11,673	$ (25,267)	$ (33)	$ 92,795
Finance income	-	-	1,053	-	1,053
Finance expenses	-	-	(8,284)	-	(8,284)
Profit / (loss) before income tax	$ 106,422	$ 11,673	$ (32,498)	$ (33)	$ 85,564
Depreciation and amortisation	$ (29,381)	$ (10,003)	$ (2,822)	$ -	$ (42,206)
Balance sheet					
Segment assets	$ 913,301	$ 320,408	$ 103,200	$ (9,608)	$ 1,327,301
Segment liabilities	(411,658)	(242,372)	(42,488)	-	(696,518)

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

	2020 '000	2019 '000
Analysis of unallocated		
Revenue		
Charter vessel revenue	$ -	$ 108
Total	$ -	$ 108
Profit / (loss) before tax		
Administration expenses	$ (19,618)	$ (19,415)
Marketing expenses	(12,746)	(9,758)
Research and development credits	9,314	6,037
Foreign exchange gains / (losses)	(24)	(776)
Write down of charter vessels	-	(1,157)
Charter vessel profit / (loss)	-	(198)
Finance expenses	(8,267)	(8,284)
Finance income	1,384	1,053
Total	$ (29,957)	$ (32,498)
Segment assets		
Cash	$ 63,690	$ 77,202
Other non-current assets [1]	7,767	14,838
Deferred tax assets	4,757	8,402
Other receivables	172	33
Income tax receivable	1	2,324
Other	1,503	401
Total	$ 77,890	$ 103,200
Segment liabilities		
Deferred tax liabilities	$ (43,129)	$ (33,839)
Creditors and provisions	(14,123)	(8,649)
Total	$ (57,252)	$ (42,488)

1. Balance relates to research and development (R&D) credits. Further information is provided in Note 23.

	2020 '000	2019 '000
Revenue from external customers		
By geographical location of customers		
North America	$ 1,603,764	$ 1,472,679
Europe	131,240	150,922
Australia	158,085	108,647
Asia	55,013	81,059
South and Central America	132,346	36,050
Middle East	2,981	1,664
Africa	2,572	-
Total	$ 2,086,001	$ 1,851,021

		2020 '000		2019 '000
Non-current assets [1]				
Geographical location				
North America	$	478,775	$	451,188
Australia		97,054		106,635
Asia		56,562		51,304
Total	$	632,391	$	609,127
Composition				
Property, plant and equipment	$	610,199	$	588,384
Intangible assets		22,192		20,743
Total	$	632,391	$	609,127

1. Excludes financial instruments, prepayments and deferred tax assets.

II 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. Segment performance is evaluated based on operating Profit and Loss. Finance costs, finance income and income tax are managed on a Group basis (i.e. Unallocated).

III Reportable segments

The reportable segments are:

1. USA

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

2. Australasia

Reporting of Austal's Australia, Philippines, Vietnam, Aulong Joint Venture and Muscat 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, on-going support and maintenance for high performance vessels.

IV 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 in accordance with the Group's transfer pricing policy.

Certain unallocated items are not considered to be part of the core operations of any segment.

Note 4 Revenue

I Disclosure

	2020 '000	2019 '000
Revenue		
Vessel construction	$ 1,716,462	$ 1,560,219
Vessel support	360,158	280,574
Charter vessels CCPB 9 & 10	9,381	10,120
Other charter vessels	-	108
Total Revenue from customers	$ 2,086,001	$ 1,851,021

II Recognition and measurement

1. Vessel construction revenue

The Group's accounting policy in respect of revenue in accordance with 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. Contracts are combined into one performance obligation for the purposes of revenue and profit recognition 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.

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.

2. Vessel support revenue

Revenue from support contracts is recognised in the Profit and Loss statement when the performance obligations are considered met. Revenue is recognised at an amount that reflects the consideration the Group expects to be entitled to receive, net of goods and services tax or similar tax.

3. Vessel finance for Cape Class Patrol Boats 9 & 10 (CCPB 9 & 10)

Austal entered into a finance arrangement with National Australia Bank (NAB) and the Royal Australian Navy (RAN) for the construction of CCPB 9 & 10 in December 2015.

NAB financed the purchase of the vessels and was leasing them to the RAN for an initial 3 year term which was subsequently extended in August 2020 to April 2023 and May 2023. The contract extension reduces the total residual value to $24.335 million.

This arrangement results in non-cash entries being recorded in Austal's statutory reporting during the charter period for notional revenue, notional depreciation and notional interest. Notional revenue of $9.381 million was reported in FY2020 (FY2019: $10.120 million).

Further information is provided in Note 11 and Note 30.

III Remaining performance obligations (work in hand)

The transaction price allocated to remaining performance obligations (unsatisfied or partially satisfied) at 30 June 2020 is set out below:

Transaction price allocated to remaining performance obligations pursuant to customer contracts

	2020 '000	2019 '000
Committed but not recognised as liabilities payable:		
- Within one year	$ 1,657,917	$ 1,795,768
- One to five years	2,593,180	3,089,116
Total	$ 4,251,097	$ 4,884,884

The transaction price associated with unsatisfied or partially satisfied performance obligations does not include variable consideration that is constrained.

IV 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 significant estimates to be made for total contract revenues, total contract costs and the current percentage of completion, 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.

2. Contingencies

Significant judgement is required in relation to the determination of cost contingencies that are included within the estimated total contract costs for each vessel project at balance date.

The Group includes contingencies in individual vessel projects to allow for risks associated with estimates of material volumes and costs, labour hours including productivity improvements from ship to ship in multi-vessel programs, labour rates, liquidated damages for contractual commitments and other risks that may be identified for each individual project on a case by case basis such as the incorporation and development of novel technologies and production methods and achievement of key milestones.

Contingencies held for undelivered LCS and EPF at 30 June 2020 equated to a maximum potential future EBIT of $209 million. This was equivalent to 7.4% of the Total Cost Estimate to Completion (ETC). This takes into account the potential for reductions in vessel prices that may arise through the risk sharing mechanism embedded in those US Navy shipbuilding programs if the cost contingencies are ultimately not required. An average contingency of approximately $1 million was held for each LCS and EPF that had already been delivered but were not contractually closed at balance date. The maximum potential future EBIT from those contingencies was $20 million.

Contingencies held at 30 June 2020 for undelivered vessels from the Australasia business unit equated to a maximum potential future EBIT of $26 million. This was equivalent to 4.9% of ETC.

Contingencies will either be consumed or released as progress is made on each vessel, and the risks are either realised or retired and / or certain milestones are achieved. Successful mitigation of the risks and / or successful achievement of the milestones can be estimated with greater certainty in the latter stages of the completion of each particular vessel. The profit recognised on relevant vessels will decrease in future reporting periods in the event that initial contingency estimates do not adequately cover cost increases. The profit recognised on relevant vessels will increase in future reporting periods in the event that initial contingency estimates exceed any cost increases that may eventuate.

Note 5 Other profit and loss

I Disclosure

	2020 '000	2019 '000
Other income and expenses		
Government infrastructure grants amortised	$ 6,587	$ 9,270
Training reimbursement grants	3,047	2,631
Sale of scrap materials	3,023	3,008
Sundry income	2,512	2,296
Vessel warranties	(5,107)	(2,569)
Write down of assets	-	(1,200)
Gain / (loss) on disposal of property, plant and equipment	(147)	439
Net foreign exchange gain / (loss)	(144)	(574)
Total	$ 9,771	$ 13,301
Finance income		
Finance income	$ 1,384	$ 1,053
Finance costs		
Interest to unrelated parties	$ (7,543)	$ (7,557)
Amortisation of capitalised loan origination costs	(724)	(727)
Total	$ (8,267)	$ (8,284)
Net finance costs	$ (6,883)	$ (7,231)
Depreciation and amortisation		
Depreciation	$ (37,188)	$ (39,905)
Depreciation of right-of-use assets	(5,723)	-
Amortisation of intangible assets	(2,832)	(2,301)
Total	$ (45,743)	$ (42,206)
Employee benefits [1]		
Wages and salaries	$ (449,966)	$ (428,212)
Annual leave expense	(27,308)	(23,612)
Post-retirement benefits	(10,434)	(8,459)
Workers' compensation costs	(4,561)	(6,566)
Share based payments expense	(4,599)	(5,975)
Long service leave expense	(1,771)	(2,249)
Total	$ (498,639)	$ (475,073)
Research and development credits [2]		
Research and development credits	$ 11,103	$ 6,037

1. Disclosed within cost of sales and administrative expenses
2. Disclosed within cost of sales

	2020	2019
Auditor's remuneration[1]		
Amounts received or due and receivable by Deloitte Touche Tohmatsu Australia and related network firms for:		
Audit or review of the financial statements		
- Group	$ (255,136)	$ (192,200)
- Controlled entities	(976,196)	(916,845)
Total audit and review of financial statements	$ (1,231,332)	$ (1,109,045)
Other assurance services	$ (7,500)	-
Non-audit services		
- Taxation advice and compliance services	$ (258,199)	$ (425,904)
- Consulting services	(32,491)	(133,653)
Total non-audit services	$ (290,690)	$ (559,557)
Total	$ (1,529,522)	$ (1,668,602)

1. Auditor's remuneration payable in USD was converted at USD / AUD exchange rate of 0.6710 in FY2020 (FY2019: 0.7150).

II Recognition & measurement

The following recognition and measurement criteria must be met before the following specific items are recognised in the Profit and Loss:

1. Grants relating to expense items

Grants include US Government infrastructure grants and training reimbursement grants. Grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

All grants are recognised as income when they relate to an expense item. The grants are recognised over the periods necessary to match the grant to the costs that they are intended to compensate.

2. Research and Development (R&D) credits

R&D tax credit incentives are accounted for in accordance with the Group's accounting policies as a Government grant under AASB 120 rather than as an income tax benefit under AASB 112.

The excess R&D credits are recognised as a reduction to each vessel's cost estimate at completion when there is reasonable assurance that the credits will be received and utilised. The entire credit is recognised in cost of sales and changes the calculation of percent complete which impacts the timing of revenue recognition for the projects.

The net impact to profit before tax in FY2020 was $11.103 million (FY2019: $6.037 million).

The future tax benefit of carry forward R&D credits are recognised in Other Non Current Assets. Further information relating to the R&D credits is provided in Note 23.

3. Finance costs

Finance costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other finance costs are expensed in the period that they occur. There were no qualifying assets in FY2020.

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

4. Sale of scrap materials

Revenue for the sale of scrap is recognised when the significant risks and rewards of ownership of the materials have passed to the buyer. Risk and rewards of ownership are considered to have passed to the buyer at the time of delivery of the goods to the customer.

5. Foreign exchange gains and losses

Foreign exchange gains and losses included in the Profit and Loss comprise fair value adjustments on non-derivative financial assets (such as foreign currency denominated loans) and gains and losses on cash flow hedges that were deemed to be ineffective during the accounting period.

III Significant accounting judgements and estimates

1. R&D credits

Management has made judgements regarding which expenditure is classified as eligible for the credit, including assessing activities to determine whether they are conducted for the purposes of generating new knowledge, and whose outcome cannot be known or determined in advance.

Note 6 Earnings per share

I Calculation

		2020		2019	
Net profit / (loss) after tax					
Net profit attributable to ordinary equity holders of the parent	$'000	$	88,978	$	61,384
Weighted average number of ordinary shares					
Basic	Number		356,243,475		349,598,590
Effect of dilution	Number		4,568,163		4,476,326
Diluted	Number		360,811,638		354,074,916
Earnings per share					
Basic earnings per share	$ / share	$	0.250	$	0.176
Diluted earnings per share	$ / share	$	0.247	$	0.173

II Measurement

Basic earnings per share is calculated by dividing Net profit / (loss) after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the Net profit / (loss) after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all potentially dilutive ordinary shares into ordinary shares.

III Information concerning the classification of securities

1. Performance rights

Performance rights granted to executives under the Group's Long Term Incentive Plan are included in the calculation of diluted earnings per share where the conditions would have been met at the reporting date. There were 4,373,764 performance rights that were potentially dilutive at 30 June 2020. These rights are included in the determination of diluted earnings per share.

Further information relating to the performance rights is provided in Note 34.

2. Share rights

Share rights may be provided to KMP as part of total fixed remuneration. The share rights are treated as effective shares and therefore included in the calculation of basic earnings per share.

Further information relating to the share rights is provided in Note 34.

3. Service Rights

Further information relating to the share rights is provided in Note 34.

4. Other equity transactions

Austal issued 2,370,494 shares to the trust during August 2020 in relation to the vesting of the FY2018 LTI plan and share rights issued to Non-Executive Directors.

There have been no additional transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Note 7 Reconciliation of net profit after tax to net cash flows from operations

	2020 '000	2019 '000
Net profit / (loss) after tax	$ 88,978	$ 61,384
Adjustments for non cash profit and loss items:		
Depreciation and amortisation	$ 45,743	$ 42,206
Write down of charter vessels	-	1,200
Net (gain) / loss on disposal of property, plant and equipment	147	(439)
Share based payments expense	4,599	5,975
Net foreign exchange differences	140	574
CCPB 9 & 10 notional charter income	(9,381)	(10,120)
CCPB 9 & 10 notional interest expense	1,509	1,785
Amortisation of borrowing costs	724	727
Research and development tax credits recognised	(11,103)	(6,037)
Non-cash mark to market revaluations	(2,333)	3,903
Total	$ 30,045	$ 39,774
Changes in assets and liabilities:		
Increase / (decrease) in income tax (current and deferred)	$ 20,951	$ 12,073
(Increase) / decrease in provisions	(5,103)	15,708
(Increase) / decrease in trade and other receivables	86,012	(115,180)
(Increase) / decrease in inventories and work in progress	28,698	75,604
(Increase) / decrease in prepayments	(2,074)	(1,923)
(Increase) / decrease in other financial assets	(1,098)	(1,699)
Increase / (decrease) in trade and other payables	(49,271)	16,427
Increase / (decrease) in progress payments in advance	(26,078)	66,643
Increase / (decrease) in government grants	(6,588)	(4,294)
Total	$ 45,449	$ 63,359
Net cash inflow / (outflow) from operating activities	$ 164,472	$ 164,517

Note 8 Dividends paid and proposed

I Dividends on ordinary shares

Dividends paid on ordinary shares		2020 '000		2019 '000
Unfranked final dividend for the prior year, 3 cps (2019: unfranked, 3 cps)	$	(10,693)	$	(10,549)
Unfranked interim dividend for the current year, 3 cps (2019: unfranked, 3 cps)		(10,697)		(10,584)
Total	$	(21,390)	$	(21,133)
Dividend declared subsequent to the reporting period end (not recorded as liability)				
Unfranked final dividend for the current year 5 cps (2019: unfranked, 3 cps)	$	(17,835)	$	(10,601)

II Franking credit balance

		2020 '000		2019 '000
Opening balance	$	1,170	$	1,170
Franking credits distributed	$	-	$	-
Franking credits movement from the payment / (refund) of income tax		-		-
Movement	$	-	$	-
Closing balance	$	1,170	$	1,170

Note 9 Income and other taxes

I Income tax expense

		2020 '000		2019 '000
Major components of tax (expense) / benefit are:				
Consolidated profit and loss				
Current income tax				
Current income tax charge	$	(14,052)	$	(10,851)
Adjustments in respect of current income tax of the previous year		(1,765)		745
Total	$	(15,817)	$	(10,106)
Deferred income tax				
Relating to origination and reversal of temporary differences	$	(19,302)	$	(13,737)
Adjustments in respect of deferred income tax of the previous year		584		(337)
Total	$	(18,718)	$	(14,074)
Total income tax (expense) / benefit	$	(34,535)	$	(24,180)
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	$	(1,474)	$	460
Deferred gains on revaluation of property, plant and equipment		(10,713)		(578)
Total income tax (expense) / benefit charged to OCI	$	(12,187)	$	(118)

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:

		2020 '000		2019 '000
Accounting profit / (loss) before income tax from continuing operations	$	123,513	$	85,564
Income tax at the Group's statutory income tax rate of 30% (2019: 30%)	$	(37,054)	$	(25,669)
Adjustment for USA statutory income tax rate of 25.4% (2019: 25.3%)	$	3,702	$	3,456
Adjustment for Philippines income tax rate of 5%		1,218		4,507
Other foreign tax rate differences		191		48
Non-assessable R&D credits in cost of sales		3,328		1,652
USA revalue deferred balances for change in weighted average state tax rates		434		(367)
USA withholding tax leakage due to losses in Australia		-		(787)
Carry forward tax losses not recognised		(39)		(1,776)
Transfer pricing adjustments in respect of intercompany royalties		(2,907)		(2,727)
Non-deductible share based payment expense		(1,134)		(1,712)
Non-deductible capital expenses		(459)		-
Other non-assessable or non-deductible items		(634)		(1,213)
Adjustments in respect of current and deferred income tax of the previous year		(1,181)		408
Total Adjustments	$	2,519	$	1,489
Income tax (expense) / benefit reported in the profit and loss	$	(34,535)	$	(24,180)
Income tax receivable / (payable)				
Income tax receivable / (payable)	$	(259)	$	1,701

II Analysis of temporary differences

	Statement of Financial Position 2020 '000	Statement of Financial Position 2019 '000	Movement in Profit and Loss 2020 '000	Movement in Profit and Loss 2019 '000
Deferred income tax - USA				
Deferred tax assets				
Deferred grant income	$ 14,520	$ 15,924	$ (1,725)	$ (1,899)
Payables	5,845	5,782	(37)	155
Provisions	4,606	3,337	1,247	2,713
Deferred gains and losses on foreign currency contracts	2,202	2,158	(7)	(41)
Facility lease	45	-	46	-
Losses available for offset against future taxable income	34	33	-	(573)
R&D	-	-	(16,852)	(14,004)
Alternative minimum tax credits	-	-	-	(1,420)
Work in progress	-	-	-	(1,214)
Other	56	-	58	-
Total	$ 27,308	$ 27,234	$ (17,270)	$ (16,283)
Deferred tax liabilities				
Property, plant and equipment	$ (65,550)	$ (56,845)	$ 3,070	$ 2,473
Work in progress	(3,706)	(3,012)	(661)	(2,964)
Intangibles	(876)	(938)	80	75
Payables	(305)	(273)	-	-
Deferred gains and losses on foreign currency contracts	-	(5)	(3)	(3)
Total	$ (70,437)	$ (61,073)	$ 2,486	$ (419)
Net deferred tax asset / (liability)	$ (43,129)	$ (33,839)	$ (14,784)	$ (16,702)
Deferred income tax - Australia				
Deferred tax assets				
Provisions	$ 8,587	$ 8,013	$ 573	$ 380
Payables	512	289	177	(400)
Cash	394	511	(117)	597
Deferred gains and losses on foreign currency contracts	207	2,368	-	-
Facility lease	8	-	8	-
CCPB 9 & 10	(27)	407	(433)	(327)
Work in progress	-	2,820	(2,820)	2,820
R&D	-	-	(1,789)	-
Other	258	219	38	109
Total	$ 9,939	$ 14,627	$ (4,363)	$ 3,179
Deferred tax liabilities				
Property, plant and equipment	$ (4,518)	$ (4,771)	$ 253	$ (849)
Deferred gains and losses on foreign currency contracts	(721)	(554)	-	-
Other	(389)	(1,196)	-	-
Total	$ (5,628)	$ (6,521)	$ 253	$ (849)
Net deferred tax asset / (liability)	$ 4,311	$ 8,106	$ (4,110)	$ 2,330
Deferred income tax - Other				
Deferred tax assets	$ 477	$ 328	$ 166	$ 308
Deferred tax liabilities	(31)	(32)	10	(10)
Net deferred tax asset / (liability)	$ 446	$ 296	$ 176	$ 298
Net deferred tax asset / (liability)	$ (38,372)	$ (25,437)	$ (18,718)	$ (14,074)

III Austal Group Tax Strategy

Austal's Group Tax Strategy has been endorsed by Austal's Audit and Risk Committee (ARC). This strategy applies to Austal Limited and its worldwide subsidiary companies.

1. Tax risk management and governance

Austal's tax risk management and governance processes are supported through its Tax Risk Management Standard that is approved by Austal's ARC. The ARC assists the Board in fulfilling its oversight responsibilities by reviewing, monitoring and making recommendations in relation to tax risk management and governance practices.

The standard includes:

- ensuring the roles and responsibilities for the management of tax risks are documented and understood;
- maintaining a qualified and adequately resourced tax team to manage the tax control framework and day to day tax affairs;
- requiring tax review of specified transactions and events and obtaining external advice where appropriate; and
- regular reporting of key tax issues to the Chief Financial Officer and to the Board of Directors and Audit and Risk Committee.

2. Tax principles

Austal's approach to tax is that it will:

- fulfil its tax obligations in accordance with tax laws and practice of the tax jurisdictions in which it operates.
- pay the amount of tax which is legally due at the correct time.
- maintain an open, transparent and collaborative relationship with tax authorities.
- act with integrity and protect the reputation of Austal.

3. Tax planning

Austal seeks to manage its business in a tax-efficient manner, compliant with the tax laws, rules and regulations of the jurisdiction it operates in. Transactions are undertaken for commercial and economic business reasons; Austal will not knowingly participate in, facilitate nor promote artificial or contrived tax planning arrangements for the purposes of tax avoidance.

4. Tax risk appetite

Tax risk will inevitably arise given the scale of the business and the number of tax jurisdictions in which Austal operates, the judgments that are required to interpret complex tax regulations and the continually changing nature of tax laws.

Austal practices prudent management of its tax affairs through the application of its Tax Risk Management Standard. Austal proactively seeks to identify, evaluate, manage and monitor tax uncertainties and risks to ensure that they are appropriately addressed. Transfer pricing is calculated using the "arm's length" principle and structured so that the tax results are consistent with the underlying economic consequences.

5. Relationship with tax authorities

Austal is committed to engaging with the regulatory authorities with integrity, honesty, respect, fairness, transparency and a spirit of co-operation.

6. UK specific comments

Austal Group's tax strategy is regarded as satisfying the statutory obligation under Paragraph 22(2) of Schedule 19 Finance Act 2016 ('Qualifying Company') for Austal UK Limited.

IV Recognition and measurement

1. Current tax assets and liabilities

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance date.

2. Deferred income tax

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except when:

- the deferred income tax liability arises from the initial recognition of goodwill, or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable Profit and Loss; or
- the taxable temporary differences associated with investments in subsidiaries, associates or joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. Deferred income tax asset recognition

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward tax assets and losses to the extent that the availability of taxable profit against which the deductible temporary differences is probable; and the deferred tax assets can be utilised, except when:

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

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

Unrecognised deferred tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

4. Deferred income tax asset and liability measurement

The US federal rate of income tax is 21.0% and the weighted average of individual US states in which Austal operates was 25.4% for FY2020. The weighted average tax rate changes year on year based on the apportionment of activity between the states.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance date.

Amounts arising from the re-measurement of deferred balances is disclosed separately in the tax expense reconciliation.

5. Income taxes relating to equity items

Income taxes relating to items recognised directly in equity are only recognised in equity and not in the Profit and Loss.

V Tax consolidation

Austal Limited is the head entity in a Tax Consolidated Group comprising of Austal Limited and its 100% owned Australian resident subsidiaries that was implemented 1 July 2002. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis.

The agreement provides for the allocation of income tax liabilities between the entities in the event that the head entity defaults on its tax payment obligations. The possibility of default was assessed to be remote at the reporting date.

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

Any current or deferred tax assets or liabilities arising from unused tax losses assumed by the head entity from the subsidiaries in the Tax Consolidated Group are recognised in conjunction with any tax funding arrangement amounts. The Tax Consolidated Group recognises deferred tax assets arising from unused tax losses of the Tax Consolidated Group to the extent that it is probable that future taxable profits of the Tax Consolidated Group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses assumed from subsidiaries are recognised by the head entity only.

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

No amounts have been recognised as tax consolidation contribution or distribution adjustments in preparing the accounts for the head entity for the current year.

VI Significant accounting judgements and estimates

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

1. Deferred tax assets

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

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

The Group has not recognised a deferred tax asset on the carry forward tax losses because there is sufficient uncertainty in the Group's ability to utilise these in the short term. The Group will continue to assess the recognition criteria against the probability of future taxable profits.

Unrecognised deferred tax assets in respect of the Australian Consolidated Tax Group losses at 30 June 2020 were:

	2020 '000		2019 '000	
Unrecognised tax losses (tax effected values)				
Opening balance	$	5,714	$	6,175
True-up of prior year tax losses	$	(195)	$	(2,180)
Losses incurred / (utilised) in the current year		-		1,719
Total	$	(195)	$	(461)
Closing balance	$	5,519	$	5,714

The future tax benefit of carried forward research and development credits are recognised in Other Non Current Assets in accordance with the Group's accounting policy of recognising research and development credits as government grants under AASB 120 Government Grants.

2. Audits by tax authorities

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

Austal has applied for and received approval from the Competent Authorities of Australia (ATO) and the United States of America (Internal Revenue Service) for entry into the Mutual Agreement Procedures (MAP) program in relation to double taxation of intercompany royalties associated with intellectual property deployed from Australia to the USA.

Austal has notified both Competent Authorities of its intention to enter into a Bilateral Advance Pricing Arrangement (BAPA) in respect of future inter-company royalties. Formal BAPA applications will be submitted with the Competent Authorities during FY2021.

Austal has accounted for and paid tax based on the ATO's position and may receive tax refunds in Australia or the USA if the outcome of the MAP and BAPA process results in the removal of economic double taxation. Austal is currently unable to determine what the outcome of this process may be and the timeline to resolution.

The total additional tax relating to royalties up to 30 June 2020 was $(18.3) million. $(7.6) million of this has already been paid in cash in periods up to and including FY2020. The remaining $(10.7) million has reduced the available losses that have been carried forward but not recognised at 30 June 2020.

VII Other taxes

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST) or Value Added Tax (VAT) except when:

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

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

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

Commitments and contingencies are disclosed net of the amount of GST or VAT recoverable from, or payable to, the relevant taxation authority.

Capital structure

Note 10 Cash and cash equivalents

I Net carrying amount

		2020 '000		2019 '000
Cash				
Cash at bank and in hand	$	396,667	$	275,665
Total	$	396,667	$	275,665

II Recognition and measurement

Cash and short-term deposits in Balance Sheet comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less.

Cash and cash equivalents for the purposes of the Cash Flow Statement consists of cash and cash equivalents (as defined above) net of any cash held as a guarantee.

Note 11 Interest bearing loans and borrowings

I Net carrying amount

		2020 '000		2019 '000
Current				
Vessel finance for CCPB 9 & 10	$	(8,719)	$	(48,798)
Finance leases [1]		-		(2,413)
Total	$	(8,719)	$	(51,211)
Non - current				
Go Zone Bonds	$	(124,255)	$	(122,286)
Vessel finance for CCPB 9 & 10		(32,206)		-
Finance leases [1]		-		(257)
Total	$	(156,461)	$	(122,543)
Total	$	(165,180)	$	(173,754)

1. Finance leases are disclosed under lease liabilities due to the adoption of AASB 16 Leases in FY2020.

II Facilities available

	2020 '000	2019 '000
Facilities used at reporting date		
Revolving credit facility	$ (222,695)	$ (58,900)
Go Zone bonds	(124,255)	(122,286)
Surety facilities	(243,658)	(126,263)
Finance leases	-	(2,670)
Total [1]	$ (590,608)	$ (310,119)
Facilities unused at reporting date		
Revolving credit facility	$ (57,305)	$ (121,100)
Go Zone bonds	-	-
Surety facilities	(6,342)	(23,737)
Finance leases	-	-
Total	$ (63,647)	$ (144,837)
Total facilities available		
Revolving credit facility	$ (280,000)	$ (180,000)
Go Zone bonds	(124,255)	(122,286)
Surety facilities [2]	(250,000)	(150,000)
Finance leases	-	(2,670)
Total	$ (654,255)	$ (454,956)

1. The balance sheet carrying amount of total facilities used is $(124.255) million at 30 June 2020 being Go Zone Bonds and Finance leases (30 June 2019: $(124.956) million).
2. The Group had total Surety facilities of $400 million at 30 June 2020. However only $250 million may be utilised in accordance with a limitation in the Group's Syndicated Facility Agreement.

III Recognition and measurement

All loans, borrowings and finance leases are initially recognised at the fair value of the consideration received less directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the Profit and Loss when the liabilities are derecognised.

IV Banking facilities

Austal has a Syndicated Facility Agreement which includes a $128.049 million limit for letters of credit to secure the $124.255 million of Gulf Opportunity Zone Bonds (Go Zone Bonds or GZB), and a $280.000 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. The Syndicated Facility Agreement matures in November 2022.

Contingent non-financial instruments (excluding the letters of credit supporting the Go Zone Bonds) are issued to support concepts such as refund payment guarantees, performance bonds and warranty bonds.

Further information relating to commitments and contingencies is provided in Note 28.

V Go Zone Bonds (GZB)

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

GZB are tax-exempt municipal bonds in the United States and attracted an average coupon rate of 1.23% in FY2020. GZB bondholders are secured by letters of credit issued by Austal's banking syndicate with a maturity date of November 2022. The average cost of the letters of credit in FY2020 was 1.54%.

No GZB amounts were redeemed (repaid) during FY2020. Austal has redeemed a cumulative amount of US$137.5 million and owed US$87.5 million at 30 June 2020. Austal has the option of redeeming the outstanding GZB balance, in whole or in part, at any time during the term of the indebtedness with a 30 day notice to bondholders.

Austal re-financed 50% of the GZB letters of credit during FY2020. 100% of the letters of credit securing GZB now mature in November 2022 and all of the GZB debt is classified as non-current at 30 June 2020.

VI Surety facility

Austal had a total of $400.000 million of uncommitted and unsecured Surety facilities at 30 June 2020.

Only $250.000 million of the Surety facilities are available for the issuance of non-financial contingent instruments to support vessel contracts in accordance with the limitation within the Group's Syndicated Facility Agreement.

VII Vessel finance for Cape Class Patrol Boats 9 & 10 (CCPB 9 & 10)

Austal entered into a finance arrangement with National Australia Bank (NAB) and the Royal Australian Navy (RAN) for the construction of CCPB 9 & 10 in December 2015.

NAB financed the purchase of the vessels and was leasing them to the RAN for an initial 3 year term which was subsequently extended in August 2020 to April 2023 and May 2023. The contract extension reduces the total residual value to $24.335 million.

The notional effective interest rate incurred in FY2020 was 3.19%.

VIII Fair value of borrowings

The fair values of all classes of borrowings are not materially different to their carrying amounts since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature. The interest rates on Go Zone Bonds are reset on a weekly basis.

Note 12 Reconciliation of financing cash flow to interest bearing debt

I Reconciliation

FY2020

	30 June 2019 '000	Cash charges: Debt Repay / (Draw) '000	Cash charges: Payment of borrowing costs '000	Non-cash changes: Reclassification of finance leases '000	Non-cash changes: CCPB 9 & 10 Debt Reduction[1] '000	Non-cash changes: Foreign exchange movement '000	Non-cash changes: Amortisation of borrowing costs '000	Non-cash changes: Reclassification '000	30 June 2020 '000
Current borrowings	$ (51,211)	$ -	$ -	$ 2,793	$ 7,873	$ (123)	$ -	$ 31,949	$ (8,719)
Non-current borrowings	(122,543)	-	642	-	-	(1,887)	(724)	(31,949)	(156,461)
Total financing liabilities	$ (173,754)	$ -	$ 642	$ 2,793	$ 7,873	$ (2,010)	$ (724)	$ -	$ (165,180)

FY2019

	30 June 2018 '000	Cash charges: Debt Repay / (Draw) '000	Cash charges: Payment of borrowing costs '000	Non-cash changes: Reclassification of finance leases '000	Non-cash changes: CCPB 9 & 10 Debt Reduction[1] '000	Non-cash changes: Foreign exchange movement '000	Non-cash changes: Amortisation of borrowing costs '000	Non-cash changes: Reclassification '000	30 June 2019 '000
Current borrowings	$ (72,758)	$ 426	$ -	$ -	$ 8,335	$ (139)	$ -	$ 12,925	$ (51,211)
Non-current borrowings	(112,520)	10,318	-	-	-	(6,689)	(727)	(12,925)	(122,543)
Total financing liabilities	$ (185,278)	$ 10,744	$ -	$ -	$ 8,335	$ (6,828)	$ (727)	$ -	$ (173,754)

1. CCPB 9 & 10 debt reduction is equal to the difference between the notional charter income and the notional interest expense.

Note 13 Contributed equity and reserves

I Contributed equity

1. Net carrying amount

	Shares			'000			
	2020	2019		2020		2019	
Ordinary shares on issue							
1 July	353,357,283	350,857,529	$	131,836	$	130,165
Shares issued for dividend reinvestment plan	254,485	912,560	$	804	$	1,922
Shares issued to Employee Share Trust	479,686	212,998		1,861		454
Shares or proceeds transferred for beneficiaries	-	-		(1,096)		-
Shares issued for vested performance rights	2,617,035	1,374,196		3,291		2,110
AGMSP shares sold[1]	-	-		-		(2,763)
Tax expense on AGMSP[1]	-	-		-		(65)
Dividend retained in relation to AGMSP[1]	-	-		-		13
30 June	356,708,489	353,357,283	$	136,696	$	131,836
Reserved shares						
1 July	(676,695)	(4,165,697)	$	(1,266)	$	(11,836)
Shares issued to Employee Share Trust or sold	(479,686)	(212,998)	$	(1,861)	$	(454)
Shares or proceeds transferred for beneficiaries	494,774	-		1,771		-
AGMSP shares sold[1]	-	3,702,000		-		10,929
Dividend retained in relation to AGMSP[1]	-	-		-		95
30 June	(661,607)	(676,695)	$	(1,356)	$	(1,266)
Net	356,046,882	352,680,588	$	135,340	$	130,570

1. The Trustee sold all of the shares in the Austal Group Management Share Plan during FY2019.

2. Recognition and measurement

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of the new shares or options. Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Reserved shares

Austal Limited equity instruments which are issued and held by a trustee under the Employee Share Trust (EST) are classified as Reserved shares and are deducted from Equity. No gain or loss is recognised in the Statement of Comprehensive Income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3. Movements in ordinary share capital

The movement in ordinary shares during year ended 30 June 2020 is comprised of shares issued as part employee share plans and the dividend reinvestment plan.

The Group announced an unfranked FY2019 final dividend of 3.0 cents per share with an option for dividend reinvestment priced at $4.19 per share on 2 October 2019, followed by an unfranked FY2020 interim dividend of 3.0 cents per share with an option for dividend reinvestment of $2.63 per share, which was announced on 31 March 2020.

Austal established an Employee Share Trust (EST) during FY2019 for the purpose of acquiring, holding and transferring shares in connection with equity based remuneration established by the Company for the benefit of participants in those plans. Austal issued 479,686 shares to the trust during the year ended 30 June 2020.

II Reserves

The reserves are shown within the Consolidated Statement of Changes in Equity for the year ended 30 June 2020.

1. Foreign currency translation reserve (FCTR)

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

2. Employee benefits reserve

This reserve is used to:

- record the value of equity benefits provided to employees and Directors as part of their remuneration, and
- record the re-measurement of the retirement benefits liability for the Philippines.

Further information relating to share based payment plans for the Group is provided in Note 34.

3. Cash flow hedge reserve

This reserve records the portion of the gain or loss on hedging instruments in cash flow hedges that are determined to be effective hedges.

4. Common control reserve

This reserve represents the premium paid on the acquisition of historical minority interests in a controlled entity.

5. Asset revaluation reserve

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

Note 14 Government grants relating to assets

I Net carrying amount

	2020 '000	2019 '000
Deferred grant income		
Current		
Infrastructure development	$ (3,232)	$ (6,445)
Total	$ (3,232)	$ (6,445)
Non - current		
Infrastructure development	$ (54,046)	$ (56,214)
Total	$ (54,046)	$ (56,214)
Total	$ (57,278)	$ (62,659)
Movements in grants		
1 July	$ (62,659)	$ (66,953)
Grants received during the year	$ -	$ (1,482)
Amortised to the profit and loss	6,587	9,270
Foreign exchange rate adjustment	(1,206)	(3,494)
Net movement	$ 5,381	$ 4,294
30 June	$ (57,278)	$ (62,659)

II Recognition and measurement

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

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

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

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

Working capital

Note 15 Trade and other receivables

I Net carrying amount

Trade and other receivables	2020 '000	2019 '000
Trade amounts owing by unrelated entities	$ 144,302	$ 226,020
Expected credit losses	(85)	(752)
Total	$ 144,217	$ 225,268

II Recognition and measurement

Trade receivables represent receivables in respect of which the Group's right to consideration is unconditional subject only to the passage of time. Trade receivables are non-derivative financial assets accounted for in accordance with the Group's accounting policy for non-derivative financial assets as set out in AASB 9 Financial Instruments.

Trade and other receivables are measured at amortised cost. A gain or loss on trade and other financial assets that is subsequently measured at amortised cost is recognised in the Profit and Loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

The average credit period on trade receivables ranges from 30 to 45 days in most cases. In determining the recoverability of a trade receivable, the Group used the expected credit loss model as per AASB 9.

The expected credit loss model requires the Group to account for expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets, meaning that a credit default does not need to have occurred before credit losses are recognised.

III Ageing analysis of trade & other receivables

		Days outstanding					
		0-30	31-60	61-90	90+	Impaired	Total
30 June 2020	'000	$ 141,660	$ 711	$ 4	$ 1,927	$ (85)	$ 144,217
30 June 2019	'000	195,680	23,462	1,111	5,767	(752)	225,268

Past due is defined under AASB 9 to mean any amount outstanding for one or more days after the contractual due date. Past due amounts relate to a number of trade receivable balances where for various reasons the payment terms may not have been met. These receivables have been assessed to be fully recoverable.

IV Fair values of trade and other receivables

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

Note 16 Vessel construction and support contracts in progress

I Net carrying amount

	2020 '000	2019 '000
Work in progress		
Construction and support revenue recognised to date	$ 12,561,659	$ 11,297,883
less: Progress payments received and receivable	(12,423,524)	(11,134,798)
Total due from customers	$ 138,135	$ 163,085
Progress payments received in advance		
Construction and support revenue recognised to date	$ 791,677	$ 584,639
less: Progress payments received and receivable	(886,179)	(705,041)
Total due to customers	$ (94,502)	$ (120,402)
Total due from / (to) customers	$ 43,633	$ 42,683

II Recognition and measurement

Construction and support work in progress represents the Group's right to consideration for services provided to customers for which the Group's right remains conditional upon something other than the passage of time.

Amounts are generally reclassified to trade receivables when contract performance obligations have been certified or invoiced to the customer.

Progress payments received in advance arise where payment is received prior to work being performed.

III Significant accounting judgements and estimates

Further information of estimates made regarding construction and support contracts is provided in Note 4.

Note 17 Inventories and work in progress

I Net carrying amount

Inventories and work in progress	2020 '000	2019 '000
Work in progress	$ 138,135	$ 163,085
Other inventory	5,664	3,957
Total	$ 143,799	$ 167,042

II Recognition and measurement

- Stock and finished goods are valued at the lower of cost and net realisable value.
- Cost of stock is determined on the weighted average cost basis.
- No inventories are expected to be realised more than 12 months after the reporting date.
- Further information relating to work in progress is provided in Note 16.

Note 18 Trade and other payables

I Disclosure

Trade and other payables	2020 '000	2019 '000
Trade and other payables owed to unrelated entities [1]	$ (156,910)	$ (202,308)
Total	$ (156,910)	$ (202,308)

1. Trade payables are unsecured and non-interest bearing.

II Recognition and measurement

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

III Fair value of trade and other payables

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

Infrastructure & other assets

Note 19 Property, plant and equipment

I Net carrying amount

	Freehold Land and Buildings '000	Leasehold Improvements '000	Plant and Equipment '000	Capital WIP '000	Total '000
Balance 30 June 2019					
Gross carrying amount at fair value	$ 463,085	$ 3,254	$ -	$ -	$ 466,339
Gross carrying amount at cost	-	67,646	260,743	3,238	331,627
Accumulated depreciation and impairment	(36,585)	(29,578)	(143,419)	-	(209,582)
Net carrying amount	$ 426,500	$ 41,322	$ 117,324	$ 3,238	$ 588,384
Balance 30 June 2020					
Gross carrying amount at fair value	$ 591,314	$ -	$ -	$ -	$ 591,314
Gross carrying amount at cost	-	49,886	267,917	2,341	320,144
Accumulated depreciation and impairment	(128,027)	(9,508)	(163,724)	-	(301,259)
Net carrying amount	$ 463,287	$ 40,378	$ 104,193	$ 2,341	$ 610,199

II Reconciliation of movement for the year

	Freehold Land and Buildings '000	Leasehold Improvements '000	Plant and Equipment '000	Capital WIP '000	Total '000
Balance 1 July 2018	$ 414,816	$ 28,619	$ 111,840	$ 10,503	$ 565,778
Additions	$ 709	$ 55	$ 5,485	$ 34,544	$ 40,793
Transfer in / (out)	569	19,591	21,997	(42,157)	-
Disposals	-	-	(3,934)	-	(3,934)
Depreciation charge for the year	(12,287)	(8,396)	(19,222)	-	(39,905)
Impairment	-	-	(1,200)	-	(1,200)
Revaluation	2,103	-	-	-	2,103
Effects of foreign exchange	20,590	1,453	2,358	348	24,749
Total	$ 11,684	$ 12,703	$ 5,484	$ (7,265)	$ 22,606
Balance 30 June 2019	$ 426,500	$ 41,322	$ 117,324	$ 3,238	$ 588,384
Additions	$ 287	$ -	$ 3,332	$ 10,292	$ 13,911
Transfer in / (out)	349	4,178	6,325	(10,852)	-
Transfers to intangibles	-	-	(2,481)	-	(2,481)
Disposals	-	-	(331)	-	(331)
Depreciation charge for the year	(12,183)	(5,544)	(19,461)	-	(37,188)
Revaluation	42,556	-	-	-	42,556
Effects of foreign exchange	5,778	422	(515)	(337)	5,348
Total	$ 36,787	$ (944)	$ (13,131)	$ (897)	$ 21,815
Balance 30 June 2020	$ 463,287	$ 40,378	$ 104,193	$ 2,341	$ 610,199

III Recognition and measurement

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

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

The carrying amount of land and building would be recognised as detailed in the table below if they were measured using the historic cost model.

	2020 '000	2019 '000
Land and Buildings and Leasehold Improvements valued using cost model		
Cost	$ 441,137	$ 429,832
Accumulated depreciation and impairment	(100,208)	(91,551)
Net carrying amount	$ 340,929	$ 338,281

Any revaluation surplus is recorded in Other Comprehensive Income and credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Profit and Loss, in which case the increase is recognised in the Profit and Loss.

A revaluation deficit is recognised in the Profit and Loss except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation reserve relating to the particular asset being sold is transferred to retained earnings upon disposal.

IV De-recognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Profit and Loss in the year the asset is derecognised.

V Key judgements and accounting estimates

1. Impairment of non-financial assets

The Group assesses whether there is an indication that an asset may be impaired at each reporting date. The Group considered impairment triggers including observable indications, significant market, technological, economic or legal changes that have occurred, significant decreases in market interest rates or market rates of return, the market capitalisation of the Group compared to the net assets of the Group, evidence that any major asset or process is obsolete or damaged and other evidence from internal reporting.

Further information relating to impairment testing of non-current assets is provided in Note 21.

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

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

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

Impairment losses on plant and equipment are recognised in the Profit and Loss.

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

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

2. Estimation of useful lives of assets

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

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

The following useful lives have been adopted as follows:

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

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted at the reporting date as appropriate.

3. Revaluation of land and buildings

The Company's land and buildings consist of shipyard facilities in Australia and USA.
The Company determined that these constitute one class of asset under AASB 13, based on the nature, characteristics and risk of the property.

The valuation methodology utilised a market comparison approach based on highest and best use which is consistent with the Group's current use of the assets.

The independent revaluation is renewed every three to five years. The Company undertakes an assessment in the years in between obtaining independent valuations to ensure that the latest independent valuation remains appropriate and representative of fair value as at the reporting date.

The last independent revaluation of the Australian land and buildings occurred during FY2019. This resulted in an increase in the valuation of $2.103 million.

The last independent revaluation of the USA land and buildings occurred during FY2020. This resulted in an increase in the valuation of $42.556 million.

Note 20 Intangible assets and goodwill

I Net carrying amount

	Computer Software '000	Goodwill '000	Other Intangibles '000	Total '000
Balance 1 July 2019				
Cost	$ 23,186	$ 12,797	$ 4,061	$ 40,044
Accumulated amortisation and impairment	(18,930)	-	(371)	(19,301)
Net carrying amount	$ 4,256	$ 12,797	$ 3,690	$ 20,743
Balance 30 June 2020				
Cost	$ 29,692	$ 12,904	$ 4,159	$ 46,755
Accumulated amortisation and impairment	(23,861)	-	(702)	(24,563)
Net carrying amount	$ 5,831	$ 12,904	$ 3,457	$ 22,192

II Reconciliation of movement for the year

	Computer Software '000	Goodwill '000	Other Intangibles '000	Total '000
Balance 1 July 2018	$ 4,467	$ 12,543	$ 3,802	$ 20,812
Additions	$ 1,556	$ -	$ -	$ 1,556
Disposals	(27)	(76)	-	(103)
Amortisation for the year	(1,987)	-	(314)	(2,301)
Effects of foreign exchange	247	330	202	779
Total	$ (211)	$ 254	$ (112)	$ (69)
Balance 30 June 2019	$ 4,256	$ 12,797	$ 3,690	$ 20,743
Additions	$ 1,661	$ -	$ -	$ 1,661
Disposals	(3)	-	-	(3)
Transfers from plant and equipment	2,481	-	-	2,481
Amortisation for the year	(2,526)	-	(306)	(2,832)
Effects of foreign exchange	(38)	107	73	142
Total	$ 1,575	$ 107	$ (233)	$ 1,449
Balance 30 June 2020	$ 5,831	$ 12,904	$ 3,457	$ 22,192

III Recognition and measurement

Intangible assets acquired separately are initially measured at cost and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against the Profit and Loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least once per financial year.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which results in a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income in the expense category consistent with the function of the intangible asset.

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

1. Computer software

Computer software is initially measured at cost and amortised on a straight-line basis over the estimated useful life of each asset. Impairment testing is conducted annually. Computer software is amortised on a straight-line basis over 2 to 5 years.

2. Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed in a business combination.

Goodwill is measured at cost less any accumulated impairment losses after initial recognition. Goodwill acquired in a business combination is allocated to each of the Group’s Cash-Generating Units (CGU) that are expected to benefit from the combination from the acquisition date for the purpose of impairment testing, irrespective of whether other assets or liabilities acquired are assigned to those units.

Goodwill is tested annually for impairment regardless of whether impairment triggers are identified. The Impairment is determined for goodwill by assessing the recoverable amount of each CGU or group of CGU to which the goodwill relates. An impairment loss is recognised when the recoverable amount of the CGU is less than its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Goodwill allocated to a cash-generating unit that has a partial disposal of the operation within that unit is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Note 21 Impairment testing of non-current assets

I Review cycle

Non-current assets are reviewed on an annual basis in accordance with the Group's accounting policies, to determine whether there is an impairment indicator. An estimate of the recoverable amount is made where an impairment indicator exists.

II Cash generating units (CGU)

The recoverable amounts have been assessed at the CGU level as identified below:

- USA
- Australasia

III Allocation of assets to CGU

Corporate assets have been allocated to CGU to the extent that they relate to the CGU.

Goodwill, acquired through business combinations has been allocated to the following segments:

- USA - a carrying amount of $6.441 million,
- Australasia - a carrying amount of $6.463 million.

IV Assessment of recoverable amounts

The recoverable amounts for each CGU, excluding charter vessels that are assessed independently, have been determined based on value in use calculations using 5 year cash flow projections.

Key inputs into the cash flow projection include the volume and profitability of contracted and projected projects. Changes in these inputs may have an impact on the cash flow projections.

The Company concluded that the recoverable amount is greater than the carrying amount of assets and that no impairment charge is required as a result of this analysis.

V Significant accounting judgement and estimates

1. Recoverable amount of the CGU

The following table sets out the key assumptions used to assess the recoverable amounts:

CGU	USA	Australasia
Growth assumptions	Award of projected vessels	Award of projected vessels
Perpetuity growth rate	0.0%	0.0%
Pre-tax discount factor	10.5%	10.5%
Inflation on costs	2.5%	2.5%

2. Growth assumptions

Growth assumptions are based on future vessel construction and service projects not yet awarded. The assumptions are based on historical experience of the size of the vessel that customers typically contract and the corresponding average tender pricing.

3. Perpetuity growth rate

Austal has taken a conservative view and included a 0% perpetuity growth rate in calculation of the terminal value.

4. Pre-tax discount factor

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates.

5. Inflation on costs

Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise historical material price movements are used as an indicator of future price movements.

6. Sensitivity to changes in assumptions

Any change in the key assumptions used to determine the recoverable amount would result in a change in the assessed recoverable amount. An impairment of assets may result if the variation in assumption has a negative impact on the recoverable amount.

The estimated recoverable amounts of each of the CGU are significantly greater than the carrying value of the assets within the respective CGU. No reasonably foreseeable changes in any of the key assumptions are likely to result in an impairment loss.

7. COVID-19 discussion

The Board assessed a number of scenarios to quantify the potential impact of COVID-19 on the impairment assessment of the Group to understand the point at which an impairment issue may arise. The scenarios included:

- Current forecast (Base case)
- Various extended periods without the award of new vessels
- Curtailment of current programs

The Board was satisfied that there were no indicators of impairment at 30 June 2020.

Note 22 Investments and other financial assets

I Net carrying amount

		2020 '000		2019 '000
Other financial assets				
Collateral [1]	$	12,950	$	11,313
Security deposits		247		546
Total	$	13,197	$	11,859

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

II Recognition and measurement

The Group classifies its financial assets in the following measurement categories:

- Financial Assets to be measured subsequently at fair value (either through Other Comprehensive Income, or through the Profit and Loss); and
- Financial Assets to be measured at amortised cost.

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 the Profit and 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 Profit and Loss 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 Cash Flow Hedge Reserve in equity. Amounts recognised in equity are reclassified from reserves into the cost of the underlying transaction and recognised in the Profit and Loss when the underlying transaction affects the Profit and Loss. The ineffective portion of any change in the fair value of the instrument is recognised in the Profit and 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 Profit and Loss for the period.

The Group subsequently measures trade and other receivables or contract receivables at amortised cost.

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

III Impairment

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

Note 23 Other non-current assets

I Net carrying amount

		2020 '000		2019 '000
Research and development credits				
Recognised				
USA	$	7,767	$	14,838
Total	$	7,767	$	14,838
Unrecognised				
Australia	$	5,248	$	7,037
Total	$	5,248	$	7,037

II Recognition and measurement

The Group recognised a non-current asset of $7.767 million for research and development (R&D) tax credits at 30 June 2020.

III Unrecognised R&D credits

A non-current asset has not been recognised in relation to $5.248 million of carry forward R&D tax credits that have been generated in the Australian Consolidated Tax Group because there is sufficient uncertainty in the Group's ability to utilise these in the short term. The Group will continue to assess the recognition criteria against the probability of future taxable profits.

Other liabilities

Note 24 Provisions

I Net carrying amount

	Employee Benefits '000	Workers' Compensation '000	Warranty '000	Other '000	Total '000
Provisions at 30 June 2019	$ (57,384)	$ (3,725)	$ (9,276)	$ (16,627)	$ (87,012)
Arising during the year	$ (123,879)	$ (4,560)	$ (6,755)	$ (17,706)	$ (152,900)
Utilised	124,592	4,143	6,970	17,253	152,958
Unused amounts reversed	742	21	825	3,908	5,496
Effects of foreign exchange	(800)	(67)	(82)	(246)	(1,195)
Movement	$ 655	$ (463)	$ 958	$ 3,209	$ 4,359
Provisions at 30 June 2020	$ (56,729)	$ (4,188)	$ (8,318)	$ (13,418)	$ (82,653)

	Employee Benefits '000	Workers' Compensation '000	Warranty '000	Other '000	Total '000
Provisions at 30 June 2019					
Current	$ (55,677)	$ (3,725)	$ (9,276)	$ (16,627)	$ (85,305)
Non-current	(1,707)	-	-	-	(1,707)
Total	$ (57,384)	$ (3,725)	$ (9,276)	$ (16,627)	$ (87,012)
Provisions at 30 June 2020					
Current	$ (54,208)	$ (4,188)	$ (8,318)	$ (13,418)	$ (80,132)
Non-current	(2,521)	-	-	-	(2,521)
Total	$ (56,729)	$ (4,188)	$ (8,318)	$ (13,418)	$ (82,653)

II Recognition and measurement

Provisions are recognised when:

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

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

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

III Information about individual provisions and significant accounting estimates

1. Employee Benefits

Liabilities for wages and salaries, including non-monetary benefits and accumulated sick leave expected to be wholly settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

The Group does not expect its long service leave and annual leave benefits provision to be settled wholly within 12 months of each reporting date. The Group recognises a liability for long service and annual leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

2. Corporate investigations

The Group is assisting ASIC and certain US Regulatory Authorities into certain market disclosures made in late CY2015 and mid CY2016. An $11.253 million provision has been recorded based on the best estimate of the probable incremental professional services costs relating to this matter. The Group has had to apply significant judgement when considering whether, and how much, to provide for costs. The provision could change substantially over time as new facts emerge and the investigations progress as a result of the high level of estimation uncertainty.

There is a reasonable level of certainty that elements of the Group's corporate investigation external legal costs will be recoverable under its Directors & Officers insurance cover. The Group has not recognised the contingent asset as a receivable at 30 June 2020 because the receipt of the amount is dependent on the insurance claim approval process.

The Group is not aware of any wrongdoing, nor is it aware of all of the specific matters currently being investigated and accordingly no provision has been made for any penalties or damages that may arise from the investigations. Further information is provided in Note 29.

3. Workers' compensation insurance

A provision for workers' compensation insurance is recognised for the expected costs of current claims and claims incurred but not reported at the balance date.

4. Warranties

A provision for warranty is made upon delivery of each vessel based on the estimated future costs of warranty repairs. The estimated future costs are based on the Group's history of warranty claims made on similar vessels within their warranty periods. The Company subsequently monitors the provision to ensure it is adequate for all known and an estimation for unknown warranty claims. Any increases or decreases in the provision are recognised in the Profit and Loss for the period.

5. Dividends

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date. An interim dividend of 3.0 cents per share was issued for the half year 31 December 2019 (FY2019 H1: 3.0 cents per share).

An unfranked dividend of 5.0 cents per share is proposed and not recognised as a liability for the year ended 30 June 2020 (FY2019 H2: 3.0 cents per share).

Financial risk management

Note 25 Financial risk management

This note explains the Group's exposure to financial risks and how these risks could affect future financial performance. Current year Profit and Loss information has been included where relevant to add further context.

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

Objectives and policy

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

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

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

I Market risk

Market risk is the risk that changes in interest rates and foreign exchange rates will affect the Group's earnings, cash flows and carrying values of its financial statements.

1. Interest rate risk

Source of risk

The Austal Group is exposed to interest rate risk from changes in interest rates on its outstanding borrowings, derivative instruments and investments from the possibility that changes in interest rate risk will affect future cash flows or the fair value of financial instruments.

Risk mitigation

The cash, debt and bank covenants of the Group are monitored and re-forecasted on a monthly basis in order to monitor interest rate risk. A variable interest rate policy is maintained to ensure repayments are carried out as soon as practicable, where fixed interest rates are less flexible. Consideration is given to potential renewal of existing positions and alternative financing structures.

Exposure

The Group had the following exposures to interest rate risk at the end of the reporting period:

	2020 '000	2019 '000
Financial assets		
Cash and cash equivalents	$ 396,667	$ 275,665
Derivative contracts	2,404	2,190
Total	$ 399,071	$ 277,855
Financial liabilities		
Interest bearing liabilities	$ (165,180)	$ (173,754)
Derivative contracts	(9,378)	(16,544)
Total	$ (174,558)	$ (190,298)
Net exposure	$ 224,513	$ 87,557

Sensitivity

Profit and Loss is sensitive to higher or lower interest income from cash and cash equivalents and interest expenses on borrowings as a result of changes in interest rates. There would be no material impact on other components of Equity as a result of changes in interest rates.

The following table demonstrates the sensitivity to a reasonable change in interest rates to the Profit and Loss after tax. A normal level of volatility has been assessed as 100 basis points and the sensitivity below has been calculated on that basis. The Board notes that COVID-19 caused volatility in excess of normal levels during FY2020.

	2020 '000	2019 '000
Post tax gain / (loss)		
AUD		
+1.00% (100 basis points)	$ 944	$ 966
-1.00% (100 basis points)	(944)	(966)

The sensitivity analysis assumes that the change in interest rates is effective from the beginning of the financial year and the balances are constant over the year.

2. Foreign currency risk

Source of risk

The Group is exposed to currency risk on sales, purchases or components for construction that are denominated in a currency other than the respective functional currencies of the Group entities, primarily Australian Dollars (AUD) for the Australian operation and US Dollars (USD) for the USA, Philippines and Vietnam operations. The Group is also exposed to foreign exchange movements (primarily in USD) on the translation of the earnings, assets and liabilities of its foreign operations.

The Group's transactions are primarily denominated in USD, AUD and EUR.

Risk mitigation

The Group's objective is to minimise the risk of a variation in the rate of foreign exchange used to convert foreign currency revenues and expenses and assets or liabilities to the functional currency of each Group entity by utilising the following techniques:

- negotiation of contracts to adjust for adverse exchange rate movements.
- using natural hedges.
- using financial instruments, such as foreign currency exchange contracts and swaps.

Exposure

The Group's financial assets and liabilities exposed to foreign currency risk at 30 June 2020 were:

Balance 30 June 2020	AUD '000	USD [1] '000	EUR [2] '000	Other '000	Total '000
	All values are stated in AUD equivalent				
Financial assets					
Cash and cash equivalents	$ -	$ 4,683	$ 23	$ 1,262	$ 5,968
Trade and other receivables	-	-	-	10	10
Derivatives	2,401	3	-	-	2,404
Total	$ 2,401	$ 4,686	$ 23	$ 1,272	$ 8,382
Financial liabilities					
Trade and other payables	$ (3)	$ (4)	$ (10)	$ (1,320)	$ (1,337)
Derivatives	(558)	(8,819)	(0)	-	(9,377)
Total	$ (561)	$ (8,823)	$ (10)	$ (1,320)	$ (10,714)

Balance 30 June 2019	AUD '000	USD [1] '000	EUR [2] '000	Other '000	Total '000
	All values are stated in AUD equivalent				
Financial assets					
Cash and cash equivalents	$ -	$ 33,634	$ 31	$ 1,537	$ 35,202
Trade and other receivables				84	84
Derivatives	1,044	362	784	-	2,190
Total	$ 1,044	$ 33,996	$ 815	$ 1,621	$ 37,476
Financial liabilities					
Trade and other payables	$ -	$ (23)	$ (20)	$ (1,756)	$ (1,799)
Derivatives	(4,982)	(11,560)	(1)	-	(16,543)
Total	$ (4,982)	$ (11,583)	$ (21)	$ (1,756)	$ (18,342)

1. Spot USD / AUD exchange rate at 30 June 2020 was 0.6902 (30 June 2019: 0.7020)
2. Spot EUR / AUD exchange rate at 30 June 2020 was 0.6143 (30 June 2019: 0.6183)

Sensitivity

A 10 per cent strengthening of the Australian Dollar against the following currencies would have increased / (decreased) net profit after tax and equity below at balance date with all other variables held constant as illustrated:

	NPAT higher / (lower)		Equity higher / (lower)	
	2020 '000	2019 '000	2020 '000	2019 '000
Judgement of reasonable possible movements				
USD	$ 290	$ (1,567)	$ (37,041)	$ (40,762)
EUR	-	(34)	3,350	(8,731)

1. Spot USD / AUD exchange rate at 30 June 2020 was 0.6902 (30 June 2019: 0.7020)
2. Spot EUR / AUD exchange rate at 30 June 2020 was 0.6143 (30 June 2019: 0.6183)

A 10 per cent weakening of the Australian Dollar would have the equal but opposite effect on the above currencies to the amounts shown above, on the basis of all other variable held constant.

The foreign currency translation of USD denominated net assets would have significantly affected the equity at the reporting date. The Group had US$450.5 million of USD denominated net assets at 30 June 2020 (US$550.3 million at 30 June 2019).

Summary of forward foreign exchange contracts

The following table summarises the AUD equivalent value of the forward foreign exchange agreements by currency. Foreign currency amounts are translated at rates current at the reporting date.

The 'Buy' amounts represent the AUD equivalent of commitments to purchase foreign currencies, and the 'Sell' amount represents the AUD equivalent of commitments to sell foreign currencies.

	2020				2019			
	Buy		Sell		Buy		Sell	
	Average Forward Rate	AUD Equivalent '000	Average Forward Rate	AUD Equivalent '000	Average Forward Rate	AUD Equivalent '000	Average Forward Rate	AUD Equivalent '000
USD		Buy USD		(Sell USD)		Buy USD		(Sell USD)
less than 3 months	0.7184	$ 7,244	0.6931	$ (24,121)	0.7223	$ 20,664	0.7201	$ (29,540)
3 - 12 months	0.7203	9,007	0.7138	(51,138)	0.7444	33,246	0.7372	(112,610)
> 12 months	0.7217	6,800	0.7249	(64,927)	0.7209	15,542	0.7309	(172,221)
Total		23,052		(140,186)		69,451		(314,371)
EUR		Buy EUR		(Sell EUR)		Buy EUR		(Sell EUR)
less than 3 months	0.6065	$ 472	0.6177	$ (17,072)	0.6109	$ 13,197	0.6312	$ (15,088)
3 - 12 months	0.5887	27,488	0.6048	(31,827)	0.6066	50,021	0.6271	(86,661)
> 12 months	0.5736	53,497	0.5965	(67,243)	0.5852	134,971	0.6135	(32,166)
Total		81,457		(116,142)		198,189		(133,915)

II Credit risk

Credit risk is the risk of financial loss to the Group as a result of customers or counterparties to financial assets failing to meet their contractual obligations.

1. Source of risk

The Group is exposed to counterparty credit risk from trade and other receivables and financial instrument contracts that are outstanding at the reporting date.

2. Risk mitigation

Trade receivables

The Group only trades with recognised, creditworthy third parties. The Group's policy is that all customers who wish to trade on credit terms are subject to credit verification procedures, which are conducted internally. The Group, while exposed to credit related losses in the event of non-performance by counterparties to financial instruments, does not expect counterparties to fail to meet their obligations given their credit ratings.

The Group minimises concentrations of credit risk and the risk of default of counterparties in relation to cash and cash equivalents and financial instruments by spreading them amongst a number of financial institutions.

Vessel sales contracts are structured to ensure that the Group is paid milestone progress payments from the client to cover the ongoing cost of the vessel construction.

Financial instruments

The Group's policy is to minimise the risk that the principle amount will not be recovered and the risk that funds will not be available when required whilst at the same time obtaining the maximum return relative to the risk. The Group's policy is to restrict its investment of surplus cash funds to financial institutions with a Standard and Poor's credit rating of at least A-2, and for a period not exceeding 3 months to manage this risk. The Group is able to undertake investments in short term deposits to achieve this objective.

Other financial assets

The Group's exposure to counterparty credit default risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, is equal to the carrying amount of these instruments. The maximum exposure to credit risk at the reporting date is disclosed in Note 15.

Cash and term deposits are predominantly held with two tier-one financial institutions which are considered to be low credit risk.

III Liquidity risk

Liquidity risk is the risk that the Group is not able to refinance its debt obligation or meet other cash outflow obligations when required.

1. Source of risk:

Exposure to liquidity risk derives from the Group's operations and from the external interest bearing liabilities that it holds.

2. Risk mitigation:

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

The Group's policy is to continually review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.
Critical assumptions include input costs, project pipeline, exchange rates and capital expenditure.

The Group aims to hold a minimum liquidity buffer of $75 million between cash on hand and undrawn non-current committed funding to meet any unforeseen cash flow requirements.
Further information relating to the Group's committed finance facilities, including the maturity dates of these facilities, is provided in Note 10 and Note 11.

3. Exposure

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

	Years to maturity 0 - 1 '000	1 - 5 '000	> 5 '000	Total[1] '000
Balance 30 June 2020				
Derivative financial assets / (liabilities)				
Outflow	$ (144,609)	$ (142,379)	$ -	$ (286,988)
Inflow	142,627	137,733	-	280,360
Net derivative financial assets / (liabilities)	$ (1,982)	$ (4,646)	$ -	$ (6,628)
Non-derivative financial liabilities				
Trade and other payables	$ (157,410)	$ -	$ -	$ (157,410)
Go Zone Bond facility	-	(126,837)	-	(126,837)
Finance leases	(938)	(7,666)	-	(8,604)
Vessel finance for CCPB 9 & 10[2]	(8,720)	(32,206)	-	(40,926)
Total	$ (167,068)	$ (166,709)	$ -	$ (333,777)

	Years to maturity 0 - 1 '000	1 - 5 '000	> 5 '000	Total[1] '000
Balance 30 June 2019				
Derivative financial assets / (liabilities)				
Outflow	$ (292,059)	$ (222,028)	$ (1,305)	$ (515,392)
Inflow	284,793	208,320	1,121	494,234
Net derivative financial assets / (liabilities)	$ (7,266)	$ (13,708)	$ (184)	$ (21,158)
Non-derivative financial liabilities				
Trade and other payables	$ (202,308)	$ -	$ -	$ (202,308)
Go Zone Bond facility	-	(122,287)	-	(122,287)
Finance leases	(2,413)	(257)	-	(2,670)
Vessel finance for CCPB 9 & 10[2]	(43,032)	(5,766)	-	(48,798)
Total	$ (247,753)	$ (128,310)	$ -	$ (376,063)

1. Contractual cash flows include interest
2. Contractual cashflows are equal to the residual value of the CCPB 9 & 10 vessels. Further information is provided in Note 11.

The Group had $50.000 million (FY2019: $50.000 million) of unused cash loan credit facilities available for immediate use at the reporting date and $396.667 million (FY2019: $275.665 million) in cash and cash equivalents, which can be used to meet its liquidity needs.

IV Offsetting financial instruments

The Group presents its assets and liabilities on a gross basis. Derivative financial instruments entered into by the Group are subject to enforceable master netting arrangements such as the International Swaps and Derivatives Associations (ISDA) master netting agreement. All outstanding transactions under an ISDA agreement are terminated in certain circumstances, for example, when a credit event such as a default occurs. The termination value is assessed and only a single net amount is payable in settlement of all transactions.

The amounts set out in the liquidity risk table represent the derivative financial assets and liabilities of the Group that are subject to those arrangements and are presented on a gross basis.

Note 26 Derivatives and hedging

I 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 Cash Flow Hedge Reserve in equity. The ineffective portion of any change in the fair value of the instrument is recognised in the Profit and Loss immediately.

II 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 Profit and Loss for the period.

III Fair value through profit and loss

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

IV Financial liabilities

Loans, overdrafts, and trade and other payables are measured at amortised cost, except where fair value hedge accounting is applied.

Note 27 Fair value measurements

I Fair value

The value of the Group's financial assets and liabilities is calculated using the following techniques depending on the type of financial instrument as follows:

- The fair value of financial assets and financial liabilities traded in active markets is the quoted market price at the reporting date.
- The fair value of forward exchange contracts is calculated using discounted cash flows, reflecting the credit risk of various counterparties. Future cash flows are calculated based on the contract rate, observable forward interest rates and foreign exchange rates. Adjustments for the currency basis are made at the end of the reporting period.
- The nominal value less expected credit losses of trade receivables and payables are assumed to approximate their fair values due to their short term maturity.

1. Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data.

	Level 1 '000	Level 2 '000	Level 3 '000	Total '000
Balance 30 June 2020				
Financial assets				
Derivatives	$ -	$ 2,404	$ -	$ 2,404
Financial liabilities				
Derivatives	$ -	$ (9,378)	$ -	$ (9,378)
Balance 30 June 2019				
Financial assets				
Derivatives	$ -	$ 2,190	$ -	$ 2,190
Financial liabilities				
Derivatives	$ -	$ (16,544)	$ -	$ (16,544)

2. Fair value of financial assets and liabilities carried at amortised cost

Cash and cash equivalents, trade and other receivables, and trade and other payables are carried at amortised cost which equals their fair value.

Interest bearing liabilities are carried at amortised cost and have a carrying value of $165.180 million (30 June 2019: $173.754 million). Further information is provided in Note 11.

The fair value of the interest bearing financial liabilities at 30 June 2020 was $(6.974) million based on the level 2 valuation methodology (30 June 2019: $(14.355) million).

Unrecognised items

Note 28 Commitments and contingencies

		2020 '000		2019 '000
Operating lease commitments				
Future minimum rentals payable under non-cancellable leases:[1]				
Within one year	$	-	$	(3,610)
After one year but not more than five years		-		(4,164)
More than five years		-		(3,887)
Total	$	-	$	(11,661)
Capital commitments				
Intangibles	$	(17,500)	$	-
Property, plant and equipment		(330)		(1,496)
Total	$	(17,830)	$	(1,496)
Guarantees				
Bank performance guarantees[2]	$	(222,695)	$	(58,900)
Sureties		(243,658)		(126,263)
Total	$	(466,353)	$	(185,163)

1. Operating lease commitments have been reclassified in accordance with AASB 16 Leases.
2. The bank performance guarantees are secured by a mortgage over land and buildings and floating charges over cash, receivables, work in progress and plant and equipment.

I Commitments

1. Operating lease commitments

AASB 16 Leases will be effective in reporting periods commencing 1 July 2019 onwards requiring lessees to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

Further information relating to AASB 16 is provided in Note 2.

2. Guarantees

Austal has a Syndicated Facility Agreement which includes a $280.000 million revolving credit facility. The entire revolving credit facility can be used for non-financial contingent 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 financial contingent instruments.

Austal had $250.000 million of uncommitted and unsecured Surety facilities for the issuance of non-financial contingent instruments to support commercial vessel contracts at 30 June 2020.

Bank performance guarantees and Sureties are issued to support concepts such as refund payment guarantees, performance bonds and warranty bonds. The Group had $(466.353) million of issued guarantees at 30 June 2020 (FY2019: $(185.163) million).

Further information relating to interest bearing loans and borrowings is provided in Note 11.

II Contingencies

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

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

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.

1. Vessel delivery postponement

Extended Government imposed comprehensive quarantine measures implemented as a result of COVID-19, have postponed a vessel's scheduled delivery by several months, which has triggered a potential cancellation right notwithstanding the absence of default by either party. Despite this contractual entitlement, both parties have acknowledged the unique circumstances brought about by the COVID-19 virus and continue to cooperate constructively to explore ways to avoid this outcome and the customer has repeatedly advised they have no intention to cancel the contract.

Cancellation would require Austal to repay milestone payments received to date €64.2 million with Austal then taking possession of the vessel for resale.

2. Other

The Directors are not aware of any other material contingent liabilities in existence as at 30 June 2020 requiring disclosure in the financial statements.

Note 29 Corporate investigations

In January 2019, ASIC advised the Company that it had opened a preliminary investigation into certain market disclosures in late CY2015 and mid CY2016. US Regulatory authorities, including the Securities Exchange Commission, have also commenced separate but apparently related investigations. The Company provided an update on the state of these investigations in Note 29 to the financial statements in its 2019 Annual Financial Report (August 2019 Update), and again in Note 10 to the H1 interim report in February 2020 (February 2020 Update).

Since the February 2020 Update, the progress of the investigation centred on ASIC collecting further information from individuals and the Company, and on resolving disagreements regarding the application of legal privilege to documents. ASIC contests Austal's assertions of legal privilege over a large number of documents. Despite efforts to agree on these matters, the application of legal privilege over many of these documents remains unresolved and the matter was brought before the Federal Court in Victoria for determination. Determination was scheduled for June 2020 however the matter was delayed due to COVID-19 restrictions. Following continued discussions between ASIC and the Company, this issue is now expected to be resolved via the appointment of an independent expert in the second half of calendar year 2020.

In relation to the substantive investigation, Austal continues its efforts to cooperate with regulators in Australia and the USA and other than the legal privilege matters discussed above, the matters being investigated have not substantively changed since the February 2020 Update, largely due to restrictions brought about by the COVID-19 pandemic. The Group is unable to predict what action, if any, might be taken in the future as a result of these matters or how long they may take to resolve. Depending on the outcome of the investigations, authorities in Australia or the USA may in future elect to pursue formal proceedings against Group companies or some of its officers. While the Group is not aware of any wrongdoing or all of the specific matters currently being investigated, it is possible that those proceedings could lead to civil or criminal penalties, damages, and / or suspension or debarment from future US Government contracts, which could have a material adverse effect on its consolidated financial position, results of operations, or cash flows.

The Company notes that as far as it is aware, the investigation has not impacted Austal's relationship with its principal customer in the USA and in fact, the Group continues to work closely with the US Department of Defence, including on a joint investment in Austal's Mobile shipyard of approximately US$100 million to implement a steel shipbuilding capability to complement existing aluminium shipbuilding facilities.

The Group had to apply significant judgement when considering whether and how much to provide for costs. The provision could change over time as new facts emerge and the investigations progress. The prolonged nature of the investigations and significant resourcing required have driven an increase in the provision.

The Group is not aware of any wrongdoing or all of the specific matters currently being investigated and accordingly no provision has been made for any penalties or damages that may arise from the investigations.

The provision is recorded based on the best estimate of the probable incremental professional services costs relating to this matter. Further information is provided in Note 24.

Note 30 Events after the balance date

I Dividend proposed

An unfranked final dividend of 5.0 cents per share has been proposed for FY2020 (FY2019 final: 3.0 cents per share, unfranked).

II Modern American Recycling and Repair Services (MARRS) Purchase Agreement

Austal entered into an agreement with MARRS to acquire over 15 acres of waterfront land, buildings and assets including an existing dry dock on the MARRS Mobile riverfront property in Mobile, Alabama on 21 August 2020.

The acquisition will support Austal USA's new construction and service strategy by securing launch and deep water berthing capability in support of future new construction efforts including steel ships, whilst also providing Austal USA with increased service and repair capacity in Mobile.

The acquisition is subject to a number of conditions that are required to be satisfied before completion. The acquisition price is under US$10 million and will be funded from cash holdings.

Further information is provided in the ASX announcement dated 21 August 2020.

The Group, management and related parties

Note 31 Parent interests in subsidiaries

The consolidated financial statements include the financial statements of Austal Limited and the subsidiaries listed in the following table.

Company	Country	Equity Interest 2020	Equity Interest 2019
Austal Ships Pty Ltd	Australia	100%	100%
Austal Cyprus Ltd	Cyprus	100%	100%
Austal Egypt LLC	Egypt	100%	100%
Austal Muscat LLC	Oman	100%	100%
Austal Service Pty Ltd	Australia	100%	100%
Austal Service Darwin Pty Ltd	Australia	100%	100%
Hydraulink (NT) Pty Ltd	Australia	100%	100%
KM Engineering (NT) Pty Ltd	Australia	100%	100%
Austal Systems Pty Ltd	Australia	100%	100%
Austal UK Ltd	United Kingdom	100%	100%
Austal Holdings Vietnam Pty Ltd	Australia	100%	100%
Austal Viet Nam Co Ltd	Vietnam	100%	100%
Austal Holdings Inc	USA	100%	100%
Austal USA LLC	USA	100%	100%
Austal USA Service LLC	USA	100%	100%
ElectraWatch Inc	USA	100%	100%
Austal Philippines Pty Ltd	Australia	100%	100%
Austal Middle East Pty Ltd	Australia	100%	100%
Austal Holdings China Pty Ltd	Australia	100%	100%
Austal Subic Bay Holdings Pty Ltd [1]	Australia	100%	100%
Austal Australasia Pty Ltd [2]	Australia	100%	100%
Seastate Pty Ltd	Australia	100%	100%

1. Previously named Oceanfast Luxury Yachts Pty Ltd
2. Previously named Oceanfast Pty Ltd

I Investment in joint venture

Investment In Joint Venture	2020 '000	2019 '000
Investment in Aulong Shipbuilding Co Ltd Joint Venture	$ 1,729	$ 1,729
Total	$ 1,729	$ 1,729

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

The Board has determined to maintain the carrying amount at the historical cost of Austal's investment until Aulong declares dividends or displays any signs of impairment, at which time the carrying amount will be adjusted accordingly.

No dividends or impairments have occurred during FY2020 and therefore the Profit and Loss recognised is $0.000 million (FY2019: $(0.000) million).

Note 32 Related party disclosures

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

No related party transactions occurred with the consolidated entity other than the remuneration of Directors and KMP and the matters disclosed in this report.

Note 33 KMP compensation

	2020 '000	2019 '000
Short-term employee benefits	$ 4,947	$ 4,757
Post-employment benefits	172	174
Long term benefits	31	36
Share-based payments	1,178	3,087
Total	$ 6,328	$ 8,054

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

Note 34 Share based payments

I Performance rights

The following changes in performance rights took place during the year:

Grant	Balance at 30 June 2019	Issued	Vested	Forfeited / Lapsed	Balance at 30 June 2020	Expiry date
FY2018	2,363,476	-	(2,363,476)	-	-	30 Jun 2020
FY2019	2,656,839	-	-	(523,554)	2,133,285	30 Jun 2021
FY2020	-	1,229,304	-	(244,622)	984,682	30 Jun 2022
Total	5,020,315	1,229,304	(2,363,476)	(768,176)	3,117,967	

The Board has the discretion to decide if performance rights will lapse or vest.

II Service rights

The following changes in service rights took place during the year:

Grant	Balance at 30 June 2019	Issued	Vested	Forfeited / Lapsed	Balance at 30 June 2020	Expiry date
FY2020	-	338,677	-	(7,973)	330,704	30 Jun 2024
Total	-	338,677	-	(7,973)	330,704	

Service rights were introduced in FY2020 to offer a long-term incentive to non-KMP. Service rights have a vesting period of 5 years. The only vesting criteria is fulfilment of the 5 year service period. 330,704 service rights were issued in FY2020.

III Recognition - equity settled transactions

The Group provides benefits to employees (including KMP) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

Equity settled benefits have been provided to senior management and Directors under the following plans in the current and prior years:

- The Long Term Incentive Plan (LTI Plan)
- The Short Term Incentive Plan (STI Plan)
- NED share rights

No account is taken of any performance conditions, other than conditions linked to the price of the shares of Austal Limited (market conditions) if applicable in valuing equity settled transactions.

The cost of these equity settled transactions with employees is recorded by reference to the fair value at the date at which they are granted. The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that will ultimately vest in the opinion of the Directors of the Group. This opinion is formed based on the best available information at the reporting date. No adjustment is made for the likelihood of market performance conditions being met because the effect of these conditions is included in the determination of fair value at grant date. The Profit and Loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. An expense is recognised as if the terms had not been modified. An expense is also recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

An equity settled award that is cancelled is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately, however, cancelled awards and new awards are treated as if they were a modification of the original award if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, as described in the previous paragraph.

Shares in the Group held by the Employee Share Trust (EST) are classified and disclosed as Reserved Shares and deducted from equity in the Statement of Changes in Equity. Further information relating to Reserved Shares is provided in Note 13.

IV Recognised share-based payment expenses

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

		2020 '000		2019 '000
Share-based payments expense				
Expense arising from equity-settled share-based payment transactions	$	(4,599)	$	(5,975)

V Significant accounting judgements and estimates

The Group is required to estimate the fair value of equity-settled share-based payment transactions with employees at the grant date. Estimating the fair value requires determination of the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share rights, volatility and dividend yield.

The Group has applied the Black Scholes option pricing model to estimate the fair value of the rights with non-market based vesting conditions. A hybrid employee share option pricing model and the Monte Carlo simulation have been applied to estimate the fair value of rights with market based vesting conditions.

Note 35 Parent entity information

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

	2020 '000	2019 '000
Balance sheet		
Assets		
Current	$ 60,688	$ 82,655
Non - current	300,842	310,903
Total	$ 361,530	$ 393,558
Liabilities		
Current	$ (14,197)	$ (7,434)
Non - current	(16,237)	(18,641)
Total	$ (30,434)	$ (26,075)
Net assets	$ 331,096	$ 367,483
Equity		
Contributed equity	$ 135,340	$ 130,570
Employee benefits reserve	9,881	8,498
Asset revaluation reserve	12,128	12,128
Cash flow hedge reserve	44	64
Retained earnings	173,703	216,223
Total	$ 331,096	$ 367,483
Income		
Net profit / (loss) after tax	$ (21,131)	$ 59,359
Total comprehensive income	(21,151)	60,866

Austal Limited provides parent company guarantees in respect of contract performance by various members of the Austal Group including Austal USA LLC, Austal Ships Pty Ltd, Austal Philippines Pty Ltd and Austal Holdings Vietnam Pty Ltd.

Directors’ declaration

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

In the opinion of the Directors:

- The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
- Giving a true and fair view of the consolidated entity’s financial position at 30 June 2020 and of its performance for the year ended on that date; and
- Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- The financial Statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

In the opinion of the Directors, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable at the date of this declaration.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2020.

John Rothwell AO

Chairman

on behalf of the Board

21 August 2020

Independent audit report to the members of Austal Limited

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Independent Auditor's Report to the members of Austal Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Austal Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit responded to the Key Audit Matter

Revenue recognition
 	
For the year ended 30 June 2020 construction revenue recognised totals $1.7 billion as disclosed in Note 4. Construction revenues are recognised over time as performance obligations are fulfilled over time.
 	
Management judgement is required due to the number and type of estimation events over the course of a contract life, the unique nature of individual contract terms leading to complex and judgemental revenue recognition from contracts, including the:
 	
• Determination of stage of completion and measurement of progress towards satisfaction of performance obligations;
 	
• Estimation of total contract revenue and costs including the estimation of cost contingencies (which incorporate risk contingencies, the most significant element is in relation to the LCS program in Austal USA);
 	
• Determination of contractual entitlement and assessment of the probability of customer approval of variations and acceptance of claims; and
	Our audit procedures included, but were not limited to:
	
	• Evaluating the design and operating effectiveness of processes and relevant controls in respect of the underlying project costs and the recognition of revenue from contracts respectively, including:
	  ○ The contract acceptance process; and
	  ○ The preparation, review and authorisation of monthly project reports for all significant contracts.
	
	• Reading relevant agreements to understand the key terms and conditions, and confirming our understanding with management;
	
	• Testing on a sample basis, contracts for delay and other risks, contract percentage of completion, appropriateness of cost contingencies, history of contract issues and significant unapproved variations or claims;

• Estimation of project completion date.	• Assessing the accuracy of the forecast costs to complete based on:
	  ○ The costs incurred to date;
	  ○ Historical budgeting accuracy;
	  ○ Physical inspection of key vessels using our internal engineering specialists;
	  ○ Inquiry of key project managers and executives; and
	  ○ Review of correspondence with customers.
	
	• Evaluating changes in profit margin on material contracts from prior periods; and
	
	• Assessing variations and claims including review of correspondence with customers concerning the merits and status of those variations and claims.
	
	We also assessed the appropriateness of the disclosures in Note 4 to the financial statements.

Taxation The Group's geographic operations resulted in an income tax expense totalling $34.5 million across two main jurisdictions, being the USA and Australia for the year ended 30 June 2020. As at 30 June 2020 the carrying value of deferred tax assets recognised in relation to the Group's USA Research and Development (R&D) credits was $7.7 million (refer Note 23), whilst unused tax losses and R&D credits in Australia for which no deferred tax assets have been recognised equated to $5.2 million and $5.5 million respectively. In addition, the Group continue to pay additional tax in relation to intercompany royalties between the USA and Australia (refer Note 9). Significant judgement is required to assess: • The extent to which R&D credits will be utilised;	Our audit procedures included, but were not limited to: • Engaging our tax specialists to assess the Group's tax-related balances and the underlying assumptions and calculations including, evaluating the available R&D credits and utilisation profile; • Evaluating the latest Board approved budget with management's forecast of future assessable profits and testing on a sample basis the forecast model for mathematical accuracy; • Assessing the independence, competence and objectivity of the Group's tax advisors and evaluating correspondence between the Group and those advisors; and • Testing the underlying accuracy of the tax effect calculations.

• The recoverability of carry forward tax losses and the extent to which tax losses will be utilised; and • The remaining uncertainty in relation to the outcome of the Group's objection to the Australian Tax Office (ATO) audit position with respect to the royalties.	We also assessed the appropriateness of the disclosures in Note 9 and Note 23 to the financial statements.
Provisions As disclosed in Note 24, the Group recognised a provision of $11.3 million as at 30 June 2020 for the probable incremental professional services costs ("costs") relating to the regulatory investigations set out in Note 29. The Group had to apply significant judgement when considering whether and how much to provide for costs. As a result of the high level of estimation uncertainty the provision could change substantially over time as new facts emerge and the investigations progress.	Our procedures included, but were not limited to the following: • Discussing the potential costs with in-house legal counsel, other management and the directors; • Challenging the assumptions and the basis for the provision; and • Where possible, corroborating the assumptions to external sources and input from the Group's professional advisors. We also assessed the appropriateness of the disclosures in Note 24 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020 but does not include the financial report and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 31 to 59 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Austal Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

Tim Richards

Partner
Chartered Accountants
Perth, 21 August 2020

Shareholder information

The following information was extracted from the Company's share register at 30 June 2020:

Distribution of shares

Individual shareholding	Number of shares	% of Total issued capital	Number of holders
1 - 1000	1,443,774	0.40%	3,246
1,001 - 5,000	7,687,271	2.16%	2,971
5,001 - 10,000	6,526,888	1.83%	862
10,001 - 100,000	19,419,213	5.44%	748
100,001 and over	321,631,343	90.17%	73
Total	356,708,489	100.00%	7,900

Twenty largest shareholders

Rank	Shareholder	Number of shares	% of Total issued capital	Substantial shareholder
1	HSBC Custody Nominees (Australia) Limited	109,222,966	30.62%	Yes
2	J P Morgan Nominees Australia Pty Limited	75,729,127	21.23%	Yes
3	Austro Pty Ltd	32,307,692	9.06%	Yes
4	Citicorp Nominees Pty Limited	31,868,745	8.93%	Yes
5	National Nominees Limited	27,102,862	7.60%	Yes
6	BNP Paribas Nominees Pty Ltd	15,528,229	4.35%	
7	Onyx (WA) Pty Ltd	5,600,000	1.57%	
8	Sandhurst Trustees Ltd	2,168,506	0.61%	
9	Mr Garry Heys + Mrs Dorothy Heys	2,044,670	0.57%	
10	Mr William Robert Chambers	2,000,000	0.56%	
11	Mossisberg Pty Ltd	1,501,577	0.42%	
12	Mr David Singleton	1,222,721	0.34%	
13	Warbont Nominees Pty Ltd	1,007,177	0.28%	
14	Lavinia Shipping Limited	991,000	0.28%	
15	Morgan Stanley Australia Securities (Nominee) Pty Limited	981,858	0.28%	
16	CS Third Nominees Pty Limited	921,700	0.26%	
17	Kenny Nominees (Nt) Pty Ltd	857,881	0.24%	
18	Pacific Custodians Pty Limited	844,072	0.24%	
19	Washington H Soul Pattinson and Company Limited	640,000	0.18%	
20	AMP Life Limited	582,567	0.16%	
	Total	313,123,350	87.78%	

Voting rights

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

Corporate governance statement and ESG report

The Company has elected to post its Corporate Governance Statement and on its website in accordance with ASX Listing Rule 4.10.3 along with its Environmental, Social and Governance Report (ESG Report).

The Corporate Governance Statement and ESG Report can be found at the following URL: www.austal.com/corporategovernance.

Corporate directory

Directors

Non-Executive Directors

Mr John Rothwell
Mr Giles Everist
Mrs Sarah Adam-Gedge
Mr Chris Indermaur

Executive Directors

Mr David Singleton

Auditor

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

Company Secretary

Mr Adrian Strang

Registered office

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

Share registry

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

ABN

73 009 250 266

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Tel: +61 8 9410 1111

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