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***AUSTAL***  
LIMITED

**Half-Year Report**

**31 December 2013**

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## Directors' Report

The Board of Directors of Austal Limited submit their report for the half-year ended 31 December 2013.

### Directors

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

J Rothwell (Chairman)  
A Bellamy  
D Amara  
D Singleton  
G Everist

### Principal Activities

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

### Results

Austal reported a Net Profit After Tax (NPAT) for the first half ended 31 December 2013 of \$9.507 million compared with a NPAT for the prior corresponding period (PCP – half year ended 31 December 2012) of \$5.389 million.

This result was driven by a strong increase in revenue across all operations, with FY2014 H1 revenue of \$507.615 million which is 30 per cent higher than the PCP (FY2013 H1: \$389.410 million).

The Group operating profit before tax for FY2014 H1 was \$13.804 million compared with \$7.829 million for the prior corresponding period.

Austal also delivered improved margins, with an Earnings Before Interest and Tax (EBIT) margin of 3.7 per cent across the Group (FY2013 H1: 3.2 per cent).

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was \$30.731 million (FY2013 H1: \$24.002 million).

### Review of Operations

#### USA

Austal USA Revenue grew 33 per cent from the PCP to \$419.769 million (FY2013 H1: \$316.391 million). The revenue growth resulted from an increase in production activity on two major contracts; the US\$1.6 billion, 10-vessel Joint High Speed Vessel contract and the US\$3.5 billion, 10-vessel Littoral Combat Ship contract. Segment EBIT was \$26.912 million and the EBIT margin was 6.4 per cent (FY2013 H1: \$17.441 million, 5.5 per cent)

The improved result was achieved through increasing operational efficiencies, which was driven by a number of factors. Firstly, Austal's workforce in the USA has stabilised after a period of rapid growth, resulting in improved productivity and reduced supervision in performing tasks. Secondly, the vessel programs have both matured from the first in class JHSV and LCS vessels. This has benefited Austal in that the design and shipbuilding processes were further refined, reducing time and costs. Lastly, there was an improvement in managing the contracts including reducing re-work, better processes, and better management of the workforce.

Construction progressed on three Joint High Speed Vessels (JHSV 3, 4, 5) in H1 FY2014. USNS *Millinocket* (JHSV 3) subsequently completed acceptance trials in January 2014 and construction of JHSV 6 commenced in the same month.

## Directors' Report (continued)

Four Independence-variant LCSs were under construction in the half – LCS 6, 8, 10, and 12. USS *Jackson* (LCS 6) was successfully launched on 14 December 2013. Fabrication work commenced on LCS 14 subsequent to the end of the half year. USS *Jackson* was the first vessel designed and constructed by Austal as prime contractor to the US Navy, with the previous Independence-variants (LCS 2 and 4) completed under contract for General Dynamics. Austal has enhanced its knowledge of the LCS program as prime contractor, which will increase efficiencies on subsequent vessels and improve margins. Funding for two of the remaining four Littoral Combat Ships under Austal's 10-vessel contract is expected to be appropriated in Q3 FY2014, in line with the contract and consistent with prior years.

### Australia

Revenue in Australian operations was 3.6% higher than the PCP at \$72.984 million (FY2013 H1: \$70.419 million). EBIT was \$2.976 million and the EBIT margin was 4.1 per cent (FY2013 H1: (\$1.048) million). The improved financial performance from Austal's Henderson operations reflected the benefits of the strategy to reposition the shipyard as a defence-focussed operation.

Margins at Henderson benefited from a strong emphasis on improving efficiencies at the Australian operations in the half. This included better utilisation of assets and driving operational synergies through consolidation of the formerly separate service base into the main Henderson Shipyard. Performance at the Darwin service facility also improved as Austal targeted better utilisation of assets by focussing on higher-margin work, including a review of existing contracts. Austal also applied learnings from the first-in-class *Cape St George* that was delivered in April 2013. The progression along the learning curve in both the design and construction of subsequent vessels meant that Austal could build the vessels more quickly and efficiently, increasing revenue and margins.

There were six Cape Class Patrol Boats at various stages of construction in FY2014 H1, with *Cape Byron* (CCPB 2) subsequently launched in January 2014.

### Philippines

The Philippines Shipyard delivered revenue growth, reporting a 46 per cent increase over the PCP to \$18.521 million (FY2013 H1: \$12.652 million). This was driven by increased production activity during the completion of contracts including delivery of the major contract – the 80 metre high-speed Aremiti ferry. EBIT was negatively impacted by the late delivery of the ferry and by the ongoing investment in training and support from Australia. EBIT for FY2014 H1 was \$0.270 million and EBIT margin was 1.5 per cent (FY2013 H1: \$0.725 million, 5.7 per cent).

### Other activities

Austal entered into an agreement to sell an asset that was surplus to requirements; the land and infrastructure at its former satellite service base at Henderson. The sale was in line with Austal's strategy to consolidate the two shipyards to improve utilisation and release cash to pay down debt. The asset was sold for \$21.000 million under a contract that was unconditional at 31 December 2013 and was completed subsequent to the end of the half year. Net proceeds after tax from the sale of \$17.144 million were recorded in the FY2014 H1 accounts, and applied to the further reduction of infrastructure-related debt. A profit on sale of \$3.258 million was reflected in the FY2014 H1 results.

Austal concluded an Option to Purchase contract with a European ferry operator for the 102 metre stock vessel. It is expected that the sale of the vessel will complete in FY2014 H2. Austal conducted a review of the value of all work in progress (WIP) and resolved to write down the carrying value of WIP by \$10.234 million.

If the European ferry operator exercises its option to acquire the vessel, net proceeds from the sale will be used to reduce infrastructure-related debt.

A discussion of the Group's segment results is provided above. This is based on non-IFRS financial information that has not been audited but is extracted from note 5 from the Half Year Report. This information has been presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business.

## Directors' Report (continued)

### Rounding of Amounts

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

### Auditor's Declaration of Independence

We have obtained an independence declaration from our auditors, Ernst & Young which is on page 4 and forms part of the Directors' Report.

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



\_\_\_\_\_  
 J ROTHWELL AO  
 Director – Chairman  
 Dated at Henderson this 26<sup>th</sup> day of February 2014

Reconciliation of EBITDA:	FY2014 H1	FY2013 H1
	\$'000	\$'000
Profit before income tax	13,804	7,829
Finance costs	5,106	5,816
Finance income	(171)	(1,040)
EBIT	18,739	12,605
Depreciation	10,861	9,926
Amortisation	1,131	1,471
EBITDA <sub>1</sub>	30,731	24,002

1. EBITDA is a non-IFRS measure. The information is unaudited but is extracted from the reviewed financial statements.

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## Auditor's Independence Declaration to the Directors of Austal Limited

In relation to our review of the financial report of Austal Limited for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Robert Kirkby  
Partner  
26 February 2014

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## Consolidated Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Note	CONSOLIDATED	
		31 December 2013 \$'000	31 December 2012 \$'000
<b>Continuing operations</b>			
Revenue	3(i)	507,615	389,410
Other income	3(ii)	20,172	6,995
Cost of sales	3(iii)	(461,831)	(354,622)
Administrative expenses	3(iii)	(32,031)	(25,927)
Marketing expenses	3(iii)	(4,781)	(5,188)
Write down of inventory	3(iii)	(10,234)	-
Unrealised gain on deferred premium options	3(iv)	-	2,977
Finance costs	3(v)	(5,106)	(5,816)
<b>Profit from continuing operations before income tax</b>		<b>13,804</b>	<b>7,829</b>
Income tax expense	9	(4,297)	(2,439)
<b>Profit from continuing operations after income tax</b>		<b>9,507</b>	<b>5,390</b>
<b>Net Profit for the period</b>		<b>9,507</b>	<b>5,390</b>
Profit for the period is attributable to:			
Owners of the parent		9,408	5,404
Non-Controlling interest		99	(14)
		<b>9,507</b>	<b>5,390</b>
<b>Other comprehensive income</b>			
Items that may be subsequently reclassified to profit and loss:			
Cash flow hedges			
Gain/(loss) taken to equity		15,828	(2,013)
Transferred to profit and loss		(1,559)	(2,093)
Transferred to inventory		(13,938)	-
Foreign currency translation		9,723	138
Income tax benefit on items of other comprehensive income	9	109	1,232
<b>Other comprehensive income/(expense) for the period, net of tax</b>		<b>10,163</b>	<b>(2,736)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>19,670</b>	<b>2,654</b>
Total comprehensive income/(expense) for the period is attributable to:			
Owners of the parent		19,571	2,668
Non-controlling interest		99	(14)
		<b>19,571</b>	<b>2,668</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the parent:</b>			
		<b>cents / share</b>	<b>cents / share</b>
		2.71	2.14
- diluted earnings per share		2.71	2.14

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## Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2013

	Note	CONSOLIDATED	
		As at 31 December 2013 \$'000	As at 30 June 2013 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	13	98,197	38,030
Restricted cash	13	12,097	69,673
Trade and other receivables		73,271	102,743
Inventories		283,926	277,888
Prepayments		5,703	7,653
Derivative financial instruments	6	521	7,749
<b>Total Current Assets</b>		<b>473,715</b>	<b>503,736</b>
<b>Non-Current Assets</b>			
Other financial assets		4,297	4,141
Property, plant and equipment		390,788	399,917
Derivative financial instruments	6	2,022	1,651
Intangible assets and goodwill		11,695	12,526
Deferred tax assets		28,742	22,647
<b>Total Non-Current Assets</b>		<b>437,544</b>	<b>440,882</b>
<b>TOTAL ASSETS</b>		<b>911,259</b>	<b>944,618</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		124,468	133,813
Interest-bearing loans and borrowings	7	42,679	243,614
Income tax payable		27,590	24,537
Provisions		28,403	25,128
Government grants		3,733	4,221
Derivative financial instruments	6	2,896	12,193
Progress payments in advance		18,276	21,790
<b>Total Current Liabilities</b>		<b>248,045</b>	<b>465,296</b>
<b>Non-Current Liabilities</b>			
Derivative financial instruments	6	4,936	4,885
Interest-bearing loans and borrowings	7	167,867	1,163
Provisions		1,128	2,217
Government grants		54,700	52,794
Deferred tax liabilities		6,507	11,076
<b>Total Non-Current Liabilities</b>		<b>235,138</b>	<b>72,135</b>
<b>TOTAL LIABILITIES</b>		<b>483,183</b>	<b>537,431</b>
<b>NET ASSETS</b>		<b>428,076</b>	<b>407,187</b>
<b>EQUITY</b>			
Contributed equity		111,600	111,329
Retained earnings		273,013	258,560
Reserves		43,374	37,308
<b>Parent's Interests</b>		<b>427,987</b>	<b>407,197</b>
<b>Non – Controlling Interests</b>		<b>89</b>	<b>(10)</b>
<b>TOTAL EQUITY</b>		<b>428,076</b>	<b>407,187</b>

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## Consolidated Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Note	CONSOLIDATED	
		31 December 2013 \$'000	31 December 2012 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		536,917	405,457
Payments to suppliers and employees		(486,093)	(423,825)
Interest received		171	1,040
Borrowing costs paid		(4,823)	(5,817)
GST refunded		2,695	1,926
Income tax paid		(11,115)	(2,038)
<b>Net cash flows used in operating activities</b>	13	<b>37,752</b>	<b>(23,257)</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary		-	(2,914)
Receipt of government grants		1,889	2,335
Proceeds from the sale of held for sale asset		-	6,898
Proceeds from sale of property, plant and equipment		-	9,302
Purchase of property, plant and equipment		(1,733)	(16,090)
Purchase of intangible assets		(299)	(3,761)
<b>Net cash flows used in investing activities</b>		<b>(143)</b>	<b>(4,230)</b>
<b>Cash flows from financing activities</b>			
Proceeds from derivative instruments		4,006	10,246
Proceeds from issue of shares net of transaction costs		-	75,064
Repayment of borrowings		(70,256)	(30,879)
Proceeds from borrowings		36,025	32,097
<b>Net cash flows from financing activities</b>		<b>(30,225)</b>	<b>86,528</b>
Net increase/(decrease) in cash and cash equivalents		7,384	59,041
Net foreign exchange difference		(4,793)	(1,056)
Cash and cash equivalents at beginning of period		107,703	104,751
<b>Cash and cash equivalents at end of period</b>	13	<b>110,294</b>	<b>162,736</b>

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## Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

### CONSOLIDATED

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

	Ordinary shares \$'000	Reserved shares \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Employee equity benefits reserve \$'000	Asset revaluation reserve \$'000	Cash flow hedge reserve \$'000	Equity reserve \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
<b>As at 1 July 2012</b>	41,373	(9,611)	222,690	(10,568)	4,948	27,491	16,649	(15,925)	277,047	-	277,047
Profit for the period	-	-	5,404	-	-	-	-	-	5,404	(14)	5,390
Other comprehensive income/(expense)	-	-	-	138	-	-	(2,874)	-	(2,736)	-	(2,736)
<b>Total comprehensive income/(expense) for the half-year</b>	-	-	5,404	138	-	-	(2,874)	-	2,668	(14)	2,654
<b>Transactions with owners in their capacity as owners:</b>											
Shares issued	77,891	-	-	-	-	-	-	-	77,891	-	77,891
Transaction costs	(1,821)	-	-	-	-	-	-	-	(1,821)	-	(1,821)
Acquisition of subsidiary	3,499	-	-	-	-	-	-	-	3,499	134	3,633
Share-based payments	-	-	-	-	319	-	-	-	319	-	319
<b>As at 31 December 2012</b>	<b>120,942</b>	<b>(9,611)</b>	<b>228,094</b>	<b>(10,430)</b>	<b>5,267</b>	<b>27,491</b>	<b>13,775</b>	<b>(15,925)</b>	<b>359,603</b>	<b>120</b>	<b>359,723</b>
<b>As at 1 July 2013</b>	120,940	(9,611)	258,560	8,454	6,212	27,490	11,077	(15,925)	407,197	(10)	407,187
Profit for the period	-	-	9,408	-	-	-	-	-	9,408	99	9,507
Other comprehensive income	-	-	-	9,469	-	-	689	-	10,158	-	10,158
<b>Total comprehensive income for the half-year</b>	-	-	9,408	9,469	-	-	689	-	19,566	99	19,665
<b>Transactions with owners in their capacity as owners:</b>											
Equity transfer	-	-	5,045	-	-	(5,045)	-	-	-	-	-
Shares issued	271	-	-	-	-	-	-	-	271	-	271
Share-based payments	-	-	-	-	953	-	-	-	953	-	953
<b>As at 31 December 2013</b>	<b>121,211</b>	<b>(9,611)</b>	<b>273,013</b>	<b>17,923</b>	<b>7,165</b>	<b>22,445</b>	<b>11,766</b>	<b>(15,925)</b>	<b>427,987</b>	<b>89</b>	<b>428,076</b>

## Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

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### 1 CORPORATE INFORMATION

The half-year financial report of Austal Limited (the Company) for the period ended 31 December 2013 was authorised for issue in accordance with a resolution of the directors on 26 February 2014.

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

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The half-year financial report is a general purpose condensed financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 “Interim Financial Reporting”.

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

The half-year financial report should be read in conjunction with the annual Financial Report of Austal Limited as at 30 June 2013.

It is also recommended that the half-year financial report be considered together with any public announcements made by Austal Limited and its controlled entities during the half-year ended 31 December 2013 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

#### (b) Significant accounting policies

Except as disclosed below, the half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2013. The Group has adopted all of the mandatory Standards and Interpretations for annual reporting periods beginning on or before 1 July 2013. The new standards applied during the period are set out below.

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

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## Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Significant accounting policies (continued)

Reference	Title	Impact for Group
AASB 10	<p><b>Consolidated Financial Statements</b></p> <p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and UIG-112 <i>Consolidation - Special Purpose Entities</i>.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.</p> <p><b>Consequential amendments were also made to this and other standards via AASB 2011-7 and AASB 2012-10.</b></p>	There was no impact on the Group's financial position or performance
AASB 12	<p><b>Disclosure of Interests in Other Entities</b></p> <p>AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.</p>	There was no impact on the disclosure in the Group's half-year report
AASB 13	<p><b>Fair Value Measurement</b></p> <p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p><b>Consequential amendments were also made to other standards via AASB 2011-8.</b></p>	Additional disclosure is included in note 6 of the Group's half-year report
AASB 119 (revised 2011)	<p><b>Employee Benefits</b></p> <p>The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.</p> <p><b>Consequential amendments were also made to other standards via AASB 2011-10.</b></p>	There was no impact on the Group's financial position or performance

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## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	<b>CONSOLIDATED</b>	
	<b>31 December 2013</b>	31 December 2012
	<b>\$'000</b>	\$'000
<b>3. REVENUE AND EXPENSES</b>		
<b>Specific Items</b>		
Profit before income tax expense from continuing operations includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
<b>(i) Revenue</b>		
Construction contract revenue	481,494	365,798
Service and charter revenue	23,931	21,012
Rental revenue	195	148
Sale of scrap	1,824	1,412
Finance income	171	1,040
	<b>507,615</b>	<b>389,410</b>
<b>(ii) Other income</b>		
Net foreign exchange (losses)/gains	14,204	(336)
Government grants	1,889	2,340
Net gain on disposal of property, plant and equipment	3,582	-
Other income	497	4,991
	<b>20,172</b>	<b>6,995</b>
<b>(iii) Expenses</b>		
Cost of sales – construction contract	(449,808)	(337,390)
Cost of sales – service and chartering	(12,023)	(17,231)
Marketing expenses	(4,781)	(5,188)
Administrative expenses	(32,031)	(25,928)
Write down of inventory	(10,234)	-
	<b>(508,877)</b>	<b>(385,737)</b>
The above expenses include:		
Depreciation of non-current assets	(10,861)	(9,926)
Amortisation of intangible assets	(1,131)	(1,471)
<b>(iv) Unrealised gain on deferred premium options</b>		
Unrealised gain on forward currency options	-	3,405
Foreign exchange (loss) on deferred premium	-	(428)
	<b>-</b>	<b>2,977</b>
<b>(v) Finance costs</b>		
Amortisation of capitalised borrowing costs	(283)	-
Interest paid to unrelated parties	(4,823)	(5,816)
	<b>(5,106)</b>	<b>(5,816)</b>
<b>4. DIVIDENDS PAID</b>		
No dividend has been paid or proposed for the period ended 31 Dec 2013 and 31 Dec 2012.		

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## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

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### 5. SEGMENT REPORTING

#### Identification of reportable segments

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

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

The Group's reportable segments are as follows:

#### *USA*

The USA manufactures high performance aluminium defence vessels for the U.S. Navy.

#### *Australian Operations ("AO")*

The AO business manufactures high performance aluminium defence vessels for markets worldwide, excluding the USA. As of 1 July 2013, this segment includes the Service business results and the comparatives at 31 December 2012 have been restated to include the Service segment. This segment provides training and on-going support and maintenance for high performance vessels and includes the chartering of a vessel to the U.S. Navy's Military Sealift Command.

#### *Philippines Shipyard Operations ("PSO")*

The PSO business manufactures high performance aluminium commercial vessels for markets worldwide, excluding the USA.

#### *Other/Unallocated*

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

- Cost of Group services
- Corporate overheads
- Revenue from property leased to other Group segments
- Finance revenue and costs
- Taxation
- Assets held for sale
- Commercial vessel bareboat charter contracts

#### **Accounting policies and inter-segment transactions**

The accounting policies used by the Group in reporting segments internally are the same as those in the prior period.

Inter-entity sales are recognised based on an arm's length pricing structure.

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## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

### 5. SEGMENT REPORTING (continued)

Half Year Ended 31 December 2013	USA \$'000	AO \$'000	PSO \$'000	Other/ Unallocated \$'000	Eliminations and Adjustments \$'000	Total \$'000
<b>Revenues</b>						
External customers	419,769	61,113	18,521	3,690	-	503,093
Inter-segment	-	11,871	-	1,558	(9,078)	4,351
<b>Total revenues</b>	<b>419,769</b>	<b>72,984</b>	<b>18,521</b>	<b>5,248</b>	<b>(9,078)</b>	<b>507,444</b>
<b>Segment result</b>						
<b>EBIT (i)</b>	<b>26,912</b>	<b>2,976</b>	<b>270</b>	<b>(10,958)</b>	<b>(461)</b>	<b>18,739</b>

Half Year Ended 31 December 2012	USA \$'000	AO \$'000	PSO \$'000	Other/ Unallocated \$'000	Eliminations and Adjustments \$'000	Total \$'000
<b>Revenues</b>						
External customers	316,391	44,934	9,780	10,278	-	381,383
Inter-segment	-	25,485	2,872	1,094	(22,464)	6,987
<b>Total revenues</b>	<b>316,391</b>	<b>70,419</b>	<b>12,652</b>	<b>11,372</b>	<b>(22,464)</b>	<b>388,370</b>
<b>Segment result</b>						
<b>EBIT (i)</b>	<b>17,441</b>	<b>(1,048)</b>	<b>725</b>	<b>(11,799)</b>	<b>7,287</b>	<b>12,606</b>

The following table presents segment assets of the Group's operating segments as at 31 December 2013 and 30 June 2013:

Segment Assets						
31 December 2013	<b>624,319</b>	<b>137,517</b>	<b>24,002</b>	<b>552,218</b>	<b>(426,797)</b>	<b>911,259</b>
30 June 2013	<b>604,650</b>	<b>76,061</b>	<b>41,621</b>	<b>492,156</b>	<b>(269,870)</b>	<b>944,618</b>

- i) The profit before tax for each reportable segment does not include finance revenue of \$0.171 million (31 December 2012: \$1.040 million) and finance costs of \$4.823 million (31 December 2012: \$5.816 million).

Reconciliation of segment result (EBIT)	31 December 2013	31 December 2012
Segment profit	18,739	12,605
Finance income	171	1,040
Finance expenses	(5,106)	(5,816)
<b>Consolidated profit/(loss) before income tax</b>	<b>13,804</b>	<b>7,829</b>

Reconciliation of segment revenue	31 December 2013	31 December 2012
Segment revenue	507,444	388,370
Finance income	171	1,040
<b>Consolidated Revenue</b>	<b>507,615</b>	<b>389,410</b>

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## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

### 6. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and short-term deposits, held by the Group as at 31 December 2013:

	Loans and receivables \$'000	Fair value in profit or loss \$'000	Fair value in other comprehensive income \$'000
<b>Financial assets:</b>			
Other financial assets	4,297	-	-
Derivative financial instruments	-	-	2,022
<b>Total non-current</b>	<b>4,297</b>	<b>-</b>	<b>2,022</b>
Trade and other receivables	73,271	-	-
Derivative financial instruments	-	-	521
<b>Total current</b>	<b>73,271</b>	<b>-</b>	<b>521</b>
<b>Total</b>	<b>77,568</b>	<b>-</b>	<b>2,543</b>
<b>Financial Liabilities:</b>			
Go Zone Bonds	(151,686)	-	-
Equipment Line	(16,181)	-	-
Derivative financial instruments	-	-	(4,936)
<b>Total non-current</b>	<b>(167,867)</b>	<b>-</b>	<b>(4,936)</b>
Revolving Credit Facility	(32,918)	-	-
Equipment Line	(5,616)	-	-
Bank Loan (unsecured)	(4,105)	-	-
Overdrafts	(40)	-	-
Trade and other payables	(124,468)	-	-
Derivative financial instruments	-	-	(2,896)
<b>Total current</b>	<b>(167,147)</b>	<b>-</b>	<b>(2,896)</b>
<b>Total</b>	<b>(335,014)</b>	<b>-</b>	<b>(7,832)</b>

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

#### Risk management activities

##### Cash flow hedges for currency risks

During the period, Austal designated foreign currency forward contracts in hedges of highly probable purchases and receipts in USD, EUR, NOK, NZD, and GBP from suppliers and customers in the United States, Europe, Norway, New Zealand and the United Kingdom, respectively. The forecast purchases and receipts are expected to occur from the date of this report through to June 2018.

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## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

### 6. FINANCIAL INSTRUMENTS (continued)

#### Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2013:

	Carrying amount \$'000	Fair value \$'000
<b>Financial Assets:</b>		
Other financial assets	4,297	4,297
Derivative financial instruments	2,022	2,022
<b>Total non-current</b>	<b>6,319</b>	<b>6,319</b>
Trade and other receivables	73,271	73,271
Derivative financial instruments	521	521
<b>Total current</b>	<b>73,792</b>	<b>73,792</b>
<b>Total</b>	<b>80,111</b>	<b>80,111</b>
<b>Financial liabilities:</b>		
Go Zone Bonds	(151,686)	(151,686)
Equipment Line	(16,181)	(16,181)
Derivative financial instruments	(4,936)	(4,936)
<b>Total non-current</b>	<b>(172,803)</b>	<b>(172,803)</b>
Revolving Credit Facility	(32,918)	(32,918)
Equipment Line	(5,616)	(5,616)
Bank Loan (unsecured)	(4,105)	(4,105)
Overdrafts	(40)	(40)
Trade and other Payables	(124,468)	(124,468)
Derivative financial instruments	(2,895)	(2,895)
<b>Total current</b>	<b>(170,042)</b>	<b>(170,042)</b>
<b>Total</b>	<b>(342,845)</b>	<b>(342,845)</b>

#### Fair value hierarchy

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

Level 1 — Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 — Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

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

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## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

### 6. FINANCIAL INSTRUMENTS (continued)

As at 31 December 2013, the Group held the following classes of financial instruments measured at fair value:

#### Financial assets measured at fair value

	31 December 2013 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Derivative financial instruments	2,543	-	2,543	-

#### Financial liabilities measured at fair value

	31 December 2013 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Derivative financial instruments	(7,832)	-	(7,832)	-

#### Valuation techniques

The foreign currency forward contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies.

### 7. INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED	
	31 December 2013 \$'000	30 June 2013 \$'000
<b>Current:</b>		
Revolving Credit Facility (i)	32,918	-
Multi-Option Facility	-	8,000
Equipment Line (i)	5,616	22,283
Bank loan (unsecured) (ii)	4,105	8,307
Go Zone Bonds (i)	-	204,974
Overdrafts	40	50
<b>Total current</b>	<b>42,679</b>	<b>243,614</b>
<b>Non-current:</b>		
Equipment Line (i)	16,181	-
Bank loan (unsecured) (ii)	-	1,163
Go Zone Bonds (i)	151,686	-
<b>Total non-current</b>	<b>167,867</b>	<b>1,163</b>
<b>Total</b>	<b>210,546</b>	<b>244,777</b>

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

- (i) Provided under a new Syndicated Facility Agreement (SFA) which was executed on 19 July 2013. The maturity of the SFA is 31 December 2015; consequently the Go Zone Bonds and a portion of the Equipment Line have been reclassified from current to non-current at 31 December 2013.
- (ii) The Bank loan is payable by instalments until October 2014, with an average variable interest rate of ~ 5% in FY14.

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## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

### 8. SHARE CAPITAL

	CONSOLIDATED			
	31 December 2013		30 June 2013	
	Number	\$'000	Number	\$'000
<b>Ordinary Shares</b>				
Issued and fully paid	<b>346,544,933</b>	<b>121,211</b>	346,173,195	120,940
<b>Movements in shares on issue</b>				
Balance at the beginning of the financial period	<b>346,173,195</b>	<b>120,940</b>	188,193,007	41,373
Executive compensation (i)	<b>371,738</b>	<b>271</b>	165,556	224
Shares issued on acquisition of subsidiary	-	-	2,481,590	3,499
Capital raising	-	-	155,333,042	77,667
Transaction costs	-	-	-	(1,823)
<b>Balance at end of financial period</b>	<b>346,544,933</b>	<b>121,211</b>	346,173,195	120,940

- (i) 371,738 (2012: 165,556) shares were issued to Mr Andrew Bellamy on 26 November 2013 (2012: 30 November 2012) as part of his contract of employment.

During the period ended 31 December 2013, the Group issued 1,049,022 performance rights which are accounted for as share based payments.

During the period ended 30 June 2013, the Group issued the following options which are accounted for as share based payments.

Tranche A – 709,018 options at an exercise price of nil.  
 Tranche B – 709,018 options at an exercise price of \$2.15  
 Tranche C – 709,018 options at an exercise price of \$2.15

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## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

### 9. INCOME TAX

The major components of income tax expense in the interim Consolidated Statement of Comprehensive Income are:

	CONSOLIDATED	
	31 December 2013 \$'000	31 December 2012 \$'000
<b>Statement of comprehensive income</b>		
<b>Current income tax</b>		
Current income tax charge	10,522	1,845
<b>Deferred income tax</b>		
Relating to origination and reversal of temporary differences	(6,225)	594
<b>Income tax expense reported in the statement of comprehensive income</b>	<b>4,297</b>	<b>2,439</b>
<b>Statement of changes in equity</b>		
<b>Current income tax related to items charged or credited directly to equity</b>		
Current gains and losses on foreign currency contracts	3,265	-
<b>Deferred income tax related to items charged or credited directly to equity</b>		
Deferred gains and losses on foreign currency contracts	(3,374)	(1,232)
<b>Income tax expense / (benefit) reported in the statement of changes in equity</b>	<b>(109)</b>	<b>(1,232)</b>
A reconciliation between tax expense and the product of accounting profit/ (loss) before income tax multiplied by the Group's applicable income tax rate is as follows:		
<b>Accounting profit before income tax</b>	<b>13,804</b>	<b>7,829</b>
At the Group's statutory income tax rate of 30% (2012: 30%)	4,141	2,349
Adjustment for Austal USA statutory income tax rate of 36.9% (2012: 36.9%)	650	327
International tax rate differential for other foreign jurisdiction activities	(158)	(92)
Share based payments (equity settled)	318	42
Other non-assessable and non-deductible items	(654)	(187)
<b>Income tax expense/(benefit) reported in the statement of comprehensive income</b>	<b>4,297</b>	<b>2,439</b>

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## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

### 10. COMMITMENTS AND CONTINGENCIES

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

### 11. RELATED PARTY DISCLOSURE

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

### 12. EVENTS AFTER THE REPORTING DATE

There were no material events occurring after period end requiring disclosure.

### 13. CASH AND CASH EQUIVALENTS

For the purposes of the consolidated statement of cash flows, cash and cash equivalents, net of cash held as a guarantee, comprise the following at 31 December:

	<b>CONSOLIDATED</b>	
	<b>31 December 2013</b>	30 June 2013
	<b>\$'000</b>	\$'000
<b>Current</b>		
Cash at bank and in hand	<b>98,197</b>	38,030
Restricted cash:		
Unutilised Go Zone Bond funds (i)	<b>12,097</b>	11,617
Cash and term deposits (ii)	<b>-</b>	58,056
	<b>110,294</b>	107,703

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

#### Reconciliation to Cash Flow Statement

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

Cash at bank and in hand	<b>98,197</b>	38,030
Restricted (i)	<b>12,097</b>	69,673
	<b>110,294</b>	107,703

(i) Unutilised Go Zone Bonds which may only be spent on those capital works projects there were specifically identified in the documentation issued to investors.

(ii) The cash security deposit was used during the period to repay Go Zone Bonds.

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## Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

### 13. CASH AND CASH EQUIVALENTS (continued)

#### Reconciliation of net profit/ (loss) after tax to net cash flows from operations

	<b>CONSOLIDATED</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Net Profit</b>	<b>9,507</b>	5,390
<b>Adjustments for:</b>		
Depreciation and impairment of assets	<b>21,095</b>	9,926
Amortisation	<b>1,414</b>	1,471
Net (gain)/loss on disposal of property, plant and equipment	<b>(3,582)</b>	(503)
Share based payment	<b>953</b>	319
Deferred grant income	-	(3,748)
Gain on deferred premium options and other derivatives	-	(2,977)
<b>Changes in assets and liabilities:</b>		
(Decrease)/increase in provisions for:		
Income tax (current and deferred)	<b>(7,610)</b>	(2,424)
Workers compensation insurance	<b>(217)</b>	(941)
Warranty	<b>(813)</b>	(489)
Employee benefits	<b>243</b>	(97)
Other	<b>2,973</b>	(20)
(Increase)/decrease in trade and other receivables	<b>29,472</b>	31,951
(Increase)/decrease in inventories	<b>(6,038)</b>	(4,540)
(Increase)/decrease in prepayments	<b>1,950</b>	-
(Increase)/decrease in other financial assets	<b>(156)</b>	840
(Decrease)/increase in trade and other payables	<b>(9,345)</b>	(37,055)
(Decrease)/increase in progress payments in advance	<b>(3,514)</b>	(18,715)
(Decrease)/increase in government grants	<b>1,420</b>	381
(Decrease)/increase in other financial liabilities	-	309
<b>Net cash flows from operating activities</b>	<b>37,752</b>	(20,922)

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## Director's Declaration

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

In the opinion of the directors:

- (a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - (i) Giving a true and fair view of the financial position as at 31 December 2013 and the performance for the half-year ended on that date of the consolidated entity
  - (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*
- (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the board



---

J ROTHWELL AO  
Director  
26<sup>th</sup> February 2014

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## Independent review report to members of Austal Limited

To the members of Austal Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Austal Limited, which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Austal Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### Independence

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

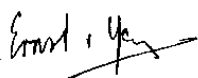
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## Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Robert Kirkby  
Partner  
Perth

26 February 2014

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