



# AUSTAL LIMITED

Concise **Annual Report** 1999



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## 1999/2000 Calendar of Events

### Annual General Meeting

The Annual General Meeting of shareholders will be held at 3.00 pm on Wednesday 20 October 1999 at the Fremantle Sailing Club, "Success Harbour", Marine Terrace, Fremantle.

### Dividend Payment

The final dividend will be paid to shareholders on 25 October 1999 to those registered at 5 pm, 18 October 1999.



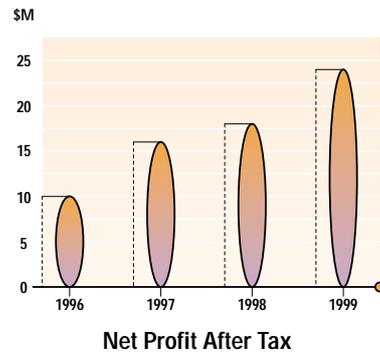
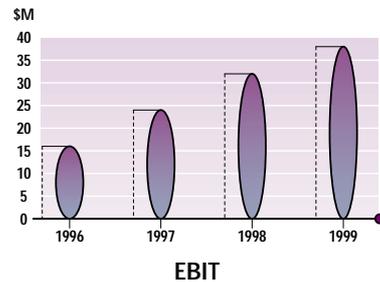
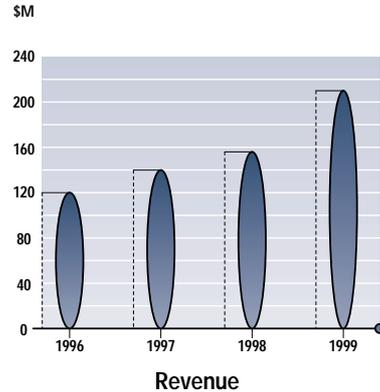
**JOHN ROTHWELL**  
Chairman/Managing Director

Just under 12 months ago, Austal listed on the Australian Stock Exchange. It has been an exciting and dynamic period for the Company and we have continued to prosper and grow. I am pleased to announce that we have achieved earnings of \$24.2 million which is 24% above the forecast the Directors made prior to listing. A dividend of 8 cents per share fully franked will be paid on 25 October 1999.

In addition to strengthening market share of our core product range of high performance ferries, we have focused on diversification of product range and market expansion and, as always, improved productivity. We have enjoyed continuing market success with our range of high speed passenger and vehicle-passenger ferries. We now have our first vehicle ferry in operation in South America and secured a substantial new contract worth \$141 million with a leading Greek ferry operator - won over intense international competition. We firmly believe that the developing Greek market is one of the most exciting and will lead to other opportunities within the region.

We have continued to expand our product range and geographic reach as part of the Company's growth strategy. The delivery and success of the first three patrol boats to the Australian Customs Service has signified a new market base for Austal. The remaining five vessels of this Commonwealth contract will be delivered by August 2000. Meanwhile, we are actively pursuing this product range for the export market. Leading on from this, exciting opportunities lie ahead for Defence applications of the Austal vessel platform utilising our existing technology. Austal will also continue to lead the development of the fast freight concept which we believe offers an area of great potential.

In early 1999, I had the pleasure of welcoming Bob McKinnon to the newly created position of General Manager to assume responsibility for the day to day operations of Austal and its subsidiaries. In July, Bob was appointed to the Board of Directors of Austal Limited. Bob joined Austal after a long career with Capral Aluminium during which he held senior positions in finance, distribution and manufacturing operations. His skills and experience will add to the existing strengths of the Company's Board and will be an important ingredient to the development and implementation of Austal's growth strategies. It is the intention that Bob will eventually take on the position of Managing Director, allowing me to concentrate on strategic growth issues.



### Acquisitions - Image Marine and Oceanfast

Two notable highlights over the past year have been the acquisitions of Western Australian shipbuilders Image Marine and Oceanfast.

Austral acquired the business of Image Marine in July 1998 as part of the Company's strategy to broaden its product base. Image has earned a reputation for its high quality work in the smaller size aluminium vessel sector and its capabilities in design, production and product range are highly complementary to Austral.

In May 1999 Austral was able to acquire the world renowned motor yacht builder, Oceanfast, for the value of its net tangible assets. In addition to these assets, we believe that substantial goodwill has been acquired in the form of its reputation as a leading builder of these craft and highly skilled workforce.

The acquisition of Oceanfast has fast-tracked Austral's entrance into a booming market. We have substantial growth plans for Oceanfast with the vision to see it become one of the world's major suppliers of luxury motor yachts.

We are confident that both of these acquisitions represent excellent value for our shareholders and have strong growth potential. Together with the added capabilities of Image Marine and the newly added motor yacht capabilities of Oceanfast, Austral has one of the most comprehensive product bases of any shipbuilder worldwide.

### Outlook

The growth and development embarked upon by the Company will be continued. Joint venture operations will be considered where appropriate. Of particular interest is the opportunity to do so in the United States of America. Currently the Jones Act in the USA prohibits foreign built vessels from operating on domestic routes in the USA, thereby excluding Austral from this huge market potential. The Oceanfast product, however, as a non-commercial vessel, is not subject to this law and the potential within the luxury motor yacht sector alone presents a major opportunity within the US market.

The Board of Directors is confident that Austral will continue to grow earnings in the years ahead. We have a healthy order book and will pursue new opportunities during the coming year.

On behalf of the Board of Directors, I would like to acknowledge and extend appreciation to our employees for their contributions and efforts that have been instrumental in the Company's ongoing success.



**JOHN ROTHWELL**  
Chairman/Managing Director



The Company has continued to achieve satisfying results which are summarised in the Chairman's Report and discussed in detail below.

Our workforce is our most important asset and Austal now employs around 1500 people throughout all disciplines of our shipbuilding activities. This is an exciting time for Austal and within our organisation, we have a wealth of talent and expertise to ensure we are well placed to continue our growth path. As a consequence we plan to further improve the opportunities for our workforce and returns to our shareholders.

**Financial Summary**

Year ending 30 June	ASX Listing Forecast 1999 \$M	Actual Result 1999 \$M
Sales	194.4	207.5
EBITDA	33.9	43.1
Depreciation & Amortisation	2.5	4.1
EBIT	31.4	39.0
Interest Received, net	0.5	0.8
Operating Profit Before Tax	31.9	39.8
Tax Expense	12.5	14.9
Operating Profit After Tax	19.4	24.9
Outside Equity Interests	-	0.7
Net Profit After Tax and OEI	19.4	24.2
% EBIT / Sales	16.1	18.8
Earnings Per Share (cps)	12.5	15.6

Note: The listing forecast for sales has been restated on the basis of revised accounting standards requiring calculation on the basis of percentage of completion. The listing forecasts include the abnormal listing costs.

Net profit after tax of \$24.2 million was ahead of our expectations of \$19.4 million at the time of listing. This resulted from good production performances, favourable exchange rates and the resumption of the Indonesian contract.

Earnings per share was 15.6 cents. Directors were able to declare a dividend of 8 cents per share fully franked, representing a payout of 51% of profits.

As at 30 June 1999, the sharemarket valued Austal at \$1.74 per share, or a market capitalisation of \$270 million.

Shareholders will note that cashflow from our operations was negative during the year by \$5.6 million. The reasons for this include the delivery and receipt of sale proceeds of three vessels subsequent to year end. These three vessels, which were essentially complete at 30 June 1999, have now generated \$37.4 million in cash. The construction costs of the Danish vessel, for which a charter is in place, were also met from cashflow, as was some of the cost of the stock vessel.

Non-current assets increased as a result of the Oceanfast and Image acquisitions, together with the loan to the Management Share Trust that was outlined at the time of listing.



**Austal Ships**

Austal Ships has maintained its position as one of the world's leading suppliers of high performance aluminium vessels and this year, delivered its 60th vessel to the international market since commencing operations in 1988. We have continued to build upon existing customer relationships consolidating loyalty for our quality and proven product with repeat orders. In the past year, Austal has delivered 10 vessels to operators in Australia, Germany, Indonesia, Ireland, Norway, Turkey and Venezuela. At the time of this report, 11 vessels are on order or under construction.

In June Austal secured a major contract to build three Auto Express catamarans for a leading Greek ferry operator, Minoan Flying Dolphins. This substantial order has filled Austal's production capacity until June 2000. Activity within the 'Boutique' cruise market has been increasing and we look forward to the delivery of a 60 metre cruise ship to the French Caribbean in November.

**Stock Vessel**

As noted in Austal's Information Memorandum prior to listing, an 86 metre vessel had commenced construction as a stock vessel as is the occasional practice of the Company. That is, construction is commenced without a firm order so as to maintain efficient utilisation of workforce and production facilities. This requires construction to be funded by the Company and whilst this practice is not without risk, it is only undertaken when the risks are considered reasonable and can be appropriately managed. In June 1999, a bare-boat charter agreement was entered into for the 86 metre stock vessel with a leading Venezuelan Company, Conferry. As financial approval for a sale was not in place prior to the vessel's departure deadline (required to ensure scheduled service commencement), the charter will allow the customer more time to seek suitable finance for the purchase.

**Resumption of Indonesian Contract**

The Indonesian contract terminated in the previous financial year was resumed. The vessel was delivered in July 1999 and full payment was received for the vessel. As a result, the foreign exchange provision of \$1.1 million made in the previous financial year was reversed.

**Charter Operation**

In November 1998, Austal Ships won the international tender to supply an 86 metre gas turbine powered vehicle-passenger catamaran for bare-boat charter to the Danish Government operated BornholmsTrafikken. The vessel is scheduled for delivery in December 1999. Finance has been approved subsequent to the year end which will effectively result in the vessel being sold in the 2000 financial year.



- 1 The 44 metre cruise catamaran "Geka 2000" was delivered to Indonesia, July 1999.
- 2 The 86 metre "Jonathan Swift" visited Piraeus, Greece, en-route to its new home port of Dublin, Ireland, April 1999.
- 3 The 44 metre passenger catamarans "Sleipner" and "Draupner" departed the Port of Fremantle aboard a heavy lift ship for Norway, April 1999. Photo courtesy Global Hire/Coli Shipping.

## Image Marine

It has been a profitable year for the Image Marine operation. Deliveries in the 1998/99 financial year included a 34 metre live-aboard charter vessel and the completion of the 44 metre Indonesian vessel on behalf of Austal Ships. Additionally, the Image facility and workforce was also effectively utilised for the construction of various hull and superstructure components for Austal Ships' vessels when required. This extra production capacity has enabled Austal to maintain its delivery schedule whilst the Company continues its recruitment and training of a skilled workforce.

An important growth area identified for the Image product range lies in the market for custom built live-aboard and dive charter vessels, including the 'boutique' cruise vessel. Image has delivered many such vessels for dive charter, adventure and watersport holidays.



The Company has recognised the growing need for a cruise product which sits between the cruise ship and the luxury charter yacht and, we believe, is leading the development of this sector.

## Oceanfast

The Oceanfast acquisition was concluded on 30 May 1999. As summarised in the Chairman's Report, Austal had planned to enter the motor yacht market, continuing its growth strategies to diversify and expand its product base. The Oceanfast acquisition has accelerated Austal's entrance to the large and profitable luxury vessel market.

Whilst Oceanfast suffered from under-capitalisation and other problems in the past, the company is nevertheless a world class builder of exceptional luxury motor yachts. The new Oceanfast operation now benefits from Austal's financial strength in addition to substantial design and production resources.

Significantly, the core of Oceanfast's experienced and skilled personnel will continue to be a leading force in luxury vessel innovation and advanced construction techniques.



Presently Oceanfast has under construction a 55 metre semi-displacement motor yacht of aluminium and composite construction for a European customer which is scheduled for delivery in July 2000. We expect production capacity to be increased in the near future and production build times to be improved significantly as additional resources and improved productivity practices are implemented into the Oceanfast operation.

Project list - Vessels under construction or on order as at August 1999

**Austal Ships**

**Hull 79**



**Vessel Type:** 52 metre Passenger Catamaran  
**Delivery:** September 1999  
**Destination:** Noumea

**Hull 92**



**Vessel Type:** 60 metre Cruise Catamaran  
**Delivery:** November 1999  
**Destination:** French Caribbean

**Hull 96**



**Vessel Type:** 86 metre *Auto Express*  
 Vehicle - Passenger Catamaran  
**Delivery:** December 1999  
**Destination:** Denmark

**Hull 86**



**Vessel Type:** 72 metre *Auto Express*  
 Vehicle - Passenger Catamaran  
**Delivery:** April 2000  
**Destination:** Greece

**Hull 87**



**Vessel Type:** 72 metre *Auto Express*  
 Vehicle - Passenger Catamaran  
**Delivery:** June 2000  
**Destination:** Greece

**Hull 97**



**Vessel Type:** 92 metre *Auto Express*  
 Vehicle - Passenger Catamaran  
**Delivery:** June 2000  
**Destination:** Greece

**Hulls 134 - 138**



**Vessel Type:** 38 metre Patrol Boats  
**Delivery:** February 2000 (x2)  
 August 2000 (x3)  
**Destination:** Australia

**Image Marine**

**Hulls 152 - 153**



**Vessel Type:** 22 metre Monohulls  
**Delivery:** September 2000

**Hulls 154 - 160**



**Vessel Type:** 16 metre Monohulls  
**Delivery:** September 2000

**Oceanfast**

**Hulls 72**



**Vessel Type:** 55 metre Semi-displacement Motor Yacht  
**Delivery:** July 2000

**Performance and Quality**

To retain Austal's leading position in the aluminium shipbuilding industry, the Company has adopted quality management practices and a policy of continuous improvement in the manufacture and quality of our vessels.

Our vision is to achieve Best Practice throughout our operation as we look to ever improve our level of quality and productivity. The application of these visions have been met with enthusiasm and already resulted in real, measurable performance enhancements throughout many departments. By working together in a quality culture we will not only improve our performance but will all have a better and more enjoyable working environment.

As always, Austal remains committed to training a skilled workforce and recognises this as a basis for ongoing success. Currently around 200 people are undertaking accredited training programs with the Company and it is with pride that Austal Ships received the "Employer of the Year" awarded by the Australian National Training Authority during 1998 for its commitment to quality training.



### Occupational Health and Safety

Austral continuously strives to improve upon safety performance, injury prevention and the development of a healthy working environment. The Company's objective is to be the safety benchmark for the shipbuilding industry throughout its operations.

A safe working environment is essential for a company to be successful and this relies on effective, proactive management. It also requires employee participation. Regular safety sampling by supervisory and management teams has been introduced to ensure optimum safety compliance and ultimately, the best possible working environment.

To assist managers, supervisors, employees and contractors in obtaining the highest possible safety standards, a series of rules, procedures, programs and policy statements on specific individual safety and health matters have been developed in consultation with the safety committee.

Good safety and health management will allow the Company to maintain its competitive edge thus helping to safeguard jobs and career opportunities.

### Environmental Performance

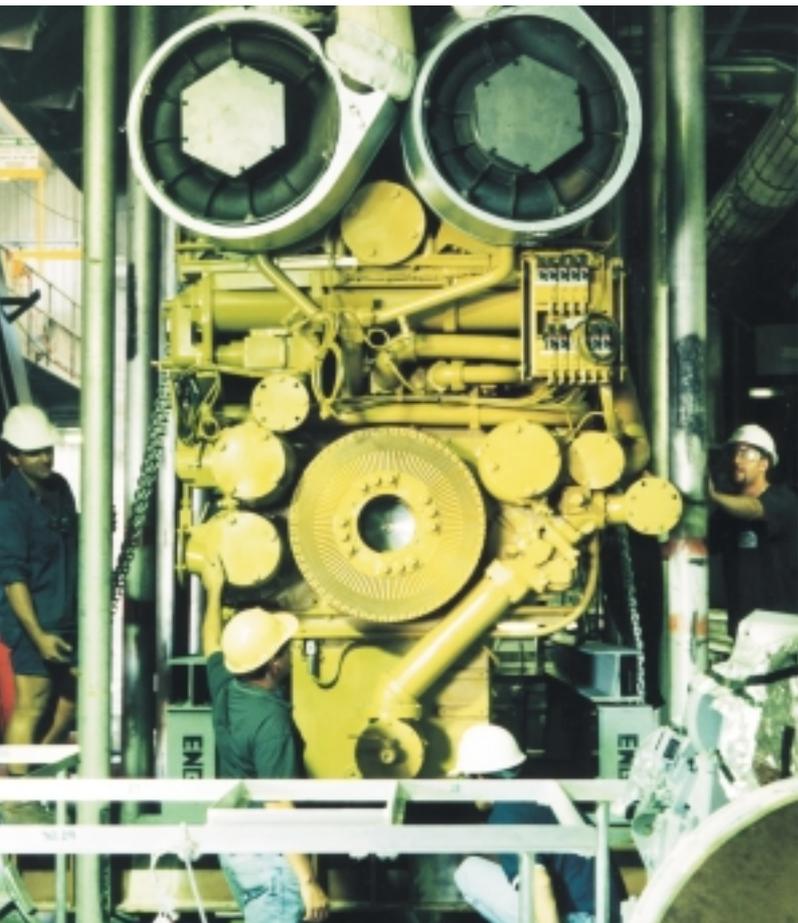
Austral is committed to achieving compatibility between economic development and the maintenance of the environment. We seek to ensure that throughout all phases of our activities, Austral's personnel and contractors give proper consideration to the care of the air, land, water and resources.

We are currently assisting a number of our customers by designing their vessels to be environmentally friendly in all aspects of operation. This work has taken into consideration areas such as antifouling, sewerage treatment plants, energy efficient airconditioning systems, fire fighting gases and nitrous oxide emissions. The 86 metre gas turbine powered ferry currently under construction is evidence of Austral's capability and commitment to providing the best environmental solution. A key factor in Austral winning this internationally contended contract was the comprehensive environmental package the Company was able to provide.



BOB MCKINNON

Executive Director / General Manager



### **JOHN ROTHWELL**

*Chairman / Managing Director*

With in excess of 25 years experience in boat and shipbuilding, John Rothwell has played a major role in the development of the Australian aluminium shipbuilding industry and is the founding Director of Austal.

He is the immediate past Chairman of the Australian Shipbuilders' Association and is a member of Det Norske Veritas Australia and the Bureau Veritas Asia & Australia Committees, which are two classification societies used by Austal. In June 1999, Mr Rothwell was awarded the Western Australian Citizen of the Year in the category of "Commerce and Industry" for his contributions to this field.



### **CHRIS NORMAN (BE Hons)**

*Executive Director, Marketing*

Chris Norman is one of the founding Directors of Austal Ships. He is a qualified Naval Architect and has previously been Austal's Technical Director.

Mr Norman has extensive experience in international marketing and sales and since 1992 has held the position of Marketing Director.

He is a member of both the Royal Institute of Naval Architects and the Germanischer Lloyd Asean Committee, in addition to being a member of the International Marine Transit Association.



### **BOB MCKINNON CPA FCIS**

*Executive Director, General Manager*

Bob McKinnon joined Austal in early 1999 as General Manager after a long career with Capral Aluminium during which he held senior positions in finance, distribution and manufacturing operations.

Mr McKinnon was appointed to the Board of Directors in July 1999. He is responsible for the day to day operations of Austal and its subsidiaries.

### **MICHAEL ATKINSON CA (Zim) CA (SA)**

*Executive Director, Financial Controller*

Michael Atkinson is a qualified Chartered Accountant with 10 years experience in the accounting profession in Zimbabwe and South Africa.

On leaving the profession he went into the railway and construction industry where he served in a senior financial capacity and as a Board member. On coming to Australia in 1986 he worked in the electronics manufacturing and boat building industry prior to joining Austal Ships

Mr Atkinson joined Austal Ships in 1990 as Financial Controller and was appointed to the Board in 1994.

**KEVIN STANLEY**

*Executive Director, Shipyard Manager*

Kevin Stanley has been involved in all facets of the boat and shipbuilding industry for over 16 years and became a founding director of Austal Ships in 1988. As Shipyard Manager, his responsibilities include all matters relating to vessel production, design, sea trialing, delivery and after sales service.



**JOHN POYNTON B Com**

*Non - Executive Director*

John Poynton is the founding Chairman of Poynton and Partners Pty Ltd. He is also Chairman of Fleetwood Corporation Limited and Bourse Data Limited. Mr Poynton is a Director of the Export Finance and Insurance Corporation and is a member of the Board of Trustees of the Western Australian Museum Foundation. He was appointed to the Austal Board in August 1998.

Between 1988 and 1990 he served as the Chairman of the Australian Stock Exchange (Perth) Ltd and as a Director of ASX Ltd.



**WILLIAM FERRIS AO, B.EC (Hons) Sydney, MBA (Harvard)**

*Non - Executive Director*

William Ferris is Executive Chairman and a founding principal of Australian Mezzanine Investments Pty Limited. He is also a Director of Western Aerospace Limited, Tucker Seabrook Pty Limited, Oldfields Holdings Limited, the RAMS Home Loans Group, the Australian Institute of Management and Chairman of Macquarie University Asia Pacific Council. He has been on the Austal Board since 1994.

He was appointed Deputy Chairman of the Australian Trade Commission in 1986 and was Chairman from 1988 to 1993. In 1990 Mr Ferris was made an Officer in the Order of Australia for service to international trade and industry. He served as Chairman of the Australian Venture Capital Association in 1997.

**ACHIM DRESCHER B. EC**

*Non - Executive Director*

Achim Drescher is the Managing Director of Columbus Line Australia Pty Limited, a member of the Council of the Australian Chamber of Shipping Limited and a Director of Liner Shipping Services Limited. He is also a non-executive Director of Leighton Holdings Limited and the Chairman of Otto Plastics Pty Limited. He was appointed to the Austal Board in September 1998.

Mr Drescher was a founding Director of the German Australian Chamber of Industry & Commerce in 1977 and the Chamber's Chairman from 1986 - 1993. In 1997 Mr Drescher was awarded the "Cross of the Order of Merit" by the Federal Republic of Germany.

*Unless indicated otherwise, all directors held their position as a director throughout the entire financial year and up to the date of this report.*



JONATHAN SWIFT

## Directors' Report

The Board of Directors of Austal Limited has pleasure in submitting its report in respect of the financial year ended 30 June 1999.

The following persons were directors at the date of this report and held the following direct and indirect interests in the Company. Unless indicated otherwise, directors held their position throughout the entire financial year:

	Direct	Indirect	Total
John Rothwell	38,127,685	4,000	38,131,685
Chris Norman	31,772,594	6,000	31,778,594
Kevin Stanley	12,709,609	-	12,709,609
Michael Atkinson	1,715,737	-	1,715,737
John Poynton (appointed 25 August 1998)	355,000	-	355,000
William Ferris	-	-	-
Achim Drescher (appointed 7 September 1998)	-	-	-
Robert McKinnon (appointed 5 July 1999)	-	-	-

William Ferris holds 50% of the shares in Australian Mezzanine Investments Pty Ltd, which has a 20% interest in Australian Mezzanine Investments No. 2 Trust, which, in turn, is currently beneficially entitled to 4.1% of the issued capital of Austal.

The following directors also participate in the Austal Group Management Share Plan and are subject to the rules of the Plan.

Director	Loan (\$)	Number of shares
Michael Atkinson	225,000	285,062
John Poynton	225,000	285,062
William Ferris	225,000	285,062
Achim Drescher	225,000	285,062
Robert McKinnon	742,500	855,186

Directors have no other equity interest in either the parent entity or its subsidiaries.

## Principal Activities

The principal activities of the economic entity are the design and manufacture of high performance aluminium vessels. These activities were unchanged from the previous year.

A re-organisation of the group structure took place on 1 July 1998. As a result, the manufacturing activities of the parent entity (Austal Limited) are now undertaken by Austal Ships Pty Ltd (formerly Wildpark Pty Ltd), a subsidiary of the parent entity. The parent entity will now act as a holding company for the various operating companies in the group.

During the year, the parent entity acquired the business of Image Marine and Oceanfast Marine Pty Ltd. Both businesses undertake the design and manufacture of high performance aluminium vessels.

## Results

The consolidated profit of the economic entity for the financial year was \$24.2m after income tax and outside equity interests.

## Review of Operations

A review of the operations of the economic entity is outlined in the Management Discussion and Analysis section.

## Dividends

The following dividends of the economic entity have been paid or declared during the financial year (\$000's):

Final fully franked dividend for 1998 paid prior to listing	11,738
Final fully franked dividend as declared by the directors and payable on 25 October 1999	12,400

## Significant Events after Year End

There were no significant events occurring after year end.

## Likely Developments and Future Results

The benefit of the Oceanfast acquisition is likely to favourably impact earnings in fiscal year 2000. A general discussion of the group outlook is included in the Chairman's Report.

## Environmental Performance

The economic entity has a policy of at least complying, but in most cases exceeding environmental performance requirements. No environmental breaches have been notified by any Government Agency during the year ended 30 June 1999.

## Directors' Remuneration

Details of the remuneration paid directly or indirectly to directors during the year to 30 June 1999 is as follows:

	Consultancy Fees	Directors Fees	Total
Directors	\$	\$	\$
John Rothwell	269,087	-	269,087
Chris Norman	215,269	-	215,269
Kevin Stanley	215,269	-	215,269
Michael Atkinson	160,000	-	160,000
John Poynton	-	16,666	16,666
William Ferris	-	15,000	15,000
Achim Drescher	-	-	-
Douglas Fergusson	-	3,750	3,750
Garry Heys	-	-	-

A Company in which John Poynton is a Director, Poynton Partners Pty Ltd, also received fees of \$346,693 for consulting services provided outside his director's duties. These fees were determined on commercial terms and conditions.

## Executive Officers' Remuneration

The executive officers (excluding directors) of the group are shown below. The parent entity does not employ any person.

	Consultancy Fees	Base Salary	Superannuation	Total
Executive Officers	\$	\$	\$	\$
William Milby	140,000	-	-	140,000
Robert McKinnon*	-	94,398	6,608	101,006
David McQueen*	12,500	-	-	12,500

\*employed for part of the year

The Remuneration Committee as part of an annual performance review decides the remuneration of directors and executive officers. This is determined by an annual performance review and independent remuneration advice while having regard to market factors. No director or executive officer was entitled to a performance related bonus during the year.

**Directors' Meetings**

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

Number of meetings held	Meeting of Directors	Meetings of Audit Committee
	6	2
<b>Number of meetings attended by:</b>		
John Rothwell	6	-
Chris Norman	4	-
Kevin Stanley	5	-
Michael Atkinson	5	2
John Poynton (appointed 25 August 1999)	6	2
William Ferris	5	-
Achim Drescher (appointed 7 September 1998)	5	-
Douglas Fergusson (resigned 25 August 1998)	1	-
Garry Heys (resigned 24 August 1998)	-	-

A Remuneration Committee comprising William Ferris and Achim Drescher has been established. This committee did not meet during the financial year and no changes in remuneration levels occurred.

**Indemnification of Directors**

Under the Constitution, each Director is indemnified to the maximum extent permitted by the Corporations Law from liability to third parties (unless the liability arises out of conduct involving a lack of good faith) and in successfully defending legal and administrative proceedings and applications for such proceedings. Austal may insure a Director and a related company of the Director against any liability which does not arise out of conduct constituting wilful breach of duty or a contravention of the Corporations Law. The Company may also insure a Director against any liability for costs and expenses incurred in defending proceedings whether civil or criminal. These provisions are supplemented by deeds entered into between the Company and each Director under which the Company has agreed to continue this indemnity notwithstanding any changes to the Articles and has agreed to maintain Directors and Officers' Insurance in respect of the Director. In addition, the Company has agreed to allow each Director continued access to the board papers and certain other documents created during the Director's term of office, if the Director needs access to those documents for the purpose of defending legal proceedings.

**Rounding of Amounts**

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

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

Dated at Henderson this 3rd day of September 1999.



**JOHN ROTHWELL**  
*Chairman / Managing Director*



**JOHN POYNTON**  
*Director*

# PROFIT AND LOSS STATEMENT

## Austal Limited and controlled entities Profit and Loss Statement for the year ended 30 June 1999

	NOTES	GROUP		COMPANY	
		1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
Revenue	2	<u>212,088</u>	<u>151,929</u>	<u>180,156</u>	<u>161,809</u>
Operating profit before interest, taxes, depreciation and amortisation		43,091	33,972	36,060	26,871
Depreciation and Amortisation		<u>4,113</u>	<u>1,242</u>	<u>2,178</u>	<u>1,242</u>
<b>Operating profit before interest and taxes</b>		38,978	32,730	33,882	25,629
Interest received, net		<u>854</u>	<u>2,060</u>	<u>351</u>	<u>2,714</u>
<b>Operating profit before tax</b>	3	39,832	34,790	34,233	28,343
Income tax expense		<u>14,971</u>	<u>8,837</u>	<u>12,906</u>	<u>8,837</u>
Operating profit after tax		24,861	25,953	21,327	19,506
Outside equity interest		<u>667</u>	<u>6,444</u>	-	-
<b>Net profit after tax and outside equity interests</b>		24,194	19,509	21,327	19,506
Retained profit at the beginning of the financial year		<u>22,905</u>	<u>24,584</u>	<u>22,902</u>	<u>24,584</u>
Total available for appropriation		47,099	44,093	44,229	44,090
Dividends provided for or paid		<u>12,400</u>	<u>21,188</u>	<u>12,400</u>	<u>21,188</u>
Retained profit at the end of the financial year		<u>34,699</u>	<u>22,905</u>	<u>31,829</u>	<u>22,902</u>

The accompanying notes form an integral part of this Profit and Loss Statement

**Austal Limited and controlled entities**  
**Balance Sheet**  
as at 30 June 1999

	GROUP		COMPANY	
	1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
<b>CURRENT ASSETS</b>				
Cash	12,062	40,585	3,666	36,167
Receivables	3,365	44,898	39,086	40,206
Work in progress and stock	<u>100,698</u>	<u>7,312</u>	<u>42,557</u>	<u>7,034</u>
Total current assets	116,125	92,795	85,309	83,407
<b>NON CURRENT ASSETS</b>				
Property, plant and equipment	37,626	26,152	19,951	26,152
Shares in controlled entities - unlisted	-	-	526	-
Future income tax benefit	490	-	842	-
Receivables	6,347	-	6,347	-
Intangibles	<u>2,840</u>	-	-	-
Total non current assets	<u>47,303</u>	<u>26,152</u>	<u>27,666</u>	<u>26,152</u>
<b>TOTAL ASSETS</b>	<u>163,428</u>	<u>118,947</u>	<u>112,975</u>	<u>109,559</u>
<b>CURRENT LIABILITIES</b>				
Creditors	39,328	27,824	3,203	25,453
Progress payments in advance	6,969	3,324	1,841	3,324
Provisions	40,484	33,102	37,152	32,261
Borrowings	<u>35,283</u>	<u>25,826</u>	<u>33,283</u>	<u>19,653</u>
Total current liabilities	122,064	90,076	75,479	80,691
<b>NON CURRENT LIABILITIES</b>				
Provision for deferred taxation	-	499	-	499
Borrowings	<u>1,381</u>	<u>1,118</u>	<u>383</u>	<u>1,118</u>
Total non current liabilities	<u>1,381</u>	<u>1,617</u>	<u>383</u>	<u>1,617</u>
<b>TOTAL LIABILITIES</b>	<u>123,445</u>	<u>91,693</u>	<u>75,862</u>	<u>82,308</u>
<b>NET ASSETS</b>	<u>39,983</u>	<u>27,254</u>	<u>37,113</u>	<u>27,251</u>
<b>SHAREHOLDERS' FUNDS</b>				
Share capital	5,191	269	5,191	269
Reserves	93	4,080	93	4,080
Retained profit	<u>34,699</u>	<u>22,905</u>	<u>31,829</u>	<u>22,902</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>	<u>39,983</u>	<u>27,254</u>	<u>37,113</u>	<u>27,251</u>
Outside equity interest	-	-	-	-
<b>TOTAL SHAREHOLDERS' FUNDS AND OUTSIDE INTERESTS</b>	<u>39,983</u>	<u>27,254</u>	<u>37,113</u>	<u>27,251</u>

The accompanying notes form an integral part of this Balance Sheet

**Austal Limited and controlled entities**  
**Statement of Cashflows**  
for the year ended 30 June 1999

	GROUP		COMPANY	
	1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	216,351	114,296	136,686	102,961
Payments to suppliers and employees	(212,878)	(120,354)	(156,920)	(73,924)
Interest received	1,536	2,229	1,028	2,730
Interest paid	(682)	(169)	(678)	(17)
Tax paid	<u>(9,972)</u>	<u>(5,317)</u>	<u>(9,972)</u>	<u>(5,317)</u>
Net cash provided from (to) operating activities	<u>(5,645)</u>	<u>(9,315)</u>	<u>(29,856)</u>	<u>26,433</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments for plant and equipment	(2,910)	(5,846)	-	(5,846)
Payments for building additions	(311)	(1,840)	(311)	(1,840)
Proceeds from the sale of plant and equipment	43	77	-	77
Payments for intangible assets	(2,550)	-	-	-
Purchase of controlled entities	(2,351)	-	(525)	-
Loan to controlled entities	-	-	5,152	(31,742)
Loans advanced-Management Share Plan	<u>(6,347)</u>	-	<u>(6,347)</u>	-
Net cash used in investing activities	<u>(14,426)</u>	<u>(7,609)</u>	<u>(2,031)</u>	<u>(39,351)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Buy-back of ordinary shares	(66)	(11,050)	(66)	(11,050)
Repayment of borrowings	(20,411)	-	(19,412)	-
Proceeds from borrowings	32,900	19,411	32,900	19,411
Listing expenses	(1,946)	-	(1,946)	-
Dividends paid	(11,738)	(9,450)	(11,738)	(9,450)
Distribution to external unitholders	(666)	(6,444)	-	-
Payment to external unitholders	(6,173)	2,422	-	-
Advance / (repayment) of ITES Loan	<u>(352)</u>	<u>379</u>	<u>(352)</u>	<u>379</u>
Net cash used in financing activities	<u>(8,452)</u>	<u>(4,732)</u>	<u>(614)</u>	<u>(710)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>				
	(28,523)	(21,656)	(32,501)	(13,628)
Cash at the beginning of the year	<u>40,585</u>	<u>62,241</u>	<u>36,167</u>	<u>49,795</u>
Cash at the end of the year	<u>12,062</u>	<u>40,585</u>	<u>3,666</u>	<u>36,167</u>

The accompanying notes form an integral part of this Statement of Cashflows

**Austal Limited and controlled entities**  
**Notes to and forming part of the Financial Statements**  
 for the year ended 30 June 1999

**1. Statement of Significant Accounting Policies**

The Financial Statements have been prepared as a general purpose financial report in accordance with Australian Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views). They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. The carrying amounts of all non-current assets are reviewed annually to determine whether they exceed their recoverable amount. The accounting policies have been consistently applied except for the change in AASB 1009 relating to recognition of sales noted below.

Set out below is a summary of the significant accounting policies adopted by the Group in the preparation of the accounts.

**Basis of Consolidation**

The consolidated financial statements include the financial statements of the parent entity, Austal Limited and its controlled entities, referred to collectively as the "Group". All inter-entity balances and transactions have been eliminated. Where an entity either began or ceased to be controlled during the year, the results are only included from the date control commenced or until the date the control ceased.

**Sales**

In accordance with AASB 1009, sales are brought to account on a percentage of completion basis and comprise vessel contract and bounty income. This represents a change in accounting policy during the financial year from recognition of sales on delivery of completed vessels. This change was brought about by a change in the AASB requirement. As a result, sales for the prior year have been re-stated to reflect the new standard.

**Foreign Currency**

All foreign currency transactions are translated to Australian currency at the rate of exchange ruling at the date of the transaction or the applicable forward contract rate if the transaction has been hedged. Amounts receivable and payable in foreign currencies are translated at the rate of exchange ruling at the balance date. Where a foreign currency contract has been taken out the balance is converted at the forward rate.

The gains and losses from these short-term balances, whether realised or unrealised, are included in the operating results.

**Income Tax**

The Group adopts the liability method of tax effect accounting whereby income tax expense shown in the Profit and Loss account is based on the operating profit before tax adjusted for any permanent differences. The provision for deferred income tax liability and future income tax benefit represent the tax effect (at current rates) of differences between income and expense items recognised in different accounting periods for both book and tax purposes.

The benefit arising from estimated carry forward losses is recorded as a future income tax benefit where realisation of such benefit is considered to be virtually certain.

**Work in Progress and Stock**

Construction work in progress is valued at cost, plus profit recognised to date, less any provision for anticipated future losses. Costs include variable costs relating to specific contracts. 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 costs to complete each contract.

Stock is valued at the lower of cost and net realisable value. Cost is determined on the average cost basis.

**Property, Plant and Equipment**

Items of property, plant and equipment are capitalised at historical cost and depreciated on a diminishing value basis as outlined below.

Buildings	2.5%pa
Plant and Equipment	18% - 40%pa

The valuation of land and buildings is regularly reviewed and, where considered appropriate, revalued amounts are incorporated into the financial statements.

### **Depreciation**

Property, plant and equipment, excluding freehold land, is depreciated or amortised over the expected useful life.

### **Goodwill**

On the acquisition of a business or a controlled entity, the difference between the purchase consideration plus incidental expenses and the fair value of identifiable net assets is initially brought to account as goodwill or discount on acquisition. Goodwill on acquisition is amortised over a period of 5 years on a straight line basis.

### **Warranties**

Warranty repairs are expensed as the warranty defects are advised and the extent of the repairs is determined. Provision is made for the estimated future cost of warranty on vessels which are still under warranty where no defects have been advised.

### **Profits from Unit Trust**

The Company's share of the total amount of profits available for distribution from the Ferries Joint Venture Unit Trust is recognised in the Profit and Loss account of Austal Limited.

### **Trustee Obligations**

Controlled entities within the economic entity act as trustees of the Ferries Joint Venture Unit Trust. At law, the trustees are liable for the obligations of these trusts, and have a right of indemnity against the trust assets. These financial statements do not recognise these liabilities except to the extent that the trustee has committed a breach of fiduciary duty, or to the extent that the trust has insufficient assets to settle its obligations. The statement of cash flows does not reflect any cash flows attributable to the activities of the economic entity undertaken on behalf of the trusts.

At balance date, there have been no breaches of fiduciary duty by the trustees, and the assets of the Ferries Joint Venture Unit Trust are sufficient to meet its liabilities.

### **Provision for Employee Entitlements**

Provision has been made in the financial statements for benefits accruing to employees in relation to matters such as annual leave and long service leave in accordance with AASB 1028 Accounting for Employee Entitlements. All on-costs are included in the determination of these provisions.

### **Management Share Plan**

Certain Directors and managers are entitled to participate in the Austal Group Management Share Plan. Loans are provided to the trustee of the plan to assist in the purchase of the shares. No remuneration expense is recognised in respect of employee shares. Interest income is accrued and recognised on employee share loans. Amounts outstanding on loans to the trustee are included in non-current receivables.

## 2. Revenue

	GROUP		COMPANY	
	1999 \$000's	1998 \$000's	1999 \$000's	1998 \$000's
Construction contract revenue	207,547	148,153	176,650	148,153
Other Revenues:				
Joint venture profit - Ferries Australia Unit Trust	-	-	1,000	9,455
Net foreign exchange gains	1,530	75	1,091	-
Proceeds on sale of fixed assets	42	69	-	69
Rent received	145	128	145	128
Scrap sales	830	583	-	583
Interest received:				
- related parties	-	-	-	766
- other unrelated parties	1,536	2,229	1,028	1,964
Capital development grant	242	242	242	242
Miscellaneous	216	450	-	449
Total Revenue	<u>212,088</u>	<u>151,929</u>	<u>180,156</u>	<u>161,809</u>

## 3. Operating Profit Before Tax

Operating Profit Before Tax has been determined after:

### Charging as expenses:

Interest paid or payable to unrelated parties	682	169	677	16
Depreciation				
- buildings	449	356	394	356
- plant and equipment	2,954	886	1,784	886
Amortisation of goodwill	710	-	-	-
Auditors remuneration for:				
- audit	88	30	81	27
- other	3	2	-	-
Foreign exchange losses	-	1,555	-	1,555
Loss on sale of fixed assets	19	-	-	-
Patent defence cost	1,029	-	-	-
Provision for employee entitlements	988	97	(34)	95
Provision for warranty	344	(1,989)	211	(1,989)
Operating lease rentals	353	-	10	-
Abnormal items				
- Listing expenses (tax effect: nil)	1,946	-	1,946	-

### Crediting as income:

Interest received or receivable from unrelated parties	1,536	2,229	1,028	2,730
Profit on sale of fixed assets	-	2	-	2
Net foreign exchange gains	1,530	75	1,091	-

#### 4. Earnings per share

Basic earnings per share	15.6 cents per share
Diluted earnings per share	15.6 cents per share
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share	154,603,261

#### 5. Segment Information

The economic entity operates in one industry - the manufacture of high performance aluminium vessels in Australia.

#### 6. Dividends

The following dividends of the economic entity have been paid or declared during the financial year (\$000's):

	Dividend \$000's	Dividend per ordinary share (\$)
Dividends for 1998 paid prior to listing (1)	11,738	0.08
Final fully franked dividend as declared by the directors and payable on 25 October 1999	12,400	0.08

(1) Prior to the listing of the company on the Australian Stock Exchange (ASX), dividends totalling \$11.738m were paid to shareholders. Shares on issue at that time consisted of A and B class shares. A share split occurred prior to the listing of the company on the ASX. Dividends per share for the pre-listing dividend have been calculated on the number of shares on issue immediately after the share split.

The Board of Directors of Austal Limited has adopted the following Corporate Governance Policy

## 1. Relationship between the Board and Management

The relationship between Management and the Board is a partnership that is crucial to the Company's long-term success. The broad separation of responsibilities between Management and the Board as hereunder defined should be respected and clearly understood.

The Board gives direction and exercises judgement in setting the Company's objectives and overseeing their implementation. The Managing Director is responsible to the Board for the day-to-day management of the Company.

## 2. The Board's Functions

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.
- (b) Selecting the Managing Director, and if necessary replacing him/her, setting an appropriate remuneration package and ensuring adequate succession.
- (c) Adopting clearly defined delegations of authority from the Board to the Managing Director.
- (d) Agreeing performance indicators with Management.
- (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 with 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 Australian Accounting Standards.

## 3. Composition of the Board

The Board shall comprise of Directors with a range of backgrounds and experience. The selection of the Board members shall always be for the purpose of their ability to add value to the Company. Its function is to provide a good return for shareholders.

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

## 4. Committees of the Board

The Board shall appoint the following Committees:

**Audit Committee**, which shall comprise of one Non-Executive and one Executive Director to be elected by the Board. The Board shall also elect the Chairman of the Audit Committee. The Chairman of the Board of the Company shall be ineligible for election to the Audit Committee. The function of the audit 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.
- 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.

**Remuneration Committee**, which shall comprise of two Non-Executive Directors. The committee reviews the remuneration of all Directors and makes recommendations to the board.

## 5. Outside Directorships

Specific guidelines apply for acceptance of outside directorships by executive and non-executive directors.

## 6. Dealing in Securities of the Company

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 rules as at the date of adoption of this Policy are:

- (a) Notwithstanding the requirements of the legislation concerning insider trading, Directors are 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 shall also be 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 and in any company in which the Company has an interest, is required to notify the Chairman of his/her intentions before proceeding with the transactions.

## 7. Year 2000

The Board has recognised the potential exposure of the economic entity to the Year 2000 date problem. Computerised systems within the group have been tested. Austal has established contingency plans in the event of failure of systems external to the group.

## 8. 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 Ethics has been adopted.

A fundamental theme is that all business affairs are conducted legally, ethically and with the strict observance of the highest standards of integrity and propriety. The directors and management have the responsibility to carry out their functions with a view to maximising financial performance of the economic entity. This concerns the propriety of decision making in conflict of interest situations and quality of decision making for the benefit of shareholders.

## Independent Audit Report

To the Members of Austal Limited

### Scope

We have audited the concise financial report of Austal Limited for the financial year ended 30 June 1999, as set out on pages 14 to 20, in order to express an opinion on it to the members of the company. The Company's directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial statements of Austal Limited for the year ended 30 June 1999. Our audit report on the full financial statements was signed on 3 September 1999 and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report and examination, on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial statements. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

### Audit Opinion

In our opinion, the concise financial report of Austal Limited complies with Accounting Standard AASB 1039 "Concise Financial Reports".



**ARTHUR ANDERSEN**

*Chartered Accountants*



**ROBERT A. KIRKBY**

*Partner*

*Perth*

*3 September 1999*

The following information was extracted from the Company's registers as at 6 August 1999.

## Distribution of Shares

Spread of Holdings	Number of Holders	Number of Units	% of Total Issue Capital
1 - 1,000	225	192,323	0.12
1,001 - 5,000	811	2,672,422	1.72
5,001 - 10,000	270	2,345,092	1.51
10,001 - 100,000	184	5,114,254	3.30
100,001 and over	47	144,675,909	93.34

## Twenty Largest Shareholders

Rank	Shareholder	Total Units	% Issued Capital
1	Austro Pty Ltd	34,314,745	22.14
2	Longreach (WA) Pty Ltd	28,595,621	18.45
3	Onyx (WA) Pty Ltd	13,195,621	8.51
4	Pearce Holdings Pty Ltd	11,438,248	7.38
5	Austal Group Management Share Plan Pty Ltd	7,700,000	4.97
6	Perpetual Trustee Company Limited	7,654,726	4.94
7	Zilon Pty Ltd	3,812,940	2.46
8	National Nominees Limited	3,484,430	2.25
9	IOOF Australia	3,280,162	2.12
10	Christopher John Norman and Beverley Anne Norman	3,176,973	2.05
11	Garry Heys and Dorothy Heys	3,176,973	2.05
12	Permanent Trustee Company Limited	3,091,828	1.99
13	Perpetual Trustees Nominees Limited	2,772,997	1.79
14	Chase Manhattan Nominees Limited	1,855,900	1.20
15	Pepperwood Holdings Pty Ltd	1,715,737	1.11
16	Mercantile Mutual Life Insurance Company Limited	1,474,000	0.95
17	Macquarie Life Limited	1,443,400	0.93
18	Lavinia Shipping	1,414,316	0.91
19	Kevin Stanley & Julie Stanley	1,271,361	0.82
20	Westpac Custodian Nominees Limited	1,005,000	0.65
		135,874,979	87.66%

## Substantial Shareholders

Name	Number of Ordinary Shares
Austro Pty Ltd (J Rothwell)	38,131,685
Longreach (WA) Pty Ltd (C Norman)	31,778,594
Onyx (WA) Pty Ltd (G Heys)	16,372,594
Pearce Holdings Pty Ltd (K Stanley)	12,709,609

## Voting Rights

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

# Corporate Directory

## Directors

### Executive Directors

John Rothwell (Chairman/Managing Director)

Bob McKinnon (General Manager)

Chris Norman (Marketing)

Kevin Stanley (Shipyard)

Michael Atkinson (Finance)

### Non-Executive Directors

William Ferris

Achim Drescher

John Poynton

### Auditors

Arthur Andersen

Level 18, 225 St George's Terrace

Perth WA 6000

### Company Secretary

Michael Atkinson

### Registered Office

100 Clarence Beach Rd

Henderson WA 6166

Telephone: (61 8) 9410 1111

Facsimile: (61 8) 9410 2564

### Share Registry

Advanced Share Registry

Level 6

200 Adelaide Terrace

Perth WA 6000

Telephone: (61 8) 9221 7288

Facsimile: (61 8) 9221 7869





**Austal Limited**

100 Clarence Beach Rd  
Henderson WA 6166  
Telephone: (61 8) 9410 1111  
Facsimile: (61 8) 9410 2564



**Austal Ships Pty Ltd**

100 Clarence Beach Rd  
Henderson WA 6166  
Telephone: (61 8) 9410 1111  
Facsimile: (61 8) 9410 2564  
Web site: [www.austal-ships.com.au](http://www.austal-ships.com.au)



**Image Marine Pty Ltd**

30 Clarence Beach Rd  
Henderson WA 6166  
Telephone: (61 8) 9437 3333  
Facsimile: (61 8) 9437 3344  
Web site: [www.imagemarine.com.au](http://www.imagemarine.com.au)



**Oceanfast**

**Exclusive Motor Yachts Pty Ltd**

15 Egmont Rd  
Henderson WA 6166  
Telephone: (61 8) 9410 1900  
Facsimile: (61 8) 9410 2095  
Web site: <http://yachtworld.com/oceanfast>

