APPENDIX 4E
Preliminary Final Report

AUSTAL LIMITED

FOR THE YEAR ENDED 30 JUNE 2012

1. The reporting period is from 1 July 2011 to 30 June 2012. The previous corresponding period is 1 July 2010 to 30 June 2011.

2. Results for announcement to the market.

				$A'000
2.1	Revenue	up 30%	to	652,996
2.2	Profit from continuing operations after tax	down 49.6%	to	11,043
2.3	Net profit for the period	down 49.6%	to	11,043
2.4	Dividend distributions			

No dividend is payable with respect to the year ended 30 June 2012.

2.5	Record date for determining entitlements to the dividends	N/A
2.6	Explanation of figures in 2.1 to 2.4 that may be required	Refer to attached Annual Report pages 3 - 5.
3.	Statement of comprehensive income with notes	Refer to attached Annual Report pages 14 and 18 – 63.
4.	Statement of financial position with notes	Refer to attached Annual Report pages 15 and 18 – 63.
5.	Statement of cash flows and notes	Refer to attached Annual Report pages 16 and 18 – 63.
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 page 17 and 18 - 63.
9.	Net tangible assets per ordinary security	
	Current period (cents/share)	144.5
	Previous corresponding period (cents/share)	143.1
10.	Control gained or lost over entities during the period	Refer to attached Annual Report page 55.
11.	Details of associates and joint venture entities	N/A
12.	Other significant information	Refer to Operating and Financial Overview pages 3 - 5 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

14.1	Earnings per share (basic)	
	Current period	6.01 cents
	Previous corresponding period	11.9 Cents
14.2	Returns to shareholders including distributions and buy backs	

No dividends were declared with respect to the year ended 30 June 2012.

14.3	Significant features of operating performance	Refer to Operating and Financial Overview pages 3 - 5 of attached Annual Report.
14.4	Segment results	Refer to attached Annual Report pages 28 – 30
14.5	Trends in performance	Refer to Operating and Financial Overview pages 3 - 5 of attached Annual Report
14.6	Other factors affecting the results in period or future	Refer to Operating and Financial Overview pages 3 - 5 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

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This year's results reflect some of the challenges Austal faces. Rapid growth and the difficulties of producing a new ship type undermined efficient program delivery at Austal's busy US shipyard. In contrast, the Australian shipbuilding operation was unprofitable due to low activity levels. This stemmed from sustained economic downturn in key markets and a strong local currency. Importantly, Austal has made good progress towards implementing strategies to position it better for the future.

Austal's success in securing two major US Navy prime contracts brings with it the dual challenges of expanding operations to deliver on those commitments while overcoming the issues producing revolutionary, first in class ships inevitably bring. While the US operation was profitable, those factors certainly influenced the results. Improvements will come as workforce experience grows, as new facilities come online, and as the programs move into the series production of follow on ships. There are clear signs of this recovery in the second half performance.

The strength of the Australian dollar, and weakness in core markets such as Europe, continued to adversely impact the Australian operation's ability to profit from the commercial vessel markets it has traditionally served. This absolutely necessitated a change in strategy, and Austal implemented the core aspects of that change during the year.

The company improved its competitive position by acquiring a shipyard in the Philippines. Combining this with the Austal's world-leading technology has already proved instrumental in securing commercial vessel contracts that the company could not otherwise have executed profitably. The progress made at the shipyard is very pleasing, thanks in great part to the skilled local staff. Austal is pleased to have welcomed them into its global family, just as Austal has felt welcomed into their community.

Success in the United States has seen Austal emerge as an international prime contractor for defence programs, and the company leveraged off that to help secure an important Australian Government contract for the supply and in-service support of eight new Cape Class patrol boats. The Australian operation is using the project to help restructure itself to concentrate on defence contracting.

Importantly Austal signed new shipbuilding contracts worth approximately $1.3 billion during the year. This new work helps to underpin a predictable revenue stream for a number of years to come.

In line with expectations, the US Navy confirmed additional contracts for two Littoral Combat Ships (LCSs) and two Joint High Speed Vessels (JHSVs) as part of existing awards for 10 ships in each class. Austal anticipates the already substantial volume of work these programs provide will be bolstered and extended through award of two additional LCSs and one additional JHSV during the coming year.

Including the eight Cape Class patrol boats, Austal's non-US operations signed contracts for 13 vessels worth approximately $340 million. This represented a vast improvement on the $22 million in the previous financial year.

The Cape Class program's $50 million in-service support component provides work through to at least 2019. This, and the prospect of supporting Austal-built US Navy ships as they enter the fleet, provides a clear means to further grow Austal's vessel support business. That business performed well during the year.

As with the support business, the systems division will enable Austal to be a more effective prime contractor. The company is starting to see the benefits of this relatively recently acquired and still evolving division. New strategic agreements have been secured, and Austal's culture of innovation has helped foster the development and sale of a new command and control system.

Reshaping and improving the business has not always been easy, and challenges and change still lie ahead. However, recovery within the US operation, the US Navy's ongoing commitment to the LCS program, successful sales of new vessel types built at our new regional shipyard, a significant defence contract for our Australian operation, and growth in our service and systems business, point the way to a brighter long-term future for our staff and shareholders.

JOHN ROTHWELL AO
CHAIRMAN

The Group operating profit after tax for the year was $11.043 million compared with the previous year of $21.890 million. Revenue has increased by $149.140 million over the previous year while operating profit before tax has decreased by $7.235 million.

Compared to 2011, revenue from Austal's United States operations increased by almost 65.9% to $570.300 million. EBIT fell from $26.053 million to $15.795 million. Operating results continued to be impacted by the start up challenges of producing the first Joint High Speed Vessel (JHSV 1) while also undertaking significant workforce and facilities development. The first-in-class issues with JHSV 1 derive from the need for unforeseen engineering effort and additional structure to meet ship classification standards; issues affecting the supply of suitable materials increasing labour requirements; and higher than anticipated effort relating to tests and trials planning and execution.

There were strong signs of recovery in the second half, with revenue and EBIT increasing by 49% and 136% respectively compared to the first half. This reflects the efficiency benefits of increased throughput and the successful application of lessons learned on the first JHSV to subsequent ships. As production of the second and third JHSVs has been concurrent with JHSV 1, some of the first-in-class issues will also affect Austal's perfrormance on those ships, albeit to a lesser extent.

The US operation's importance is underlined by it generating 87.3% of Austal's total revenue, a share that continues to grow as its United States Navy (USN) programs approach steady state production. Austal currently has confirmed orders to build nine JHSVs under a 10-ship, USD$1.6 billion prime contract and five Independence-variant Littoral Combat Ships (LCSs), four of which are a part of a 10-ship, USD$3.5 billion prime contract awarded in December 2010. These orders provide work through to 2016.

The company has continued to invest in the development of its US facilities and workforce to enable this substantial pipeline of work to be delivered efficiently. As a result of work during the year, construction of all the necessary facilities is now complete. Significant recruitment and training programs resulted in the workforce expanding to 2,764 employees by year end, a 22.8% increase in 12 months.

Revenue from Austal's Australian operation decreased by 63.4% to $48.993 million as it transitioned away from manufacturing commercial vessels to focus on defence contracting. The Cape Class Patrol Boat (CCPB) program's scheduled low rate initial production, and the completion of legacy commercial vessels, meant activity levels were insufficient to fully recover overheads. EBIT was negative $13.653 million compared to negative $10.134 million in 2011. The Australian operation's results were also affected by its key role in supporting group activities such as design and marketing. A restructure into strategic business units undertaken late in the year will improve the transparency of future results.

Austal has successfully implemented a transformational strategy to enhance its long-term competitiveness and profitability in the commercial vessel shipbuilding market. Manufacturing of those vessels has transferred to a shipyard in the Philippines that Austal acquired in November 2011. Operations commenced in February, with an aggressive ramp up enabling two vessels to be in production by year end. These projects generated revenue of $1.942 million. EBIT of negative $0.798 million reflects the non-recurring set-up costs of commencing operations at the previously dormant facility.

The Service and Systems business performed well, with revenue of $19.361 million compared to $16.308 million in 2011 with an EBIT of $1.628 million from core operations, which excludes the legacy "WestPac Express" charter contract, compared to the previous year's negative $0.914 million result. Improved revenue and profitability in the core vessel support business was particularly pleasing.

FINANCIAL SUMMARY

Year ended 30 June	2012	2011
	$'000	$'000
Revenue*	652,996	503,856
Depreciation ,Amortisation & Impairment	(18,869)	(15,505)
EBIT	16,577	22,102
Net Interest (Paid)/Received	(4,020)	(2,310)
Operating Profit Before Tax	12,557	19,792
Tax (Expense)/Benefit	1,514	2,098
Operating Profit After Tax	11,043	21,890
% EBIT/Revenue	2.5	4.4
Basic Earnings Per Share (cps)	6.01	11.9
Net Assets	277,047	274,169
Return on Equity (%)	3.9	8.0

*Excludes interest and other income

USA OPERATIONS

Austal's focus in the US is on delivering its existing prime contracts with the USN for the delivery of LCSs and JHSVs.

In line with expectations, the USN exercised contract options worth in excess of US$1 billion during the year. These included options for the construction of two further ships in each class, taking the order book to nine JHSVs and five LCSs.

Austal's second LCS (LCS 4) was launched and christened, as USS "Coronado", during the year. Austal expects to deliver it by the second quarter of 2013. Austal also commenced construction of the third and fourth ships (LCS 6 and LCS 8) during the year. This followed the completion of USN Detail Design and Production Readiness Reviews. LCS 10 and LCS 12 are under contract.

The first JHSV, USNS "Spearhead", was substantially completed and underwent successful builder's sea trials in April 2012 in preparation for final inspection by the Navy before delivery. Austal anticipates this will be completed by the second quarter of the 2012-13 financial year.

Construction of the second, third and fourth JHSVs began during the year. Following construction of individual ship modules in Austal's Module Manufacturing Facility (MMF), JHSV 2 transitioned to the final assembly stage. This was commemorated with a keel laying ceremony in November 2011 at which point the ship was over 50 per cent complete. The ship's main propulsion engines were landed in December 2011.

JHSV 3 commenced construction September 2011 and final assembly in April 2012. A keel laying ceremony was held in May 2012. At year end JHSV 2 was more than three-quarters complete, and JHSV 3 over half complete.

Austal has now completed construction of the majority of its US facilities development program, creating one of the world's most advanced shipyards. Phase 2 of the MMF, Assembly Bay 5 and the Office Complex were completed under budget and ahead of schedule. Modules for JHSV 2, 3 and 4 and LCS 6 and 8 were all being manufactured in the MMF at year end

The US shipyard can now undertake full production of both ship classes with assembly line efficiency that results in significant cost savings. Austal continued to develop and expand its US workforce towards a goal of 4,000 employees by the end of 2013.

NON-US OPERATIONS

A core focus for the year was implementing strategies to address the findings of an operational review completed in July 2011. The review considered how Austal could refocus the significant capabilities of its operations in Henderson, Western Australia towards the manufacture and support of defence vessels. The review's principal findings were:

- Demand in specific segments of the international commercial vessel market (such as fast crew transfer boats, work boats and medium sized ferries) remains strong and new markets are emerging.
- To be successful in these markets, Austal would need to apply its market leading intellectual property to develop products for these markets and regionalise its manufacturing base to enhance competitiveness.
- The market for defence systems opportunities is attractive and has the potential to deliver significant recurrent income. Austal would leverage its existing systems integration capabilities to pursue new opportunities.
- The outlook for commercial and defence vessel service and maintenance is strong and Austal would continue to pursue contracts in this space.

Australian Shipyard Operations

Key to the repositioning of the Australian operations towards defence needs was the securing, in August 2011, of a $330 million contract to design, manufacture and support eight new CCPBs for the Australian Customs and Border Protection Service. The project progressed on schedule and on budget during the year, with an extensive design phase preceding the first boat's keel laying in June 2012.

Development and marketing of new offshore wind farm support vessel designs resulted in Austal entering the market with a three boat contract in July 2011. These vessels, and four fast ferries ordered in the previous year, were completed during the year as commercial vessel construction was moved to the Philippines.

Philippines Shipyard Operations

The Philippines shipyard acquisition was followed by a facilities improvement program and workforce recruitment to enable production to commence.

Austal secured shipbuilding contracts for two new designs following the shipyard's acquisition. Construction of a 27 metre wind farm vessel began in February 2012, with an 80 metre vehicle-passenger ferry commencing near year end. These projects demonstrate the value of combining Austal's intellectual property with regionalised manufacturing. The shipyard, which is now operating at capacity, presently employees 200 people and expects to add a further 170 personnel in coming months to deliver its orders.

Service and Systems

The award of the CCPB program was significant for the service and systems business. The contract's in-service support component is worth approximately $50 million, runs through to 2019, and provides a basis for further growth. The program also provided the catalyst for the development of what will be the world's first operational minor warfare combatant command and control system when it enters service on the first CCPB.

All regional service centres expanded during the year, and one of the Western Australian shipbuilding facilities was transitioned to become Austal's first dedicated Marine Support Base. In line with its strategy to leverage its USN programs, Austal provided support to ships owned by the US Office of Naval Research in both Australia and the United States.

The United States Navy's Military Sealift Command extended the charter of the Austal designed, built and supported high speed vessel "WestPac Express" into its eleventh year. The contract will last up to 24 months.

Austal also diversified into the Australian resources sector, building modular accommodation units for use in the mining industry.

During the year Austal demonstrated its ability to leverage the company's in-house systems capabilities and market position by signing new systems-related strategic agreements with mission systems integrator General Dynamics Advanced Information Systems and leading electronics provider Kelvin Hughes.

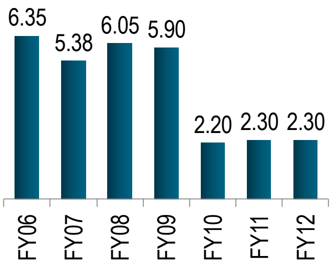
ENVIRONMENTAL PERFORMANCE

Austal's operations continue to assess and implement methods to improve sustainability and reduce waste. Rates of aluminium utilisation and waste recycling continue at historically high levels. Energy use continued to reduce and water usage is also declining. No environmental incidents of any note were reported.

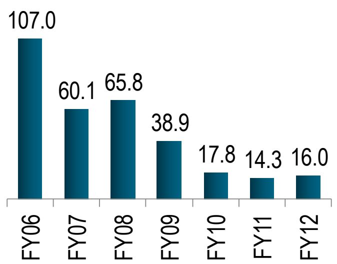
Austal continued to devote significant resources to the development of more efficient vessels with a smaller environmental footprint.

SAFETY PERFORMANCE

For the third year Austal has achieved both Lost Time Injury Frequency Rates (LTIFR) and Medical Treatment Injury Frequency Rates (MTIFR) at low levels compared to previous years. While the MTIFR was not as good as last year the safety performance continues to be very encouraging. This is especially true given the rapid growth of the US workforce, which brings with it the challenges of new people who are inexperienced in Austal's systems and processes; and the hazards of the shipbuilding environment.



Lost Time Injury Frequency
(per million hours worked)



Medical Treatment Injury Frequency
(per million hours worked)

Occupational Health and Safety Policy

Austal's Occupational Safety and Health (OSH) Policy was reviewed and our focus remains 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 workplace practice and are supported by strong leadership.

Safe People

The US Operations received two significant safety awards during the year: the American Longshore Mutual Association's Safest Large Shipyard Award and the Shipbuilders Council of America Award for Excellence in Safety. The latter is awarded to member shipyards with the lowest rate of recordable workplace injuries. This is the third year in a row that Austal USA has received both awards.

Austal's Australian manufacturing facility earned a Gold Certificate of Achievement under the Western Australian Government's WorkSafe assessment scheme.

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

As at 30 June 2012, the order book backlog totalled $2.572 billion and extends through to calendar 2016 for shipbuilding and 2019 for support contracts. The work primarily involves serial production of stable vessel designs, which enables the operations to focus on increasingly efficient and profitable project delivery.

With confirmed orders for 14 USN ships in place, Austal's US operation accounts for the vast majority of the backlog. Its orders provide work through to 2016.

The improvements seen in the second half of the year are expected to continue as the US operation transitions from developing the necessary people, plant and processes to applying and optimising them to enable efficient series production of both ship classes. This includes applying the significant lessons learned from projects undertaken to date. Although there will still be challenges associated with continuing workforce expansion, the operation will increasingly benefit from higher levels of workforce experience.

Austal anticipates contracts to build two LCSs and the tenth JHSV in US Fiscal Year (FY) 2013 (commencing October 1, 2012). This will complete Austal's existing JHSV award in line with expectations.

The upcoming US Presidential elections and the potential implications of sequestration under the Budget Control Act of 2011, create uncertainty about further contracts in the medium term, however the USN's current long range ship construction plan shows the ongoing importance of the LCS program, for which Austal is one of two prime contractors.

Submitted to Congress in March 2012, the plan includes acquisition of a further 43 LCSs between FY2013 and FY2026 resulting in continuous production of each contractor's LCS variant through to FY2029. This includes contracting a total of four LCSs per year between FY2013 and FY2015 (in line with awards already made to Austal and the other prime contractor); two ships per year in FY2016 and FY2017; and three ships per year from FY2018 to FY2026 inclusive.

The CCPB project underwrites activity for the Australian shipyard through to September 2015, with the support contract extending until at least August 2019. Customs and Border Protection has options to extend that support contract for the fleet's anticipated 20 year service life.

Although the program schedule means levels of activity will remain relatively low in the coming year, Austal anticipates improved financial results for the Australian operation in 2012/13. This improvement will continue in the following year as manufacturing activity ramps up significantly.

Other defence shipbuilding projects of various sizes and durations are being actively pursued to build on this base level of activity.

With its two current contracts ensuring a high level of utilisation throughout 2012-13, Austal expects the Philippines shipyard to be profitable in its first full year of operation. Austal anticipates that demand for large fast ferries will remain subdued and is therefore placing additional emphasis on other commercial vessel types where higher levels of activity are anticipated. Planning is well progressed for further development of the Philippines manufacturing capability to capitalise on potential additional contracts.

The investment in the Henderson Marine Support Base, and plans to expand Austal vessel support presence in other areas including Europe and South East Asia, reflect Austal's belief that there are further opportunities for growth in the vessel support business across a broad range of clients. Part of that strategy is to expand regional capabilities to support deployed LCS, JHSV and CCPB fleets. The company's role as prime contractor for these programs, and its existing support capabilities in the anticipated theatres of operation, positions Austal well to secure meaningful ongoing revenue streams as the ships deploy.

Austal expects the command and control system developed for the CCPB will be of interest to maritime law enforcement agencies worldwide. That and the Kelvin Hughes agreement provide immediate new potential revenue streams within the systems arena. The agreement with General Dynamics Advanced Information Systems is an important strategic step for large defence projects.

Andrew Bellamy

ANDREW BELLAMY
EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2012.

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

With 40 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".

John stepped down as Executive Chairman and Chief Executive Officer on 22 August 2008 to continue as Non Executive Chairman.

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, Chris was awarded the prestigious A.G.M. Michell Award in recognition of outstanding service in the profession of Mechanical Engineering.

Chris resigned from the Board of Directors of Austal Limited on 16 December 2011.

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 Board of Celebrate WA. John is a member of Social Ventures Australia and the Curtin Foundation.

Previously, John was a Chairman of ASX Perth, Fleetwood, Alinta and the 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, EFIC and of the Business School at the University of Western Australia.

John is a Life Member and Senior Fellow of the Financial Services Institute of Australasia (FINSIA), a Fellow of the Australian Institute of Company Directors (AICD) and of the 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 an engineer and experienced Chief Executive with business experience and networks gained over 30 plus years in the Australian and International Markets; spanning the engineering and construction sectors.

He has a record of achievement in establishing, growing and rejuvenating businesses and strategic leadership. Dario is a graduate from the Curtin University of Technology.

Dario is currently Non-Executive Chairman of Mission New Energy Limited, and a Non-Executive Director of OTOC 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.

Ian 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. Ian 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.

Ian resigned from the Board of Directors of Austal Limited effective 30 June 2012.

DAVID SINGLETON – Independent Director

David brings to Austal a wealth of highly relevant business expertise and experience in both the defence and resources sector. David has held numerous senior roles with BAE Systems (formerly British Aerospace), which is one of the world's largest defence companies. He served as Group Head of Strategy and Mergers & Acquisitions in London from 1997 to 1998 and again in 2003. In the intervening years, David was BAE's Managing Director of Asset Management before spending three years in Rome as the Chief Executive Officer of Alenia Marconi Systems (AMS). AMS was a European leader of naval warfare and air defence systems, C4I, ground and naval radars, command and control training systems and naval support.

David started his career with the UK Ministry of Defence and worked in research, development and manufacturing as well as senior management roles in Royal Ordnance which by then was part of BAE. He has also served as a member of the National Defence Industries Council in the UK, and as a board member and Vice President (Defence) of Intellect, a leading trade association for the UK technology industry.

David is the CEO and Managing Director of Perth-based mineral exploration company Poseidon Nickel Limited. Prior to this role, he served as CEO and Managing Director of Clough Limited between 2003 and 2007.

He is the Managing Director of Poseidon Nickel Limited and a Non-Executive Director of Quickstep Holdings, both ASX listed entities.

David was appointed to the Board of Directors of Austal Limited on 21 December 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	32,200,745	-	-
Michael Atkinson	1,415,737	-	285,062
Christopher Norman	26,595,621	6,600	-
John Poynton	10,000	-	-
Dario Amara	50,000	-	-
Ian Campbell	-	-	-
David Singleton	-	-	-
Andrew Bellamy	123,369	-	-

*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 28 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, manufacture and support of high performance aluminium vessels. These activities are unchanged from the previous year.

RESULTS

The profit of the consolidated entity for the financial year was $11,043 million after income tax (2011: $21.890 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

No dividend has been declared for the year ended 30 June 2012 (2011: $11.284 million being 6 cents per share).

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 2012.

SHARE OPTIONS

As at the date of this report, there were 8,273,611 un-issued ordinary shares under options. Refer to Note 28 for further details of the options outstanding. There were no options exercised during the year.

TOTAL NUMBER OF EMPLOYEES

As at 30 June 2012, the consolidated entity employed a total of 3,237 full-time equivalents (2011: 2,404 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 Group, directly or indirectly, including any director (whether executive or otherwise) of the Company.

For the purposes of this report, the term 'executive' encompasses the Chief Executive, senior executives and general managers 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 scheme 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. $263,373 (2011: $298,414) of cash bonuses vested with the executives, based on the prior period's performance, and was paid during this financial year.

Similarly, Austal KMP who are not directors of Austal USA participate in an annual bonus programme which takes into account length of service and profits earned by Austal USA. Australian employees are not part of this scheme. 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.

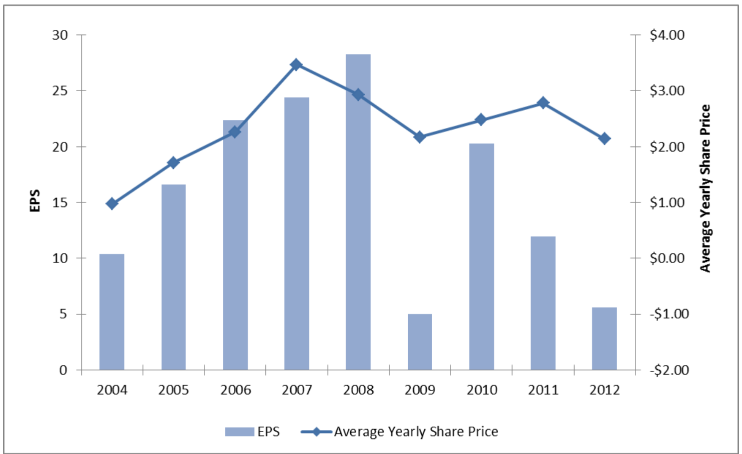
SHARE OPTION PLAN

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.

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 FOR THE YEARS ENDED 30 JUNE 2012 AND 2011

(i) **DIRECTORS**

Mr John Rothwell	Non-Executive Chairman
Mr Michael Atkinson	Executive Director
Mr Christopher Norman	Non-Executive Director
	- Resigned 16 December 2011
Mr John Poynton	Independent Director
Mr Dario Amara	Independent Director
Mr Ian Campbell	Independent Director
	- Resigned 30 June 2012
Mr David Singleton	Independent Director
	- Appointed: 21 December 2011
Mr Andrew Bellamy	Chief Executive Officer

(ii) **EXECUTIVES**

Mr Joseph Rella	Chief Operating Officer Austal USA
	- Resigned: 22 June 2012
Mr Richard Simons	Chief Financial Officer & Company Secretary
Mr Charles McGill	Chief Operating Officer Austal Service & Systems
	- Appointed: 24 February 2012
Mr Greg Jason	Chief Operating Officer Austal Asia - Appointed: 1 September 2012
Mr Brian Leathers	Interim Chief Operating Officer Austal USA.
	- Appointed: 25 June 2012

REMUNERATION REPORT (Audited) (Continued)

REMUNERATION OF KEY MANAGEMENT PERSONNEL FOR THE YEAR ENDED 30 JUNE 2012.

TABLE 1: REMUNERATION FOR THE YEAR ENDED 30 JUNE 2012

	Short-Term									
	Salary & Fees $	Cash Bonus $	Other-Monetary Benefits $	Non-Monetary Benefits $	Post-Employment Superannuation $	Termination Payments	Share-based Payment Options $	Total $	% performance related	Contract Terms Note
Non-executive directors										
John Rothwell	366,667	-	-		-	-	-	366,667	-	2
Christopher Norman*	42,500	-	-		-	-	-	42,500	-	1
John Poynton	90,000	-	-		-	-	-	90,000	-	1
Dario Amara	93,000	-	-		-	-	-	93,000	-	1
David Singleton*	45,076	-	-		-	-	-	45,076	-	1
Ian Campbell	90,000	-	-		-	-	-	90,000	-	1
Sub-total non-executive directors	**727,243**	**-**	**-**		**-**	**-**	**-**	**727,243**		
Executive directors										
Michael Atkinson	392,192	37,962	-	-	-	-	44,524	474,678	17.4	2
Andrew Bellamy	755,217	92,656	-	-	25,000	-	345,165	1,218,038	35.9	4
Other key management personnel										
Joseph Rella*	407,216	59,983	-	-	-	-	(144,830)	322,369	(26.3)	5
Richard Simons	438,221	56,025	-	-	25,689	-	66,809	586,744	11.4	4
Greg Jason*	178,446	16,166	2,044	-	13,146	-	52,053	261,855	21.0	6
Charles McGill*	49,051	-	18,911	-	6,221	-	2,672	76,855	3.5	6
Brian Leathers*	2,933	581	-	-	-	-	428	3,942	25.6	5
Sub-total executive KMP	**2,223,276**	**263,373**	**20,955**	**-**	**70,056**	**-**	**366,821**	**2,944,481**		
Total	**2,950,519**	**263,373**	**20,955**	**-**	**70,056**	**-**	**366,821**	**3,671,724**		

* Key management personnel for part of year of 2012.

TABLE 2: 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.
** No longer a Key management personnel for 2012.

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.
6. Employment contract – three months' notice period. No non-statutory termination entitlements.

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
30 June 2012							
Michael Atkinson	140,000	21 Oct 2011	0.667	2.15	20 Dec 2018	20 Dec 2014	20 Dec 2018
Joseph Rella**	140,000	20 Dec 2011	0.618	2.15	**	**	**
Richard Simons	140,000	20 Dec 2011	0.618	2.15	20 Dec 2018	20 Dec 2014	20 Dec 2018
Greg Jason*	140,000	20 Dec 2011	0.618	2.15	20 Dec 2018	20 Dec 2014	20 Dec 2018
Charles McGill*	70,000	20 Dec 2011	0.618	2.15	20 Dec 2018	20 Dec 2014	20 Dec 2018
Brian Leathers*	70,000	20 Dec 2011	0.618	2.15	20 Dec 2018	20 Dec 2014	20 Dec 2018
Total	**700,000**						
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**						

* Key management personnel for part of year of 2012
** 140,000 options were forfeited on cessation of employment.
*** No longer a Key Management Personnel.
Of existing option holdings only 140,000 of Michael Atkinson options had vested during the year and no options we exercised (2011: 140,000 of Michael Atkinson and 67,500 of Mark Dummett's options had vested during the prior year and no options we exercised).

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 2012					
Michael Atkinson	93,380	-	-	-	9.4
Joseph Rella**	86,520	-	-	-	-
Richard Simons	86,520	-	-	-	11.4
Greg Jason*	86,520	-	-	-	20.0
Charles McGill*	43,260	-	-	-	3.5
Brian Leathers*	43,260	-	-	-	10.8
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

* Key management personnel for part of year of 2012.

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 2012				
None				
30 June 2011				
Robert Browning*	-	-	-	-

^ For details on the valuation of the options, including models and assumptions used, please refer to Note 28 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. These shares were forfeited in 2011.

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 (2011: Nil) in substance options vested and Nil (2011: Nil) were exercised by KMP. See note 28(b).

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	7	4	2
Number of meetings attended:			
John Rothwell	7	-	2
Michael Atkinson	5	-	-
Christopher Norman*	3	-	-
John Poynton	7	-	2
David Singleton*	4	2	1
Dario Amara	7	4	-
Ian Campbell	6	3	2
Andrew Bellamy	7	-	2

* Director for part of year of 2012.

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
D Singleton^	A Bellamy
	D Singleton^*

* Designates the Chairman of the committee

^ Members for part of year 2012.

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 2012, 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 A Buckingham
Partner
Perth
28 August 2012

Liability limited by a scheme approved under
Professional Standards Legislation

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.

Andrew Bellamy

J ROTHWELL AO
Chairman

A BELLAMY
Executive Director and Chief Executive Officer

Dated at Henderson this 28th day of August 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Continuing operations			
Revenue	3(a)	652,996	503,856
Other income	3(b)	27,818	10,401
Expenses (excluding finance costs)	3(c)	(666,161)	(492,403)
Impairment of assets	3(d)	(2,545)	-
Unrealised gain on deferred premium options	3(e)	5,114	677
Finance costs	3(f)	(4,665)	(2,739)
Profit before income tax		**12,557**	**19,792**
Income tax benefit/(expense)	5	(1,514)	2,098
Profit after tax from continuing operations		**11,043**	**21,890**
Attributable to Members of the Parent		**11,043**	**21,890**
Other comprehensive income			
Cash flow hedges:			
(Gain)/loss taken to equity		(28,207)	52,483
Transferred to the statement of comprehensive income		(7,326)	(51,076)
Revaluation of land and buildings		42,152	-
Foreign currency translations		(1,703)	(7,180)
Income tax expense on items of other comprehensive income		(3,987)	(422)
Other comprehensive income for the period, net of tax		**929**	**(6,195)**
Total comprehensive income for the year		11,972	15,695
Attributable to members of the parent		**11,972**	**15,695**
Earnings per share (cents per share)			
- basic for profit for the year attributable to ordinary equity holders of the parent	6	6.01	11.9
- diluted for profit for the year attributable to ordinary equity holders of the parent	6	5.99	11.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	2012 $'000	2011 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	8	51,811	42,265
Restricted cash	8	52,940	128,837
Trade and other receivables	9	96,172	21,986
Inventories	10	193,529	177,922
Prepayments	11	6,538	5,792
Derivatives	14	36,041	37,805
		437,031	414,607
Assets classified as held for sale	12	1,561	-
Total Current Assets		**438,592**	**414,607**
Non-current Assets			
Other financial assets	8	944	903
Trade and other receivables	9	18	15
Derivatives	14	10,625	37,233
Property, plant and equipment	12	370,383	208,275
Intangible assets	13	5,045	5,063
Deferred tax assets	5	380	8,524
Total Non-current Assets		**387,395**	**260,013**
Total Assets		**825,987**	**674,620**
LIABILITIES			
Current Liabilities			
Trade and other payables	15	128,626	52,837
Derivatives	14	2,186	153
Interest-bearing loans and borrowings	16	18,973	8,554
Provisions	18	18,250	26,409
Government grants	17	3,561	3,567
Income tax payable		27,394	20,724
Other	19	27,288	2,679
Total Current Liabilities		**226,278**	**114,923**
Non-current Liabilities			
Derivatives	14	5,757	274
Interest-bearing loans and borrowings	16	246,444	217,985
Provisions	18	2,060	2,138
Government grants	17	48,753	41,896
Deferred tax liabilities	5	19,648	23,235
Total Non-current Liabilities		**322,662**	**285,528**
Total Liabilities		**548,940**	**400,451**
Net Assets		**277,047**	**274,169**
EQUITY			
Contributed equity	20	31,762	31,175
Reserves	20	22,595	20,063
Retained earnings	20	222,690	222,931
Total Equity		**277,047**	**274,169**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers		555,639	573,626
Payments to suppliers and employees		(521,472)	(506,755)
Interest received		644	429
Interest paid		(4,665)	(2,739)
Income tax received/(paid)		4,860	(8,200)
GST refunds		(1,870)	5,638
Net cash inflow/(outflow) from operating activities	8	33,136	61,999
Cash flows from investing activities			
Receipts/(repayment) of government grants		8,698	2,284
Proceeds from sale of property, plant and equipment		-	3,607
Purchase of property, plant and equipment		(131,459)	(44,755)
Purchase of intangible assets		(1,849)	(1,442)
Net cash used in investing activities		(124,610)	(40,306)
Cash flows from financing activities			
Repayment of loan – in substance options		289	305
Repayment of borrowings		(40,557)	(253,115)
Loans received		69,743	383,496
Equity dividends paid		(11,284)	(11,284)
Net cash from/(used) in financing activities		18,191	119,402
Net increase/(decrease) in cash and cash equivalents		(73,283)	141,095
Net foreign exchange differences		6,932	977
Cash and cash equivalents at beginning of period		171,102	29,030
Cash and cash equivalents at end of period	**8**	**104,751**	**171,102**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2012

	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 2010	**41,075**	**(10,205)**	**212,325**	**(1,685)**	**40,523**	**(12,665)**	**269,368**
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)**	**222,931**	**(8,865)**	**41,508**	**(12,580)**	**274,169**
As at 1 July 2011	**41,075**	**(9,900)**	**222,931**	**(8,865)**	**41,508**	**(12,580)**	**274,169**
Currency translation differences	-	-	-	(1,703)	-	-	(1,703)
Asset revaluation net of tax	-	-	-	-	-	27,491	27,491
Net gains on cash flow hedges	-	-	-	-	(19,745)	-	(19,745)
Transfer from cash flow hedge reserve	-	-	-	-	(5,114)	-	(5,114)
Total other comprehensive income for the year	-	-	-	(1,703)	(24,859)	27,491	929
Profit for the year	-	-	11,043	-	-	-	11,043
Total comprehensive income for the year	-	-	11,043	(1,703)	(24,859)	27,491	11,972
Equity Transactions:							
Shares issued	298	-	-	-	-	-	298
Options exercised	-	289	-	-	-	-	289
Cost of share-based payments	-	-	-	-	-	1,603	1,603
Equity dividends	-	-	(11,284)	-	-	-	(11,284)
As at 30 June 2012	**41,373**	**(9,611)**	**222,690**	**(10,568)**	**16,649**	**16,514**	**277,047**

*Reserved shares are in relation to the Austal Group Management Share Plan.
** Refer to note 20 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 2012 was authorised for issue in accordance with a resolution of the directors on 28 August 2012.

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 and land and buildings that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the 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. Austal Limited is a for profit entity.

(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 2011 the Group has adopted all the Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2011, including the following pronouncements:

- AASB 124: Related Party Disclosures (amendment) effective 1 January 2011
- AASB 2009 – 12: Amendments to Australian Accounting Standards
- AASB 2010-4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2010-5: Amendments to Australian Accounting Standards
- AASB 1054: Australian Additional Disclosures
- AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]
- Improvements to AASBs (May 2010)

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 which have not been adopted by the Group are as follows:

AASB 1048: Interpretation of Standards. AASB 1048 identifies the Australian Interpretations and classifies them into two groups: those that correspond to an IASB Interpretation and those that do not. Entities are required to apply each relevant Australian Interpretation in preparing financial statements that are within the scope of the Standard. The revised version of AASB 1048 updates the lists of Interpretations for new and amended Interpretations issued since the June 2010 version of AASB 1048.

AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets. 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 Re-valued Non-Depreciable Assets into AASB 112.

AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income. This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.

AASB 10: Consolidated Financial Statements. AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

Consequential amendments were also made to other standards via AASB 2011-7.

AASB 11: Joint Arrangements. AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly- controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.

Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.

AASB 12: Disclosure of Interests in Other Entities. AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

AASB 13: Fair Value Measurement. AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

Consequential amendments were also made to other standards via AASB 2011-8.

AASB 119: Employee Benefits. The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

Consequential amendments were also made to other standards via AASB 2011-10.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Statement of compliance (continued)

AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements. This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.

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

(c) Public sector entities other than the Australian Government and State, Territory and Local Governments.

Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.

AASB 2012-2: AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

AASB 2012-4: Amendments to Australian Accounting Standards Government Loans. AASB 2012-4 adds an exception to the retrospective application of Australian Accounting Standards under AASB 1 First-time Adoption of Australian Accounting Standards to require that first-time adopters apply the requirements in AASB 139 Financial Instruments: Recognition and Measurement (or AASB 9 Financial Instruments) and AASB 120 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans (including those at a below-market rate of interest) existing at the date of transition to Australian Accounting Standards.

AASB 2012-5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle– AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following:

- repeat application of AASB 1 is permitted (AASB 1); and
- clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).

AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities: AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

AASB 9: Financial Instruments: AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.

(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.

(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

(d) Where the fair value option is used for financial liabilities the change in fair value is to be 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.

Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Acquisitions prior to July 2009 were accounted for using the purchase method of accounting.

(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:

Construction contract revenue

The assessment of construction contract revenue in accordance with the Group's accounting policies requires certain estimates to be made of total contract revenues, total contract costs and the current stage of completion. Management have made estimates in this area, which if ultimately inaccurate will impact the level of revenue recognised in the Consolidated Statement of Comprehensive Income of 2012 and beyond.

Expected construction profits at completion

In determining the gross profit on construction projects the Group has made estimates in relation to the assessment of projects on a percentage of completion basis, in particular with regard to accounting for variations, the timing of profit recognition and the amount of profit recognised. The percentage of complete is calculated on actual costs over the sum of actual costs plus projected costs to complete the contract and profit is recognised from commencement of the project.

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 28.

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.

Revaluation of land and buildings

The Group measures land and buildings at revalued amounts with changes to fair value being recognised in other comprehensive income. The Group engaged independent valuation specialists to determine the fair value as at balance date.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

(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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Derivative financial instruments and hedging (contined)

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.

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

(o) 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.

(p) 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Income tax (continued)

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.

(q) 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.

(r) Property, plant and equipment

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

During the year ended 30 June 2012, the Group changed its accounting policy from the cost model to the revaluation model for land and buildings.

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

Any revaluation surplus is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case, the increase is recognised in the profit and loss. A revaluation deficit is recognised in the statement of comprehensive income except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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.

(s) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(t) 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 on initial recognition.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) 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.

(v) 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.

Research and Development costs

Research costs are expensed as incurred. Development expenditure on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- its intention to complete and its ability to use or sell the asset
- how the asset will generate future economic benefits
- the availability of resources to complete the asset
- the ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in costs of sales. During the period of development, the asset is tested for impairment annually.

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

	Development costs
Useful lives	Finite
Method used	5 years – Straight line
	Amortisation method reviewed at each financial year-end
Internally generated or acquired	Internally generated
Impairment testing	Reviewed annually for indicator of impairment

(w) 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.

(x) 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) 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.

(z) 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.

(aa) 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 due 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.

(ab) 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).

Equity settled transactions
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.

(ac) 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.

(ad) 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ae) 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

	2012 $'000	2011 $'000
Revenue and Expenses from Continuing Operations		
(a) Revenue		
Construction contract revenue	617,847	469,161
Charter revenue	11,298	9,968
Service revenue	20,007	21,591
Rental revenue	680	543
Sale of scrap	2,519	2,164
Interest from other unrelated parties	645	429
	652,996	503,856
(b) Other income		
Government grants	4,550	6,056
Training reimbursement	8,822	4,167
Gain on disposal of property, plant and equipment	4,269	39
Net foreign exchange gain	9,037	-
Other income	1,140	139
	27,818	10,401
(c) Expenses		
Cost of sales – construction contracts	589,391	422,268
Cost of sales – service	12,203	11,277
Marketing expenses	12,299	15,071
Administration expenses	44,356	36,175
Chartering expenses	7,912	7,612
	666,161	492,403
(d) Impairment		
Impairment of assets	2,545	-
(e) Gain on deferred premium options		
Foreign exchange gain on forward currency options less deferred premiums	5,114	677
(f) Finance costs		
Interest paid to unrelated parties	4,665	2,739
(g) Depreciation, amortisation and foreign exchange differences included in the statement of comprehensive income		
Depreciation excluding impairment	14,457	14,378
Amortisation	1,867	1,127
Net realised foreign exchange gain	-	(4,129)
(h) Lease payments included in statement of comprehensive income (Included in administration expenses)		
Rental expenses on operating leases	1,877	1,431

NOTE 3. REVENUE AND EXPENSES (continued)

	2012 $'000	2011 $'000
(i) Employee benefits expense		
Wages and salaries	163,054	157,455
Superannuation	3,592	6,066
Share based payments	1,603	85
Workers' compensation costs	2,927	2,180
Annual leave (reversal)/expense	2,526	458
Long service leave expense	1,002	(675)
	174,704	165,569

NOTE 4. OPERATING SEGMENTS

Identification of reportable segments:

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

The Chief Executive Officer 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:

Henderson Shipyard Operations ("HSO")

The HSO business manufactures high performance aluminium defence vessels for navys and border protection agencies for markets worldwide, excluding the USA.

USA

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

Service & Systems

The Service business provides training and on-going support and maintenance for high performance vessels and includes the chartering of a vessel to the U.S. Navy's Military Sealift Command.

Philippines Shipyard Operations ("PSO")

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

Other/Unallocated

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

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

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)

	HSO $'000	USA $'000	PSO $'000	Service & Systems $'000	Other/ Unallocated $'000	Eliminations/ Adjustments $'000	Total $'000
Year Ended 30 June 2012							
Revenues							
External customers	48,993	570,300	1,942	30,238	878	-	652,351
Inter-segment	14,740	-	-	2,600	2,010	(19,350)	-
Total revenues (i)	**63,733**	**570,300**	**1,942**	**32,838**	**2,888**	**(19,350)**	**652,351**
Segment result (ii)	**(13,653)**	**15,796**	**(798)**	**405**	**31,064**	**(16,237)**	**16,577**
Depreciation and amortisation	(1,597)	(12,256)	(142)	(841)	(1,488)	-	(16,324)
Gain on deferred premium	5,114	-	-	-	-	-	5,114
Segment assets	**130,294**	**480,586**	**(1,036)^**	**331**	**328,582**	**(112,770)**	**825,987**
Additions to non-current assets	**10,010**	**107,952**	**569**	**427**	**12,501**	**-**	**131,459**
Year Ended 30 June 2011							
Revenues							
External customers	133,915	343,915	-	28,834	(3,237)	-	503,427
Inter-segment	14,970	-	-	1,076	436	(16,482)	-
Total revenues (i)	**148,885**	**343,915**	**-**	**29,910**	**(2,801)**	**(16,482)**	**503,427**
Segment result (ii)	**(10,134)**	**26,053**	**-**	**(1,765)**	**(5,994)**	**13,942**	**22,102**
Depreciation and amortisation	(2,367)	(9,246)	-	(1,370)	(2,522)	-	(15,505)
Gain on deferred premium	677	-	-	-	-	-	677
Segment assets	**146,061**	**346,338**	**-**	**8,531**	**235,782**	**(62,092)**	**674,620**
Additions to non-current assets	**2,653**	**41,683**	**-**	**333**	**-**	**-**	**44,669**

^ Due to funding from related entities liabilities exceed assets in these segments.

i) Segment revenue does not include finance revenue of $0.645 million (30 June 2011: $0.429 million).

ii) Segment result does not include finance revenue of $0.645 million (30 June 2011: $0.429 million) and finance costs of $4.665 million (30 June 2011: $2.739 million).

Reconciliation of segment result	2012 $'000	2011 $'000
Segment profit	16,577	22,102
Finance income	645	429
Finance expenses	(4,665)	(2,739)
Consolidated profit before income tax	**12,557**	**19,792**

Reconciliation of segment revenue	2012 $'000	2011 $'000
Segment revenue	652,351	503,427
Finance income	645	429
Consolidated revenue	**652,996**	**503,856**

NOTE 4. OPERATING SEGMENTS (continued)

During the current and prior year one customer in the USA segment generated revenue of $570.300 million (2011: $343.915 million). In the current year two customers in the Australian segment generated revenue of $20.281 million (2011: $nil) and $14.152 million (2011: $nil) respectively. During the prior financial year two customers in the Australian segment generated revenue of $78.734 million and $31.044 million respectively.

Revenue from external customers by geographical location of customers:*	2012 $'000	2011 $'000
North America	570,300	343,915
South America	-	21,091
Europe	23,594	91,577
Asia	12,237	8,045
Australia	31,218	24,067
Other	15,647	14,732
Total	**652,996**	**503,427**

	Notes	2012 $'000	2011 $'000
Non-current assets, other than financial instruments and deferred tax assets by geographical location:			
USA		288,314	167,177
Philippines		10,174	-
Cyprus		12,448	-
Australia		59,447	46,161
Total		**370,383**	**213,338**
Non-current assets, by geographical location comprise:			
Property, plant and equipment	12	370,383	208,275
Intangible assets	13	5,045	5,063
Total		**375,428**	**213,338**

NOTE 5. INCOME TAX

	2012 $'000	2011 $'000
The major components of income tax expense are:		
Statement of comprehensive income		
Current income tax		
Current income tax charge	(6,826)	12,117
Adjustments in respect of current income tax of the previous year	636	(5,264)
Deferred income tax		
Relating to origination and reversal of temporary differences	7,704	(8,951)
Income tax expense/(benefit) reported in the statement of comprehensive income	**1,514**	**(2,098)**
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	(10,675)	2,777
Deferred gains on revaluation of property, plant and equipment	14,662	-

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:

	2012 $'000	2011 $'000
Accounting profit/(loss) before income tax from continuing operations	12,557	19,792
At the Group's statutory income tax rate of 30% (2011: 30%)	3,767	5,938
Adjustment for Austal USA statutory income tax rate of 36.9% (2011: 36.9%)	2,144	(73)
International rate differential	(292)	-
Current year research & development allowances	-	(3,520)
Prior year research & development allowances	-	(3,796)
Share based payments (equity settled)	-	(240)
Franking deficit tax rebate	-	(798)
Recognition of Austal USA employment tax credits	(390)	-
Recognition of Austal USA R&D Tax credits	(3,949)	-
Other	234	391
Income tax expense/(benefit) reported in the statement of comprehensive income	**1,514**	**(2,098)**

NOTE 5. INCOME TAX (continued)

	Statement of Financial Position		Statement of Comprehensive Income	
	2012	2011	2012	2011
	$'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	8,243	8,072	(171)	(7,741)
Undeducted borrowing costs	62	63	-	9
Provisions	4,261	5,884	1,623	1,358
Inventories	849	-	(849)	-
Payables	186	764	578	(240)
Losses available for offset against future taxable income	1,053	1,741	688	1,926
	14,654	**16,524**	**1,869**	**(4,688)**
Deferred tax liabilities - Australia				
Unrealised foreign exchange gain	2,045	1,845	200	1,530
Property, Plant and Equipment	6,055	-	(13)	-
Inventories	-	946	(946)	(10,416)
Deferred gains and losses on foreign currency contracts	11,617	22,383	512	5,096
Research & Development	14,585	14,585	-	(2,849)
	34,302	**39,759**	**(247)**	**(6,639)**
Net deferred tax liabilities - Australia	**19,648**	**23,235**	**1,622**	**(11,327)**

	Statement of Financial Position		Statement of Comprehensive Income	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
Deferred tax assets - USA				
Provisions	2,013	1,535	(478)	(996)
Payables	6,252	-	(6,252)	500
Unrealised foreign exchange gain	204	413	205	(413)
Losses available for offset against future taxable income	6,315	6,576	261	3,285
USA employment tax credits	390	-	(390)	-
USA R&D tax credits	3,949	-	(3,949)	-
Charitable donations	32	-	(32)	-
	19,155	**8,524**	**10,635**	**2,376**
Deferred tax liabilities - USA				
Property, Plant and Equipment	18,775	-	16,717	-
	18,775	**-**	**16,717**	**-**
Net deferred tax liabilities - USA	**(380)**	**8,524**	**6,082**	**2,376**
Deferred tax expense/(income)			**7,704**	**(8,951)**

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:

	2012 $'000	2011 $'000	2012 Number	2011 Number
Net profit attributable to ordinary equity holders of the parent from continuing operations	11,043	21,890		
Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share			183,766,205	183,559,322
Effect of dilution – share options			462,579	767,611
Weighted average number of ordinary shares (excluding reserved shares) adjusted for the effect of dilution			184,228,784	184,326,933
Earnings per share (cents per share)	6.01	11.9		
Diluted earnings per share (cents per share)	5.99	11.9		

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. 11,273,611 (2011: 9,664,402) potential ordinary shares have been excluded from the earnings per share calculation as they were not considered dilutive.

NOTE 7. DIVIDENDS PAID AND PROPOSED

	2012 $'000	2011 $'000
Paid during the year		
Dividends on ordinary shares:		
Final franked dividend for year ended 30 June 2011 paid during		
Year ended 30 June 2012: 6 cents (2011: 6 cents)	**11,284**	**11,284**
Approved by Directors on 18 August 2011		
Dividends on ordinary shares:		
Final franked dividend for 2011: 6 cents (2010: 6 cents)	**-**	**11,284**

The tax rate at which paid dividends have been franked is 30% (2011: 30%). Dividends proposed will be franked at the rate of 30% (2011: 30%). No dividend was proposed at 30 June 2012.

As at 30 June 2012, franking credits available to the parent company were $nil million (2011: $0.417 million).

NOTE 8. CASH AND CASH EQUIVALENTS

	2012 $'000	2011 $'000
Current		
Cash at bank and in hand	51,811	42,265
Restricted cash (i)	52,940	128,837
Non-current		
Other financial assets		
Restricted cash (ii)	944	903

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:

Cash at bank and in hand	105,695	172,005
Less restricted cash held as a guarantee - non current	(944)	(903)
	104,751	**171,102**

(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. At 30 June 2012, $75.856 million of the restricted cash was spent (2011: nil).

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)

	2012 $'000	2011 $'000
Reconciliation of net profit after tax to net cash flows from operations		
Net profit	**11,043**	**21,890**
Adjustments for:		
Depreciation	**14,457**	14,378
Amortisation	**1,867**	1,127
Impairment of non-current assets	**45**	-
Net gain on disposal of property, plant and equipment	**(4,269)**	(39)
Share based payments	**1,603**	85
Unrealised (gain)/loss on deferred premium options and other derivative financial instruments	**(5,114)**	(677)
Changes in assets and liabilities:		
(Decrease)/increase in provisions for:		
Income tax (current and deferred)	**11,227**	(10,298)
Workers' compensation insurance	**262**	(272)
Warranty	**(7,333)**	1,598
Employee benefits	**(1,148)**	(1,835)
Other provisions	**(17)**	196
(Increase)/decrease in debtors	**(74,189)**	9,060
(Increase)/decrease in work in progress	**(15,606)**	97,515
(Increase)/decrease in other inventories	**-**	(150)
(Increase)/decrease in other assets	**(788)**	(5,027)
(Increase)/decrease in other financial assets	**(6,156)**	(5,056)
(Decrease)/increase in trade creditors	**75,793**	(32,371)
(Decrease)/increase in progress payments in advance	**24,611**	(9,138)
(Decrease)/increase in government grants	**6,848**	(14,419)
Net cash inflow/(outflow) from operating activities	**33,136**	**61,999**

NOTE 9. TRADE AND OTHER RECEIVABLES

	2012 $'000	2011 $'000
Current		
Trade amounts owing by unrelated entities – construction contracts (i)	96,586	23,849
Allowance account for doubtful debts (ii)	(414)	(1,863)
	96,172	**21,986**
Non-current		
Trade amounts owing by unrelated entities	18	15

(i) Current trade amounts owing by unrelated entities are generally on 30 day terms.

(ii) During the year the group provided for $0.414 million (2011: $1.863 million) as an allowance account 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 9. TRADE AND OTHER RECEIVABLES (continued)

As at 30 June 2012, trade receivables of an initial value of $0.414 million (2011: $1.863m) were impaired and fully provided for. See below for the movements in the provision for impairment of receivables:

	Individually impaired $'000	Total $'000
At 1 July 2010	-	-
Charge for the year	1,863	1,863
Utilised	-	-
Unused amounts reversed	-	-
At 30 June 2011	**1,863**	**1,863**
Charge for the year	414	414
Utilised	(1,863)	(1,863)
Unused amounts reversed	-	-
At 30 June 2012	**414**	**414**

For ageing of debtors refer to note 21.

NOTE 10. INVENTORIES

	2012 $'000	2011 $'000
Construction work in progress – total amounts due from customers on construction contracts and stock vessels at cost	1,557,303	1,307,390
Less: progress payments received and receivable from construction contracts	(1,363,830)	(1,129,687)
	193,473	**177,703**
Materials	56	219
Total inventories	**193,529**	**177,922**

NOTE 11. PREPAYMENTS

	2012 $'000	2011 $'000
Current		
Prepayments	6,538	5,792

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land & buildings $'000	Plant & equipment $'000	Capital WIP $'000	Total $'000
Year ended 30 June 2012				
At 1 July 2011 – cost or valuation				
Carrying amount net of accumulated depreciation and impairment	143,177	42,378	22,720	208,275
Additions	83,684	39,892	7,883	131,459
Transfer in/(out)	14,484	(6,732)	(7,752)	-
Transfer to Held for sale assets ^	(1,561)	-	-	(1,561)
Disposals	(2,787)	(6)	-	(2,793)
Depreciation charge for the year	(5,957)	(8,500)	-	(14,457)
Impairment	(45)	-	-	(45)
Revaluation	42,152	-	-	42,152
Exchange adjustment	553	598	6,202	7,353
At 30 June 2012, carrying amount net of accumulated depreciation and impairment	**273,700**	**67,630**	**29,053**	**370,383**
At 1 July 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**
At 30 June 2012				
Fair value	273,700	-	-	273,700
Cost	-	110,946	29,053	139,999
Accumulated depreciation and impairment	-	(43,316)	-	(43,316)
Net carrying amount	**273,700**	**67,630**	**29,053**	**370,383**

Interest capitalised to capital work in progress during the year was $0.975 million (2011: nil).

NOTE 12. PROPERTY, PLANT AND EQUIPMENT (continued)

	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**

(i) The useful life of the assets was estimated as follows both for 2012 and 2011:

Building	40 years
Plant and equipment	2 to 10 years

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

^ The property classified as Held for Sale was subsequently sold in July 2012.

Revaluation of Land & Buildings
From 29 June 2012, the Group has changed its accounting policy for the measurement of land and buildings to the revaluation model. The Group engaged CB Richard Ellis and Knight Frank to determine the fair value of its land and buildings for USA and Australia respectively. Both firms are accredited independent valuers.

Fair value is determined by use of the depreciation replacement cost method. The date of the revaluations were 29 June 2012.

If land and buildings were measured using the cost model, the carrying amount would be as follows:

	2012 $'000	2011 $'000
Cost	254,599	171,855
Accumulated Depreciation and impairment	(29,700)	(28,678)
Net Carrying Amount	**224,899**	**143,177**

NOTE 13. INTANGIBLE ASSETS

	Computer Software $'000	Development costs ^ $'000	Total $'000
Year ended 30 June 2012			
At 1 July 2011			
Carrying amount net of accumulated amortisation	5,063	-	5,063
Additions	1,038	664	1,702
Amortisation for the year	(1,867)	-	(1,867)
Exchange adjustment	147	-	147
At 30 June 2012, carrying amount net of accumulated amortisation and impairment	**4,381**	**664**	**5,045**
At 1 July 2011			
Cost	9,402	-	9,402
Accumulated amortisation and impairment	(4,339)	-	(4,339)
Net carrying amount	**5,063**	**-**	**5,063**
At 30 June 2012			
Cost	10,673	664	11,337
Accumulated amortisation and impairment	(6,292)	-	(6,292)
Net carrying amount	**4,381**	**664**	**5,045**

^ The Group during the year commenced the development of a minor warfare combatant command and control system used in military applications. The development of this software meets the criteria of an internally generated asset.

NOTE 14. DERIVATIVES

	2012 $'000	2011 $'000
Financial assets		
Current		
Forward exchange contracts	31,830	26,219
Forward currency options	4,211	11,586
	36,041	**37,805**
Non-current		
Forward exchange contracts	10,625	31,542
Forward currency options	-	5,691
	10,625	**37,233**
Financial liabilities		
Current		
Forward exchange contracts	2,186	153
Non-current		
Forward exchange contracts	5,757	274

For terms and conditions attached to the forward exchange contracts and forward currency options, refer to note 22.

NOTE 15. TRADE AND OTHER PAYABLES

	2012 $'000	2011 $'000
Current		
Trade & other payables owed to unrelated entities (i)	128,626	52,837

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

NOTE 16. INTEREST BEARING LOANS AND BORROWINGS

	Notes	2012 $'000	2011 $'000
Current			
Bank loan (unsecured) (i)		13,553	3,605
Equipment line (secured) (vi)		2,438	-
Deferred option premium (unsecured) (ii)		2,982	4,949
Cash advance multi option facility (secured) (iii)		-	-
Business term multi option lending facility (secured) (iv)		-	-
		18,973	**8,554**
Non-current			
Bank loan (unsecured) (i)		9,470	5,508
Equipment line (secured) (vi)		17,557	-
Deferred option premium (unsecured) (ii)		-	2,737
Go Zone Bonds (secured) (v)		219,417	209,740
		246,444	**217,985**

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

(i) The unsecured bank loan is payable by instalments until October 2014, 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 expires on 30 June 2013.

(iv) The Business term multi option lending facilities expire on 30 June 2013 and 31 October 2013, respectively.

(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 approximately 4%. The bonds are supported by letters of credit which expire in October 2013 (refer to Note 23).

(vi) The Term equipment purchase facility expires in October 2015.

The loans and facilities incur interest at various average rates between 4% and 7%

NOTE 16. INTEREST BEARING LOANS AND BORROWINGS (continued)

	2012 $'000	2011 $'000
Financing facilities available		
At reporting date, the following financing facilities had been negotiated and were available:		
Total facilities:		
- bank facilities (a)	222,351	222,814
- Go Zone Bonds	221,529	209,740
- bank loan (unsecured) (b)	42,977	46,605
- deferred option premium (unsecured)	2,982	7,686
Total	**489,839**	**486,845**
Facilities used at reporting date		
- bank facilities (a)	58,032	31,832
- Go Zone Bonds	219,417	209,740
- bank loan (unsecured) (b)	23,023	9,113
- deferred option premium (unsecured)	2,982	7,686
Total	**303,454**	**258,371**

	2012 $'000	2011 $'000
Facilities unused at reporting date:		
- bank facilities (a)	164,319	190,982
- Go Zone Bonds	2,112	-
- bank loan (unsecured) (b)	19,954	37,492
- deferred option premium (unsecured)	-	-
Total	**186,385**	**228,474**

All the Group'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, cash advances and equipment loans.

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

The bank facilities have various expiry dates up to October 2015.

NOTE 17. GOVERNMENT GRANTS

	2012 $'000	2011 $'000
Current		
Infrastructure development (i)	3,561	3,567
Non-current		
Infrastructure development (i)	48,753	41,896

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.

NOTE 18. PROVISIONS

	Employee benefits $'000	Workers' compensation $'000	Warranty $'000	Other $'000	Total $'000
At 1 July 2011	12,310	5,661	9,854	722	28,547
Arising during the year	8,895	638	652	639	10,824
Utilised	(10,566)	(438)	(9,785)	(656)	(21,445)
Unused amounts reversed	392	-	1,800	-	2,192
Effects of foreign exchange	130	62	-	-	192
At 30 June 2012	**11,161**	**5,923**	**2,521**	**705**	**20,310**
Current 2012	9,806	5,923	2,521	-	18,250
Non-current 2012	1,355	-	-	705	2,060
At 30 June 2012	**11,161**	**5,923**	**2,521**	**705**	**20,310**
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**

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 refitting a military vessel to return it to a passenger ferry specification (2011: provision included redundancy costs).

NOTE 19. OTHER LIABILITIES (CURRENT)

	2012 $'000	2011 $'000
Progress payments received and receivable	73,549	4,393
Less: construction work in progress	(46,261)	(1,714)
Progress payments received in advance	**27,288**	**2,679**

NOTE 20. CONTRIBUTED EQUITY AND RESERVES

	2012 $'000	2011 $'000
Ordinary shares (i)	41,373	41,075
Reserved shares (ii)	(9,611)	(9,900)
	31,762	**31,175**

(i) Ordinary shares		
Issued and fully paid	41,373	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.

	2012		2011	
	Number of shares	$'000	Number of shares	$'000
Movement in ordinary shares on issue				
At 30 June	188,193,007	41,373	188,069,638	41,075
(ii) Reserved shares				
At 1 July	(4,390,601)	(9,900)	(4,566,763)	(10,205)
Options exercised	40,000	289	176,162	305
At 30 June	(4,350,601)	(9,611)	(4,390,601)	(9,900)

Reserved shares are in relation to shares held in the Austal Group Management Share Plan (refer to note 28).

Retained earnings

	2012 $'000	2011 $'000
Movement in retained earnings were as follows:		
Balance 1 July	222,931	212,325
Net profit for the year	11,043	21,890
Dividends	(11,284)	(11,284)
	222,690	**222,931**

NOTE 20. CONTRIBUTED EQUITY AND RESERVES (continued)

Reserves

	Foreign currency translation reserve $'000	Employee benefit reserve $'000	Cash flow hedge reserve $'000	Equity Reserve $'000	Asset revaluation Reserve $'000	Total $'000
At 1 July 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, net of tax	-	-	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**
Currency translation differences	(1,703)	-	-	-	-	(1,703)
Share based payment	-	1,603	-	-	-	1,603
Net gains on cash flow hedges, net of tax	-	-	(19,745)	-	-	(19,745)
Revaluation of land & buildings, net of tax	-	-	-	-	27,491	27,491
Transfer to Statements of Financial Position/ Comprehensive income	-	-	(5,114)	-	-	(5,114)
At 30 June 2012	**(10,568)**	**4,948**	**16,649**	**(15,925)**	**27,491**	**22,595**

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 28 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.

Asset Revaluation reserve

This reserve is used to record increases in the fair value of land and buildings. This reserve can only be used to pay dividends in limited circumstances.

NOTE 21. 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.

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:

	2012 $'000	2011 $'000
Financial assets		
Australian variable interest rate		
Cash and cash equivalents	22,349	18,628
US variable interest rate		
Cash and cash equivalents	29,462	23,637
	51,811	**42,265**
Financial liabilities		
Australian variable interest rate		
Interest-bearing loans and borrowings	(26,005)	(16,824)
US variable interest rate		
Interest-bearing loans and borrowings	(239,412)	(209,740)
	(265,417)	**(226,564)**
Net exposure	**(213,606)**	**(184,299)**

NOTE 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2012, 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	
	2012	2011
	$'000	$'000
Judgement of reasonable possible movements:		
Post-tax gain/(loss)		
+ 1% (100 Basis points)	(1,495)	(1,290)
– 1% (100 Basis points)	1,495	1,290

Foreign currency risk

At balance date, the Group had the following exposure to US Dollar and Euro currency:

	2012	2011
	$'000	$'000
Financial liabilities		
US Dollar exchange rate		
Interest-bearing loans and borrowings	2,982	7,686

Refer to Note 14 for Derivatives.

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, and Euro.

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 16).

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)	
	2012	2011	2012	2011
Judgement of reasonable possible movements:				
AUD/USD +5%	1,197	806	5,279	7,855
AUD/USD –5%	(2,787)	(920)	(5,705)	(8,524)
AUD/EUR +5%	125	-	(1,142)	271
AUD/EUR –5%	(125)	-	1,260	(271)
USD/EUR +5%	-	-	(1,243)	(3,947)
USD/EUR –5%	-	-	(2,052)	4,121

NOTE 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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 22.

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.

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 credible 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 22.

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	Impaired	0-30 days	31-60 days	61-90 days	90+days
	$'000	$'000	$'000	$'000	$'000	$'000
2012	**96,172**	**(414)**	**92,216**	**1,917**	**470**	**1,983**
2011	21,986	(1,863)	19,853	230	261	3,505

Receivable balances are monitored on an ongoing basis.

NOTE 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 $'000	Contractual cash flows $'000	0-1 year $'000	1-2 years $'000	2-5 years $'000	Greater than 5 years $'000
Year ended 30 June 2012						
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	-	(107,599)	(72,065)	(18,088)	(17,446)	-
Inflow	-	171,721	105,932	30,586	35,203	-
Net derivative financial (assets)/liabilities	**(38,722)**	**64,122**	**33,867**	**12,498**	**17,757**	**-**
Non-derivative financial liabilities						
Trade & other payables	128,626	(128,626)	(128,626)	-	-	-
Income tax payable	27,394	(27,394)	(27,394)	-	-	-
Bank loan (unsecured)	23,023	(37,449)	(9,845)	(15,438)	(12,166)	-
Equipment Line (secured)	19,995	(20,793)	(6,931)	(6,931)	(6,931)	-
Go Zone bond facility	219,417	(412,505)	(8,777)	(6,583)	(19,748)	(377,397)
Deferred option premium (unsecured)	2,982	(2,982)	(2,982)	-	-	-
Total	**421,437**	**(629,749)**	**(184,555)**	**(28,952)**	**(38,845)**	**(377,397)**

	Carrying amount $'000	Contractual cash flows $'000	0-1 year $'000	1-2 years $'000	2-5 years $'000	Greater than 5 years $'000
Year ended 30 June 2011						
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	-	(233,010)	(127,592)	(75,487)	(29,931)	-
Inflow	-	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)**

At balance date, the Group has approximately $186.385 million (2011: $228.474 million) of unused credit facilities available for its immediate use. (please refer to note 16). The Group also has a total of $51.811 million (2011: $42.265 million) in cash and cash equivalents, which it is able to use to meet its liquidity needs.

NOTE 22. 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	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Financial assets				
Cash	104,751	172,005	104,751	172,005
Trade receivables & other receivables	96,172	22,001	96,172	22,001
Derivatives	46,666	75,038	46,666	75,038
Other financial assets	944	903	944	903
Financial liabilities				
Trade payables & other payables	(128,626)	(52,837)	(128,626)	(52,837)
Income tax payable	(27,394)	(20,724)	(27,394)	(20,724)
Derivatives	(7,943)	(427)	(7,943)	(427)
Bank loan (unsecured)	(23,023)	(9,113)	(23,023)	(9,113)
Deferred option premium (unsecured)	(2,982)	(7,686)	(2,982)	(7,868)
Equipment line (secured)	(19,995)	-	(19,995)	-
Cash advance facility	-	-	-	-
Go Zone bonds	(219,417)	(209,740)	(219,417)	(209,740)

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.

Contingencies

The Group entities may have potential financial liabilities that could arise from certain contingencies as disclosed in note 23. 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, and Euro 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.

NOTE 22. FINANCIAL INSTRUMENTS (continued)

Forward currency contracts – cash flow hedges (continued)

	2012				2011			
	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
3 - 12 months	-	-	0.7118	98,471	1.0090	8	0.7629	69,262
13 months or greater	0.6303	698	0.9060	53,894	-	-	0.7744	91,428
		698		**152,365**		**152**		**167,514**
Forward currency options								
3 - 12 months	-	-	-	-	-	-	0.6600	20,920
13 months or greater	-	-	0.6600	10,831	-	-	0.6600	10,831
		-		**10,831**		**-**		**31,751**
Euro								
Forward exchange contracts								
less than 3 months	0.5754	293	-	-	0.6880	639	0.6899	14,918
3 - 12 months	0.5625	449	-	-	0.6203	878	-	-
13 months or greater	0.5385	939	0.8079	619	0.5493	1,535	-	-
		1,681		**619**		**3,052**		**14,918**
US/Euro								
Forward exchange contracts								
less than 3 months	1.064	4,943	-	-	-	-	1.0766	1,088
3 - 12 months	1.065	4,943	1.0544	22,973	-	-	1.0239	36,548
13 months or greater	1.067	30,586	1.1535	46,905	-	-	1.0251	40,227
		40,472		**69,878**		**-**		**77,863**
Forward currency options								
3 - 12 months	1.031	16,682	-	-	-	-	0.9440	35,216
13 months or greater	-	-	-	-	-	-	0.9440	18,233
		16,682		**-**		**-**		**53,449**

NOTE 22. FINANCIAL INSTRUMENTS (continued)

Forward currency contracts – cash flow hedges (continued)

	2012				2011			
	Average Forward/ Strike Rate	Buy $000	Average Forward/ Strike Rate	Sell $000	Average Forward Rate	Buy $000	Average Forward Rate	Sell $000
GBP								
Forward exchange contracts								
less than 3 months	-	-	0.6129	251	0.6657	23	-	-
3-12 months	0.6272	80	0.6003	1,537	-	-	-	-
13 months or greater	-	-	0.5580	6,193	-	-	-	-
		80		**7,981**		**23**		**-**
US/GBP								
Forward exchange contracts								
less than 3 months	0.9975	306	-	-	-	-	-	-
3-12 months	0.9956	383	-	-	-	-	-	-
13 months or greater	0.9968	2,786	-	-	-	-	-	-
		3,475		**-**		**-**		**-**
EUR/GBP								
Forward exchange contracts								
less than 3 months	-	-	0.6756	231	-	-	-	-
3-12 months	-	-	0.6767	177	-	-	-	-
13 months or greater	-	-	-	-	-	-	-	-
		-		**408**		**-**		**-**
Swiss Francs*								
less than 3 months	-	-	-	-	0.8753	5	-	-
		-		**-**		**5**		**-**

* Relates to forward exchange contracts.

Movement in forward currency contract cash flow hedge reserve

	2012 $'000	2011 $'000
Opening balance	**41,508**	**40,523**
Transferred to sales	(84)	(38,080)
Transferred to cost of sales	(5,030)	2,326
Transferred to other income	-	-
Charged to equity	(19,745)	36,739
Closing balance	**16,649**	**41,508**

NOTE 23. COMMITMENTS & CONTINGENCIES

Operating lease commitments

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

	2012 $'000	2011 $'000
Within one year	1,771	916
After one year but not more than five years	2,619	188
	4,390	**1,104**

Capital commitments

	2012 $'000	2011 $'000
Buildings – USA	**6,189**	**130,100**

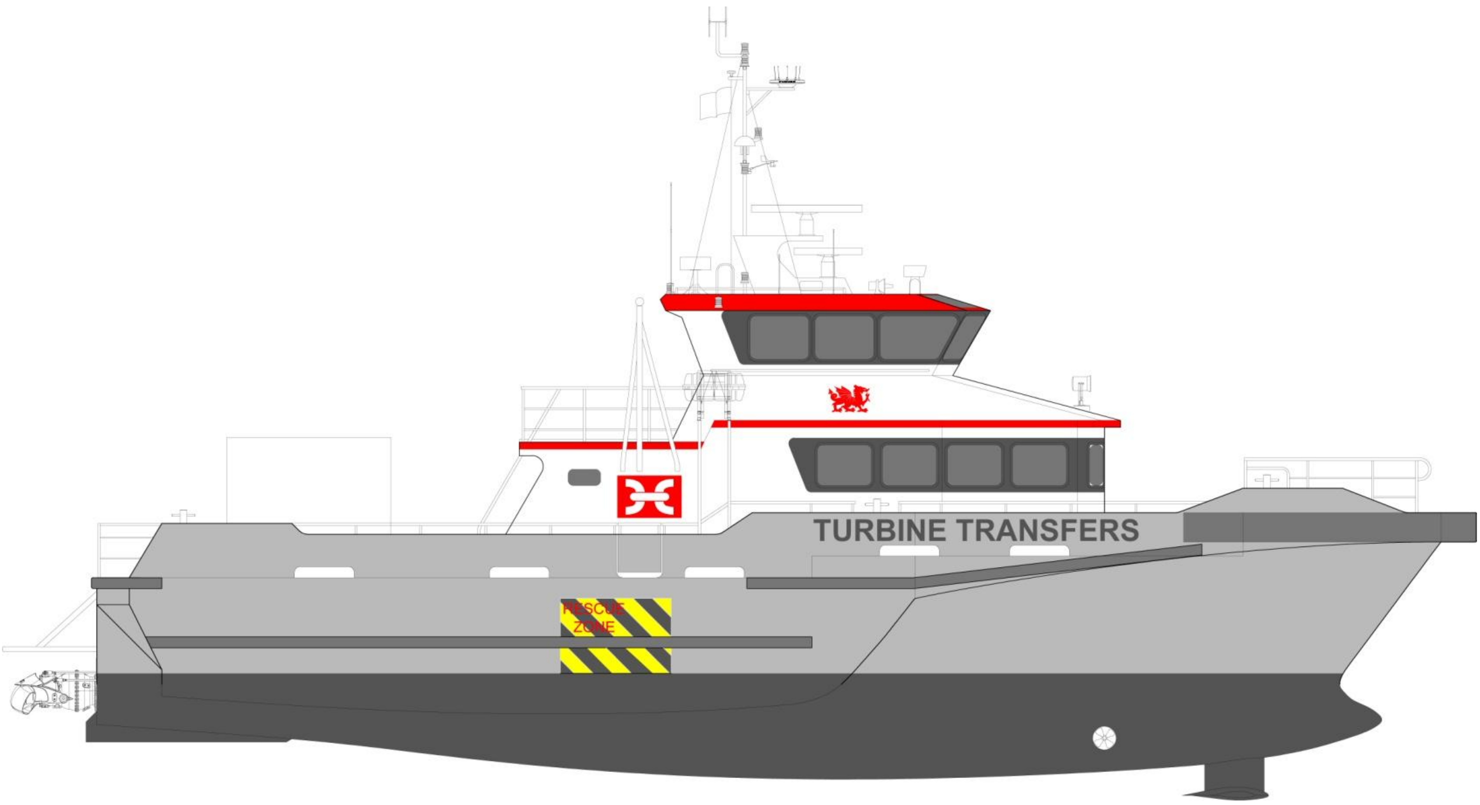
Contingent liabilities

	2012 $'000	2011 $'000
Bank performance guarantees (i)	38,037	31,832
Go Zone Bonds(i)	219,417	209,740
	257,454	**241,572**

(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 16).

Other contingent liabilities excluded from the above include:

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



NOTE 24. RELATED PARTY DISCLOSURE

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

	Country of incorporation	% Equity Interest 2012	2011
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	100
Austal Cyprus Pty Ltd	Cyprus	100	-
Austal UK Limited	United Kingdom	100	-

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

Transactions with related parties

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

NOTE 25. EVENTS AFTER THE BALANCE DATE

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

NOTE 26. AUDITORS' REMUNERATION

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

	2012 $'000	2011 $'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	493	379
- other services in relation to the entity and any other entity in the Group:		
- Tax compliance	35	-
Total	**528**	**379**

NOTE 27. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Compensation of Key Management Personnel

	2012 $'000	2011 $'000
Short-term employee benefits	3,234,847	3,344,275
Post-employment benefits	70,056	75,833
Termination benefits	-	130,700
Share-based payment	366,821	(1,144,063)
Total compensation	**3,671,724**	**2,406,745**

NOTE 27. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(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	Vested Exercisable	Vested Not Exercisable
30 June 2012								
Directors								
M Atkinson	280,000	140,000	-	-	420,000	140,000	140,000	-
A Bellamy	280,000	-	-	-	280,000	-	-	-
Executives								
J Rella*	375,000	140,000	-	(515,000)	-	-	-	-
R Simons	280,000	140,000	-	-	420,000	-	-	-
C McGill*	-	70,000	-	-	70,000	-	-	-
G Jason*	297,500	140,000	-	-	437,500	-	-	-
B Leathers*	169,000	70,000	-	-	239,000	-	-	-
Total	**1,681,500**	**700,000**	**-**	**(515,000)**	**1,866,500**	**140,000**	**140,000**	**-**

* Key management personnel for part of the year of 2012.

** Includes forfeitures.

	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 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.

*** Not a KMP at 30 June 2012

NOTE 27. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(c) Shareholdings of Key Management Personnel

	Balance 1 July 2011	Net change other	Balance 30 June 2012
30 June 2012			
Directors			
J Rothwell	33,974,685	(1,773,940)	32,200,745
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
A Bellamy	-	123,369	123,369
D Singleton*	-	-	-
I Campbell	-	-	-
Executives			
J Rella*	-	-	-
R Simons	-	-	-
C McGill*	-	-	-
G Jason*	-	-	-
B Leathers*	-	-	-
Total	**62,052,643**	**(1,650,571)**	**60,402,072**

* Key management personnel for part of the year of 2012.

	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)	-
I Campbell	-	-	-
Executives			
W Rotteveel*	22,806	(22,806)	-
M Dummett	3,431	(3,431)	-
J Rella	-	-	-
R Simons	-	-	-
Total	**62,128,880**	**(76,237)**	**62,052,643**

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

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.

NOTE 27. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

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

	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 2012								
Directors								
M Atkinson	285,062	-	-	-	285,062	285,062	285,062	-
Total	**285,062**	**-**	**-**	**-**	**285,062**	**285,062**	**285,062**	**-**
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**	**-**

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

(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 24 of this report, no related party transactions occurred with the consolidated entity.

NOTE 28. 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:

	2012 $'000	2011 $'000
Expense arising from equity-settled share-based payment transactions	1,603	85

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2012 and 2011. 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:

	2012		2011	
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	**6,664,402**	**2.63**	**3,874,402**	**2.87**
Granted during the year	3,430,000	2.15	3,010,000	2.34
Forfeited during the year	(1,820,791)	2.55	(220,000)	2.99
Outstanding at the end of the year	**8,273,611**	**2.46**	**6,664,402**	**2.63**
Exercisable at the end of the year	**420,611**		**486,652**	

NOTE 28. 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 2012 and 30 June 2011:

	Tranche 3 2008	Tranche 4 2009	Tranche 5 2010	Tranche 6 2010	Tranche 7 2010	Tranche 8 2011	Tranche 9 2012	Tranche 10 2012
Grant date	24 Oct 2007	10 Sept 2008	3 Nov 2009	16 Feb 2010	25 Feb 2010	27 Sept 2010	21 Oct 2011	20 Dec 2011
Spot price ($)*	3.16	2.35	2.41	2.44	2.43	2.38	2.25	2.24
Option exercise price ($)	3.60	2.40	2.95	1.81	2.45	2.34	2.15	2.15
Fair value of option $/option	0.43	0.36	0.52	0.69	0.561	0.840	0.667	0.618
Expected volatility (%)	35.0	40.0	44.0	44.0	44.0	44.0	43.0	43.0
Annual risk free interest rate (%)	6.51	5.54	5.35	5.28	5.37	5.00	4.10	3.20
Dividend yield (%)	5.70	5.67	4.5	4.5	4.5	2.0	2.0	2.0
Expected life of option (years)	4.9	5.00	5.00	4.00	4.00	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 28. 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 were issued to Mr Robert Browning and forfeited in 2011.

(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 28. 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 1,350,601 shares.

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

	2012	2011
Total shares (in substance options) held by trustee on behalf of plan at balance date (000's)	1,391	4,596
Total shares (in substance options) forfeited during the year (000's)	-	(3,000)
Total shares (in substance options) sold during the year (000's)	(40)	(205)
Total shares (in substance options) granted to employees during the year (000's)	-	-
Total shares (in substance options) exercised during the year (000's)	-	-
Total shares (in substance options) granted to employees at balance date (000's)	-	-
Total shares (in substance options) held by trustee on behalf of plan at balance date (000's)	1,351	1,391
Total fair value of shares (in substance options) exercised during the year ($'000)	-	-
Total number of employees eligible to participate in the plan	10	10

The balance of shares (in substance options) as at 30 June 2012 is represented by:

- 1,350,601 shares (in substance options) under Plan #1 and Plan #2 with a weighted average exercise price of $1.28 each, with no contractual life.

NOTE 29. PARENT ENTITY

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

	2012 $'000	2011 $'000
Current Assets	208,754	267,455
Total Assets	311,584	318,819
Current Liabilities	42,469	64,262
Total Liabilities	71,587	93,679
Equity		
Contributed equity	31,087	30,500
Employee benefit reserve	2,623	1,019
Asset revaluation reserve	14,161	-
Retained earnings	192,126	193,621
Total equity	239,997	225,140
Profit after tax	11,063	6,647
Total comprehensive income	11,063	6,647

For details of guarantees and contingent liabilities relating to Austal Limited refer to note 23.

DIRECTORS' 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 2012 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 2012.

On behalf of the Board.

J ROTHWELL AO

Chairman

Dated at Henderson this 28th day of August 2012

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 (resigned)
D.Singleton	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.

Diversity at Austal

The Company recognises that developing a diverse workforce is critical in building its organisational capability and maintaining a high level of performance, and values the distinctive skills, experiences and perspectives each individual brings to the workplace. The Company is committed to ensuring all employees are treated with respect and given equal opportunities for employment and development, and has a diversity policy which can be found on its website. Among other things, the Company's diversity policy:

- articulates how the Company considers diversity within the workforce will make a valuable contribution towards the Company's continuous improvement and the achievement of goals; and
- sets out the Board's commitment to promoting a corporate culture which embraces diversity.

The Company is in the process of developing measurable objectives for increasing diversity within the workplace, and the Board will review the Company's performance against these objectives on an annual basis. The Board has deferred the exercise of defining measurable targets for meeting diversity requirements as the Company is currently in the process of overhauling its management of human resources, and the development of those objectives will form part of that process. The Board continues to assess how to set meaningful and achievable targets in the context of employment in a manufacturing-based workforce and this task will be completed in the near future, within the 2012-13 financial year.

The Company emphasises equal opportunity for employment. While there are currently no female Board members, women are well represented in other roles within the organisation. Women currently hold:

- 14% of Senior Management positions;
- 13% of Management positions; and
- 42% of professional roles,

within the Company.

The Board aims to continue to embrace diversity within the Company's workforce as the Company and its activities grow and appropriately skilled candidates are available.

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

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Independent audit 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 2012, 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.

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 2012 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 pages 8 to 12 of the directors' report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin A Buckingham
Partner
Perth
28 August 2012

The following information was extracted from the Company's register as at 27 August 2012.

DISTRIBUTION OF SHARES

	Number of Holders	Number of Units	% of Total Issued Capital
1 – 1,000	1,607	847,910	0.45
1,001 – 5,000	2,195	6,148,979	3.27
5,001 – 10,000	651	5,006,869	2.66
10,001 – 100,000	459	10,681,873	5.67
100,001 and over	35	165,507,376	87.95
TOTAL	**4,947**	**188,193,007**	**100.00**

TWENTY LARGEST SHAREHOLDERS

Rank	Shareholder	Total Units	% Issued Capital
1	Austro Pty Ltd	32,200,745	17.11
2	Longreach (WA) Pty Ltd	26,595,621	14.13
3	J P Morgan Nominees Australia Limited	23,515,840	12.50
4	HSBC Custody Nominees	22,133,235	11.76
5	National Nominees Limited	13,349,565	7.09
6	Citicorp Nominees Pty Ltd	10,247,793	5.45
7	Onyx (WA) Pty Ltd (G Heys	9,916,628	5.27
8	Mr Vincent Michael O'Sullivan	9,582,000	5.09
9	Austal Group Management Share Plan Pty Ltd	4,350,811	2.31
10	Garry Heys & Dorothy Heys	2,844,670	1.51
11	Lavinia Shipping Ltd	2,302,625	1.22
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	BNP Paribas Noms Pty Ltd	1,265,277	0.67
16	Mr James Nicholas Andrew	417,569	0.22
17	BNP Paribas Noms Pty Ltd	272,415	0.14
18	Peninsula Audiological Services Pty Ltd	235,000	0.12
19	UBS Wealth Management Australia Nominees	222,450	0.12
20	Navigator Australia Ltd	215,718	0.11
		164,414,584	**87.36**

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	J P Morgan Nominees Australia Limited	23,515,840
4	HSBC Custody Nominees	22,133,235
5	National Nominees Limited	13,349,565
6	Citicorp Nominees Pty Ltd	10,247,793

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

Dario Amara

David Singleton

AUDITORS

Ernst & Young

The Ernst & Young Building

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COMPANY SECRETARY

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