APPENDIX 4E
Preliminary Final Report

AUSTAL LIMITED

FOR THE YEAR ENDED 30 JUNE 2011

1. The reporting period is from 1 July 2010 to 30 June 2011. The previous corresponding period is 1 July 2009 to 30 June 2010.
2. Results for announcement to the market.

				$A'000
2.1	Revenue	down 3.37%	to	503,856
2.2	Profit from continuing operations after tax	down 41.05%	to	21,890
2.3	Net profit for the period	down 41.05%	to	21,890
2.4	Dividend distributions			

A fully franked final dividend of 6 cents per share is payable with respect to the year ended 30 June 2011 on 6 October 2011.

2.5	Record date for determining entitlements to the dividends	22 September 2011
2.6	Explanation of figures in 2.1 to 2.4 that may be required	Refer to attached Annual Report pages 3 - 4.
3.	Statement of comprehensive income with notes	Refer to attached Annual Report pages 13 and 17 – 56.
4.	Statement of financial position with notes	Refer to attached Annual Report pages 14 and 17 – 56.
5.	Statement of cash flows and notes	Refer to attached Annual Report pages 15 and 17 – 56.
6.	Details of dividends or distributions	See above
7.	Details of dividend or distribution reinvestment plans	N/A
8.	Statement of changes in equity	Refer to attached Annual Report pages 16 and 17 - 56.
9.	Net tangible assets per ordinary security	
	Current period (cents/share)	143.1
	Previous corresponding period (cents/share)	141.2
10.	Control gained or lost over entities during the period	Refer to attached Annual Report page 48.
11.	Details of associates and joint venture entities	N/A
12.	Other significant information	Refer to Operating and Financial Overview pages 3 - 4 of attached Annual Report.
13.	Accounting standards used by foreign entities	

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The foreign entity, Austal USA, prepares its accounts under International Financial Reporting Standards.

14. Commentary on the result

15.1	Earnings per share (basic)	
	Current period	11.9 cents
	Previous corresponding period	20.3 cents
15.2	Returns to shareholders including distributions and buy backs	

A fully franked final dividend of 6 cents per share is payable with respect to the year ended 30 June 2011 on 6 October 2011.

15.3	Significant features of operating performance	Refer to Operating and Financial Overview pages 3 - 4 of attached Annual Report.
15.4	Segment results	Refer to attached Annual Report pages 26 - 28.
15.5	Trends in performance	Refer to Operating and Financial Overview pages 3 - 4 of attached Annual Report.
15.6	Other factors affecting the results in period or future	Refer to Operating and Financial Overview pages 3 - 4 of attached Annual Report.
15.	Audit/review of accounts upon which this is based	This report has been based on audited accounts.
16.	Accounts not audited or subject to review	N/A
17.	Qualifications of audit/review	No qualifications

AUSTAL LIMITED | 2011 | Annual Report

AUSTRALIA'S PRIME DEFENCE CONTRACTOR

2011

AUSTAL

CONTENTS

This year was an exciting, transformational one for Austal which, with the award of a 10 vessel Littoral Combat Ship (LCS) program and the exercising of further options under its Joint High Speed (JHSV) contract, saw Austal emerge as an international prime contractor for defence programs.

The high Australian dollar and adverse international market conditions, particularly in the important European market, continued to impede Austal's ability to export its commercial products during this period, reflecting in this year's result. We are confident however that Austal's underlying business strategy and the heavy emphasis on defence will continue to deliver growth and long term financial stability.

Our continuing involvement in two major multi-vessel US defence programmes is the best example of the benefits of such a strategy. The company's success in being selected by the US Navy for an additional 10 vessel LCS programme is a major boost both for Austal's Alabama shipyard and the company as a whole. USS Independence, the first Austal LCS delivered under the initial contract, continues to perform well while USS Coronado, the second vessel, is due for delivery in 2012. The third Austal LCS, and the first under the new multi-vessel contract, USS Jackson, is currently under construction, and the US Navy has confirmed the order for the fourth LCS, USS Montgomery. As the total programme is for more than 50 vessels, Austal is well placed for further multiple vessel orders.

At the same time Austal continues to build Joint High Speed Vessels (JHSVs) under a 10 ship programme with the US Department of Defence. Confirmed contracts are in place for 7 JHSVs with the first, Spearhead, due to deliver in December 2011.

The LCS contract award will see a doubling in size of Austal's US operations with a second 34,000m^2 Modular Manufacturing Facility (MMF) currently under construction, while Austal's US-based workforce is planned to expand to approximately 4,000 people by 2013.

Consistent with its ongoing strategy to target the long-term, predictable income streams offered by defence contracts, Austal has refocussed its Australian activities completing the rationalisation of its shipbuilding facilities and strengthening its capabilities as a prime contractor for defence projects. In late 2010, Austal acquired Australian Technology Information (ATI), a Canberra-based company specialising in and possessing intellectual property in systems engineering and integration. By merging ATI into a new division, Austal Systems, which combines systems engineering with Austal's existing in-service support capability, the company is well placed to compete as a prime contractor in the defence sector both in Australia and internationally.

The success of this strategy was reinforced by the award, after year end, of the contract for the supply and in-service support of eight 58 metre Cape Class Patrol Boats (CCPB) for the Australian Customs and Border Protection Service.

Although the commercial ferry market has not fully emerged from the global financial crisis, there are some signs of recovery. Austal secured orders for two passenger ferries during the year, one a 35 metre monohull for repeat customer, Mary D Enterprises, and the other a 41 metre catamaran for Vale. These contracts underline the company's ongoing commitment to the commercial market which, was further bolstered by securing an order for three 21 metre wind farm support vessels just after year end.

Whilst the current economic conditions continue to present challenges across Austal's markets, the company remains focussed on delivering growth opportunities through its focus on the defence sector, international expansion and product diversification.

With Austal emerging as a global defence prime contractor, we look forward to continuing to deliver consistent and predictable growth and I again wish to thank our staff and shareholders for their ongoing support.

JOHN ROTHWELL AO
CHAIRMAN

The Group operating profit after tax for the year was $21.890 million compared with the previous year of $37.132 million. Revenue has decreased by $17.558 million over the previous year while operating profit before tax has decreased by $31.365 million.

Revenue from Austal's US operations increased by 23% over 2011, to $328.709 million. The EBIT contribution from the US operations decreased, from $23.722 million in 2010, to $19.386 million in 2011. This reduction in contribution resulted from an under recovery of overheads due to the delay in the award of the LCS contract and cost overruns on the first JHSV. Cost overruns on a first class vessel are not uncommon and, with the application of lessons learned, follow on vessel projects are performing at or very close to budget. Further the near 30% appreciation of the Australian dollar against the US Dollar over the year adversely impacted the translation of the results of Austal's US operations.

The revenue from Austal's Australian operations decreased by $75.447 million compared to 2010 due to the continued impact of global economic conditions, resulting in less work volume awarded and completed in 2011. Further contributing to this result was that the stock vessels were not sold during the year as previously expected. The EBIT contribution from the Australian operations decreased, from $27.601 million in 2010, to a negative EBIT of $8.573 million in 2011.

Importantly Austal's USA business is now providing the Group with a level of diversification in its earnings which is in part offsetting the impact of global economic conditions.

FINANCIAL SUMMARY

Year ended 30 June	2011 $'000	2010 $'000
Revenue*	503,427	520,150
EBITDA	37,568	67,159
Depreciation ,Amortisation & Impairment	(15,466)	(14,428)
EBIT	22,102	52,731
Net Interest (Paid)/Received	(2,310)	(1,574)
Operating Profit Before Tax	19,792	51,157
Tax (Expense)/Benefit	2,098	(14,025)
Operating Profit After Tax	21,890	37,132
% EBIT/Revenue	4.4	10.1
Basic Earnings Per Share (cps)	11.9	20.3
Net Assets	274,166	269,365
Return on Equity (%)	8.0	13.8

*Excludes interest and other income

AUSTRALIAN OPERATIONS

Although challenging economic conditions continued to hold back sales at our Australian facilities, we were pleased to secure two new contracts during the year. In February, we were awarded a contract to build a 35 metre passenger monohull ferry for Mary D Enterprises, the second vessel we have built for this customer, and in June, Austal secured a contract to build a 41 metre passenger catamaran ferry for Vale in New Caledonia. Just after year end, Austal was awarded a further contract to build three 21 metre support vessels for the fast growing European offshore turbine wind farm industry.

A review of the Australian operations was conducted during the year to consider how the significant capabilities of our Australian operations could be refocused towards the manufacture and support of defence vessels. Several trends were identified that have significant potential for Austal's future growth.

There is continuing strong demand in specific segments of the international commercial vessel market (such as fast crew transfer boats, work boats and 30 metre to 50 metre ferries) and new markets (such as offshore turbine wind farms) are emerging for which new products can be developed using Austal's considerable intellectual property. To be successful in these markets, apart from applying its market leading intellectual property, Austal will need to regionalise its manufacturing base to enhance competitiveness.

In the defence sector, systems engineering and integration present attractive opportunities that have the potential to deliver significant recurrent income. In November 2010, Austal acquired Canberra-based Australian Technology Information Pty Ltd (ATI), an Australian company that provides specialised services to the Australian Defence Forces including systems engineering and integration, information technology, verification and validation systems and deployable tactical command centres.

These capabilities have been merged with our existing in-service support enabling the delivery, as prime contractor, of an integrated ship construction, systems integration and in-service support capability for defence programs. The success of this strategy was demonstrated in August 2011, when Austal was awarded the contract for the construction and in-service support of eight 58 metre Cape Class Patrol Boats (CCPB) for the Australian Customs and Border Protection Service.

Recently completed at our Western Australian facility during the year has been the 113 metre vehicle ferry Leonora Christina for Danske Færger A/S (formerly Nordic Ferry Services). As the largest catamaran built by Austal, and the largest ever built in Australia, *Leonora Christina* was delivered in May, and is currently in service in Denmark, linking Ronne on the Danish island of Bornholm with the southern Swedish city of Ystad. Construction also continued on the two 47 metre catamaran ferries for L'Express des Iles which are due for completion in August 2011.

USA OPERATIONS

In December 2010 the US Navy obtained budgetary approval to proceed with contracts for two LCS variants, with the result that Austal's US facility was awarded a contract for up to ten 127 metre Austal-designed and built Independence Class Littoral Combat Ships (LCS). The initial contract was for one vessel with the US Navy having options to build nine more over the following five years. In March 2011 the US Navy exercised its option for the second vessel.

The first Austal LCS, *USS Independence,* has been in service since January 2010 and continues to perform well. The second, USS Coronado, is nearing completion and is due for delivery in 2012. The third Austal LCS, and the first under the new contract, *USS Jackson,* is currently under construction, and the US Navy has confirmed the order for the fourth LCS, *USS Montgomery.*

Austal's US facility is also constructing the first of the US Department of Defence's high speed support vessels – the Joint High Speed Vessel (JHSV). As the sole supplier of a vessel that may expand into a 40-ship class, Austal currently has contracts in hand to build seven of these 103 metre JHSVs with the first, *Spearhead*, due for delivery in December 2011.

In order to fulfil these US military programmes, Austal USA recently commenced a further upgrade to its production capacity with the construction of a second 34,000m^2 Modular Manufacturing Facility (MMF), a new Assembly Bay and a new office complex. When complete, the state-of-the-art facility will be capable of constructing two LCSs and two JHSVs per year. The new three-story office complex will be placed just north of the MMF, will house 450 employees and will include a reconfigurable multi-purpose room capable of seating 400 people. It will be five times the size of the existing two-story office building on Dunlap Drive.

Concurrent with physical expansion of the facility, the workforce will be expanded to about 4,000 by 2013.

ENVIRONMENTAL PERFORMANCE

Whilst the international debate on greenhouse gas emissions progressed, we continued to devote significant resources to the development of more efficient vessels with a smaller environmental footprint. Initiatives that are currently being pursued include medium speed ferries that combine Austal's lightweight aluminium technology with highly fuel efficient engines, the use of LNG and CNG fuels, reduction in on board electrical load through power saving and power substituting technologies, and the use of more hydro dynamically efficient hull forms.

SAFETY PERFORMANCE

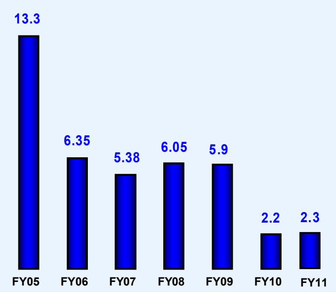
For the second year running Austal achieve both Lost Time Injury Frequency Rates (LTIFR) and Medical Treatment Injury Frequency Rates (MTIFR) at record low levels in contrast to the frequency rates in the previous years. LTIFR for Austal over the last 5 years has typically been at levels between 5 and 6.5. We have continued our safety journey improving on performance while continuing to develop new processes. While maintaining a focus on the workplace culture and ramping up behavioural programs, we have embarked on a more systematic approach. The results continue to be very encouraging, especially given the rapidly expanding workforce in the US Operations which brings with it the challenges of new people, inexperienced in Austal's systems and processes, and the hazards of the marine manufacturing environment. While our Lost Time Injury Performance remained steady a substantial improvement was seen in the number of medical treatments.

OCCUPATIONAL SAFETY AND HEALTH POLICY

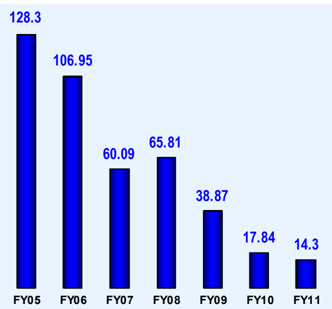
Austal's Occupational Safety and Health (OSH) Policy focuses on safe people, safe practices and safe work environments and promotes a workplace culture that raises awareness of individual responsibility for safety and health. Austal's safety culture is achieved as these components become accepted practice in the workplace and are supported by strong leadership.

SAFE PEOPLE

This year has seen the nomination of employees in various Safe Work Awards for their safety innovations and the implementation of monthly recognition awards for safety. Austal Ships, the Australian manufacturing facility, last year achieved a Silver Certificate of Achievement under the WorkSafe Plan Assessment and has been recommended to WorkSafe Western Australia for a Gold Certificate of Achievement, a 3rd party assessment process, this year. The US Operations received two significant safety awards during the year. The first award was from the Ship Builders Council of America for Excellence in Safety and our ongoing Improvement in Safety Performance. The second award was from the American Longshore Mutual Association (ALMA) for the Safest Large Shipyard. This is the second consecutive year that Austal USA has received both of these awards. Austal USA's current safety performance places Austal USA to again receive both of these awards for the upcoming year.



LOST TIME INJURY FREQUENCY RATEPER MILLION HOURS WORKED



MEDICAL TREATMENT INJURY FREQUENCY RATEPER MILLION HOURS WORKED

At Austal the safety of our people is at the forefront of everything we do. Our goal is Zero Harm and we work hard in an effort to achieve this every day.

OUTLOOK

Sustained adverse international market conditions have had a significant impact on the result for this year. Austal believes that the current market conditions – a high Australian dollar, weak European and US economies and increasing competition for labour in Australia – will be the norm for some years to come. Austal has reviewed its strategy against this macro backdrop and has drawn the following conclusions:

- The prospect of significant cuts to the US defense budget over coming years is inevitable. Whilst all US defence procurement programmes face some level of risk, Austal considers that the risk of cuts to the JHSV and LCS programmes is very low, particularly in comparison to the risk of cuts to other higher profile and more costly procurement programmes undertaken by the US Department of Defence. Accordingly, the focus of Austal's US business unit needs to remain on the "on time, on budget, to quality" delivery of Austal's U.S. Navy vessels out to 2018/19.
- Demand in specific segments of the international commercial vessel market (e.g. fast crew transfer boats, works boats and 30 metre to 50 metre ferries) remains strong and new markets are emerging. Austal needs to apply its considerable intellectual property towards developing products specifically for these markets.
- Apart from deploying superior intellectual property, success in these markets will require Austal to regionalise its manufacturing base to enhance its international competitiveness.
- The market for defence systems opportunities is attractive and has the potential to deliver significant recurrent income. Austal will leverage its existing systems integration capabilities and look to strategically grow its capabilities to access these new opportunities.
- The outlook for the commercial and defence vessel service and maintenance markets remains strong and Austal will therefore continue to pursue contracts in this space.

Austal is now focusing its Australian manufacturing and support facilities on the defence sector and the award of the 8 vessel Cape Class Patrol Boat Contract by the Australian Customs and Border Protection Service just after year end was an important first step in the implementation of that strategy. In conjunction with the position that has been carved out in the US defence sector, Austal has now become a global defence prime contractor – a significant achievement given that the Company listed on the Australian Stock Exchange only 12 years ago.

Austal's US business has now become a key supplier to the U.S. Navy. Of the 50 vessels that the U.S. Navy intends to procure over the next 5 years, 17 of them will be built by Austal (9 JHSV and 8 LCS). This gives Austal a level of visibility and predictability of future revenues that is unparalleled in the Company's history. Austal now has 7 JHSVs under contract, with options remaining for a further 3 ships, and 2 LCSs under contract with options remaining for a further 8 vessels. As the remaining options for all vessels are exercised, the revenues from Austal's US business alone will rise to approximately US$1 billion over the course of the next 2 years.

As at 30 June 2011, the order book backlog totalled $1.49 billion.

This gives the Group a tremendous platform for growth and further allows Austal to reposition its mature Australian business for the next phase of its evolution. The challenges of the macro environment have caused Austal to think about its inherent skills, intellectual property and competitive advantages in new ways and we believe that the Group is well positioned for future growth.

ANDREW BELLAMY
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

DIRECTORS' REPORT

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2011.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

JOHN ROTHWELL AO – Non-Executive Chairman

Within excess of 30 years' experience in boat and shipbuilding, John has played a major role in the development of the Australian aluminium shipbuilding industry and is a Founding Director of Austal.

In June 2004, John was appointed a Council member of the Australian National Maritime Museum and became Chairman of the Capital Works Committee of that organisation in November 2005. In January 2004, John was appointed an Officer of the Order of Australia for services to the Australian shipbuilding industry through the development of trade links and for significant contributions to vocational education and training. In October 2002, John was named the Ernst & Young "Australian Entrepreneur of the Year".

MICHAEL ATKINSON CA (ZIM), CA (SA) – Executive Director

Michael joined Austal in 1990 as Financial Controller and was appointed to the Board in 1994. He is a qualified Chartered Accountant with 10 years' experience in the accounting profession. On leaving the profession, he entered the railway and construction industry where he served in a senior financial capacity and as a Board member.

CHRISTOPHER NORMAN B.Eng. (Hons) – Non-Executive Director

Chris is one of the Founding Directors of Austal. He graduated from the University of New South Wales in 1986 with first class honours in Naval Architecture and has previously been Austal's Technical Director. He has been a driving force in the technical and marketing success of the company and, with extensive experience in international marketing and sales, held the position of Sales Director between 1993 and 2002.

In May 2000, Christopher was awarded the prestigious A.G.M. Michell Award in recognition of outstanding service in the profession of Mechanical Engineering.

JOHN POYNTON B.Com, FS Fin, FIAM, FAICD, AM, CitWA – Independent Director

John is a Co-Founder and Executive Chairman of Azure Capital.

John is the Deputy Chairman of Austal Limited and is a Non-Executive Director of Burswood Ltd. In the not-for-profit arena, he chairs Giving West and the Council of Celebrate WA. John is a member of Social Ventures Australia and Curtin Foundation.

Previously, John was a Chairman of ASX Perth, Fleetwood, Alinta and West Australian Museum Foundation; Director of Multiplex; Member of the Higher Education Endowment Fund Advisory Board, Payments System Board of the Reserve Bank of Australia and of the Business School at the University of Western Australia.

John is a Senior Fellow of the Financial Services Institute of Australasia (FINSIA), and a Fellow of the Australian Institute of Company Directors (AICD) and Australian Institute of Management (AIM).

John is a Member in the General Division of the Order of Australia and is a past recipient of a WA Citizen of the Year award in the industry and commerce category.

John holds a Bachelor of Commerce and an honorary Doctor of Commerce from the University of Western Australia.

DARIO AMARA B.Eng. (Distn), FIEAust, CPEng – Independent Director

Dario is cofounder and Chief Executive Officer of Emerson Stewart Group Limited, an engineering, spatial, project implementation and consultancy group based in Perth.

He has over 30 years of Australian and International experience covering both the engineering and construction sectors, and has been involved in a number of senior leadership roles. He has a record of achievement in establishing, growing and rejuvenating businesses and strategic leadership. He is a graduate from the Curtin University of Technology.

He is currently Non-Executive Chairman of Mission New Energy Limited. He has also served as Chairman of the West Australian Opera Company, the Art Gallery of Western Australia and of Heritage Perth and as a board member of the Perth International Arts Festival.

DIRECTORS (Continued)

IAN CAMPBELL – Independent Director

Ian has had a distinguished 17 year career as a Senator for Western Australia in the Australian Federal Parliament.

As Parliamentary Secretary to the Treasurer for 4 years, Ian initiated the Corporate Law Economic Reform Program including legislating to move Australia to International Financial Reporting Standards, reform of Accounting and Audit oversight institutional arrangements, takeovers and fundraising provisions.

He is a former Member of Federal Cabinet where he held the portfolios of Environment and Heritage and Human Services. He also served as Minister for Local Government, Territories and Roads.

He is a Non-Executive Chairman of Enerji Limited and a Director of Solco Ltd, ASG Group Ltd and Proto Resources and Investments Ltd. He is also Chairman of Princess Margaret Hospital Foundation and WA 2011 Pty Ltd, the organiser of the ISAF World Sailing Championships in Fremantle in 2011.

ANDREW BELLAMY BSc (Hons) Material Science, MA (Marketing) – Chief Executive Officer

Andrew Bellamy joined Austal Limited in September 2008, bringing with him proven experience in establishing sales excellence and business simplification programs. In 2010, Mr Bellamy was appointed Chief Operating Officer of Austal's Australian businesses and has overseen the growth and expansion of Austal's international network of locations at a time of significant turbulence in global markets. Mr Bellamy was appointed Chief Executive Officer of Austal in February 2011.

Prior to assuming his role at Austal Limited, Mr Bellamy held senior positions within the Refining and Petrochemical industry with Honeywell and ICI. He is also the former Sales and Marketing Director of Henkel ANZ.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors in the shares of Austal Limited were:

	Number of Ordinary Shares		Number of Shares held in AGMSP *
	Direct	Indirect	
John Rothwell	33,974,685	-	-
Michael Atkinson	1,415,737	-	285,062
Christopher Norman	26,595,621	6,600	-
John Poynton	10,000	-	-
Dario Amara	50,000	-	-
Ian Campbell	-	-	-
Andrew Bellamy	-	-	-

*This represents the number of shares (in substance options) held in the Austal Group Management Share Plan (AGMSP) (refer to note 28 of the financial statements). The terms and conditions of the AGMSP are set out in note 29 of the financial statements. There were no additional ordinary shares issued or options granted and exercised between the balance date and the date of this report.

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity were the design and manufacture of high performance vessels. These activities are unchanged from the previous year.

RESULTS

The profit of the consolidated entity for the financial year was $21.890 million after income tax (2010: $37.132 million).

OPERATING AND FINANCIAL REVIEW

A review of the operations and financial position of the consolidated entity is outlined in the Operating and Financial Overview on page 3.

DIVIDENDS

A fully franked final dividend of $11.284 million (6 cents per share) (2010: $11.284 million being 6 cents per share) has been declared for the year ended 30 June 2011 to be paid on 6 October 2011.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There were no significant events occurring after year end requiring disclosure.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

A general discussion of the group outlook is included in the Chairman's Report on page 2 and the Operating and Financial Overview on page 3.

SIGNIFICANT CHANGES IN THE STATE OF THE AFFAIRS

A review of the significant changes in the state of affairs of the consolidated entity is outlined in the Operating and Financial Overview on page 3.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity 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 2011.

SHARE OPTIONS

As at the date of this report, there were 6,664,402 un-issued ordinary shares under options. Refer to Note 29 for further details of the options outstanding. There were no options exercised during the year.

TOTAL NUMBER OF EMPLOYEES

As at 30 June 2011, the consolidated entity employed a total of 2,404 full-time equivalents (2010: 2,452 full-time equivalents).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

During the financial year, the parent entity has paid premiums in respect of a contract insuring the directors and officers of the consolidated entity in respect of liability resulting from these indemnities. The terms of the insurance arrangements and premiums payable are subject to a confidentiality clause.

REMUNERATION REPORT (Audited)

This Remuneration report outlines the remuneration arrangements in place for Directors and Executives of Austal Limited (the Company) and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Company, and includes the five executives iof the Company and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, senior executives and general managers and secretaries of the Parent and the Group.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee of the Board of Directors reviews the remuneration of all Directors and makes recommendations to the Board.

REMUNERATION POLICY

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and Key Executives fairly and appropriately with reference to relevant employment market conditions. Other than the variable component and the share option plan, the remuneration policy is not linked to company performance.

The Company aims to reward executives and senior managers with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- attract and retain exceptional employees ('key employees') that have the capacity to significantly impact the growth and profitability of the Company; and
- align key employees' behaviour towards the growth and profitability objectives of the Company; and reward key employees for sustained contributions to business success.

Structure

The non-executive directors receive fixed remuneration, in the form of salary and fees. However, they do not receive retirement benefits, nor do they participate in any incentive programs.

The remuneration for the executives consists of fixed remuneration, being base salary, superannuation and non-monetary benefits and variable remuneration as listed below. No element of fixed remuneration is linked to performance conditions.

To encourage the retention of employees, KMP who are not directors of the Australian companies participate in an annual bonus which takes into account length of service and profits earned by the Australian enterprises. The bonus vests and is paid dependent on the employees being employed at the end of December of each year. The bonus is paid at the discretion of the Nomination and Remuneration Committee. $218,414 (2010: $157,689) of the cash bonuses vested with the executives and was paid during this financial year.

Similarly, Austal KMP who are not directors of Austal USA participate in an annual bonus programme. Two forms of bonus opportunities exist; one form for the production workforce and one form for administration and management. Bonuses to the production workforce are tied to achievement of the performance objectives of Austal USA, reduction of waste, and safety and attendance measures. Bonuses to administration and management are tied to achievement of the financial objectives of Austal USA, specific growth initiatives, productivity improvement initiatives, customer satisfaction measures and employee satisfaction measures. These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value.

REMUNERATION REPORT (Audited) (Continued)

Goals for each of the preceding categories are established at the beginning of each financial year for each participant and bonuses are paid at the conclusion of that year dependent upon the level of achievement of these goals. Such bonuses are reviewed and approved by the Nomination and Remuneration Committee. 100% of the cash bonuses vested with the executives and was paid during the financial year.

Ex gratia bonuses are paid to executives in certain circumstances for exceptional performance as determined by the CEO. These bonuses vest immediately.

SHARE OPTION PLAN

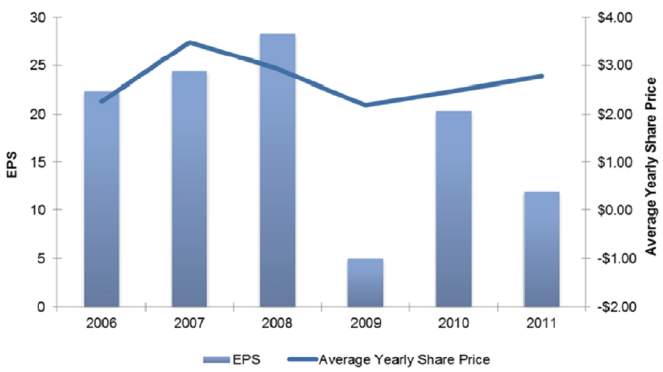
The Share Option Plan aims to reward executives and senior managers with the issue of share options commensurate with their position and responsibilities within the Company so as to:

- attract and retain exceptional employees ('key employees') that have the capacity to significantly impact the growth and profitability of the Company;
- align key employees' behaviour towards the growth and profitability objectives of the Company; and reward key employees for sustained contributions to business success.

The Group does not have a policy prohibiting executives from hedging of equity awards.

Group performance

The graph below shows the performance of the Company as compared to the movement in the Company's earnings per share over time.



Structure

The share options are granted to executives and senior managers based on the eligibility criteria set by the Remuneration Committee. Eligibility for the plan will be linked to employee performance. The exercise of the options will vest after 3 years subject to meeting the company performance criteria.

Performance hurdle

The Company uses a relative Total Shareholder Return (TSR) as the performance hurdle for the share option plan. Relative TSR was selected as the share option plan performance hurdle as it ensures an alignment between comparative shareholder return and reward for executives.

The Company's performance against the hurdle is determined by comparing the TSR against the return of the Small Industrials Accumulation Index (or another appropriate index) for the three year period commencing on 1 July prior to the grant date. If the TSR does not exceed the return of the Small Industrials Accumulation Index for a particular three year period, the series of options issued at that grant date would lapse.

In relation to the options issued after 3 November 2009, the options vest if the TSR of Austal Limited exceeds 25% for each three year period after issuance. The percentage vesting reduces on a sliding scale if the TSR is below 25%, until no options vest if the TSR is below 5%.

DETAILS OF KEY MANAGEMENT PERSONNEL INCLUDING GROUP AND COMPANY EXECUTIVES WHO RECEIVED THE HIGHEST REMUNERATION FOR THE YEARS ENDED 30 JUNE 2011 AND 2010

(i) DIRECTORS

Mr John Rothwell	Non-Executive Chairman
Mr Michael Atkinson	Executive Director*
Mr Christopher Norman	Non-Executive Director
Mr John Poynton	Independent Director
Mr Robert Browning	Managing Director & Chief Executive Officer - resigned 15 November 2010
Mr Dario Amara	Independent Director
Mr Ian Campbell	Independent Director
Mr Andrew Bellamy	Chief Executive Officer – appointed 24 February 2011

(ii) EXECUTIVES

Mr Joseph Rella	Chief Operating Officer Austal USA
Mr Greg Metcalf	Chief Financial Officer – resigned 18 September 2009
Mr Richard Simons	Chief Financial Officer & Company Secretary* – appointed 1 February 2010
Mr William Rotteveel	General Manager Austal Image – resigned 6 July 2010
Mr Mark Dummett	Executive Manager Australian Operations
Mr Peter Hogan	Chief Operating Officer Australia – resigned 10 December 2009

* On 21 January 2011, Michael Atkinson resigned as Company Secretary and Richard Simons was appointed.

REMUNERATION REPORT (Audited) (Continued)

REMUNERATION OF KEY MANAGEMENT PERSONNEL INCLUDING GROUP AND COMPANY EXECUTIVES WHO RECEIVED THE HIGHEST REMUNERATION FOR THE YEAR ENDED 30 JUNE 2011.

TABLE 1: REMUNERATION FOR THE YEAR ENDED 30 JUNE 2011

	Short-Term								
	Salary & Fees $	Cash Bonus $	Non-Monetary Benefits $	Post-Employment Superannuation $	Termination Payments	Share-based Payment Options $	Total $	% performance related	Contract Terms Note
Non-executive directors									
John Rothwell	440,000	-	-	-	-	-	440,000	-	2
Christopher Norman	85,000	-	-	-	-	-	85,000	-	1
John Poynton	90,000	-	-	-	-	-	90,000	-	1
Dario Amara	93,000	-	-	-	-	-	93,000	-	1
Ian Campbell	90,000	-	-	-	-	-	90,000	-	1
Sub-total non-executive directors	**798,000**	**-**	**-**	**-**	**-**	**-**	**798,000**		
Executive directors									
Robert Browning*	301,077	104,452	6,760	-	-	(1,322,171)	(909,882)	133.8	5
Michael Atkinson	380,000	-	-	-	-	33,519	413,519	8.1	2
Andrew Bellamy	486,759	45,555	-	26,241	-	44,660	603,215	15.0	4
Other key management personnel									
Joseph Rella	338,237	102,314	-	-	-	54,147	494,698	31.6	5
Richard Simons	369,708	17,202	-	34,404	-	48,703	470,017	14.0	4
William Rotteveel*	48,987	-	-	-	130,700	(36,520)	143,167	(25.5)	3
Mark Dummett	316,333	28,891	-	15,188	-	33,599	394,011	15.9	3
Sub-total executive KMP	**2,241,101**	**298,414**	**6,760**	**75,833**	**130,700**	**(1,144,063)**	**1,608,745**		
Total	**3,039,101**	**298,414**	**6,760**	**75,833**	**130,700**	**(1,144,063)**	**2,406,745**		

* Key management personnel for part of year of 2011.

TABLE 2: REMUNERATION FOR THE YEAR ENDED 30 JUNE 2010

	Short-Term								
	Salary & Fees $	Cash Bonus $	Non-Monetary Benefits $	Post-Employment Superannuation $	Termination Payments	Share-based Payment Options $	Total $	% performance related	Contract Terms Note
Non-executive directors									
John Rothwell	416,666	-	-	-	-	-	416,666	-	2
Christopher Norman	85,000	-	-	-	-	-	85,000	-	1
John Poynton	90,000	-	-	-	-	-	90,000	-	1
Dario Amara	93,000	-	-	-	-	-	93,000	-	1
Ian Campbell	90,000	-	-	-	-	-	90,000	-	1
Sub-total non-executive directors	**774,666**	**-**	**-**	**-**	**-**	**-**	**774,666**		
Executive directors									
Robert Browning	623,986	-	28,008	-	-	478,754	1,130,748	42.3	5
Michael Atkinson	364,105	-	-	-	-	15,346	379,451	4.0	2
Other key management personnel									
Joseph Rella	374,065	84,527	35,646	-	-	21,330	515,568	4.1	5
Greg Metcalf*	131,353	-	-	5,812	212,994	11,290	361,449	3.1	3
Richard Simons*	125,960	-	-	11,274	-	9,397	146,631	6.4	4
William Rotteveel	231,682	9,050	-	18,847	-	15,615	275,194	5.7	3
Mark Dummett	254,285	9,760	-	23,377	-	21,648	309,070	7.0	3
Andrew Bellamy	324,507	32,110	-	28,321	-	12,537	397,475	3.2	4
Peter Hogan*	155,790	22,242	-	21,946	83,479	(1,641)	281,816	7.3	4
Sub-total executive KMP	**2,585,733**	**157,689**	**63,654**	**109,577**	**296,473**	**584,276**	**3,797,402**		
Total	**3,360,399**	**157,689**	**63,654**	**109,577**	**296,473**	**584,276**	**4,572,068**		

* Key management personnel for part of year of 2010.

REMUNERATION REPORT (Audited) (Continued)

CONTRACT TERMS NOTES

1. Directors fees only.
2. Subcontract – no fixed notice period or duration. No termination entitlements.
3. Employment contract – one week notice period or duration. No non-statutory termination entitlements.
4. Employment contract – nine months' notice period. No non-statutory termination entitlements.
5. Employment contract – upon involuntary termination of employment without cause, a severance of six months' salary will be paid.

TABLE 3: COMPENSATION OPTIONS: GRANTED AND VESTED DURING THE YEAR ^

	Granted	Terms & Conditions for each Grant						
	No.	Grant Date	Fair Value per option at grant date ($)	Exercise price per option ($)	Expiry Date	First Exercise Date	Last Exercise Date	Vested No.
30 June 2011								
Michael Atkinson	140,000	28 Sep 2010	0.840	2.34	29 Sep 2017	29 Sep 2013	29 Sep 2017	-
Joseph Rella	140,000	28 Sep 2010	0.840	2.34	29 Sep 2017	29 Sep 2013	29 Sep 2017	-
Richard Simons	140,000	28 Sep 2010	0.840	2.34	29 Sep 2017	29 Sep 2013	29 Sep 2017	-
Mark Dummett	70,000	28 Sep 2010	0.840	2.34	29 Sep 2017	29 Sep 2013	29 Sep 2017	-
Andrew Bellamy	140,000	28 Sep 2010	0.840	2.34	29 Sep 2017	29 Sep 2013	29 Sep 2017	-
Total	**630,000**							**-**
30 June 2010								
Joseph Rella	140,000	3 Nov 2009	0.522	2.95	30 Oct 2016	30 Oct 2012	30 Oct 2016	-
Richard Simons*	140,000	16 Feb 2010	0.561	2.45	27 Feb 2017	27 Feb 2013	27 Feb 2017	-
William Rotteveel***	70,000	3 Nov 2009	0.522	2.95	30 Oct 2016	30 Oct 2012	30 Oct 2016	-
Mark Dummett	70,000	3 Nov 2009	0.522	2.95	30 Oct 2016	30 Oct 2012	30 Oct 2016	-
Andrew Bellamy	140,000	3 Nov 2009	0.522	2.95	30 Oct 2016	30 Oct 2012	30 Oct 2016	-
Peter Hogan*	140,000	3 Nov 2009	0.522	2.95	**	**	**	-
	100,000	16 Feb 2010	0.690	1.81	27 Feb 2016	27 Feb 2012	27 Feb 2016	-
Total	**800,000**							**-**

* Key management personnel for part of year of 2010.
** 140,000 options were forfeited on cessation of employment.
*** Forfeited in 2011.
Of existing option holdings only 140,000 of Michael Atkinson and 67,500 of Mark Dummett's options had vested during the year and no options we exercised (2010: No options vested or were exercised during the year or prior year).

TABLE 4: OPTIONS GRANTED AS PART OF REMUNERATION ^

	Value of options granted during the year $	Value of options exercised during the year $	Value of options forfeited during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
30 June 2011					
Michael Atkinson	117,600	-	-	-	8.1
Joseph Rella	117,600	-	-	-	10.9
Richard Simons	117,600	-	-	-	10.4
Mark Dummett	58,800	-	-	-	8.5
Andrew Bellamy	117,600	-	-	-	7.4
30 June 2010					
Joseph Rella	73,080	-	-	-	4.1
Richard Simons*	78,540	-	-	-	6.4
William Rotteveel	36,540	-	-	-	5.7
Mark Dummett	36,540	-	-	-	7.0
Andrew Bellamy	73,080	-	-	-	3.2
Peter Hogan*	73,080	-	73,080	-	-
	69,000	-	-	-	3.7

* Key management personnel for part of year of 2010.

REMUNERATION REPORT (Audited) (Continued)

TABLE 5: SHARES HELD IN AGMSP (IN SUBSTANCE OPTIONS) GRANTED AS PART OF REMUNERATION ^

	Value of shares held in AGMSP (in substance options) granted during the year $	Value of shares held in AGMSP (in substance options) exercised during the year $	Total value of options granted, and exercised during the year $	Remuneration consisting of in substance options for the year %
30 June 2011				
Robert Browning*	-	-	-	-
30 June 2010				
Robert Browning*	-	-	-	42.3

^ For details on the valuation of the options, including models and assumptions used, please refer to Note 29 to the financial statements.

* Robert Browning was granted 3,000,000 in substance options on 22 October 2007 at an average fair value and exercise price of $0.96 and $3.51 respectively. The first exercise date for these in substance options was 22 October 2008.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. The maximum cost assuming that all service and performance conditions are met, is equal to the number of options or rights granted multiplied by the fair value at the grant date. The minimum cost assuming that service and performance criteria are not met is zero. During the year Nil (2010: 600,000) in substance options vested and Nil (2010: 285,000) were exercised by KMP. See note 28(d).

END OF REMUNERATION REPORT (Audited)

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Directors' Meetings	Meetings of Audit Committee	Meetings of Nomination and Remuneration Committee
Number of meetings held	6	4	2
Number of meetings attended:			
John Rothwell	6	-	2
Michael Atkinson	4	-	-
Christopher Norman	6	3	-
John Poynton	5	-	1
Robert Browning *	2	-	1
Dario Amara	6	4	-
Ian Campbell	6	4	2
Andrew Bellamy *	2	-	-

* Director for part of year of 2011.

COMMITTEE MEMBERSHIP

As at the date of this report, the Company had an Audit Committee and a Nomination and Remuneration Committee of the Board of Directors.

Members acting on the committees of the Board during the year were:

AUDIT	NOMINATION AND REMUNERATION
D Amara *	I Campbell *
C Norman	J Rothwell
I Campbell	J Poynton

* Designates the Chairman of the committee

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 Class Order 98/0100. The Company is an entity to which the Class Order applies.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

ERNST & YOUNG

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

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Auditor's Independence Declaration to the Directors of Austal Limited

In relation to our audit of the financial report of Austal Limited for the financial year ended 30 June 2011, 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

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
18 August 2011

Liability limited by a scheme approved under Professional Standards Legislation

GB:MB:AUSTAL:090

NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, Ernst & Young, during the year.

Signed in accordance with a resolution of directors.

J ROTHWELL AO
Chairman

Andrew Bellamy

A BELLAMY
Executive Director and Chief Executive Officer

Dated at Henderson this 18th day of August 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Continuing operations			
Revenue	3(a)	503,856	521,414
Other income	3(b)	10,401	9,242
Expenses (excluding finance costs)	3(c)	(492,403)	(474,817)
Impairment of land and buildings	3(d)	-	(2,462)
Unrealised gain/(loss) on deferred premium options	3(e)	677	618
Finance costs	3(f)	(2,739)	(2,838)
Profit before income tax		**19,792**	**51,157**
Income tax benefit/(expense)	5	2,098	(14,025)
Profit after tax from continuing operations		**21,890**	**37,132**
Attributable to Members of the Parent		**21,890**	**37,132**
Other comprehensive income			
Cash flow hedges:			
Gain taken to equity		52,483	12,554
Transferred to the statement of comprehensive income		(51,076)	(1,684)
Foreign currency translations		(7,180)	(1,416)
Income tax expense on items of other comprehensive income		(422)	(3,268)
Other comprehensive income for the period, net of tax		**(6,195)**	**6,186**
Total comprehensive income for the year		15,695	43,318
Attributable to members of the parent		**15,695**	**43,318**
Earnings per share (cents per share)			
- basic for profit for the year attributable to ordinary equity holders of the parent	6	11.9	20.3
- diluted for profit for the year attributable to ordinary equity holders of the parent	6	11.9	20.2
Dividends per share (cents per share)	**7**	**6.0**	**6.0**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2011

	Notes	2011 $'000	2010 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	8	42,265	29,030
Restricted cash	8	128,837	-
Trade and other receivables	9	21,986	31,060
Inventories	10	177,922	275,288
Prepayments	11	5,792	2,206
Derivatives	15	37,805	60,273
Total Current Assets		**414,607**	**397,857**
Non-current Assets			
Other financial assets	8	903	1,138
Trade and other receivables	9	15	-
Prepayments	11	-	309
Derivatives	15	37,233	16,394
Property, plant and equipment	12	208,275	217,734
Intangible assets	13	5,063	3,786
Deferred tax assets	5	8,524	10,900
Total Non-current Assets		**260,013**	**250,261**
Total Assets		**674,620**	**648,118**
LIABILITIES			
Current Liabilities			
Trade and other payables	16	52,837	87,488
Derivatives	15	153	2,690
Interest-bearing loans and borrowings	17	8,554	46,567
Provisions	19	26,409	25,187
Government grants	18	3,567	4,840
Income tax payable		20,724	19,755
Other	20	2,679	11,816
Total Current Liabilities		**114,923**	**198,343**
Non-current Liabilities			
Derivatives	15	274	6,320
Interest-bearing loans and borrowings	17	217,985	79,335
Provisions	19	2,138	2,829
Government grants	18	41,899	55,045
Deferred tax liabilities	5	23,235	36,881
Total Non-current Liabilities		**285,531**	**180,410**
Total Liabilities		**400,454**	**378,753**
Net Assets		**274,166**	**269,365**
EQUITY			
Contributed equity	21	31,175	30,870
Reserves	21	20,063	26,173
Retained earnings	21	222,928	212,322
Total Equity		**274,166**	**269,365**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers		573,626	549,683
Payments to suppliers and employees		(506,755)	(664,945)
Interest received		429	1,264
Interest paid		(2,739)	(2,838)
Income tax received/(paid)		(8,200)	798
GST refunds		5,638	9,024
Receipts/(repayment) of government grants		2,284	11,725
Net cash inflow/(outflow) from operating activities	8	64,283	(95,289)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		3,607	10
Purchase of property, plant and equipment		(44,755)	(46,503)
Purchase of intangible assets		(1,442)	(1,922)
Net cash used in investing activities		(42,590)	(48,415)
Cash flows from financing activities			
Repayment of loan – in substance options		305	774
Repayment of borrowings		(253,115)	(16,887)
Loans received		383,496	107,566
Equity dividends paid		(11,284)	(11,284)
Net cash from/(used) in financing activities		119,402	80,169
Net increase/(decrease) in cash and cash equivalents		141,095	(63,535)
Net foreign exchange differences		977	(463)
Cash and cash equivalents at beginning of period		29,030	93,028
Cash and cash equivalents at end of period	**8**	**171,102**	**29,030**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Attributable to equity holders of the parent						
	Issued capital $'000	Reserved shares* $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Cash flow hedge reserve $'000	Other Reserves** $'000	Total Equity $'000
As at 1 July 2009	**41,075**	**(10,979)**	**186,474**	**(269)**	**32,921**	**(13,487)**	**235,735**
Currency translation differences	-	-	-	(1,416)	-	-	(1,416)
Net gains on cash flow hedges	-	-	-	-	8,791	-	8,791
Transfer from cash flow hedge reserve	-	-	-	-	(1,189)	-	(1,189)
Total other comprehensive income for the year	-	-	-	(1,416)	7,602	-	6,186
Profit for the year	-	-	37,132	-	-	-	37,132
Total comprehensive income for the year	-	-	37,132	(1,416)	7,602	-	43,318
Equity Transactions:							
Options exercised	-	774	-	-	-	-	774
Cost of share-based payments	-	-	-	-	-	822	822
Equity dividends	-	-	(11,284)			-	(11,284)
As at 30 June 2010	**41,075**	**(10,205)**	**212,322**	**(1,685)**	**40,523**	**(12,665)**	**269,365**
As at 1 July 2010	**41,075**	**(10,205)**	**212,322**	**(1,685)**	**40,523**	**(12,665)**	**269,365**
Currency translation differences	-	-	-	(7,180)	-	-	(7,180)
Net gains on cash flow hedges	-	-	-	-	36,739	-	36,739
Transfer from cash flow hedge reserve	-	-	-	-	(35,754)	-	(35,754)
Total other comprehensive income for the year	-	-	-	(7,180)	985	-	(6,195)
Profit for the year	-	-	21,890	-	-	-	21,890
Total comprehensive income for the year	-	-	21,890	(7,180)	985	-	15,695
Equity Transactions:							
Options exercised	-	305	-	-	-	-	305
Cost of share-based payments	-	-	-	-	-	85	85
Equity dividends	-	-	(11,284)	-	-	-	(11,284)
As at 30 June 2011	**41,075**	**(9,900)**	**222,928**	**(8,865)**	**41,508**	**(12,580)**	**274,166**

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

** Refer to note 21 for details of movements in other reserves

.

NOTE1. CORPORATE INFORMATION

The financial report of the Austal Limited Group of Companies (the Group) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 18 August 2011.

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

The nature of the operations and principal activities of the Group are described in note 4.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments 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 Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

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

(b) Statement of compliance

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

From 1 July 2010 the Group has adopted all the Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2010, including the following pronouncements:

- AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117,118,136,139]
- AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]
- AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]
- AASB 2010-3: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]
- Interpretation 19: Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments.

Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

A number of Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective. The relevant pronouncements are as follows:

AASB 9: Financial Instruments AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). The application date for the Group is 1 January 2013.

AASB 2009-11: Amendments to various Australian Accounting Standards arising from AASB 9. The application date for the Group is 1 January 2013.

AASB 124 (Revised) Related Party Disclosures (December 2009): The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. The application date for the Group is 1 January 2011.

AASB 2009-12: Amendments to Australian Accounting Standards. This amendment makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. The application date for the Group is 1 January 2011.

AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement. These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit.

The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made. The application date for the Group is 1 January 2011.

AASB 1053: Application of Tiers of Australian Accounting Standards. This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

The following entities apply Tier 1 requirements in preparing general purpose financial statements:

(a) For-profit entities in the private sector that have public accountability (as defined in this Standard)

(b) The Australian Government and State, Territory and Local Governments

The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:

(a) For-profit private sector entities that do not have public accountability

(b) All not-for-profit private sector entities

Public sector entities other than the Australian Government and State, Territory and Local Governments. The application date for the Group is 1 July 2013.

AASB 1054: Australian Additional Disclosures. This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.

This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:

(a) Compliance with Australian Accounting Standards

(b) The statutory basis or reporting framework for financial statements

(c) Whether the financial statements are general purpose or special purpose

(d) Audit fees

(e) Imputation credits

The application date for the Group is 1 July 2011.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13] emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. The application date for the Group is 1 January 2011.

AASB 2010-5: Amendments to Australian Accounting Standards. This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. The application date for the Group is 1 January 2011.

AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]. The amendments increase the disclosure requirements for transactions involving transfers of financial assets. Disclosures require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale. The application date for the Group is 1 July 2011.

AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010). This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:

- The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
- The remaining change is presented in profit or loss

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. The application date for the Group is 1 January 2013.

AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]. These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112. The application date for the Group is 1 January 2012.

AASB 2011-1: Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project. This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. This Standard amends many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054. The application date for the Group is 1 July 2011.

AASB 2011-2: Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054]. This Standard makes amendments to the application of the revised disclosures to Tier 2 entities that are applying AASB 1053. The application date for the Group is 1 July 2013.

A full assessment has not yet been completed of the impact of all the new or amended Accounting Standards and interpretations issued but not effective.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Austal Limited and its subsidiaries as at and for the year ended 30 June each year (the Group).

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

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

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. Dividends received from subsidiaries are recorded as a component of other revenues in the statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

(d) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group’s operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

(e) Significant accounting judgements, estimates and assumptions

(i) Significant accounting judgements

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Vessel forecast

The Group has determined that the outcome of vessels under construction can be reliably measured.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Significant accounting judgements, estimates and assumptions (continued)

Tax losses

The Group has estimated that there will be adequate future profits available to absorb all the tax losses incurred to date.

Recovery of deferred tax assets

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

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists, the recoverable amount of the asset is determined. The recoverable amount of the asset is the higher of fair value less costs to sell and value in use. In assessing 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.

For an asset that does not generate largely independent cash inflows, the recoverable amount 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.

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

(ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Workers compensation

The Group has carried out an estimation of workers compensation claims that have been incurred but not yet reported.

Warranty

The Group has carried out an estimation of warranty costs that have been incurred but not yet reported.

Long service leave

Assumptions are formulated when determining the Group's long service leave obligations. This requires estimation of the probability of current employees attaining the service period required to qualify for long service leave benefits.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Monte Carlo model, with the assumptions detailed in note 29.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience. In addition, 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 charges are included in note 12.

Derivative financial instruments and hedging

When applying hedge accounting the Group has considered all relevant factors in determining that the future anticipated transaction is highly probable.

(f) Revenue recognition

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Construction Contract Revenue

Construction contract revenue is brought to account on a percentage of completion basis, based on actual costs incurred as a proportion of estimated total contract costs.

Where the contract outcome cannot be measured reliably, contract costs are recognised as an expense as incurred and where it is probable that the costs will be recovered, revenue is recognised only to the extent of the costs incurred.

(ii) Sale of Goods and Scrap

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

(iii) Charter Revenue

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

(iv) Service Revenue

Service revenue is brought into account on a percentage of completion basis, based on actual costs incurred as a proportion of estimated total contract costs. Where the contract outcome cannot be measured reliably, contract costs are recognised as an expense as incurred and where it is probable that the cost will be recovered, revenue is recognised only to the extent of the costs incurred.

(v) Interest income

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

(vi) Dividends

Revenue is recognised when the Group's right to receive the payment is established.

(g) Government grants

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

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Austal Limited does not currently hold qualifying assets but, if it did, the borrowing costs directly associated with this asset would be capitalised (including any other associated costs directly attributable to the borrowing and temporary investment income earned on the borrowing).

(i) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(j) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of cash held as a guarantee.

(k) Trade and other receivables

Trade receivables, which are within the normal credit terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

(l) Reserved shares

Own equity instruments which are issued and held by a trustee under Austal Group Management Share Plan 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.

(m) Inventories

Construction work in progress is valued at contract cost incurred to date, plus profit recognised to date, less any provision for anticipated future losses and progress billings. Costs include production overheads. Construction profits are recognised on the percentage of completion basis. Percentage of completion is determined by reference to actual costs to date as a proportion of estimated total contract costs.

Stock and finished goods are valued at the lower of cost and net realisable value, where costs include production overheads. Cost of stock is determined on the weighted average cost basis.

(n) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward exchange contracts and forward currency options to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken to the statement of comprehensive income.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment other than foreign currency risk; or
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or foreign exchange risks on firm commitments.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment other than foreign exchange rate risk, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured to fair value and gains and losses from both are taken to the statement of comprehensive income

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the statement of comprehensive income. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

(ii) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and the foreign exchange risks on firm commitments and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the statement of comprehensive income.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Derivative financial instruments and hedging (continued)

(ii) Cash flow hedges (continued)

Amounts taken to equity are transferred to the statement of comprehensive income when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a committed and future sale or the asset is consumed. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the statement of comprehensive income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to statement of comprehensive income for the period.

(n) Foreign currency translation

Both the functional and presentation currency of Austal Limited and its Australian subsidiaries is Australian dollars (A$). Each entity in the Group determines its own functional currency 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 at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date. All exchange differences arising from the above procedures are taken to the statement of comprehensive income.

The functional currency of Austal USA is United States dollars (US$).

As at the reporting date, the assets and liabilities of the overseas subsidiaries are translated into the presentation currency of Austal Limited at the rate of exchange ruling at the balance date and the statement of comprehensive income is translated at the average exchange rates for the period. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

(o) Income tax

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

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.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or 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 or loss; or
- when the taxable temporary differences associated with investments in subsidiaries, associates or interests in 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.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses 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 or loss; or
- when the deductible temporary differences is 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 it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary

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 income 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 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.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

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.

(p) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

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

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Property, plant and equipment

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

Land and buildings are measured at historical cost less accumulated depreciation on buildings and less any impairment losses.

Depreciation is calculated on a straight-line and diminishing value basis over the estimated useful life of the asset as follows:

Buildings – over 40 years straight-line

Plant and equipment – over 2 to 10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with 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. In assessing 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.

For an asset that does not generate largely independent cash inflows, recoverable amount 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-general 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 statement of comprehensive income.

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.

(ii) 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 or disposal.

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 statement of comprehensive income in the year the asset is derecognised.

(r) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired as well as through the amortisation process.

(s) Impairment – Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset which is measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows, discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(t) Intangible assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are 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 profits 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 are reviewed at least at each financial year-end. 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 is 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:

	Computer Software
Useful lives	Finite
Method used	2.5 years – Straight line
	Amortisation method reviewed at each financial year-end
Internally generated or acquired	Acquired
Impairment testing	Reviewed annually for indicator of impairment

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing 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.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(v) Trade and other payables

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.

(w) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised.

(x) Provisions

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.

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.

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

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

(i) Warranties

Provision for warranty is made upon delivery of the vessels based on the estimated future costs of warranty repairs on vessels.

(ii) 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.

(iii) Provision for onerous contracts

Provision is made for unrecognised present obligations of contracts to the extent that it exceeds the economic benefits expected to be received under the contracts.

(y) Employee leave benefits

(i) Wages, salaries, annual leave, vested sick leave and work safe bonus

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be 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.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounting using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(z) Share-based payment transactions

Equity settled transactions

The Group provides benefits to employees (including executive directors and key management personnel) 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).

There are currently two plans in place to provide these benefits, which extend to senior management and directors:

- The Austal Group Management Share Plan (AGMSP); and
- The Employee Share Option Plan (ESOP).

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Monte Carlo model.

In valuing equity-settled transactions, 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.

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).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Share-based payment transactions (continued)

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, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income 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.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is 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.

If an equity-settled award is cancelled, it 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, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Shares in the Group held by the AGMSP are classified and disclosed as reserved shares and deducted from equity. Refer to note 2(l) for the accounting policy applied to these shares.

(aa) Contributed equity

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

(ab) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; and
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(ac) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers — being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services
- Nature of the production processes
- Type or class of customer for the products and services
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately.

However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for “all other segments”. Refer to Note 4.

NOTE 3. REVENUE AND EXPENSES

	2011 $'000	2010 $'000
Revenue and Expenses from Continuing Operations		
(a) Revenue		
Construction contract revenue	469,161	476,611
Charter revenue	9,968	12,300
Service revenue	21,591	29,279
Rental revenue	543	28
Sale of scrap	2,164	1,932
Interest from other unrelated parties	429	1,264
	503,856	521,414
(b) Other income		
Government grants	6,056	8,934
Other income	4,345	308
	10,401	9,242
(c) Expenses		
Cost of sales – construction contracts	422,268	397,903
Cost of sales – service	11,277	27,069
Marketing expenses	15,071	9,306
Administration expenses	36,175	32,183
Chartering expenses	7,612	8,356
	492,403	474,817
(d) Impairment		
Impairment of land and buildings	-	2,462
(e) Unrealised loss on deferred premium options		
Unrealised foreign exchange loss/(gain) on forward currency options less deferred premiums	(677)	(618)
(f) Finance costs		
Interest paid to unrelated parties	2,739	2,838
(g) Depreciation, amortisation and foreign exchange differences included in the statement of comprehensive income		
Depreciation excluding impairment	14,378	10,503
Amortisation	1,127	1,463
(Gain)/Loss on disposal of property, plant and equipment	(39)	5
Net foreign exchange loss/(gain)	(4,129)	741
(h) Lease payments included in statement of comprehensive income (Included in administration expenses)		
Rental expenses on operating leases	1,431	603

NOTE 3. REVENUE AND EXPENSES (continued)

	2011 $'000	2010 $'000
(i) Employee benefits expense		
Wages and salaries	157,455	142,573
Superannuation	6,066	7,765
Share based payments	85	822
Workers' compensation costs	2,180	2,513
Annual leave (reversal)/expense	458	1,578
Long service leave expense	(675)	56
	165,569	155,307

NOTE 4. OPERATING SEGMENTS

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

The Group's reportable segments are as follows:

Australia

The Australian business manufactures high performance vessels for markets worldwide, excluding the USA.

USA

The USA manufactures high performance vessels for markets within the USA.

Service

The Service business provides training and on-going support and maintenance for high performance vessels and includes the chartering of vessels.

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

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 to the accounts.

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

NOTE 4. OPERATING SEGMENTS (continued)

	Australia $'000	USA $'000	Service $'000	Other/ Unallocated $'000	Eliminations/ Adjustments $'000	Total $'000
Year Ended 30 June 2011						
Revenues						
External customers	144,250	328,709	15,736	14,732	-	503,427
Inter-segment	21,111	16,340	-	2,466	(39,917)	-
Total revenues	**165,361**	**345,049**	**15,736**	**17,198**	**(39,917)**	**503,427**
Net profit/(loss) before tax	**(8,573)**	**19,386**	**1,816**	**9,729**	**(256)**	**22,102**
Depreciation and amortisation	(2,367)	(9,246)	(1,370)	(2,522)	-	(15,505)
Gain on deferred premium	677	-	-	-	-	677
Segment assets	**406,988**	**280,187**	**4,851**	**318,819**	**(336,225)**	**674,620**
Additions to non-current assets	**2,653**	**41,683**	**333**	**-**	**-**	**44,669**
Year Ended 30 June 2010						
Revenues						
External customers	219,697	267,016	41,595	1,702	-	530,010
Inter-segment	14,799	279	3,316	22,188	(40,582)	-
Total revenues	**234,496**	**267,295**	**44,911**	**23,890**	**(40,582)**	**530,010**
Net profit/(loss) before tax	**27,601**	**23,722**	**2,757**	**(1,562)**	**213**	**52,731**
Depreciation and amortisation	(2,373)	(8,190)	(30)	(1,373)	-	(11,966)
Impairment of land and buildings	(2,462)	-	-	-	-	(2,462)
Gain on deferred premium	618	-	-	-	-	618
Segment assets	**352,676**	**300,077**	**18,102**	**338,421**	**(361,158)**	**648,118**
Additions to non-current assets	**2,638**	**45,260**	**140**	**57**	**-**	**48,095**

i) Segment revenue does not include finance revenue of $0.429 million (30 June 2010: $1.264 million).

ii) Segment profit before tax does not include finance revenue of $0.429 million (30 June 2010: $1.264 million) and finance costs of $2.739 million (30 June 2010: $2.838 million).

During the current and prior year one customer in the USA segment generated revenue of $328.709 million (2010: $267.016 million). In the current year two customers in the Australian segment generated revenue of $78.734 million (2010: $nil million) and $31.044 million (2009: $nil) respectively. During the prior financial year two customers in the Australian segment generated revenue of $84.917 million and $80.772 million respectively.

Revenue from external customers by geographical location of customers:*	2011 $'000	2010 $'000
North America	328,709	354,404
South America	36,297	-
Europe	91,577	134,319
Asia	8,045	27,956
Australia	24,067	11,629
Unallocated	14,732	1,702
Total	**503,427**	**503,010**

NOTE 4. OPERATING SEGMENTS (continued)

	Notes	2011 $'000	2010 $'000
Non-current assets, other than financial instruments and deferred tax assets by geographical location:			
USA		167,177	170,382
Australia		46,161	51,138
Total		**213,338**	**221,520**
Non-current assets, by geographical location comprise:			
Property, plant and equipment	12	208,275	217,734
Intangible assets	13	5,063	3,786
Total		**213,338**	**221,520**

NOTE 5. INCOME TAX

	2011 $'000	2010 $'000
The major components of income tax expense are:		
Statement of comprehensive income		
Current income tax		
Current income tax charge	12,117	-
Adjustments in respect of current income tax of the previous year	(5,264)	67
Deferred income tax		
Relating to origination and reversal of temporary differences	(8,951)	13,958
Income tax expense/(benefit) reported in the statement of comprehensive income	**(2,098)**	**14,025**
Statement of changes in equity		
Deferred income tax related to items charged or credited directly to equity		
Deferred gains and losses on foreign currency contracts	422	(5,379)

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:

	2011	2010
Accounting profit/(loss) before income tax from continuing operations	19,792	51,157
At the Group's statutory income tax rate of 30% (2010: 30%)	5,938	15,347
Adjustment for Austal USA statutory income tax rate of 36.9% (2010: 36.9%)	(73)	(79)
Current year research & development allowances	(3,520)	(2,306)
Prior year research & development allowances	(3,796)	-
Share based payments (equity settled)	(240)	212
Franking deficit tax rebate	(798)	-
Other	391	851
Income tax expense/(benefit) reported in the statement of comprehensive income	**(2,098)**	**14,025**

NOTE 5. INCOME TAX (continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
Deferred tax assets - Australia				
Unrealised foreign exchange loss	8,072	331	(7,741)	(331)
Undeducted borrowing costs	63	72	9	(72)
Provisions	5,884	7,242	1,358	(682)
Payables	764	524	(240)	(524)
Losses available for offset against future taxable income	1,741	3,667	1,926	(2,292)
	16,524	**11,836**		
Deferred tax liabilities - Australia				
Unrealised foreign exchange gain	1,845	315	1,530	315
Inventories	946	11,362	(10,416)	6,869
Deferred gains and losses on foreign currency contracts	22,383	19,606	5,096	1,157
Research & Development	14,585	17,434	(2,849)	9,437
	39,759	**48,717**		
Net deferred tax liabilities - Australia	**23,235**	**36,881**		
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
Deferred tax assets - USA				
Provisions	1,535	539	(996)	(109)
Payables	-	500	500	(500)
Unrealised foreign exchange gain	413	-	(413)	-
Losses available for offset against future taxable income	6,576	9,861	3,285	690
	8,524	**10,900**		
Net deferred tax assets - USA	**8,524**	**10,900**		
Deferred tax expense /(income)			**(8,951)**	**13,958**

NOTE 5. INCOME TAX (continued)

Tax consolidation

Austal Limited ('the Company') is the head entity in a tax-consolidated group comprising the Company and its 100% owned Australian resident subsidiaries. The implementation date of the tax consolidated system for the tax-consolidated group was 1 July 2002. Members of the group have 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 should the head entity default on its tax payment obligations. At the balance date, the possibility of default was remote.

Tax effect by members of the tax consolidated group

The current and deferred tax amounts for the tax-consolidated group are allocated among the entities in the group using a stand-alone taxpayer approach whereby each entity in the tax-consolidated group measures its current and deferred taxes as if it 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 tax liabilities (or assets) and deferred tax assets 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 (refer below).

The Company 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/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity.

In preparing the accounts for the parent company for the current year, no amounts have been recognised as tax consolidation contribution/distribution adjustments.

NOTE 6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit 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 amounts are calculated by dividing the net profit 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 the dilutive potential ordinary shares into ordinary shares.

The following reflects the income share data used in the basic and diluted earnings per share computations:

	2011 $'000	2010 $'000	2011 Number	2010 Number
Net profit attributable to ordinary equity holders of the parent from continuing operations	21,890	37,132		
Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share			183,559,322	183,311,350
Effect of dilution – share options			767,611	782,824
Weighted average number of ordinary shares (excluding reserved shares) adjusted for the effect of dilution			184,326,933	184,094,174
Earnings per share (cents per share)	11.9	20.3		
Diluted earnings per share (cents per share)	11.9	20.2		

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. 9,664,402 (2010: 6,874,402) potential ordinary shares have been excluded from the earnings per share calculation as they were not considered dilutive.

NOTE 7. DIVIDENDS PAID AND PROPOSED

	2011 $'000	2010 $'000
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for 2010: 6 cents (2009: 6 cents)	**11,284**	**11,284**
Approved by Directors on 18 August 2011 (not recognised as a liability as at 30 June):		
Dividends on ordinary shares:		
Final franked dividend for 2011: 6 cents (2010: 6 cents)	**11,284**	**11,284**

The tax rate at which paid dividends have been franked is 30% (2010: 30%). Dividends proposed will be franked at the rate of 30% (2010: 30%).

As at 30 June 2011, franking credits available to the parent company were $0.417 million (2010: $0.010 million). It is anticipated that income tax will be paid during the year ending 30 June 2012, which will be sufficient to cover the franking credits applicable to the dividend declared.

NOTE 8. CASH AND CASH EQUIVALENTS

	2011 $'000	2010 $'000
Current		
Cash at bank and in hand	42,265	29,030
Restricted cash (i)	128,837	-
Non-current		
Other financial assets		
Restricted cash (ii)	903	1,138

Cash at bank earns interest at floating rates based 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 30 June:

	2011	2010
Cash at bank and in hand	172,005	30,168
Less restricted cash held as a guarantee - non current	(903)	(1,138)
	171,102	**29,030**

(i) Current restricted cash represents the unspent proceeds of the Go Zone Bond issuance which occurred in May 2011. The funds may only be spent on those capital works projects that were specifically identified in the documentation issued to investors. It is expected that the restricted cash will be fully utilised in the course of the next year in funding the approved capital works.

The restricted cash is invested in capital protected interest bearing US government securities.

(ii) Non-current restricted cash represents a security deposit held for worker's compensation insurance.

NOTE 8. CASH AND CASH EQUIVALENTS (continued)

	2011 $'000	2010 $'000
Reconciliation of net profit after tax to net cash flows from operations		
Net profit	**21,890**	**37,132**
Adjustments for:		
Depreciation and impairment	14,378	12,965
Amortisation	1,127	1,463
Net loss on disposal of property, plant and equipment	(39)	5
Share based payment	85	822
Unrealised (gain)/loss on deferred premium options and other derivative financial instruments	(677)	(618)
Changes in assets and liabilities:		
(Decrease)/increase in provisions for:		
Income tax (current and deferred)	(10,298)	15,815
Workers' compensation insurance	(272)	1,580
Warranty	1,598	(3,501)
Employee benefits	(1,835)	(380)
Other provisions	196	26
(Increase)/decrease in debtors	9,060	2,135
(Increase)/decrease in work in progress	97,515	(171,233)
(Increase)/decrease in other inventories	(150)	-
(Increase)/decrease in other assets	(5,027)	(74)
(Increase)/decrease in other financial assets	(5,056)	65
(Decrease)/increase in trade creditors	(34,655)	26,984
(Decrease)/increase in progress payments in advance	(9,138)	(27,282)
(Decrease)/increase in government grants	(14,419)	7,582
(Decrease)/increase in other financial liabilities	-	1,225
Net cash inflow/(outflow) from operating activities	**64,283**	**(95,289)**

NOTE 9. TRADE AND OTHER RECEIVABLES

	2011 $'000	2010 $'000
Current		
Trade amounts owing by unrelated entities – construction contracts (i)	23,849	31,060
Provision for doubtful debts (ii)	(1,863)	-
	21,986	**31,060**
Non-current		
Trade amounts owing by unrelated entities	15	-

(i) Current trade amounts owing by unrelated entities are generally on 7 day terms.

(ii) During the year the group provided for $1.863 million (2010: Nil) as a provision for doubtful debts. These provisions have been created in relation to specific debtors whose debts were past due. The Group is currently negotiating payment arrangements with these debtors, however does not believe there is objective evidence that these debts are not impaired.

NOTE 10. INVENTORIES

	2011 $'000	2010 $'000
Construction work in progress – total amounts due from customers on construction contracts and stock vessels at cost	1,307,390	1,288,401
Less: progress payments received and receivable from construction contracts	(1,129,687)	(1,013,182)
	177,703	**275,219**
Materials	219	69
Total inventories	**177,922**	**275,288**

NOTE 11. PREPAYMENTS

	2011 $'000	2010 $'000
Current		
Prepayments	5,792	2,206
Non-current		
Prepayments	-	309

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings $'000	Plant & equipment $'000	Capital WIP $'000	Total $'000
Year ended 30 June 2011				
At 1 July 2010				
Carrying amount net of accumulated depreciation and impairment	157,909	43,050	16,775	217,734
Additions	5,441	12,649	26,579	44,669
Transfer in/(out)	16,537	319	(16,769)	87
Disposals	(3,029)	(542)	-	(3,571)
Depreciation charge for the year	(7,089)	(7,289)	-	(14,378)
Exchange adjustment	(26,592)	(5,809)	(3,865)	(36,266)
At 30 June 2011, carrying amount net of accumulated depreciation and impairment	**143,177**	**42,378**	**22,720**	**208,275**
At 1 July 2010				
Cost	181,117	75,194	16,775	273,086
Accumulated depreciation and impairment	(23,208)	(32,144)	-	(55,352)
Net carrying amount	**157,909**	**43,050**	**16,775**	**217,734**
At 30 June 2011				
Cost	171,855	77,478	22,720	272,053
Accumulated depreciation and impairment	(28,678)	(35,100)	-	(63,778)
Net carrying amount	**143,177**	**42,378**	**22,720**	**208,275**

NOTE 12. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land & buildings $'000	Plant & equipment $'000	Capital WIP $'000	Total $'000
Year ended 30 June 2010				
At 1 July 2009				
Carrying amount net of accumulated depreciation and impairment	85,143	32,616	69,405	187,164
Additions	31,279	17,062	1,053	49,394
Transfer in/(out)	49,915	714	(50,629)	-
Disposals	(3)	(16)	-	(19)
Depreciation charge for the year	(3,872)	(6,631)	-	(10,503)
Impairment (iii)	(2,462)	-	-	(2,462)
Exchange adjustment	(2,091)	(695)	(3,054)	(5,840)
At 30 June 2010, carrying amount net of accumulated depreciation and impairment	**157,909**	**43,050**	**16,775**	**217,734**
At 1 July 2009				
Cost	102,223	58,408	69,405	230,036
Accumulated depreciation and impairment	(17,080)	(25,792)	-	(42,872)
Net carrying amount	**85,143**	**32,616**	**69,405**	**187,164**
At 30 June 2010				
Cost	181,117	75,194	16,775	273,086
Accumulated depreciation and impairment	(23,208)	(32,144)	-	(55,352)
Net carrying amount	**157,909**	**43,050**	**16,775**	**217,734**

(i) The useful life of the assets was estimated as follows both for 2011 and 2010:

Building	40 years
Plant and equipment	2 to 10 years

(ii) Assets are encumbered to the extent noted in note 17.

(iii) An impairment had been recognised due to the closure of ship building facilities in Tasmania, Australia. The assets recoverable amount was their fair value less cost to sell which had been determined by an independent valuer and was based on the usage of the property as a maritime facility. These facilities were sold during the 2011 year.

NOTE 13. INTANGIBLE ASSETS

	2011 $'000	2010 $'000
Computer Software		
Year ended 30 June		
At 1 July, net of accumulated amortisation	**3,786**	**3,452**
Additions	3,193	1,943
Amortisation for the year	(1,127)	(1,463)
Exchange adjustment	(789)	(146)
At 30 June, net of accumulated amortisation and impairment	**5,063**	**3,786**
At 1 July		
Cost	7,607	5,813
Accumulated amortisation	(3,821)	(2,361)
Net carrying amount	**3,786**	**3,452**
At 30 June		
Cost	9,402	7,607
Accumulated amortisation	(4,339)	(3,821)
Net carrying amount	**5,063**	**3,786**

NOTE 14. BUSINESS COMBINATIONS

On 4 November 2010, Austal Limited acquired 100% of the voting shares of Australian Technology Information Pty Ltd (ATI), a private company based in Canberra providing specialised services to the Australian Defence Forces including systems engineering and integration, information technology, verification and validation systems and deployable tactical command centres.

The Group has provisionally recognised the fair values of the identifiable assets and liabilities of ATI based on the best information available as of the reporting date. In accordance with Accounting Standard AASB 3 Business Combinations, full disclosure of the acquisition is not required as the transaction is not considered material.

NOTE 15. DERIVATIVES

	2011 $'000	2010 $'000
Financial assets		
Current		
Forward exchange contracts	26,219	55,122
Forward currency options	11,586	5,151
	37,805	**60,273**
Non-current		
Forward exchange contracts	31,542	7,163
Forward currency options	5,691	9,231
	37,233	**16,394**
Financial liabilities		
Current		
Forward exchange contracts	153	2,690
Non-current		
Forward exchange contracts	274	6,320

For terms and conditions attached to the forward exchange contracts and forward currency options, refer to note 23.

NOTE 16. TRADE AND OTHER PAYABLES

	2011 $'000	2010 $'000
Current		
Trade & other payables owed to unrelated entities (i)	52,837	87,488

(i) Trade payables are unsecured, non-interest bearing and are normally settled on 45 day terms.

NOTE 17. INTEREST BEARING LOANS AND BORROWINGS

	Notes	2011 $'000	2010 $'000
Current			
Bank loan (unsecured) (i)		3,605	1,442
Deferred option premium (unsecured) (ii)		4,949	5,125
Cash advance multi option facility (secured) (iii)		-	10,000
Business term multi option lending facility (secured) (iv)		-	30,000
		8,554	**46,567**
Non-current			
Bank loan (unsecured) (i)		5,508	-
Deferred option premium (unsecured) (ii)		2,737	9,304
Go Zone Bonds (secured) (v)		209,740	70,031
		217,985	**79,335**

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

(i) The unsecured bank loan is payable by instalments until December 2013, with an average interest rate of 7%.

(ii) The deferred option premium is payable in US dollars upon exercise of the options.

(iii) The cash advance facility has a one year term; the facility does not have an expiry date but is subject to an annual renewal which will take place in March 2012.

(iv) The Business term lending facility expires on 30 November 2011, and was repaid during the financial year.

(v) The Go Zone Bonds are variable rate demand bonds and mature on 1 May 2041, payable in US dollars with an average interest rate of 1.6%. The bonds are supported by letters of credit which expire in May 2013 (refer to Note 24).

The loans and facilities incur interest at various average rates between 1.6% and 7%

	2011 $'000	2010 $'000
Financing facilities available		
At reporting date, the following financing facilities had been negotiated and were available:		
Total facilities:		
- bank facilities (a)	222,814	372,877
- Go Zone Bonds	209,740	70,031
- bank loan (unsecured) (b)	46,605	1,442
- deferred option premium (unsecured)	7,686	14,429
Total	**486,845**	**458,779**
Facilities used at reporting date		
- bank facilities (a)	31,832	176,464
- Go Zone Bonds	209,740	70,031
- bank loan (unsecured) (b)	9,113	1,442
- deferred option premium (unsecured)	7,686	14,429
Total	**258,371**	**262,366**

NOTE 17. INTEREST BEARING LOANS AND BORROWINGS (continued)

	2011 $'000	2010 $'000
Facilities unused at reporting date:		
- bank facilities (a)	190,982	196,413
- Go Zone Bonds	-	-
- bank loan (unsecured) (b)	37,492	-
- deferred option premium (unsecured)	-	-
Total	**228,474**	**196,413**

All the consolidated entity's facilities are subject to review and are subject to cancellation at either party's election in the event of an occurrence of a reviewable event or upon expiry of each arrangement.

(a) Bank facilities consist of bank and performance guarantees, letters of credit and cash advances.

(b) Bank loan is guaranteed by a third party.

The facilities have various expiry dates up to May 2013.

NOTE 18. GOVERNMENT GRANTS

	2011 $'000	2010 $'000
Current		
Infrastructure development (i)	3,567	4,840
Non-current		
Infrastructure development (i)	41,899	55,045

The grants were received from various government bodies in Alabama to fund the expansion of the company's Mobile, USA operations.

(i) The grants are amortised, on a straight line basis, based on the effective life of the funded assets.

NOTE19. PROVISIONS

	Employee benefits $'000	Workers' compensation $'000	Warranty $'000	Other $'000	Total $'000
At 1 July 2010	14,144	5,410	7,935	526	28,015
Arising during the year	22,203	2,581	5,565	656	31,005
Utilised	(23,194)	(2,009)	(2,743)	-	(27,946)
Unused amounts reversed	(320)	-	(903)	(460)	(1,683)
Effects of foreign exchange	(523)	(321)	-	-	(844)
At 30 June 2011	**12,310**	**5,661**	**9,854**	**722**	**28,547**
Current 2011	10,894	5,661	9,854	-	26,409
Non-current 2011	1,416	-	-	722	2,138
At 30 June 2011	**12,310**	**5,661**	**9,854**	**722**	**28,547**
Current 2010	12,176	4,615	7,935	461	25,187
Non-current 2010	1,968	795	-	66	2,829
At 30 June 2010	**14,144**	**5,410**	**7,935**	**527**	**28,016**

Workers' compensation insurance

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

Warranties

Provision is made for warranty based on the estimated future costs of warranty repairs on vessels.

Other

Other includes a provision for redundancy costs.

NOTE 20. OTHER LIABILITIES (CURRENT)

	2011 $'000	2010 $'000
Progress payments received and receivable	4,393	58,228
Less: construction work in progress	(1,714)	(46,412)
Progress payments received in advance	**2,679**	**11,816**

NOTE 21. CONTRIBUTED EQUITY AND RESERVES

	2011 $'000	2010 $'000
Ordinary shares (i)	41,075	41,075
Reserved shares (ii)	(9,900)	(10,205)
	31,175	**30,870**
(i) Ordinary shares		
Issued and fully paid	41,075	41,075

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital or par value in respect of its issued shares.

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

NOTE 21. CONTRIBUTED EQUITY AND RESERVES (continued)

	2011		2010	
	Number of shares	$'000	Number of shares	$'000
Movement in ordinary shares on issue				
At 30 June	188,069,638	41,075	188,069,638	41,075
(ii) Reserved shares				
At 1 July	(4,606,832)	(10,205)	(5,081,832)	(10,979)
Options exercised	176,162	305	475,000	774
At 30 June	(4,430,670)	(9,900)	(4,606,832)	(10,205)

Reserved shares are in relation to shares held in the Austal Group Management Share Plan (refer to note 29).

Retained earnings

	2011 $'000	2010 $'000
Movement in retained earnings were as follows:		
Balance 1 July	212,322	186,474
Net profit for the year	21,890	37,132
Dividends	(11,284)	(11,284)
	222,928	**212,322**

Reserves

	Foreign currency translation reserve $'000	Employee benefit reserve $'000	Cash flow hedge reserve $'000	Equity Reserve $'000	Total $'000
At 1 July 2009	**(269)**	**2,438**	**32,921**	**(15,925)**	**19,165**
Currency translation differences	(1,416)	-	-	-	(1,416)
Share based payment	-	822	-	-	822
Net gains on cash flow hedges	-	-	8,791	-	8,791
Transfer to Statements of Financial Position/ Comprehensive income	-	-	(1,189)	-	(1,189)
At 30 June 2010	**(1,685)**	**3,260**	**40,523**	**(15,925)**	**26,173**
Currency translation differences	(7,180)	-	-	-	(7,180)
Share based payment	-	85	-	-	85
Net gains on cash flow hedges	-	-	36,739	-	36,739
Transfer to Statements of Financial Position/ Comprehensive income	-	-	(35,754)	-	(35,754)
At 30 June 2011	**(8,865)**	**3,345**	**41,508**	**(15,925)**	**20,063**

NOTE 21. CONTRIBUTED EQUITY AND RESERVES (continued)

The nature and purpose of reserves are:

Foreign currency translation reserve

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

Employee equity benefits reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 29 for further details of these plans.

Cash flow hedge reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Equity reserve

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

NOTE 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, bank loans, derivatives, cash and short-term deposits.

The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group manages its exposure to key financial risks, including currency risks in accordance with the Group's financial risk management policy. The objective of the policy is to build vessels in order to maximise profit whilst maintaining acceptable financial risk levels.

The Group has entered into derivative transactions, including principally, forward exchange contracts and forward currency options. The purpose is to manage the currency risks arising from the Group's operations. It is, and has been throughout the current financial year, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest and foreign exchange rates. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Ultimate responsibility for identification and control of financial risks rests with the Audit & Risk Management Committee under the authority of the Board. 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 liabilities and equity instrument are disclosed in note 2 to the financial statements.

Capital Management

The Group's policy is to maintain a strong and flexible capital base to provide investor, creditor and market confidence to sustain future development of the business. The Group monitors the return on capital, which the Group defines as total shareholders' equity attributable to members of Austal Limited. The Board determines the level of dividends to shareholders.

The Group monitors statement of financial position strength and flexibility using cash flow forecast analysis and detailed budgeting processes. The gross gearing ratio is monitored and maintained at a level that does not limit the Company's growth opportunities and is in line with peers and industry norms.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, other than normal banking requirements.

Risk Exposures and Responses

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations and investment in cash funds.

NOTE 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

At balance date, the Group had the following mix of financial assets and liabilities exposed to both Australian and US variable interest rate risks that were not designated as cash flow hedges:

	2011 $'000	2010 $'000
Financial assets		
Australian variable interest rate		
Cash and cash equivalents	18,628	17,912
US variable interest rate		
Cash and cash equivalents	23,637	12,256
	42,265	**30,168**
Financial liabilities		
Australian variable interest rate		
Interest-bearing loans and borrowings	(16,824)	(41,442)
US variable interest rate		
Interest-bearing loans and borrowings	(209,740)	(70,031)
	(226,564)	**(111,473)**
Net exposure	**(184,299)**	**(81,305)**

The Group constantly analyses its interest rate exposure. Consideration is given to potential renewals of existing positions and alternative financing.

The following sensitivity analysis is based on the variable interest rate risk exposures in existence at the balance date. At 30 June 2011, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Impact on profit/Equity	
	2011 $'000	2010 $'000
Judgement of reasonable possible movements:		
Post-tax gain/(loss)		
+ 1% (100 Basis points)	(1,290)	(569)
– 1% (100 Basis points)	1,290	569

Foreign currency risk

At balance date, the Group had the following exposure to US Dollar and Euro currency that is not designated in cash flow hedges:

	2011 $'000	2010 $'000
Financial liabilities		
US Dollar exchange rate		
Interest-bearing loans and borrowings	7,686	14,429

NOTE 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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 the Australian Dollars (AUD) for the Australian operation and US Dollars (USD) for the US operation. The currencies in which these transactions primarily are denominated are AUD, USD, Euro and SEK.

The Group's objective in relation to foreign currency risk is to minimise the risk of a variation in the rate of exchange used to convert foreign currency revenues and expenses and assets or liabilities to AUD.

The Group attempts to limit the exposure to adverse movement in exchange rates in the following ways:

(i) negotiation of contracts to adjust for adverse exchange rate movements;

(ii) use of natural hedging techniques; and

(iii) using financial instruments (refer Note 15).

Sales contracts are negotiated based at the current market rate on the contract signing date. Where there is a tender involving significant foreign currency exposure, the exposure is covered by a rise and fall clause for exchange rate movements between the date of price calculation to the date the contract becomes effective.

Known foreign exchange transaction exposure, which result from normal operational business activities are hedged.

At balance date, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post tax profit higher/(lower)		Equity higher/(lower)	
	2011	2010	2011	2010
Judgement of reasonable possible movements:				
AUD/USD +5%	806	(321)	7,855	9,059
AUD/USD –5%	(920)	(2,203)	(8,524)	(9,573)
AUD/EUR +5%	-	102	271	5,270
AUD/EUR –5%	-	(102)	(271)	(5,270)
USD/EUR +5%	-	(1,466)	(3,947)	(3,352)
USD/EUR –5%	-	804	4,121	3,723
AUD/SEK +5%	-	-	-	(227)
AUD/SEK –5%	-	-	-	251

Derivative financial instruments such as forward currency contracts and currency options are purchased to eliminate the currency exposures so as to maintain a properly hedged position. Timing gaps are mitigated using foreign currency accounts or financial instruments such as swaps.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Trading is specifically prohibited. The financial impact of the derivative instrument is incorporated into the cost of goods acquired or the sales proceeds. General hedges are not undertaken.

Foreign currency contracts designated as cash flow hedges to mitigate the movements in foreign exchange rates are outlined in note 23.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy 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.

It is the Group's policy 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. To manage this, it is the Group's policy to restrict its investment of surplus cash funds to financial institutions with a Standard and Poor credit rating of at least A-2, and for a period not exceeding 180 days. In order to achieve this objective the Group undertakes investments in 11am/24 hour call deposits, term deposits or negotiable certificates of deposit.

NOTE 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

In addition, vessel sales contracts are structured to ensure that the company will be paid on delivery of the vessel through the following measures:

(i) obtaining progress payments from the client to cover the cost of the construction; or

(ii) obtaining a letter of credit from a creditable bank to cover payment of the contract; or

(iii) obtaining a minimum payment of 20% of the contract price and a letter from the bank or financial institution providing finance to the customer that funding has been arranged for the balance of the purchase price.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. The maximum exposure to credit risk at the reporting date is disclosed in note 23.

Cash and term deposits are predominantly held with three Australian financial institutions, which are considered to be low concentrations of credit risk.

At 30 June, the ageing analysis of current trade & other receivables is as follows:

			Past Due But Not Impaired		
	Total	0-30 days	31-60 days	61-90 days	90+days
	$'000	$'000	$'000	$'000	$'000
2011	**21,986**	**19,853**	**230**	**261**	**1,642**
2010	31,060	23,346	120	635	6,959

Receivable balances are monitored on an ongoing basis.

Liquidity risk

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

It is the Group's policy to continually review the Group's liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels.

The following are the contractual maturities of financial liabilities, including interest payments:

	Carrying amount	Contractual cash flows	0-1 year	1-2 years	2-5 years	Greater than 5 years
	$'000	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2011						
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	427	(233,010)	(127,592)	(75,487)	(29,931)	-
Inflow	(75,038)	348,223	182,377	110,510	55,336	-
Net derivative financial (assets)/liabilities	**(74,611)**	**115,213**	**54,785**	**35,023**	**25,405**	**-**
Non-derivative financial liabilities						
Trade & other payables	52,837	(52,837)	(52,837)	-	-	-
Bank loan (unsecured)	9,138	(10,084)	(4,298)	(3,920)	(1,866)	-
Go Zone bond facility	209,740	(316,709)	(3,566)	(3,566)	(3,566)	(306,011)
Deferred option premium (unsecured)	7,686	(8,012)	(5,275)	(2,737)	-	-
Total	**204,790**	**(272,429)**	**(11,191)**	**24,800**	**19,973**	**(306,011)**

NOTE 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	Carrying amount $'000	Contractual cash flows $'000	0-1 year $'000	1-2 years $'000	2-5 years $'000
Year ended 30 June 2010					
Derivative financial liabilities					
Forward exchange contracts used for hedging:					
Outflow	9,009	(386,366)	(272,244)	(74,984)	(39,138)
Inflow	(76,666)	453,839	330,454	81,063	42,322
Net derivative financial (assets)/liabilities	**(67,657)**	**67,473**	**58,210**	**6,079**	**3,184**
Non-derivative financial liabilities					
Trade & other payables	87,488	(87,488)	(87,488)	-	-
Bank loan (unsecured)	1,442	(1,451)	(1,451)	-	-
Cash advance facilities	40,000	(40,000)	(40,000)	-	-
Go Zone bond facility	70,031	(70,031)	-	(70,031)	-
Deferred option premium (unsecured)	14,429	(15,362)	(5,254)	(6,412)	(3,696)
Total	**145,733**	**(146,859)**	**(75,983)**	**(70,364)**	**(512)**

At balance date, the Group has approximately $228.4 million (2010: $196.4 million) of unused credit facilities available for its immediate use (please refer to note 17). The Group also has a total of $42 million (2010: $30 million) in cash and cash equivalents, which it is able to use to meet its liquidity needs.

NOTE 23. FINANCIAL INSTRUMENTS

Fair values

Set out below is a comparison by category of the carrying amounts and fair values of all of the Group's financial instruments recognised in the financial statements.

The fair values of borrowings have been calculated by discounting the expected future cash flows at prevailing market interest rates. The fair values of loan notes and other financial assets have been calculated using discounted cash flows using market interest rates.

	Carrying amount		Fair value	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Financial assets				
Cash	172,005	30,168	172,005	30,168
Trade receivables & other receivables	22,001	31,060	22,001	31,060
Derivatives	75,038	76,667	75,038	76,667
Financial liabilities				
Trade payables & other payables	(52,837)	(87,488)	(52,837)	(87,488)
Derivatives	(427)	(9,010)	(427)	(9,010)
Bank loan (unsecured)	(9,113)	(1,442)	(9,113)	(1,442)
Deferred option premium (unsecured)	(7,686)	(14,429)	(7,868)	(14,429)
Cash advance facility	-	(40,000)	-	(40,000)
Go Zone bonds	(209,740)	(70,031)	(209,740)	(70,031)

The Group's derivatives are categorised in level 2 of the valuation hierarchy, as their fair value has been calculated using valuation techniques where the inputs that have a significant effect on the valuation are directly or indirectly based on market observable data.

NOTE 23. FINANCIAL INSTRUMENTS (continued)

Contingencies

The Group entities may have potential financial liabilities that could arise from certain contingencies as disclosed in note 24. As explained in that note, no material losses are anticipated in respect of any of those contingencies. The fair value disclosed (if any) is the directors' best estimate of amounts that would be payable by the Group to settle those financial liabilities.

Hedging and derivatives

Instruments used by the Group

The Group enters into cash flow and fair value hedges to eliminate its exposure to the variability in cash inflows and outflows due to foreign exchange rate fluctuation of the contractual future receipts and payments.

Forward currency contracts – cash flow hedges

The Group is primarily exposed to the risk of adverse movements in the Australian dollar relative to certain foreign currencies, including the US dollar, Euro and SEK arising from receipts from export sales and the purchase of components for construction. Derivative financial instruments such as forward exchange contracts and forward currency options are purchased to eliminate the currency exposures so as to maintain a properly hedged position. These contracts are hedging committed and highly probable receipts and payments and they are timed to mature when the receipts and payments are scheduled to be received and made.

The forward currency contracts are considered to be effective hedges as they are matched against forecast sales receipts and material purchases and any gain or loss on the contracts attributable to the hedged risk, to the extent considered effective, is taken directly to equity. When the forward currency contracts are delivered, the amount recognised in equity is adjusted either to the inventories account in the statement of financial position for vessels in progress or to the sales and cost of sales account in the statement of comprehensive income for completed vessels.

The following table summarises by currency the Australian dollar value of forward foreign exchange agreements and forward currency options. Foreign currency amounts are translated at rates current at the reporting date. The 'buy' amounts represent the Australian dollar equivalent of commitments to purchase foreign currencies, and the 'sell' amount represents the Australian dollar equivalent of commitments to sell foreign currencies. Contracts to buy and sell foreign currency are entered into from time to time to offset purchase and sale obligations so as to maintain a properly hedged position.

	2011				2010			
	Average Forward/ Strike Rate	Buy $000	Average Forward/ Strike Rate	Sell $000	Average Forward Rate	Buy $000	Average Forward Rate	Sell $000
United States Dollars								
Forward exchange contracts								
less than 3 months	1.0321	144	0.8883	6,824	0.8883	12,486	0.8764	28,278
3 - 12 months	1.0090	8	0.7629	69,262	0.9900	81	0.7154	71,114
13 months or greater	-	-	0.7744	91,428	-	-	0.7949	130,099
		152		**167,514**		**12,567**		**229,491**
Forward currency options								
3 - 12 months	-	-	0.6600	20,920	-	-	0.6600	20,177
13 months or greater	-	-	0.6600	10,831	-	-	0.6600	31,751
		-		**31,751**		**-**		**51,928**
Euro								
Forward exchange contracts								
less than 3 months	0.6880	639	0.6899	14,918	0.6395	6,267	0.6420	77.806
3 - 12 months	0.6203	878	-	-	0.6097	415	0.5821	105,638
13 months or greater	0.5493	1,535	-	-	0.5606	2,108	0.6483	14,601
		3,052		**14,918**		**8,790**		**198,045**

NOTE 23. FINANCIAL INSTRUMENTS (continued)

Forward currency contracts – cash flow hedges (continued)

	2011				2010			
	Average Forward/ Strike Rate	Buy $000	Average Forward/ Strike Rate	Sell $000	Average Forward Rate	Buy $000	Average Forward Rate	Sell $000
US/Euro								
Forward exchange contracts								
less than 3 months	-	-	1.0766	1,088	-	-	-	-
3 - 12 months	-	-	1.0239	36,548	-	-	-	-
13 months or greater	-	-	1.0251	40,227	-	-	-	-
		-		**77,863**		**-**		**-**
Forward currency options								
3 - 12 months	-	-	0.9440	35,216	-	-	0.721	36,094
13 months or greater	-	-	0.9440	18,233	-	-	0.721	56,798
		-		**53,449**		**-**		**92,892**
Great British Pounds*								
less than 3 months	0.6657	23	-	-	-	-	-	-
		23		**-**		**-**		**-**
New Zealand Dollars*								
3 - 12 months	1.3257	36	-	-	-	-	-	-
		36		**-**		**-**		**-**
Swiss Francs*								
less than 3 months	0.8753	5	-	-	-	-	-	-
		5		**-**		**-**		**-**
Swedish Kronor*								
less than 3 months	-	-	-	-	7.1274	4,371	-	-
		-		**-**		**4,371**		**-**

* Relates to forward exchange contracts.

Movement in forward currency contract cash flow hedge reserve

	2011 $'000	2010 $'000
Opening balance	**40,523**	**32,921**
Transferred to sales	(38,080)	(451)
Transferred to cost of sales	2,326	615
Transferred to other income	-	(1,353)
Charged to equity	36,739	8,791
Closing balance	**41,508**	**40,523**

NOTE 24. COMMITMENTS & CONTINGENCIES

Operating lease commitments

Future minimum rentals payable under non-cancellable leases as at 30 June are as follows:

	2011 $'000	2010 $'000
Within one year	916	448
After one year but not more than five years	188	109
	1,104	**557**

Capital commitments

	2011 $'000	2010 $'000
Buildings – USA	130,100	-

Contingent liabilities

	2011 $'000	2010 $'000
Bank performance guarantees (i)	31,832	176,464
Go Zone Bonds(i)	209,740	70,031
	241,572	**246,495**

(i) The bank performance guarantees and Go Zone Bonds are secured by a mortgage over the land and buildings and floating charges over cash, receivables, work in progress and plant and equipment (refer Note 17).

Other contingent liabilities excluded from the above include:

a) The parent company has guaranteed the performance of certain contract obligations of a subsidiary.

NOTE 25. RELATED PARTY DISCLOSURE

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

		% Equity Interest	
	Country of incorporation	2011	2010
Austal Ships Pty Ltd	Australia	100	100
Oceanfast Pty Ltd	Australia	100	100
Image Marine Pty Ltd	Australia	100	100
Seastate Pty Ltd	Australia	100	100
Oceanfast Luxury Yachts Pty Ltd (formerly Oceanfast Properties Pty Ltd)	Australia	100	100
Austal Service Pty Ltd (formerly Oceanfast Motor Yachts Pty Ltd)	Australia	100	100
Austal Philippines Pty Ltd (formerly Austal Ships Sales Pty Ltd)	Australia	100	100
Austal Holdings Inc.	USA	100	100
Austal USA LLC	USA	100	100
Austal Hull 130 Chartering LLC	USA	100	100
Austal Muscat LLC	Oman	100	100
Austal Systems Pty Ltd (formerly Australian Technology Information Pty Ltd)	Australia	100	-

Austal Limited is the ultimate parent of the Group and is incorporated in Perth, Western Australia.

Transactions with related parties

All transactions with related parties are conducted on commercial terms and conditions.

Pelagic Marine Services Pty Ltd engaged Austal Limited for the construction of 6 Linen Crates at arm's length terms for a total value of $15,035 (2010:$nil). Mr Christopher Norman is a Non-Executive Director of Austal Limited and a Director of Pelagic Marine Services Pty Ltd.

NOTE 26. EVENTS AFTER THE BALANCE DATE

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

NOTE 27. AUDITORS' REMUNERATION

The auditor of the Austal Limited Group is Ernst & Young.

	2011 $'000	2010 $'000
Amounts received or due and receivable by Ernst & Young for:		
- an audit or review of the financial report of the entity and any other entity in the Group	379	353

NOTE 28. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Compensation of Key Management Personnel

	2011 $'000	2010 $'000
Short-term employee benefits	3,344,275	3,581,742
Post-employment benefits	75,833	109,577
Termination benefits	130,700	296,473
Share-based payment	(1,144,063)	584,276
Total compensation	**2,406,745**	**4,572,068**

(b) Option holdings of Key Management Personnel

	Balance at beginning of year	Granted as Remuneration	Options Exercised	Net Change Other **	Balance at end of year	Vested		
						Total	Exercisable	Not Exercisable
30 June 2011								
Directors								
M Atkinson	140,000	140,000	-	-	280,000	140,000	140,000	-
A Bellamy	140,000	140,000	-	-	280,000	-	-	-
Executives								
J Rella	235,000	140,000	-	-	375,000	-	-	-
R Simons	140,000	140,000	-	-	280,000	-	-	-
W Rotteveel*	155,416	-	-	(155,416)	-	-	-	-
M Dummett	206,500	70,000	-	-	276,500	67,500	67,500	-
Total	**1,016,916**	**630,000**	**-**	**(155,416)**	**1,491,500**	**207,500**	**207,500**	**-**

* Key management personnel for part of the year of 2011.

** Includes forfeitures.

NOTE 28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(b) Option holdings of Key Management Personnel (continued)

	Balance at beginning of year	Granted as Remuneration	Options Exercised	Net Change Other **	Balance at end of year	Vested Total	Vested Exercisable	Vested Not Exercisable
30 June 2010								
Directors								
M Atkinson	140,000	-	-	-	140,000	-	-	-
Executives								
J Rella	95,000	140,000	-	-	235,000	-	-	-
G Metcalf *	100,000	-	-	-	100,000	-	-	-
R Simons *	-	140,000	-	-	140,000	-	-	-
W Rotteveel*	85,416	70,000	-	-	155,416	-	-	-
M Dummett	136,500	70,000	-	-	206,500	-	-	-
A Bellamy	-	140,000	-	-	140,000	-	-	-
P Hogan*	-	240,000	-	(140,000)	100,000	-	-	-
Total	**556,916**	**800,000**	**-**	**(140,000)**	**1,216,916**	**-**	**-**	**-**

* Key management personnel for part of the year of 2010.

** Includes forfeitures.

(c) Shareholdings of Key Management Personnel

	Balance 1 July 2010	Net change other	Balance 30 June 2011
30 June 2011			
Directors			
J Rothwell	33,974,685	-	33,974,685
M Atkinson	1,415,737	-	1,415,737
C Norman	26,602,221	-	26,602,221
J Poynton	10,000	-	10,000
D Amara	50,000	-	50,000
R Browning*	20,000	(20,000)	-
A Bellamy	30,000	(30,000)	-
Executives			
W Rotteveel*	22,806	(22,806)	-
M Dummett	3,431	(3,431)	-
Total	**62,128,880**	**(76,237)**	**62,052,643**

* Key management personnel for part of the year of 2011.

NOTE 28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Shareholdings of Key Management Personnel (continued)

	Balance 1 July 2009	Net change other	Balance 30 June 2010
30 June 2010			
Directors			
J Rothwell	33,974,685	-	33,974,685
M Atkinson	1,415,737	-	1,415,737
C Norman	26,602,221	-	26,602,221
J Poynton	10,000	-	10,000
D Amara	50,000	-	50,000
R Browning	20,000	-	20,000
Executives			
G Metcalf*	150,000	(150,000)	-
W Rotteveel	22,806	-	22,806
M Dummett	2,995	436	3,431
A Bellamy	80,000	(50,000)	30,000
Total	**62,328,444**	**(199,564)**	**62,128,880**

* Key management personnel for part of the year of 2010.

All equity transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(d) Participation by specified Directors and Key Management Personnel in the Austal Group Management Share Plan (in substance options)

						Vested		
	Balance at beginning of year	Granted as Remuneration	Options Exercised	Net Change Other ***	Balance at end of year	Total	Exercisable	Not Exercisable
30 June 2011								
Directors								
M Atkinson	285,062	-	-	-	285,062	285,062	285,062	-
R Browning*	3,000,000	-	-	(3,000,000)	-	-	-	-
Executives								
W Rotteveel*	80,934	-	-	(80,934)	-	-	-	-
Total	**3,365,996**	**-**	**-**	**(3,080,934)**	**285,062**	**285,062**	**285,062**	**-**
30 June 2010								
Directors								
M Atkinson	285,062	-	-	-	285,062	285,062	285,062	-
R Browning	3,000,000	-	-	-	3,000,000	1,200,000	1,200,000	-
Executives								
G Metcalf**	285,000	-	(285,000)	-	-	-	-	-
W Rotteveel**	80,934	-	-	-	80,934	80,934	80,934	-
Total	**3,650,996**	**-**	**(285,000)**	**-**	**3,365,996**	**1,565,996**	**1,565,996**	**-**

* Key management personnel for part of the year of 2011.
** Key management personnel for part of the year of 2010.
*** Includes forfeitures

NOTE 28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(e) Other transactions and balances with Key Management Personnel

Directors of the consolidated entity conduct transactions with entities within the consolidated entity on terms no more favourable than those the entity would have adopted if it transacted on an arm's length basis. Other than directors' remuneration and the matters disclosed in note 25 of this report, no related party transactions occurred with the consolidated entity.

NOTE 29. SHARE BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	2011 $'000	2010 $'000
Expense arising from equity-settled share-based payment transactions	85	822

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2011 and 2010. Any options granted in the period have no rights to dividends and no voting rights.

(b) Types of share-based payment plans

Employee Share Option Plan, 'ESOP'

Objective

The Share Option Plan aims to reward executives and senior managers with the issue of share options commensurate with their position and responsibilities within the Company so as to:

- attract and retain exceptional employees ('key employees') that have the capacity to significantly impact the growth and profitability of the Company; and
- align key employees' behaviour toward the growth and profitability objectives of the Company; and reward key employees for sustained contributions to business success.

Structure

The share options are granted to executives and senior managers based on the eligibility criteria set by the Remuneration Committee. Eligibility for the plan will be linked to employee performance. The exercise of the options will vest after 3 years subject to meeting the company performance criteria.

Performance hurdle

The Company uses a relative Total Shareholder Return (TSR) as the performance hurdle for the share option plan. Relative TSR was selected as the share option plan performance hurdle as it ensures an alignment between comparative shareholder return and reward for executives.

The Company's performance against the hurdle is determined by comparing the TSR against the return of the Small Industrials Accumulation Index (or another appropriate index) for the three year period commencing on the 1 July prior to the grant date. If the TSR does not exceed the return of the Small Industrials Accumulation Index for a particular three year period, the series of options issued at that grant date would lapse.

Summaries of options granted under ESOP

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in share options issued during the year:

	2011		2010	
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	**3,874,402**	**2.87**	**1,455,741**	**2.87**
Granted during the year	3,010,000	2.34	2,935,000	2.89
Forfeited during the year	(220,000)	2.99	(516,339)	2.99
Outstanding at the end of the year	**6,664,402**	**2.63**	**3,874,402**	**2.87**
Exercisable at the end of the year	**486,652**		**-**	

NOTE 29. SHARE BASED PAYMENT PLANS (continued)

(b) Types of share-based payment plans (continued)

Option pricing model: ESOP

Equity-settled transactions

The following table lists the inputs to the models used, applicable for both the years ended 30 June 2011 and 30 June 2010:

	Tranche 2 2008	Tranche 3 2008	Tranche 4 2009	Tranche 5 2010	Tranche 6 2010	Tranche 7 2010	Tranche 8 2011
Grant date	13 Sept 2007	24 Oct 2007	10 Sept 2008	3 Nov 2009	16 Feb 2010	25 Feb 2010	27 Sept 2010
Spot price ($)*	3.49	3.16	2.35	2.41	2.44	2.43	2.38
Option exercise price ($)	3.60	3.60	2.40	2.95	1.81	2.45	2.34
Fair value of option $/option	0.52	0.43	0.36	0.52	0.69	0.561	0.840
Expected volatility (%)	35.0	35.0	40.0	44.0	44.0	44.0	44.0
Annual risk free interest rate (%)	6.11	6.51	5.54	5.35	5.28	5.37	5.00
Dividend yield (%)	5.70	5.70	5.67	4.5	4.5	4.5	2.0
Expected life of option (years)	5.0	4.9	5.00	5.00	4.00	4.00	4.00

* closing share price at valuation date

The Group uses the Monte Carlo model to value the share options. The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on certain factors including the period of time between the valuation date and the expiry date, the vesting period, the expected volatility of the underlying shares and the dividend yield. The expected volatility was determined based on the Company's annual historical share price volatility over the five year period prior to the valuation dates. The resulting expected volatility therefore reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

Austal Group Management Share Plan

The Company established the first Austal Group Management Share Plan by which directors and certain managers can participate in owning shares in the Company. The key features of the Plan are:

(a) The initial 7.700 million shares under the plan were acquired at market value from a former director prior to the listing of the Company on 10 November 1998. An independent valuation was undertaken by Messrs Gorey Sinclair to determine this price.

(b) Austal offers to loan participants up to 100% of the purchase consideration for their shares on a limited recourse basis. However, this amount may be varied at the discretion of the Board.

(c) The shares are made available to the participants at market value.

(d) The Board at its discretion determines the number of shares that will be made available to each participant.

(e) The shares are required to be held by a trustee on behalf of the participant. Shares may not be transferred to a participant for at least 12 months. After this period, 20% of a participant's shares will become eligible to be transferred provided any loan in respect of these shares has been repaid. An additional 20% will become eligible to be transferred to the participant at the end of each 12-month period thereafter on the same terms, so that a participant may hold 100% of his shares at the end of 5 years.

(f) Dividends on shares held under the Plan must be applied to pay interest on the loans. Participants with an interest in shares under the Plan have full voting rights.

(g) Interest on the loans will be charged at a fixed rate of 6%, or such other rate as determined by the Board.

(h) Upon termination of employment or contract arrangements the shares must be sold and the loan (if any) repaid.

NOTE 29. SHARE BASED PAYMENT PLANS (continued)

(b) Types of share-based payment plans (continued)

The Company established the second Austal Group Management Share Plan by which managers can participate in owning shares in the Company. The key features of the Plan are:

(a) The initial 5.675 million shares under the plan were acquired at market value on the Australian Stock Exchange as follows:

Date	Number of shares
25 September 2000	1,710,000
28 September 2000	570,000
29 September 2000	285,000
9 October 2000	285,000
13 October 2000	830,000
11 December 2000	285,000
9 March 2001	285,000
4 July 2001	285,000
20 June 2002	570,000
25 July 2002	285,000
12 July 2002	285,000
Total	**5,675,000**

(b) Austal will offer to loan eligible managers up to 90% of the purchase consideration for their shares on a limited recourse basis. However, this amount may be varied at the discretion of the Board.

(c) The shares are made available to the managers at market value.

(d) The Board at its discretion will determine the number of shares that will be made available to each eligible manager.

(e) The shares are required to be held by a trustee on behalf of the manager. Shares may not be transferred to a manager for at least 12 months. After this period, 20% of a manager's shares will become eligible to be transferred provided any loan in respect of these shares has been repaid. An additional 20% will become eligible to be transferred to the manager at the end of each 12-month period thereafter on the same terms, so that a manager may hold 100% of his shares at the end of 5 years.

(f) Dividends on shares held under the Plan must be applied to pay interest on the loans. Managers with an interest in shares under the Plan have full voting rights.

(g) Interest on the loans will be charged at a fixed rate of 60% of any dividends paid, or such other rate as determined by the Board.

(h) Upon termination of employment or contract arrangements the shares must be sold and the loan (if any) repaid. The trustee may arrange a sale of shares to eligible managers.

The Company established the third Austal Group Management Share Plan by which executives can participate in owning shares in the Company. The key features of the Plan are:

(a) The initial 3 million shares under the plan were acquired at market value on the Australian Stock Exchange on 22 October 2007. These are issued to Mr Robert Browning.

(b) Austal will offer to loan eligible executives up to 100% of the purchase consideration for their shares on a limited recourse basis. However, this amount may be varied at the discretion of the Board.

(c) The shares are made available to the executives at market value.

(d) The Board at its discretion will determine the number of shares that will be made available to each eligible executive.

(e) The shares are required to be held by a trustee on behalf of the executives. Shares may not be transferred to a manager for at least 12 months. After this period, 20% of the executive's shares will become eligible to be transferred provided any loan in respect of these shares has been repaid. An additional 20% will become eligible to be transferred to the executive at the end of each 12-month period thereafter on the same terms, so that the executive may hold 100% of his shares at the end of 5 years.

(f) Dividends on shares held under the Plan are paid to the eligible executive. Eligible executives with an interest in shares under the Plan have full voting rights.

(g) No interest will be charged on the loans.

(h) Upon termination of employment or contract arrangements the shares must be sold and the loan (if any) repaid.

NOTE 29. SHARE BASED PAYMENT PLANS (continued)

(b) Types of share-based payment plans (continued)

The fair value of the benefit provided that is applicable to these 3 million shares (in substance options) granted is estimated using the Binomial option pricing model as follows:

Grant date	22 Oct 2007
Share price at grant date $	3.12
Exercise price	3.51
Fair value of option $/option	0.96
Expected volatility %	38.79
Risk free interest rate %	6.25
Expected life (years)	7.0

At balance date the trustee on behalf of the plans holds a total of 4,430,373 shares.

Details of the Austal Group Management Share Plan are shown below:

	2011	2010
Total shares (in substance options) granted to employees during the year (000's)	-	-
Total shares (in substance options) granted to employees at balance date (000's)	4,431	4,607
Total shares (in substance options) exercised during the year (000's)	176	475
Total fair value of shares (in substance options) exercised during the year ($'000)	450	1,209
Total shares (in substance options) held by trustee on behalf of plan at balance date (000's)	4,431	4,607
Total shares (in substance options) vested at balance date (000's)	1,431	2,807
Total number of employees eligible to participate in the plan	10	31

The balance of shares (in substance options) as at 30 June 2011 is represented by:

- 1,430,373 shares (in substance options) under Plan #1 and Plan #2 with a weighted average exercise price of $1.25 each, with no contractual life.
- 3,000,000 shares (in substance options) under Plan #3 with a weighted average exercise price of $3.51 each, with no contractual life. These have not been re-allocated.

NOTE 30. PARENT ENTITY

Information relating to the Parent entity Austal Limited is detailed below:

	2011 $'000	2010 $'000
Current Assets	267,455	217,963
Total Assets	318,819	338,421
Current Liabilities	64,262	59,608
Total Liabilities	93,679	108,528
Equity		
Contributed equity	30,500	30,196
Employee benefit reserve	1,019	1,439
Retained earnings	193,621	198,258
Total equity	225,140	229,893
Profit after tax	6,647	13,002
Total comprehensive income	6,647	13,002

For details of guarantees and contingent liabilities relating to Austal Limited refer to note 24.

DIRECTOR'S DECLARATION

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

1. 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 consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
      (ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
2. The financial Statements and notes also comply with International Financial Reporting Standards as disclosed in note 2
3. In the opinion of the directors, as at the date of this declaration, 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.
4. 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 2011.

On behalf of the Board.

J ROTHWELL AO

Chairman

Dated at Henderson this 18th day of August 2011

Austal Limited, its Board of Directors and senior management are committed to the best practices of corporate governance, ethical standards and risk management and have adopted the following corporate governance policy. The Corporate Governance Statement should be read in conjunction with the Directors' Report on page 5-12.

The Board of Directors of Austal Limited is responsible for guiding and monitoring of the consolidated entity on behalf of shareholders.

The Austal Limited Corporate Governance Statement is now structured with reference to the Corporate Governance Council's Principles and Recommendations, which are as follows:

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risk
Principle 8.	Remunerate fairly and responsibly

Management and Oversight

The Board gives direction and exercises judgment in setting the Company's objectives and overseeing their implementation. The responsibility for the operation and administration of the Company is delegated by the Board to the CEO and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the executive management team.

The Board's functions include:

a. adopting a Strategic Plan for the Company, including general and specific goals and comparing actual results with the Plan, designed to meet stakeholders' needs and manage business risk;

b. appointing, performance assessment and, if necessary, removal of members of the executive management team;

c. adopting clearly defined delegations of authority from the Board to the management;

d. agreeing key performance indicators (both financial and non-financial) with management and monitoring progress against these indicators;

e. taking steps designed to protect the Company's financial position and its ability to meet its debts and other obligations as they fall due;

f. establishing and monitoring policies directed to ensuring that the Company complies with the law and conforms to the highest standards of financial and ethical behaviour;

g. determining that the Company has instituted adequate reporting systems and internal controls (both operational and financial) together with appropriate monitoring of compliance activities;

h. determining that the Company accounts are true and fair and are in conformity with reporting requirements;

i. ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and

j. reporting to shareholders

The performance of key executives is reviewed regularly against both measurable and qualitative indicators. Each year the Nomination and Remuneration Committee conducts a performance assessment for each key executive. The performance criteria against which they are assessed are aligned with the financial and non-financial objectives of Austal Limited. The performance of senior executives was assessed during the year and was in accordance with the above process.

Structure the Board to Add Value

The Board shall comprise of Directors with a range of qualifications, expertise and experience. The selection of the Board members shall always be for the purpose of their ability to add value to the Company.

For the purpose of efficient working, the preferred number of Directors in office at any one time is between 3 and 10.

To ensure that the board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board. Any proposed new Director is nominated by the Nomination and Remuneration Committee and approved by the Board prior to being appointed. The appointment is until the next General Meeting of shareholders at which time the shareholders are required to approve the appointment.

The Council's Recommendation 2.1 requires a majority of the Board to be independent Directors. In addition, Recommendation 2.2 requires the Chair to be independent.

The Board consists of a Non-Executive Chair, two Executive Directors, a Non-Executive Director (who is a retired Executive Director and substantial shareholder) and three Independent Non-Executive Directors.

The Board believes that its main role is to add value for all shareholders and that this is best served by having a balanced Board. The Executive Directors are dedicated to the Company, and have expertise in the Company's business. The Non-Executive Directors provide an external perspective to review and challenge the performance of management. The integrity and nature of the Board members is considered more important than having a majority of Independent Directors to ensure that management act in the best interests of the Company.

The Board prefers to have Mr. Rothwell as Non-Executive Chairman because:

- he has been Chairman since he founded the company in 1988;
- he is the largest shareholder, has a thorough knowledge of the Company's operations and has demonstrated leadership and entrepreneurial skills; and
- he continues to exhibit dedication and drive for improving the company

Recognising that there might be situations where there might be a conflict of interest, an independent deputy Chair had been appointed to chair meetings involving any potential conflicts of interest and as an alternate point of contact for shareholders.

The performance of the Board is reviewed regularly against both measurable and qualitative indicators. Each year the Nomination and Remuneration Committee conducts a performance assessment for each Board member. The performance criteria against which Directors are assessed are aligned with the financial and non-financial objectives of Austal Limited. Directors whose performance is consistently unsatisfactory may be asked to retire. The performance of the Directors was assessed during the year and was in accordance with the above process.

Independence

Directors of Austal Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, 'materiality' is considered from both the Company's and individual Director's perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item or factor is presumed to be material (unless there is qualitative evidence to the contrary) if its value is equal to, or greater than, $250,000 in aggregate in any one year. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director to have an influence in shaping the direction of loyalty to the Company.

In accordance with the definition of independence, and the materiality thresholds set, the following Directors are considered to be independent:

Name	Position
J. Poynton	Non-Executive Director and Deputy Chair
D. Amara	Non-Executive Director
I. Campbell	Non-Executive Director

There are procedures in place, agreed by the Board, to enable Directors in furtherance of their duties, to seek independent professional advice at the Company's expense.

Outside Directorships

Specific guidelines apply for acceptance of outside directorships by Executive and Non-Executive Directors.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee must comprise at least two independent Directors. The Committee ensures that the Board operates within its guidelines, reviews the remuneration of all Directors and makes recommendations to the Board, and selects candidates for the position of Director, when necessary.

PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Ethical Standards and Performance

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practice and ethical conduct by all Directors and employees of the Austal Group. A Code of Conduct has been adopted under which the Directors and senior management employees are expected to:

- act honestly and in good faith;
- exercise due care and diligence in fulfilling the functions of office;
- use their powers to act in the best interests of the Company as a whole;
- avoid conflicts and make full disclosure of any possible conflict of interest;
- comply with the law;
- directors are obliged to be independent in judgement and ensure all reasonable steps are taken to be satisfied as to the soundness of Board decisions;
- encourage the reporting and investigating of unlawful and unethical behaviour; and
- comply with the share trading rules outlined in their respective Codes of Conduct.

A Director shall comply with the Company's share trading rules and like rules, which may from time to time be added thereto or substituted therefore by the Directors. The current rules are:

a. notwithstanding the requirements of the legislation concerning insider trading, Directors were obliged to restrict their trading in securities of Austal Limited shares to a period of four months following the release by Austal Limited of half yearly and preliminary final reports. Directors are also restricted from trading in Austal Limited shares for 24 hours following any announcement by the Company to the Australian Stock Exchange;

b. any Director intending to buy or sell shares in the Company or any company in which the Company has an interest, is required to notify the Chairman or the Company Secretary of his/her intentions before proceeding with the transaction; and

c. directors, managers and staff are not permitted to deal in the Company's securities if they are in possession of material information which is not available to the share market, but if it were, may impact the value at which the securities are traded. In April 2004 procedures were put in place to monitor trading of the Company's securities by Directors, managers and staff.

SAFEGUARD INTEGRITY OF FINANCIAL REPORTING

Audit and Risk Management Committee

The Audit and Risk Management Committee must comprise at least three Non-Executive Members, of which two must be Independent Directors. The Board shall elect the Members and the Chair of the Audit and Risk Management Committee.

The Council's Recommendation 4.2 requires an audit committee to consist only of Non-Executive Directors.

The function of the Audit and Risk Management Committee is to:

a. ensure compliance with statutory reporting responsibilities;

b. liaise with, assess the quality and review the scope of work of the external auditors;

c. enable the auditors to communicate any concerns to the Board;

d. advise the Board on the appointment of the external auditors and the results of their work;

e. assess the adequacy of accounting, financial and operating controls; and

f. assess the effectiveness of the management of business risk and reliability of management reporting.

g. report to the Board any significant deficiencies identified above.

The Board, through the Audit and Risk Management Committee (in accordance with its Charter) annually reviews the performance of the external auditor focussing particularly on:

- quality of the audit;
- quality of the service provided; and
- independence.

Should a change in auditor be considered necessary, the Board will recommend a change in auditor to be approved by shareholders in a General Meeting.

MAKE TIMELY AND BALANCED DISCLOSURE

Continuous Disclosure

Austal Limited has established written policies and procedures on information disclosure. The focus of these procedures is on continuous disclosure and improving access to information for all investors.

The Chief Executive Officer has responsibility for:

- making sure that the company complies with Continuous Disclosure requirements;
- overseeing and co-ordinating disclosure of information to the stock exchange, analysts, brokers, shareholders, the media and the public; and
- educating Directors and staff on the Company's disclosure policies and procedures and raising awareness of the principles underlying continuous disclosure.

Price sensitive information is publicly released through the stock exchange from disclosing it to analysts or others outside the company. Further dissemination to investors is also managed through the Australian Stock Exchange.

RESPECT THE RIGHTS OF SHAREHOLDERS

Shareholder Communication Policy

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the company's state of affairs.

Information is communicated to shareholders through:

- the Concise Annual Report;
- the Interim Report;
- disclosures made to the Australian Stock Exchange;
- notices and explanatory memoranda of the Annual General Meeting (AGM)
- the AGM; and
- regular newsletters to inform shareholders of key matters of interest.

It is Company policy for the auditor's lead engagement partner to be present at the AGM and to answer questions about the conduct of the audit, the preparation and content of the auditors' report, accounting policies adopted by the company, and auditor independence.

RECOGNISE AND MANAGE RISK

Risk Management and Internal Compliance and Control

The Board determines the Company's 'risk profile' and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Company's process of risk management and internal compliance and control includes:

- continuously identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls; and
- monitoring the performance, and continuously improving the effectiveness, or risk management systems and internal compliance and controls.

The risk management programme addresses risks under the following categories:

- business risks inherent to the shipbuilding industry
- operating risks associated with sales, design and production
- financial risks
- specific vessel risks

The Board oversees an annual assessment of the effectiveness of risk management and internal compliance and control.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required by the Board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management.

REMUNERATE FAIRLY AND RESPONSIBLY

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives
- attraction of quality management to the company

Participation in the Austal Group Management Share Plan provides an incentive to the Directors and executives which are aligned with increased returns to shareholders.

There is no scheme to provide retirement benefits to any director, other than statutory superannuation contributions.

The company's website www.austal.com has a dedicated investor relations section for the purpose of publishing all important company information and relevant announcements made to the market.

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

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Independent auditor's report to the members of Austal Limited

Report on the financial report

We have audited the accompanying financial report of Austal Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit 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.

GB:MB:AUSTAL:089

ERNST & YOUNG

Opinion

In our opinion:

a. the financial report of Austal Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. 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.

Opinion

In our opinion, the Remuneration Report of Austal Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
Perth
18 August 2011

GB:MB:AUSTAL:089

SHAREHOLDER INFORMATION

The following information was extracted from the Company's register as at 16 August 2011.

DISTRIBUTION OF SHARES

	Number of Holders	Number of Units	% of Total Issued Capital
1 – 1,000	1,717	910,850	0.48
1,001 – 5,000	2,377	6,675,510	3.55
5,001 – 10,000	708	5,475,523	2.91
10,001 – 100,000	491	11,525,961	6.13
100,001 and over	33	163,481,794	86.93
TOTAL	**5,326**	**188,069,638**	**100.00**

TWENTY LARGEST SHAREHOLDERS

Rank	Shareholder	Total Units	% Issued Capital
1	Austro Pty Ltd	32,200,745	17.12
2	Longreach (WA) Pty Ltd	26,595,621	14.14
3	HSBC Custody Nominees	25,655,483	13.64
4	J P Morgan Nominees Australia Limited	22,314,009	11.87
5	National Nominees Limited	11,692,180	6.22
6	Onyx (WA) Pty Ltd	9,932,592	5.28
7	Mr Vincent Michael O'Sullivan	9,305,301	4.95
8	Citicorp Nominees Pty Ltd	8,192,500	4.36
9	Austal Group Management Share Plan Pty Ltd	4,390,767	2.34
10	Garry Heys & Dorothy Heys	2,844,670	1.51
11	Lavinia Shipping Ltd	2,267,625	1.21
12	Zilon Pty Ltd	1,773,940	0.94
13	Mossisberg Pty Ltd	1,556,945	0.83
14	Pepperwood Holdings Pty Ltd	1,415,737	0.75
15	Cogent Nominees Pty Limited	798,011	0.42
16	Citicorp Nominees Pty Ltd	533,396	0.28
17	Mr James Nicholas Andrew	417,569	0.22
18	RBC Dexia Investor Services	416,320	0.22
19	Bond Street Custodians Limited	264,598	0.14
20	Peninsula Audiological Services Pty Ltd	235,000	0.13
		162,803,009	**86.57**

SUBSTANTIAL SHAREHOLDERS

Rank	Shareholder	No. of Ordinary Shares
1	Austro Pty Ltd (J Rothwell)	32,200,745
2	Longreach (WA) Pty Ltd (C Norman)	26,595,621
3	HSBC Custody Nominees	25,655,483
4	J P Morgan Nominees Australia Limited	22,314,009
5	National Nominees Limited	11,692,180
6	Onyx (WA) Pty Ltd (G Heys)	9,932,592

Voting Rights

All ordinary shares issued by Austal Limited carry one vote per share without restriction.

DIRECTORS

Executive Directors

Andrew Bellamy

Michael Atkinson

Non-Executive Directors

John Rothwell

John Poynton

Christopher Norman

Dario Amara

Ian Campbell

AUDITORS

Ernst & Young

The Ernst & Young Building

11 Mounts Bay Road

Perth 6000

Western Australia

COMPANY SECRETARY

Richard Simons

REGISTERED OFFICE

100 Clarence Beach Rd

Henderson 6166

Western Australia

Telephone: +61 8 9410 1111

Facsimile: +61 8 9410 2564

SHARE REGISTRY

Advanced Share Registry Services

110 Stirling Highway

Nedlands 6009

Western Australia

Telephone: +61 8 9389 8033

Facsimile: +61 8 9389 7871