



AUSTAL
LIMITED

Full-Year Report 2010

Contents

Chairman's Report	2
Operating and Financial Overview.....	3
Directors' Report.....	7
Income Statement	19
Statement of Comprehensive Income	20
Balance Sheet.....	21
Cash Flow Statement.....	22
Statement of Changes in Equity.....	23
Notes to the Financial Statements.....	
1. Corporate Information.....	24
2. Summary of Significant Accounting Policies.....	24
3. Revenue and Expenses.....	40
4. Operating Segments	41
5. Income Tax.....	44
6. Earnings Per Share.....	46
7. Dividends Paid and Proposed.....	46
8. Cash and Cash Equivalents.....	47
9. Trade and Other Receivables.....	48
10. Inventories.....	48
11. Prepayments.....	48
12. Property, Plant and Equipment.....	49
13. Intangible Assets.....	51
14. Investment in Subsidiaries.....	51
15. Derivatives.....	51
16. Trade and Other Payables.....	51
17. Interest Bearing Loans and Borrowings.....	52
18. Government Grants.....	53
19. Provisions.....	53
20. Other Liabilities (Current).....	53
21. Contributed Equity and Reserves.....	54
22. Financial Risk Management Objective and Policies.....	56
23. Financial Instruments.....	61
24. Commitments and Contingencies.....	63
25. Related Party Disclosure.....	64
26. Events after the Balance Sheet Date.....	65
27. Auditors' Remuneration.....	65
28. Director and Executive Disclosures.....	65
29. Share Based Payment Plans.....	68
30. Parent Entity.....	72
Directors' Declaration.....	73
Corporate Governance Statement.....	74
Independent Audit Report to the members of Austal Limited.....	80
Shareholder Information.....	82
Corporate Directory.....	83

Chairman's Report

This year's earnings demonstrate that Austal's underlying business strategy continues to perform well amidst the ongoing challenges presented by the aftermath of the global financial crisis. The high Australian dollar and international market conditions, particularly in the important European market, combined to greatly impede Austal's ability to export its products during this period.

Operators within Austal's traditional high speed commercial ferry market were among those most affected by the global financial crisis, which resulted in the slowing of sales at our Australian operations. However, the strategic decision to diversify the company's product offering and expand the company's manufacturing presence into the US is now reaping rewards in the face of these challenges.

Our involvement in two major US defence programmes, which have proven less susceptible to economic conditions, is the best example of the benefits of such a strategy. The company's success in winning the US Department of Defence's Joint High Speed Vessel (JHSV) 10 ship programme is a boost for our Alabama shipyard. All the current signs are that the programme will be extended to much larger numbers in the near future.

The first Austal Littoral Combat Ship was delivered to the US Navy in the past year and is performing extremely well. A second ship is currently under construction and as the total programme is for more than 50 vessels, opportunities for winning multiple vessel orders for this ship are strong.

The recent completion of a new 34,000m² Modular Manufacturing Facility (MMF) at our US facility means Austal is well positioned to capitalise on these major military programmes through faster, more cost-effective construction of both JHSV and LCS components.

The past year has also seen Austal maintain a deliberate, ongoing strategy to target the long-term, predictable income streams offered by multiple-vessel military constructions such as those previously mentioned and multi-year vessel maintenance contracts.

This strategy attempts to counter the traditionally lumpy income streams associated with shipbuilding while delivering a level of visibility and predictability that is unparalleled in Austal's history. The significant growth in Austal's vessel maintenance and service business is further evidence of the strategy's success as this unit is now a major business entity within the company.

The establishment of strategically located service hubs in regions such as the Middle East, Asia, Europe and the Caribbean has increased market penetration. Importantly, vessel maintenance and service contracts typically span up to five years, delivering a long-term, predictable income stream independent of our shipbuilding order book.

Although the commercial ferry market continues to feel the effects of the global financial crisis, Austal was successful in securing new orders for both passenger and vehicle passenger ferries during the year. These contracts underline the company's ongoing commitment to the commercial market and also point to a recovery in the sector. The recent rationalisation of Austal's Australian operations will deliver further efficiencies moving forward in line with market demand.

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

As we enter a new and exciting phase of consistent and predictable growth, I wish to thank our staff and shareholders for their ongoing support.



JOHN ROTHWELL AO
CHAIRMAN

Operating and Financial Overview

The Group operating profit after tax for the year was \$37.132 million compared with the previous year of \$9.166 million. Revenue has increased by \$29.946 million over the previous year while operating profit before tax has increased by \$41.380 million.

Revenue from Austal's US operations increased by 17.9% over 2009, to \$267.3 million. The EBIT contribution from the US operations improved substantially, from an operating loss of \$24.712 million in 2009, to a positive EBIT contribution of \$23.722 million in 2010. This significant improvement in performance was achieved through the maturing of US manufacturing operations, with the Modular Manufacturing Facility beginning to reach design throughput levels. This level of contribution from Austal USA is expected to continue and indeed grow as further operational efficiencies are achieved.

The revenue from Austal's Australian operations decreased by \$47.578 million compared to 2009 due to the continued impact of global economic conditions, resulting in less work volume awarded and completed in 2010. Further contributing to this result was that the stock vessels were not sold during the year as previously expected. The EBIT result for the Australian operations was \$27.6 million which was a 14% improvement over the previous period.

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

FINANCIAL SUMMARY

Year ended 30 June	2010 \$'000	2009 \$'000
Revenue*	520,150	490,204
EBITDA	67,159	9,593
Depreciation ,Amortisation & Impairment	(14,428)	(8,076)
EBIT	52,731	1,517
Net Interest (Paid)/Received	(1,574)	8,260
Operating Profit Before Tax	51,157	9,777
Tax Expense	(14,025)	(611)
Operating Profit After Tax	37,132	9,166
% EBIT/Revenue	10.1	0.3
Basic Earnings Per Share (cps)	20.3	5.0
Net Assets	269,365	235,735
Return on Equity (%)	13.8	3.9

*Excludes interest and other income

Australian Operations

This year the decision was made to rationalise our Australian operations. Although the rationalisation will unfortunately result in the closure of our Tasmanian operations in September, it is an important part of ongoing efforts to improve the efficiency and effectiveness of our Australian operations, within which our continued focus on improved productivity and cost management is resulting in greater throughput capability.

Although challenging economic conditions slowed sales at our Australian facilities, we were pleased to secure two new commercial contracts during the year. These consisted of four, 41 metre high speed passenger ferries for the Republic of Trinidad and Tobago and two, 47 metre ferries for repeat Austal customer L'Express des Iles in Guadeloupe. Considering the current global economic climate, this achievement was a tremendous endorsement of Austal's ability to fulfil its customers' commercial needs with affordable, quality products.

Reflecting the company's strategy of building longer-term, more predictable income streams has been the growth of Austal's vessel maintenance and support offering. The past year has seen Austal establish dedicated international service hubs in Egypt, Trinidad and Tobago, Oman, Hong Kong, Saudi Arabia and Spain.

Operating and Financial Overview (continued)

Multi-year service contracts announced this year include a five-year package with the Trinidad and Tobago Government, as well as similar contracts with the Egyptian Government and Oman's National Ferries Company. The result has been a \$30.783 million increase in service-related revenue compared to last year.

In the defence sector, Austal's Australian operations successfully completed the company's first European military contract with the delivery of four, 21.2 metre inshore patrol craft for the Armed Forces of Malta. This was closely preceded by the delivery of six, 30 metre fast patrol craft for the Trinidad and Tobago Coast Guard. There continues to be strong interest in Austal's brand of lightweight, high speed aluminium vessel technology within the patrol boat market.

Recently completed at our Western Australian facility during the year has been the next generation 102 metre trimaran vehicle ferry which, as previously reported, the company has built on speculation. This state-of-the-art vessel exceeded performance expectations during sea trials, reinforcing the ability of Austal's R&D team to deliver vessels that set new standards in the industry. We continue to field strong interest in the vessel, particularly from Europe and Asia, and remain confident that the vessel will sell in coming months.

Meanwhile, construction continues on a 107 metre vehicle ferry for Virtu Ferries and a 113 metre vehicle ferry for Nordic Ferry Services, where increased automation within the manufacturing process is delivering improved efficiencies at our Western Australian facility.

USA Operations

Austal's US facility in Mobile, Alabama celebrated a number of major milestones during the year. Among these were the delivery of the company's first US Navy Littoral Combat Ship (LCS), the opening of its state-of-the-art Modular Manufacturing Facility and the start of construction on the first Joint High Speed Vessel.

A historic commissioning ceremony for the US Navy's 127 metre Austal-designed and built LCS, "USS Independence" was held near Austal's US facility in January and was attended by thousands of delegates and spectators. By utilising Austal's advanced trimaran hull form, this new generation combat ship represents a technological leap in naval warfare. Construction of a second LCS "USS Coronado" is now underway and labour costs are already running at 30 per cent less than the first vessel as a result of having a mature design in place. The vessel remains on track for delivery in 2012.

Austal is currently one of two competitors in contention for the award of a contract to build the next 10 LCSs, with the US Navy expected to announce the winner by September 2010.

Our US facility also recently commenced construction on the first of the US Department of Defense's high speed support vessels – the Joint High Speed Vessel (JHSV). As the sole supplier of a vessel that may expand into a 40-ship class, Austal currently has contracts in hand to build the first three of these 103 metre JHSVs. Together with receiving orders for JHSV 2 and 3 during 2010, the US Navy has also funded the acquisition of long lead-time materials for JHSV 4 and 5, in a strong indication that the options will be exercised in the coming year.

In order to best position ourselves to capitalise on these US military programmes, Austal USA recently upgraded its production capacity with the opening of a new 34,000m² Modular Manufacturing Facility (MMF). The new facility allows faster, more cost effective vessel construction, and gives Austal USA the capability for multiple and concurrent LCS and JHSV vessel programs. Once operating at maximum efficiency, the facility will allow Austal to deliver two, 103 metre JHSVs and two, 127 metre LCSs per year.

Operating and Financial Overview (continued)

Environmental Performance

In response to the international focus on climate change and the need to reduce carbon and other greenhouse gas emissions we have continued to devote significant resources to the development of more efficient vessels with a smaller environmental footprint. Initiatives that are currently being pursued include medium speed ferries that combine Austal's light weight aluminium technology with highly fuel efficient engines, the use of LNG and CNG fuels, reduction in on board electrical load through power saving and power substituting technologies, and the use of more hydro dynamically efficient hull forms. In the US, Navy fuel utilisation profile comparison of the competing LCS designs indicates that at speeds above 16 knots, the Austal vessel consumes up to 64% less fuel than the Lockheed Martin-built vessel, representing dramatic proof of the company's leadership in carbon reduction efforts.

Safety Performance

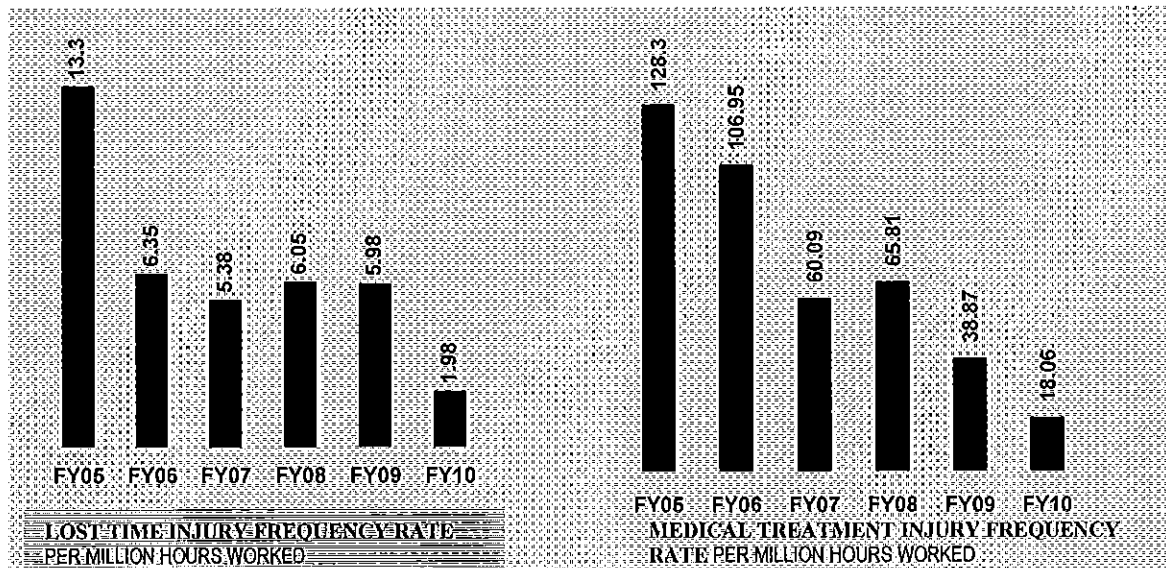
This year saw Austal achieve both Lost Time Injury Frequency Rates (LTIFR) and Medical Treatment Injury Frequency Rates (MTIFR) at record low levels in contrast to the frequency rates in the previous year. LTIFR for Austal over the last 5 years has typically been at levels between 5 and 6.5. Our refocus on safety has seen new initiatives for Austal introduced and while maintaining a focus on the workplace culture and ramping up behavioural programs, we have embarked on a more systematic approach. The results are very encouraging, especially given the rapidly expanding workforce in the US Operations which brings with it the challenges of new people, inexperienced in Austal's systems and processes, to our industry and to the hazards in the marine manufacturing environment.

Occupational Safety and Health policy

Austal's Occupational Safety and Health (OSH) Policy focuses on safe people, safe practices and safe work environments and promotes a workplace culture that raises awareness of individual responsibility for safety and health. Austal's safety culture is achieved when these components are recognised and budgeted in conjunction with strong leadership.

Safe People

This year has seen the nomination of employees in various Safe Work Awards for their safety innovations and the implementation of monthly recognition awards for safety. Austal Ships, the Australian manufacturing facility has been recommended to WorkSafe Western Australia for a Silver Certificate of Achievement under the WorkSafe Plan Assessment, a 3rd party assessment process. The US Operations received two awards from the Ship Builders Council of America for Excellence and its Improvement in Safety Performance.



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.

Operating and Financial Overview (continued)

Outlook

Austal can look ahead to future earnings with a level of visibility and predictability that is unparalleled in the company's history, underpinned by an ongoing strategy to target long-term, predictable revenue streams offered by multiple-vessel military construction and multi-year vessel maintenance contracts.

Success in both the US Navy's LCS programme and the potential expansion of the US Department of Defense's JHSV programme would see Austal charged with building one third of the US Navy's future fleet. This would result in an order book in excess of \$2 billion by the end of 2012. Austal has already been selected as sole supplier of the JHSV and is expected to be awarded contracts for an additional two vessels during 2011. Options currently remain for an additional seven JHSVs to be exercised between FY2011 and FY2013. The total value of the 10-vessel contract is approximately US\$1.6 billion. Importantly, the programme is expected to deliver a predictable revenue stream of US\$320 million per annum from 2012 to 2015, which equates to approximately 60 percent of Austal's historical revenue.

With dedicated service hubs now established worldwide we can also expect continued growth in the vessel maintenance and support markets which further compliment the company's predictable, multi-year income stream strategy.

As of 30 June 2010, contracts on hand to be completed across the 2011 to 2012 financial years amounted to \$923 million.

Although challenges remain in many of Austal's traditional export markets as a result of current economic conditions, the successful execution of a strategy embarked upon several years ago has successfully positioned Austal to deliver consistent shareholder value.



ROBERT BROWNING
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Directors' Report

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2010.

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

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

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, Finance & Company Secretary)

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

Christopher Norman, B.Eng Hons (Non Executive Director)

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

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

John Poynton AM Cit WA (Independent Director)

John is a Co-Founder and Executive Chairman of Azure Capital. He is the Deputy Chairman of Austal Limited and is a Non-Executive Director of Burswood Ltd. He is a Member of the Council of Celebrate WA and of Social Ventures Australia. John is also a Member of the Board of the Business School at the University of Western Australia, where he also serves as Adjunct Professor of Financial Services.

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

John is a Senior Fellow of the Financial Services Institute of Australasia (FINSIA), and a Fellow of the Australian Institute of Company Directors (AICD) and Australian Institute of Management (AIM). John is a Member in the General Division of the Order of Australia and is a past recipient of a WA Citizen of the Year award in the industry and commerce category.

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

Directors' Report (continued)

Directors (continued)

Robert Browning, MSc, MBA, FAIM (Managing Director & Chief Executive Officer)

Robert was Chief Executive Officer of Alinta Limited from March 2001 to 8 April 2007.

Robert holds a Bachelor of Science degree from San Diego State University, an MBA from the University of Phoenix and a Master of Science from Massachusetts Institute of Technology, Sloan School of Management.

He held the position of Independent Director from 2 September 2003 until his resignation on 31 July 2007 to take up the position of Chief Executive Officer with Austal USA LLC. On 22 August 2008, Robert rejoined the Board and was appointed to the position of Managing Director & Chief Executive Officer.

Dario Amara, BEng (Distn), FIEAust, CPEng (Independent Director)

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

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

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

Ian Campbell (Independent Director)

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

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

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

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

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

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

	Number of Ordinary Shares		Number of Shares held in AGMSP *
	Direct	Indirect	
John Rothwell	33,974,685	-	-
Michael Atkinson	1,415,737	-	285,062
Christopher Norman	26,595,621	6,600	-
John Poynton	10,000	-	-
Robert Browning	20,000	-	3,000,000
Dario Amara	50,000	-	-

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

Directors' Report (continued)

PRINCIPAL ACTIVITIES

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

RESULTS

The profit of the consolidated entity for the financial year was \$37.132 million after income tax (2009: \$9.166 million).

OPERATING AND FINANCIAL REVIEW

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

DIVIDENDS

A fully franked final dividend of \$11.284 million (6 cents per share) (2009: \$11.284 million being 6 cents per share) has been declared for the year ended 30 June 2010 to be paid on 7 October 2010.

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 2010.

SHARE OPTIONS

As at the date of this report, there were 3,874,402 un-issued ordinary shares under options. Refer to Note 29 for further details of the options outstanding. There were no options exercised during the year.

TOTAL NUMBER OF EMPLOYEES

As at 30 June 2010, the consolidated entity employed a total of 2,452 full-time equivalents (2009: 2,065 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.

Directors' Report (continued)

REMUNERATION REPORT (Audited)

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

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

Nomination and Remuneration Committee

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

Remuneration Policy

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

Objective

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;
- align key employees' behaviour towards the growth and profitability objectives of the Company; and reward key employees for sustained contributions to business success.

Structure

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

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

To encourage the retention of employees, KMP who are not directors of the Australian companies participate in an annual bonus which takes into account length of service and profits earned by the Australian enterprises. The bonus vests and is paid dependent on the employees being employed at the end of December of each year. The bonus is paid at the discretion of the Nomination and Remuneration Committee. 100% of the cash bonuses vested with the executives and was paid during the financial year.

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

Directors' Report (continued)

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

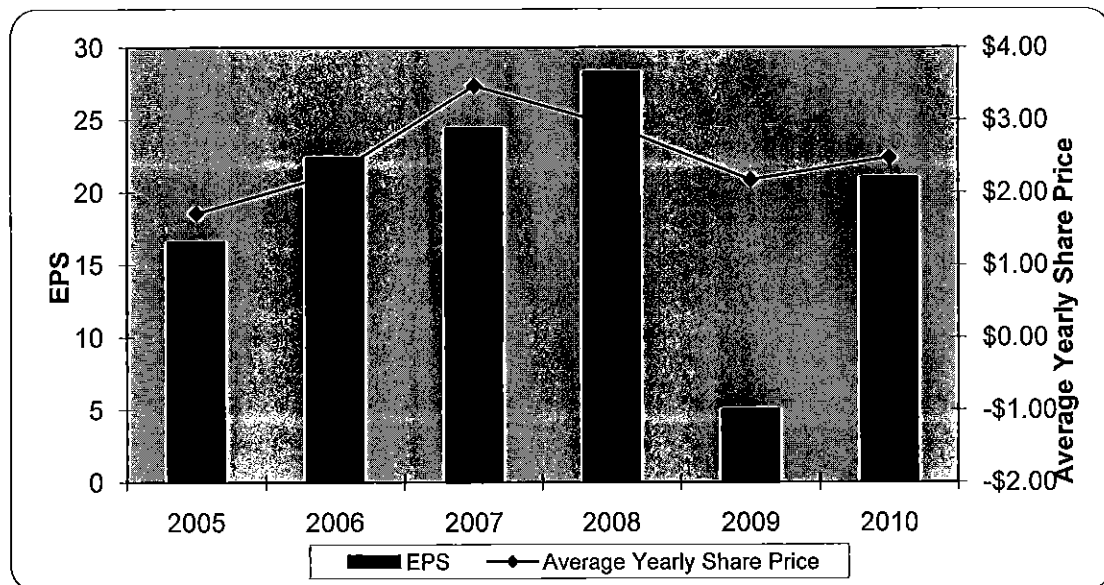
Objective

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;
- 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.

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

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 on the 3 November 2009, the options vest if the TSR of Austal Limited exceeds 25% for the period 1 September 2009 to 31 August 2012. The percentage vesting reduces on a sliding scale if the TSR is below 25%, until no options vest if the TSR is below 5%.

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

Details of key management personnel including Group and Company executives who received the highest remuneration for the year ended 30 June 2010

(i) Directors

Mr John Rothwell	Non Executive Chairman
Mr Michael Atkinson	Executive Director & Company Secretary
Mr Christopher Norman	Non Executive Director
Mr John Poynton	Independent Director
Mr Robert Browning	Managing Director & Chief Executive Officer
Mr Dario Amara	Independent Director
Mr Ian Campbell	Independent Director

(ii) Executives

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

Remuneration of key management personnel including Group and Company executives who received the highest remuneration for the year ended 30 June 2010.

Table 1: Remuneration for the year ended 30 June 2010

	Salary & Fees	Short-Term Cash Bonus	Non-Monetary Benefits	Post Employment Superannuation	Share-based Payment Options	Total	% performance related	Contract Terms Note
	\$	\$	\$	\$	\$	\$		
Non executive directors								
John Rothwell	416,666	-	-	-	-	416,666	-	2
Christopher Norman	85,000	-	-	-	-	85,000	-	1
John Poynton	90,000	-	-	-	-	90,000	-	1
Dario Amara	93,000	-	-	-	-	93,000	-	1
Ian Campbell	90,000	-	-	-	-	90,000	-	1
Sub-total non executive directors	774,666	-	-	-	-	774,666		
Executive directors								
Robert Browning	623,986	-	28,008	-	478,754	1,130,748	42.3	5
Michael Atkinson	364,105	-	-	-	15,346	379,451	4.0	2
Other key management personnel								
Joseph Rella	374,065	84,527	35,646	-	21,330	515,568	4.1	5
Greg Metcalf* #	344,347	-	-	5,812	11,290	361,449	3.1	3
William Rotteveel	231,682	9,050	-	18,847	15,615	275,194	5.7	3
Mark Dummett	254,285	9,760	-	23,377	21,648	309,070	7.0	3
Andrew Bellamy	324,507	32,110	-	28,321	12,537	397,475	3.2	4
Peter Hogan* ##	239,269	22,242	-	21,946	10,896	294,353	3.7	4
Richard Simons*	125,960	-	-	11,274	9,397	146,631	6.4	4
Sub-total executive KMP	2,882,206	157,689	63,654	109,577	596,813	3,809,939		
Total	3,656,872	157,689	63,654	109,577	596,813	4,584,605		

* Key management personnel for part of year of 2010.

Salary and fees includes a cessation of employment payment of \$212,994.

Salary and fees includes a cessation of employment payment of \$83,479.

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

Remuneration of key management personnel including Group and Company executives who received the highest remuneration for the year ended 30 June 2010 (continued)

Table 2: Remuneration for the year ended 30 June 2009

	Salary & Fees \$	Short-Term Cash Bonus \$	Non-Monetary Benefits \$	Post Employment Superannuation \$	Share-based Payment Options \$	Total \$	% performance related	Contract Terms Note
Non executive directors								
John Rothwell	583,333	-	-	-	-	583,333	-	2
Christopher Norman	89,950 **	-	-	-	-	89,950	-	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	946,283	-	-	-	-	946,283		
Executive directors								
Robert Browning	617,338	5,228	28,720	-	785,640	1,436,926	54.7	5
Michael Atkinson	351,794	-	-	-	14,959	366,753	4.0	2
Other key management personnel								
Joseph Rella	410,494	19,508	68,510	-	6,904	505,416	1.4	5
Greg Metcalf	264,750	17,674	-	25,117	10,128	317,669	3.2	3
William Rotteveel	204,555	14,294	6,712	18,659	8,234	252,454	3.3	3
Mark Dummett	242,017	16,054	-	22,838	13,782	294,691	4.7	3
Andrew Bellamy*	209,159	-	-	18,658	-	227,817	-	4
Peter Hogan*	122,786	1,698	9,821	11,203	-	145,508	-	4
Sub-total executive KMP	2,422,893	74,456	113,763	96,475	839,647	3,547,234		
Total	3,369,176	74,456	113,763	96,475	839,647	4,493,517		

* Key management personnel for part of year of 2009.

** Includes amounts paid for consultancy services during the year. Refer to Note 25.

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 – three 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.

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

Table 3: Compensation options: Granted and vested during the year (Consolidated) ^

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

* Key management personnel for part of year of 2010.

** 140,000 options were forfeited on cessation of employment.

30 June 2009	Granted	Terms & Conditions for each Grant						Vested No.
	No.	Grant Date	Fair Value per option at grant date (\$)	Exercise price per option (\$)	Expiry Date	First Exercise Date	Last Exercise Date	
Executives								
Joseph Rella	95,000	10 Sep 2008	0.36	2.40	10 Sep 2015	10 Sep 2011	10 Sep 2015	-
Greg Metcalf	50,000	10 Sep 2008	0.36	2.40	10 Sep 2015	10 Sep 2011	10 Sep 2015	-
William Rotteveel	50,000	10 Sep 2008	0.36	2.40	10 Sep 2015	10 Sep 2011	10 Sep 2015	-
Mark Dummett	69,000	10 Sep 2008	0.36	2.40	10 Sep 2015	10 Sep 2011	10 Sep 2015	-
Total	264,000							-

No options vested or were exercised during the current or prior year.

Table 4: Options granted as part of remuneration ^

30 June 2010	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
	\$	\$	\$	\$	%
Joseph Rella	73,080	-	-	-	4.1
Andrew Bellamy	73,080	-	-	-	3.2
Peter Hogan*	73,080	-	73,080	-	-
	69,000	-	-	-	3.7
William Rotteveel	36,540	-	-	-	5.7
Mark Dummett	36,540	-	-	-	7.0
Richard Simons*	78,540	-	-	-	6.4

* Key management personnel for part of year of 2010.

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

Table 4: Options granted as part of remuneration continued[^]

	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 2009					
Michael Atkinson	-	-	-	-	4.1
Joseph Rella	34,295	-	-	-	1.4
Greg Metcalf	18,050	-	-	-	1.2
William Rotteveel	18,050	-	-	-	3.4
Mark Dummett	24,909	-	-	-	4.7

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 2010				
Robert Browning*	-	-	-	42.3
30 June 2009				
Robert Browning*	-	-	-	54.7

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

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

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. The maximum cost assuming that all service and performance conditions are met, is equal to the number of options or rights granted multiplied by the fair value at the grant date. The minimum cost assuming that service and performance criteria are not met is zero. During the year a further 600,000 (2009: 600,000) in substance options vested and 285,000 (2009:24,894) were exercised by KMP. See note 28(d).

DIRECTORS' MEETINGS

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

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

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

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

D Amara *
C Norman
I Campbell

Nomination and Remuneration

I Campbell *
J Rothwell
J Poynton

* Designates the Chairman of the committee

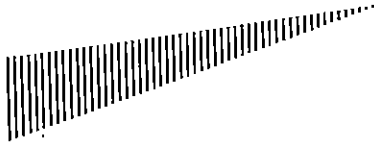
ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

Directors' Report (continued)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

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

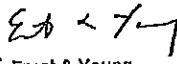


ERNST & YOUNG

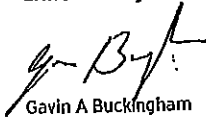
Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843
Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

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 2010, 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



Gavin A Buckingham
Partner
Perth
19 August 2010

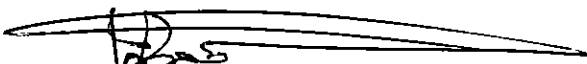
06-ME-AUSTAL-070

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.



J ROTHWELL AO
Chairman



R BROWNING
Managing Director and Chief Executive Officer

Dated at Henderson this 19th day of August 2010

Income Statement

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010 \$'000	2009 \$'000
Revenue	3(a)	521,414	500,448
Other income	3(b)	9,242	11,366
Expenses (excluding finance costs)	3(c)	(474,817)	(455,350)
Impairment of receivable	3(d)	-	(29,890)
Impairment of land and buildings	3(d)	(2,462)	-
Unrealised gain/(loss) on deferred premium options	3(e)	618	(14,813)
Finance costs	3(f)	(2,838)	(1,984)
Profit before income tax		51,157	9,777
Income tax expense	5	(14,025)	(611)
Profit after tax from continuing operations		37,132	9,166
Attributable to Members of the Parent		37,132	9,166
Earnings per share (cents per share)			
- basic for profit for the year attributable to ordinary equity holders of the parent	6	20.3	5.0
- diluted for profit for the year attributable to ordinary equity holders of the parent	6	20.2	5.0
Dividends per share (cents per share)	7	6.0	6.0

Statement of Comprehensive Income
FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010 \$'000	2009 \$'000
Profit after income tax from continuing operations		<u>37,132</u>	<u>9,166</u>
Other comprehensive income			
Cash flow hedges:			
Gain taken to equity		12,554	49,312
Transferred to the income statement		(1,684)	(13,179)
Foreign currency translations		(1,416)	5,668
Income tax expense on items of other comprehensive income		<u>(3,268)</u>	<u>(10,864)</u>
Other comprehensive income for the period, net of tax		<u>6,186</u>	<u>30,937</u>
Total comprehensive income for the year		<u>43,318</u>	<u>40,103</u>
Attributable to members of the parent		<u>43,318</u>	<u>40,103</u>

Balance Sheet

AS AT 30 JUNE 2010

	Note	Consolidated	
		2010 \$'000	2009 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	8	29,030	93,028
Trade and other receivables	9	31,060	36,242
Inventories	10	275,288	104,799
Prepayments	11	2,206	1,522
Derivatives	15	60,273	16,165
Total Current Assets		397,857	251,756
Non-current Assets			
Cash and cash equivalents	8	1,138	995
Prepayments	11	309	582
Derivatives	15	16,394	48,820
Property, plant and equipment	12	217,734	187,164
Intangible assets	13	3,786	3,452
Deferred tax assets	5	10,900	10,969
Total Non-current Assets		250,261	251,982
TOTAL ASSETS		648,118	503,738
LIABILITIES			
Current Liabilities			
Trade and other payables	16	87,488	68,206
Derivatives	15	2,690	1,189
Interest-bearing loans and borrowings	17	46,567	8,657
Provisions	19	25,187	27,108
Government grants	18	4,840	461
Income tax payable		19,755	19,994
Other	20	11,816	39,098
Total Current Liabilities		198,343	164,713
Non-current Liabilities			
Derivatives	15	6,320	2
Interest-bearing loans and borrowings	17	79,335	29,330
Provisions	19	2,829	2,356
Government grants	18	55,045	53,974
Deferred tax liabilities	5	36,881	17,628
Total Non-current Liabilities		180,410	103,290
TOTAL LIABILITIES		378,753	268,003
NET ASSETS		269,365	235,735
EQUITY			
Contributed equity	21	30,870	30,096
Reserves	21	26,173	19,165
Retained earnings	21	212,322	186,474
TOTAL EQUITY		269,365	235,735

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated	
		2010 \$000	2009 \$000
Cash flows from operating activities			
Receipts from customers		549,683	437,987
Payments to suppliers and employees		(664,945)	(544,552)
Interest received		1,264	10,269
Interest paid		(2,838)	(1,394)
Income tax received/(paid)		798	(10,002)
GST refunds		9,024	16,374
Receipts of government grants		11,725	44,724
Net cash outflow from operating activities	8	(95,289)	(46,594)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		10	217
Purchase of property, plant and equipment		(46,503)	(83,168)
Purchase of intangible assets		(1,922)	(2,609)
Net cash used in investing activities		(48,415)	(85,560)
Cash flows from financing activities			
Repayment of loan – in substance options		774	406
Loan advanced – others		-	(5,581)
Repayment of borrowings		(16,887)	(6,051)
Loans received		107,566	-
Option incentive plan fee received		-	8
Equity dividends paid		(11,284)	(24,449)
Net cash from/(used) in financing activities		80,169	(35,667)
Net decrease in cash and cash equivalents		(63,535)	(167,821)
Net foreign exchange differences		(463)	1,971
Cash and cash equivalents at beginning of period		93,028	258,878
Cash and cash equivalents at end of period	8	29,030	93,028

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2010

	Attributable to equity holders of the parent					Total Equity \$'000
	Issued capital \$'000	Reserved shares * \$'000	Retained earnings \$'000	Other Reserves** \$'000		
CONSOLIDATED						
As at 1 July 2008	41,075	(11,385)	201,757	(12,713)		218,734
Currency translation differences	-	-	-	5,668		5,668
Net gain on cash flow hedges	-	-	-	34,575		34,575
Transfer from cash flow hedge reserve	-	-	-	(9,306)		(9,306)
Total income and expense for the year recognised directly in equity	-	-	-	30,937		30,937
Profit for the period	-	-	9,166	-		9,166
Total comprehensive income for the period	-	-	9,166	30,937		40,103
Equity Transactions:						
Options exercised	-	406	-	-		406
Cost of share-based payments	-	-	-	941		941
Equity dividends	-	-	(24,449)	-		(24,449)
As at 30 June 2009	41,075	(10,979)	186,474	19,165		235,735
As at 1 July 2009	41,075	(10,979)	186,474	19,165		235,735
Currency translation differences	-	-	-	(1,416)		(1,416)
Net gains on cash flow hedges	-	-	-	8,791		8,791
Transfer from cash flow hedge reserve	-	-	-	(1,189)		(1,189)
Total income and expense for the year recognised directly in equity	-	-	-	6,186		6,186
Profit for the year	-	-	37,132	-		37,132
Total comprehensive income for the year	-	-	37,132	6,186		43,318
Equity Transactions:						
Options exercised	-	774	-	-		774
Cost of share-based payments	-	-	-	822		822
Equity dividends	-	-	(11,284)	-		(11,284)
As at 30 June 2010	41,075	(10,205)	212,322	26,173		269,365

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

1 CORPORATE INFORMATION

The financial report of the Austal Limited Group of Companies (the Group) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 19 August 2010.

Austal Limited is a company limited by shares incorporated 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

(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 2009 the Group has adopted all the Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2009, including the following pronouncements:

- AASB 8 Operating Segments and AASB 2007-3 Consequential amendments to Australian Accounting Standards. This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Groups policy is disclosed in note 2 (ac) and its operating segments are disclosed in Note 4.
- AASB 101 (Revised), AASB 2007-8 and AASB 2007-10 Presentation of financial statements and consequential amendments to other Australian Accounting Standards. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements.
- AASB 7 Financial Instruments: Disclosures. The amended standard requires additional disclosure about fair value measurement and liquidity risk. All financial instruments recognised and measured at fair value are to be disclosed by source of input using a three level fair value hierarchy, by class. The amendment also clarifies the requirement for liquidity risk disclosures relating to derivative transactions used for liquidity management. The additional disclosure is included in notes 22 and 23.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

AASB 2009-5 - Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project, includes a number of amendments to existing standards. The application date for the Group is 1 July 2010.

AASB 9 - Financial Instruments addresses the classification and measurement of financial assets. The standard improves and simplifies the approach for classification and measurement of financial assets compared to AASB 139. The application date for the Group is 1 July 2013.

AASB 2009-11 - Amendments to Australian Accounting Standards arising from AASB 9. This standard gives effect to consequential changes arising from the issuance of AASB 9. The application date for the Group is 1 July 2013.

AASB 2009-12 - Amendments to Australian Accounting Standards. This amendment makes numerous editorial changes to range of Australian Accounting Standards and Interpretations. The application date for the Group is 1 July 2011.

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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) **Basis of consolidation**

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

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

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

Investments owned in controlled entities by the parent company are held at cost.

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.

(d) **Significant accounting judgements, estimates and assumptions**

(i) Significant accounting judgements

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

Vessel forecast

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

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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(i) Significant accounting judgements (continued)

Impairment of non-financial assets other than goodwill (continued)

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

(ii) Significant accounting estimates and assumptions

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

Workers compensation

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

Warranty

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

Long service leave

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

Share-based payment transactions

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

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 12.

Derivative financial instruments and hedging

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) **Revenue recognition**

Revenue is recognised 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.

(f) **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 income statement over the expected useful life of the relevant asset by equal annual instalments.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (g) **Borrowing costs**
Borrowing costs are recognised as an expense when incurred, except where they are included in the costs of qualifying assets.
- (h) **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 income statement on a straight-line basis over the lease term.
- (i) **Cash and cash equivalents**
Cash and short-term deposits in the balance sheet 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.
- (j) **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.
- (k) **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 income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.
- (l) **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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) **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 income statement.

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

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

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

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

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

(i) Fair value hedges

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

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 income statement. 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Derivative financial instruments and hedging (continued)

(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 income statement.

Amounts taken to equity are transferred to the income statement 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 income statement. 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 income statement for the period.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Foreign currency translation

Both the functional and presentation currency of Austal Limited and its Australian subsidiaries is Australian dollars (A\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

The functional currency of the overseas subsidiaries 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 sheet date and the income statement 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 income statement.

(o) Income tax

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

Deferred income tax is provided on all temporary differences at the balance sheet 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 differences can be utilised.

Notes to the Financial Statements (continued)**FOR THE YEAR ENDED 30 JUNE 2010****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(o) Income tax (continued)**

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 sheet 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 sheet date.

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

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

(p) Other taxes

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

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

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

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.

(q) Property, plant and equipment

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

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

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

- Building – 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) **Property, plant and equipment (continued)**

(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-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Impairment losses on plant and equipment are recognised in the income statement.

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 income statement in the year the asset is derecognised.

(r) **Investments and other financial assets**

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) **Investments and other financial assets (continued)**

Loans and receivables

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

(s) **Impairment – Financial assets**

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

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

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

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

(t) **Intangible assets**

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) **Impairment of non-financial assets**

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(v) **Trade and other payables**

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

(w) **Interest-bearing loans and borrowings**

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

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

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

(x) **Provisions**

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

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Provisions (continued)

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 sheet date.

(iii) Provision for onerous contracts

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

(y) Employee leave benefits

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

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

(ii) Long service leave

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

(z) Share-based payment transactions

Equity settled transactions

The Group provides benefits to employees (including 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Share-based payment transactions (continued)

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).

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 income statement 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(k) for the accounting policy applied to these shares.

(aa) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of the new shares or options

(ab) Earnings per share

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Earnings per share (continued)

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; and
 - other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(ac) Operating Segments

The Group has Adopted AASB 8 Operating Segments. AASB 8 introduces a management reporting approach to identifying and measuring the results of its segments. The identification is based on how financial information is reported to the chief operating decision maker in order to allocate resources to the segment and assess its performance.

The Group has identified its segments to be the United States, Australia and its Service business. This is based on the location of the production facilities, related sales regions and types of activity. The other and unallocated segment comprises corporate entities and functions that provide support structures to the Group. This reporting is the basis on which internal reports are provided to the Board of Directors for assessing performance and determining the allocation of resources within the Group. Refer to Note 4.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
3. REVENUE AND EXPENSES		
<i>Revenue and Expenses from Continuing Operations</i>		
(a) Revenue		
Construction contract revenue	476,611	474,304
Charter revenue	12,300	14,121
Service revenue	29,279	-
Rental revenue	28	19
Sale of scrap	1,932	1,760
Interest from other unrelated parties	1,264	10,244
	521,414	500,448
(b) Other income		
Government grants	8,934	5,827
Other income	308	5,539
	9,242	11,366
(c) Expenses		
Cost of sales – construction contracts	397,903	401,597
Cost of sales – service	27,069	-
Marketing expenses	9,306	10,261
Administration expenses	32,183	27,752
Chartering expenses	8,356	15,740
	474,817	455,350
(d) Impairment		
Impairment of trade amounts owing by unrelated entities – construction contracts	-	29,890
Impairment of land and buildings	2,462	-
	2,462	29,890
(e) Unrealised loss on deferred premium options		
Unrealised loss on forward currency options	373	21,528
Foreign exchange gain on deferred premium	(991)	(6,715)
	(618)	14,813
(f) Finance costs		
Interest paid to unrelated parties	2,838	1,984
	2,838	1,984
(g) Depreciation, amortisation and foreign exchange differences included in the income statement		
Depreciation excluding impairment	10,503	7,162
Amortisation	1,463	914
Loss on disposal of property, plant and equipment	5	152
Net foreign exchange loss	741	-
	12,712	8,228
(h) Lease payments included in income statement		
Included in administrative expenses:		
Rental expenses on operating leases	603	1,058

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

3. REVENUE AND EXPENSES (continued)

	Consolidated	
	2010	2009
	\$'000	\$'000
(i) Employee benefits expense		
Wages and salaries	142,573	173,551
Superannuation	7,765	8,508
Share based payments	822	941
Workers' compensation costs	2,513	1,102
Annual leave (reversal)/expense	1,578	(30)
Long service leave expense	56	611
	<u>155,307</u>	<u>184,683</u>

4. OPERATING SEGMENTS

Identification of reportable segments

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

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

The Group's reportable segments are as follows:

Australia

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

USA

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

Service

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

Other/Unallocated

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

- Cost of group services
- Corporate overheads
- Revenue from property leased to other group segments
- Finance revenue and costs
- Taxation

Accounting policies and inter-segment transactions

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

4 OPERATING SEGMENT (continued)

Year Ended 30 June 2010	Australia \$'000	USA \$'000	Service \$'000	Other/ Unallocated \$'000	Eliminations and Adjustments \$'000	Total \$'000
Revenues						
External customers	219,697	267,016	41,595	1,702	-	530,010
Inter-segment	14,799	279	3,316	22,188	(40,582)	-
Total revenues	234,496	267,295	44,911	23,890	(40,582)	530,010
Earnings before interest and tax (EBIT)	27,601	23,722	2,757	(1,562)	213	52,731
Depreciation and amortisation	(2,373)	(8,190)	(30)	(1,373)	-	(11,966)
Impairment of land and buildings	(2,462)	-	-	-	-	(2,462)
Gain on deferred premium	618	-	-	-	-	618
Segment assets	352,676	300,077	18,102	89,290	(112,027)	648,118
Additions to non-current assets	2,638	45,260	140	57	-	48,095
Year Ended 30 June 2009	Australia \$'000	USA \$'000	Service \$'000	Other/ Unallocated \$'000	Eliminations and Adjustments \$'000	Total \$'000
Revenues						
External customers	260,288	226,690	14,128	464	-	501,570
Inter-segment	21,786	-	-	23,349	(45,135)	-
Total revenues	282,074	226,690	14,128	23,813	(45,135)	501,570
Earnings before interest and tax (EBIT)	24,303	(24,712)	(125)	962	1,089	1,517
Depreciation and amortisation	(3,855)	(4,221)	-	-	-	(8,076)
Impairment of receivable	-	(29,890)	-	-	-	(29,890)
Loss on deferred premium	(14,813)	-	-	-	-	(14,813)
Segment assets	260,982	220,004	9,696	115,718	(102,662)	503,738
Additions to non-current assets	1,943	79,238	-	-	-	81,181

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

4 OPERATING SEGMENT (continued)

- i) Segment revenue does not include finance revenue of \$1.264 million (30 June 2009: \$10.244 million).
- ii) Segment profit before tax does not include finance revenue of \$1.264 million (30 June 2009: \$10.244 million) and finance costs of \$2.838 million (30 June 2009: \$1.984 million).

	Note	Consolidated 2010 \$'000	2009 \$'000
Revenue from external customers by geographical location of customers:*			
North America		354,404	262,950
Europe		134,319	11,635
Asia		27,956	215,124
Australia and other regions		11,629	11,397
Total		528,308	501,106

* Excludes other/unallocated

During the current and prior year one customer in the USA segment generated revenue of \$267.016 million (2009: \$226.690 million). In the current year two customers in the Australian segment generated revenue of \$84.917 million (2009: \$36.261 million) and \$80.772 million (2009: \$nil) respectively. During the prior financial year two customers in the Australian segment generated revenue of \$1.010 million (2009: \$ 73.903 million) and \$nil (2009: \$98.159 million) respectively.

Non-current assets, other than financial instruments and deferred tax assets
by geographical location:

USA		170,382	135,334
Australia		51,138	55,282
Total		221,520	190,616

Non-current assets, by geographical location comprise:

Property, plant and equipment	12	217,734	187,164
Intangible assets	13	3,786	3,452
Total		221,520	190,616

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

	Consolidated	
	2010	2009
	\$'000	\$'000
5. INCOME TAX		
The major components of income tax expense are:		
Income Statement		
<i>Current income tax</i>		
Current income tax charge	-	18,092
Adjustments in respect of current income tax of the previous year	67	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	13,958	(17,481)
Income tax expense reported in the income statement	<u>14,025</u>	<u>611</u>
Statement of changes in equity		
<i>Deferred income tax related to items charged or credited directly to equity</i>		
Deferred gains and losses on foreign currency contracts	<u>(5,379)</u>	<u>(10,801)</u>
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:		
Accounting profit/(loss) before income tax from continuing operations	51,157	9,777
At the Group's statutory income tax rate of 30% (2009: 30%)	15,347	2,933
Adjustment for Austal USA statutory income tax rate of 36.9% (2009: 36.9%)	(79)	(1,055)
Current year research & development allowances	(2,306)	(2,120)
Share based payments (equity settled)	212	225
Hurricane Katrina tax credits	-	(261)
Other	851	889
	<u>14,025</u>	<u>611</u>

	Balance sheet		Income Statement	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
<i>Deferred tax assets - Australia</i>				
Unrealised foreign exchange loss	331	-	(331)	
Undeducted borrowing costs	72	-	(72)	
Provisions	7,242	6,560	(682)	(1,063)
Payables	524	-	(524)	
Losses available for offset against future taxable income	3,667	1,375	(2,292)	
	<u>11,836</u>	<u>7,935</u>		
<i>Deferred tax liabilities - Australia</i>				
Unrealised foreign exchange gain	315	-	315	
Inventories	11,362	4,493	6,869	(8,895)
Deferred gains and losses on foreign currency contracts	19,606	13,073	1,157	(1,154)
Research & Development	17,434	7,997	9,437	4,163
	<u>48,717</u>	<u>25,563</u>		
<i>Net deferred tax liabilities - Australia</i>	<u>36,881</u>	<u>17,628</u>		

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2010

5. INCOME TAX (continued)

	Balance sheet		Income statement	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
<i>Deferred tax assets - USA</i>				
Provisions	539	430	(109)	(134)
Payables	500	-	(500)	155
Losses available for offset against future taxable income	9,861	10,553	690	(10,553)
	<u>10,900</u>	<u>10,983</u>		
<i>Deferred tax liabilities - USA</i>				
Receivables	-	-	-	-
Deferred gains and losses on foreign exchange contracts	-	14	-	-
	<u>-</u>	<u>14</u>		
<i>Net deferred tax assets - USA</i>	<u>10,900</u>	<u>10,969</u>		
Deferred tax expense /(income)			<u>13,958</u>	<u>(17,481)</u>

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 balance sheet 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

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:

	Consolidated		Consolidated	
	2010 \$'000	2009 \$'000	2010 Number	2009 Number
Net profit attributable to ordinary equity holders of the parent from continuing operations	37,132	9,166		
Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share			183,311,350	182,834,859
Effect of dilution – share options			782,824	731,208
Weighted average number of ordinary shares (excluding reserved shares) adjusted for the effect of dilution			184,094,174	183,566,067
Earnings per share (cents per share)	20.3	5.0		
Diluted earnings per share (cents per share)	20.2	5.0		

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. 6,874,402 (2009: 4,495,741) potential ordinary shares have been excluded from the earnings per share calculation as they were not considered dilutive.

7. DIVIDENDS PAID AND PROPOSED

	Consolidated	
	2010 \$'000	2009 \$'000
<i>Declared and paid during the year</i>		
Dividends on ordinary shares:		
Final franked dividend for 2009: 6 cents (2008: 13 cents)	11,284	24,449
Approved by Directors on 19 August 2010 (not recognised as a liability as at 30 June):		
Dividends on ordinary shares:		
Final franked dividend for 2010: 6 cents (2009: 6 cents)	11,284	11,284

The tax rate at which paid dividends have been franked is 30% (2009: 30%). Dividends proposed will be franked at the rate of 30% (2009: 30%).

As at 30 June 2010, franking credits available to the parent company were \$0.010m (2009: \$0.002m). It is anticipated that income tax will be paid during the year ending 30 June 2011, which will be sufficient to cover the franking credits applicable to the dividend declared.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

8. CASH AND CASH EQUIVALENTS

	Consolidated	
	2010 \$'000	2009 \$'000
<i>Current</i>		
Cash at bank and in hand	29,030	93,028
<i>Non-current</i>		
Restricted cash	1,138	995

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	30,168	94,023
Less restricted cash held as a guarantee - non current	(1,138)	(995)
	29,030	93,028

Restricted cash represents security deposit amounts held as collateral for a refund payment guarantee facility.

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

<i>Net profit</i>	37,132	9,166
<i>Adjustments for:</i>		
Depreciation and impairment	12,965	7,162
Amortisation	1,463	914
Impairment of receivable	-	29,890
Net loss on disposal of property, plant and equipment	5	152
Share based payment	822	941
Unrealised (gain)/loss on deferred premium options and other derivative financial instruments	(618)	14,394
<i>Changes in assets and liabilities</i>		
(Decrease)/increase in provisions for:		
Income tax (current and deferred)	15,815	(9,391)
Workers' compensation insurance	1,580	(3,437)
Warranty	(3,501)	2,796

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

8. CASH AND CASH EQUIVALENTS (continued)

	Consolidated	
	2010 \$'000	2009 \$'000
<i>Changes in assets and liabilities (continued)</i>		
(Decrease)/increase in provisions for:		
Employee benefits	(380)	(968)
Other provisions	26	-
(Increase)/decrease in debtors	2,135	(23,130)
(Increase)/decrease in work in progress	(171,233)	(83,602)
(Increase)/decrease in other inventories	-	135
(Increase)/decrease in other assets	(74)	289
(Increase)/decrease in other financial assets	65	(5,959)
(Decrease)/increase in trade creditors	26,984	34,800
(Decrease)/increase in progress payments in advance	(27,282)	(60,307)
(Decrease)/increase in government grants	7,582	38,896
(Decrease)/increase in other financial liabilities	1,225	665
Net cash outflow from operating activities	<u>(95,289)</u>	<u>(46,594)</u>

9. TRADE AND OTHER RECEIVABLES

Current

Trade amounts owing by unrelated entities – construction contracts (i)	31,060	36,242
	<u>31,060</u>	<u>36,242</u>

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

10. INVENTORIES

Construction work in progress – total amounts due from customers on construction contracts and stock vessels at cost	1,288,401	1,210,523
Less: progress payments received and receivable from construction contracts	(1,013,182)	(1,105,793)
	<u>275,219</u>	<u>104,730</u>
Materials	69	69
Total inventories	<u>275,288</u>	<u>104,799</u>

11. PREPAYMENTS

Current

Prepayments	2,206	1,522
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Non-current

Prepayments	309	582
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Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

Consolidated					
12. PROPERTY, PLANT AND EQUIPMENT (continued)	Freehold land & buildings \$'000	Plant & equipment \$'000	Capital WIP \$'000	Total \$'000	
Year ended 30 June 2009					
At 1 July 2008	79,790	25,691	1,176	106,657	
Carrying amount net of accumulated depreciation and impairment	200	9,077	69,428	78,705	
Additions	-	1,087	(1,241)	(154)	
Transfer in/(out)	(73)	(130)	(5)	(208)	
Disposals	(2,451)	(4,711)	-	(7,162)	
Depreciation charge for the year	7,677	1,602	47	9,326	
Exchange adjustment					
At 30 June 2009, carrying amount net of accumulated depreciation and impairment	85,143	32,616	69,405	187,164	
At 1 July 2008					
Cost	93,895	46,648	1,176	141,719	
Accumulated depreciation and impairment	(14,105)	(20,957)	-	(35,062)	
Net carrying amount	79,790	25,691	1,176	106,657	
At 30 June 2009					
Cost	102,223	58,408	69,405	230,036	
Accumulated depreciation and impairment	(17,080)	(25,792)	-	(42,872)	
Net carrying amount	85,143	32,616	69,405	187,164	

(i) The useful life of the assets was estimated as follows both for 2010 and 2009:

Building 40 years
Plant and equipment 2 to 10 years

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

(iii) An impairment has been recognised due the closure of ship building facilities in Tasmania, Australia. The assets recoverable amount is its fair value less cost to sell which has been determined by an independent valuer and is based on the usage of the property as a maritime facility.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

13. INTANGIBLE ASSETS

	Consolidated	
	2010 \$'000	2009 \$'000
<i>Computer Software</i>		
Year ended 30 June		
At 1 July, net of accumulated amortisation	3,452	1,601
Additions	1,943	2,475
Amortisation for the year	(1,463)	(914)
Exchange adjustment	(146)	290
At 30 June, net of accumulated amortisation and impairment	<u>3,786</u>	<u>3,452</u>
At 1 July		
Cost	5,813	2,988
Accumulated amortisation	(2,361)	(1,387)
Net carrying amount	<u>3,452</u>	<u>1,601</u>
At 30 June		
Cost	7,607	5,813
Accumulated amortisation	(3,821)	(2,361)
Net carrying amount	<u>3,786</u>	<u>3,452</u>

14. INVESTMENT IN SUBSIDIARIES

Shares in controlled entities (unlisted) – at cost	-	-
	<u>-</u>	<u>-</u>

Details of companies making up the Group are set out in note 25.

15. DERIVATIVES

Financial assets

Current

Forward exchange contracts	55,122	8,184
Forward currency options	5,151	7,981
	<u>60,273</u>	<u>16,165</u>

Non-current

Forward exchange contracts	7,163	24,971
Forward currency options	9,231	23,849
	<u>16,394</u>	<u>48,820</u>

Financial liabilities

Current

Forward exchange contracts	2,690	1,189
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Non-current

Forward exchange contracts	6,320	2
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For terms and conditions attached to the forward exchange contracts and forward currency options, refer to note 23.

16. TRADE AND OTHER PAYABLES

Current

Trade & other payables owed to unrelated entities (i)	87,488	68,206
	<u>87,488</u>	<u>68,206</u>

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

17. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	2010 \$'000	2009 \$'000
<i>Current</i>		
Bank loan (secured) (i)	-	2,418
Bank loan (unsecured) (ii)	1,442	2,344
Deferred option premium (unsecured) (iii)	5,125	3,895
Cash advance multi option facility (secured) (iv)	10,000	-
Business term multi option lending facility (secured) (v)	30,000	-
	46,567	8,657
<i>Non current</i>		
Bank loan (secured) (i)	-	13,414
Bank loan (unsecured) (ii)	-	1,412
Deferred option premium (unsecured) (iii)	9,304	14,504
Go Zone Bonds (secured) (vi)	70,031	-
	79,335	29,330

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

- (i) The secured bank loan was repaid during the financial year.
- (ii) The unsecured bank loan is payable by instalments until January 2011.
- (iii) The deferred option premium is payable, in US dollars, upon exercise of the options.
- (iv) The cash advance facility has a one year term; the facility does not have an expiry date but is subject to an annual renewal which will take place in March 2011.
- (v) The Business term lending facility expires on 30 November 2011.
- (vi) The Go Zone Bonds are variable rate demand bonds and mature on 1 September 2039. The bonds are supported by a letter of credit which expires in September 2011.

The loans and facilities incur interest at various average rates between 1.5% and 6.5%

	Consolidated	
	2010 \$'000	2009 \$'000
<i>Financing facilities available</i>		
At reporting date, the following financing facilities had been negotiated and were available:		
Total facilities:		
- bank facilities (a)	442,908	399,525
- bank loan (unsecured) (b)	1,442	3,756
- bank loan (secured)	-	15,832
- deferred option premium (unsecured)	14,429	18,399
Total	458,779	437,512
Facilities used at reporting date		
- bank facilities	246,495	172,951
- bank loan (unsecured) (b)	1,442	3,756
- bank loan (secured)	-	15,832
- deferred option premium (unsecured)	14,429	18,399
Total	262,366	210,938
Facilities unused at reporting date:		
- bank facilities (a)	196,413	226,574
- bank loan (unsecured) (b)	-	-
- bank loan (secured)	-	-
- deferred option premium (unsecured)	-	-
Total	196,413	226,574

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

- (a) Bank facilities consist of bank and performance guarantees, Go Zone bonds, letters of credit and cash advances. The facilities have various expiry dates up to 5 October 2011.
- (b) Bank loan is guaranteed by a third party.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

18. GOVERNMENT GRANTS

	Consolidated	
	2010 \$'000	2009 \$'000
<i>Current</i>		
Infrastructure development (a)(i)(ii)	4,840	461
<i>Non-current</i>		
Infrastructure development (a)(i)(ii)	55,045	53,974

(a) Terms and conditions in relation to the above government grant received:

- (i) The non-current grants were received from various government bodies in Alabama to fund the expansion of the company's Mobile, USA operations. Conditions are attached to certain government grants such that if the company does not meet employee number targets, the grants will be repaid on a pro rata basis, interest free, by June 2011. As at 30 June 2010, the company has met the employee numbers required and it is foreseen that it will continue meeting the employee number targets.
- (ii) The non-current grants are amortised, on a straight line basis, based on the effective life of the funded assets.

19. PROVISIONS

	Employee benefits \$'000	Workers' compensation \$'000	Warranty \$'000	Other \$'000	Total \$'000
CONSOLIDATED					
At 1 July 2009	14,106	3,856	11,436	66	29,464
Arising during the year	25,758	4,001	2,980	461	33,200
Utilised	(21,536)	(2,271)	(4,966)	-	(28,773)
Unused amounts reversed	(4,184)	(176)	(1,515)	-	(5,875)
At 30 June 2010	14,144	5,410	7,935	527	28,016
Current 2010	12,176	4,615	7,935	461	25,187
Non-current 2010	1,968	795	-	66	2,829
	14,144	5,410	7,935	527	28,016
Current 2009	11,816	3,856	11,436	-	27,108
Non-current 2009	2,290	-	-	66	2,356
	14,106	3,856	11,436	66	29,464

Workers' compensation insurance

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

Warranties

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

Other

Other includes a provision for redundancy costs.

20. OTHER LIABILITIES (CURRENT)

	Consolidated	
	2010 \$'000	2009 \$'000
Progress payments received and receivable	58,228	90,339
Less: construction work in progress	(46,412)	(51,241)
Progress payments received in advance	11,816	39,098

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

21. CONTRIBUTED EQUITY AND RESERVES

	Consolidated	
	2010 \$'000	2009 \$'000
Ordinary shares (i)	41,075	41,075
Reserved shares (ii)	(10,205)	(10,979)
	<u>30,870</u>	<u>30,096</u>

(i) Ordinary shares
 Issued and fully paid

	<u>41,075</u>	<u>41,075</u>
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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 nor par value in respect of its issued shares.

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

	Consolidated			
	2010		2009	
<i>Movement in ordinary shares on issue</i>	No. of shares	\$'000	No. of shares	\$'000
At 1 July 2009 and 30 June 2010	188,069,638	41,075	188,069,638	41,075
<i>(ii) Reserved shares</i>				
At 30 June 2009	(5,081,832)	(10,979)	(5,501,491)	(11,385)
Options exercised	475,000	774	419,659	406
At 30 June 2010	<u>4,606,832</u>	<u>(10,205)</u>	<u>(5,081,832)</u>	<u>(10,979)</u>

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

	Consolidated	
	2010 \$'000	2009 \$'000
Retained earnings		
Movement in retained earnings were as follows:		
Balance 1 July	186,474	201,757
Net profit for the year	37,132	9,166
Dividends	(11,284)	(24,449)
	<u>212,322</u>	<u>186,474</u>

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

21. CONTRIBUTED EQUITY AND RESERVES (continued)

<i>Reserves</i>	Foreign currency translation reserve \$'000	Employee benefit reserve \$'000	Consolidated Cash flow hedge reserve \$'000	Equity reserve \$'000	Total \$'000
At 1 July 2008	(5,937)	1,497	7,652	(15,925)	(12,713)
Currency translation differences	5,668	-	-	-	5,668
Share based payment	-	941	-	-	941
Net gains on cashflow hedges	-	-	34,575	-	34,575
Transfer to balance sheet/income s/ment	-	-	(9,306)	-	(9,306)
At 30 June 2009	(269)	2,438	32,921	(15,925)	19,165
Currency translation differences	(1,416)	-	-	-	(1,416)
Share based payment	-	822	-	-	822
Net gains on cash flow hedges	-	-	8,791	-	8,791
Transfer to balance sheet/income s/ment	-	-	(1,189)	-	(1,189)
At 30 June 2010	(1,685)	3,260	40,523	(15,925)	26,173

Nature and purpose of reserves

Foreign currency translation reserve

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

Employee equity benefits reserve

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

Cash flow hedge reserve

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

Equity reserve

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liabilities and equity instrument are disclosed in note 2 to the financial statements.

Capital Management

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

The Group monitors balance sheet 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

	Consolidated	
	2010 \$'000	2009 \$'000
Financial assets		
<i>Australian variable interest rate</i>		
Cash and cash equivalents	17,912	80,859
<i>US variable interest rate</i>		
Cash and cash equivalents	12,256	13,164
	<u>30,168</u>	<u>94,023</u>
Financial liabilities		
<i>Australian variable interest rate</i>		
Interest-bearing loans and borrowings	(41,442)	(3,756)
<i>US variable interest rate</i>		
Interest-bearing loans and borrowings	(70,031)	(15,832)
	<u>(111,473)</u>	<u>(19,588)</u>
Net exposure	<u>(81,305)</u>	<u>74,435</u>

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 sheet date. At 30 June 2010, 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:

Judgement of reasonable possible movements:	Impact on profit/Equity Consolidated	
	2010 \$'000	2009 \$'000
Post-tax gain/(loss)		
+ 1%	(569)	521
- 1%	569	(521)

Foreign currency risk

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

	Consolidated	
	2010 \$'000	2009 \$'000
Financial assets		
<i>US Dollar exchange rate</i>		
Cash and cash equivalents	3,566	1,201
Non trade amounts owing by controlled entities		-
<i>Euro exchange rate</i>		
Cash and cash equivalents	2,910	14,607
	<u>6,476</u>	<u>15,808</u>
Financial liabilities		
<i>US Dollar exchange rate</i>		
Interest-bearing loans and borrowings	14,429	18,399
Net exposure	<u>(7,953)</u>	<u>(2,591)</u>

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The Group is exposed to currency risk on sales, purchases or components for construction that are denominated in a currency other than the respective functional currencies of the Group entities, primarily the Australian Dollars (AUD) for the Australian operation and US Dollars (USD) for the US operation. The currencies in which these transactions primarily are denominated are AUD, USD, Euro and SEK.

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

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

- (i) negotiation of contracts to adjust for adverse exchange rate movements;
- (ii) use of natural hedging techniques
- (iii) using financial instruments

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:

Judgement of reasonable possible movements:	Post tax profit higher/(lower)		Equity higher/(lower)	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Consolidated				
AUD/USD +5%	(321)	2,075	9,059	10,324
AUD/USD -5%	(2,203)	(745)	(9,573)	(10,892)
AUD/EUR +5%	102	730	5,270	5,936
AUD/EUR -5%	(102)	(730)	(5,270)	(5,936)
USD/EUR +5%	(1,466)	2,262	(3,352)	(5,547)
USD/EUR -5%	804	(488)	3,723	5,994
AUD/SEK +5%	-	-	(227)	(363)
AUD/SEK -5%	-	-	251	401

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 is conducted internally. The Group, while exposed to credit related losses in the event of non-performance by counterparties to financial instruments, do 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. The investments will be restricted to 11am/24 hour call deposits, terms deposits of 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 creditable bank to cover payment of the contract; or
- (iii) obtaining a minimum payment of 20% of the contract price and a letter from the bank or financial institution providing finance to the customer that funding has been arranged for the balance of the purchase price

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

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

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

		Total \$'000	0-30 days \$'000	Past Due But Not Impaired		
				31-60 days \$'000	61-90 days \$'000	90+days \$'000
2010	Consolidated	31,060	23,346	120	635	6,959
2009	Consolidated	36,242	31,303	999	130	3,810

Receivable balances are monitored on an ongoing basis.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

22. 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:

Year ended 30 June 2010	Carrying amount \$'000	Contractual cash flows \$'000	0-1 year \$'000	1-2 years \$'000	2-5 years \$'000	>5 years \$'000
CONSOLIDATED						
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	9,009	(386,366)	(272,244)	(74,984)	(39,138)	-
Inflow	(76,666)	453,839	330,454	81,063	42,322	-
Net derivative financial (assets)/liabilities	(67,657)	67,473	58,210	6,079	3,184	-
Non-derivative financial liabilities						
Trade & other payables	87,488	(87,488)	(87,488)	-	-	-
Bank loan (unsecured)	1,442	(1,451)	(1,451)	-	-	-
Cash advance facilities	40,000	(40,000)	(40,000)	-	-	-
Performance bond facility	70,031	(70,031)	-	(70,031)	-	-
Deferred option premium (unsecured)	14,429	(15,362)	(5,254)	(6,412)	(3,696)	-
Total	145,733	(146,859)	(75,983)	(70,364)	(512)	-
Year ended 30 June 2009	Carrying amount \$'000	Contractual cash flows \$'000	0-1 year \$'000	1-2 years \$'000	2-5 years \$'000	>5 years \$'000
CONSOLIDATED						
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	1,191	(325,495)	(83,104)	(193,145)	(49,246)	-
Inflow	(64,985)	389,440	88,879	229,593	70,968	-
Net derivative financial (assets)/liabilities	(63,794)	63,945	5,775	36,448	21,722	-
Non-derivative financial liabilities						
Trade & other payables	68,206	(68,206)	(68,206)	-	-	-
Bank loan (secured)	15,832	(19,524)	(3,414)	(3,238)	(6,602)	(6,270)
Bank loan (unsecured)	3,756	(3,846)	(2,395)	(1,451)	-	-
Deferred option premium (unsecured)	18,399	(20,079)	(4,006)	(5,497)	(10,576)	-
Total	42,399	(47,710)	(72,246)	26,262	4,544	(6,270)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

23. FINANCIAL INSTRUMENTS

Fair values

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

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

	Carrying amount		Fair value	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
CONSOLIDATED				
<i>Financial assets</i>				
Cash	30,168	94,023	30,168	94,023
Trade receivables & other receivables	31,060	36,242	31,060	36,242
Derivatives	76,667	64,985	76,667	64,985
<i>Financial liabilities</i>				
Trade payables & other payables	(87,488)	(68,206)	(87,488)	(68,206)
Derivatives	(9,010)	(1,191)	(9,010)	(1,191)
Bank loan (secured)	-	(15,832)	-	(15,832)
Bank loan (unsecured)	(1,442)	(3,756)	(1,442)	(3,756)
Deferred option premium (unsecured)	(14,429)	(18,399)	(14,429)	(18,399)
Cash advance facility	(40,000)	-	(40,000)	-
Go Zone bonds	(70,031)	-	(70,031)	-

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

Contingencies

The Group entities have potential financial liabilities that may arise from certain contingencies disclosed in note 24. As explained in that note, no material losses are anticipated in respect of any of those contingencies and the fair value disclosed above is the directors' estimate of amounts that would be payable by the Group as consideration of the assumption of those contingencies by another party.

Hedging and derivatives

Instruments used by the Group

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

Forward currency contracts – cash flow hedges

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

23. FINANCIAL INSTRUMENTS (continued)

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 balance sheet for vessels in progress or to the sales and cost of sales account in the income statement 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.

	2010				2009			
	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	0.8883	12,486	0.8764	28,278	0.7263	200	0.7618	50,804
3 - 12 months	0.9900	81	0.7154	71,114	0.6880	1,700	0.6532	22,118
13 months or greater	-	-	0.7949	130,099	-	-	0.6701	77,083
		<u>12,567</u>		<u>229,491</u>		<u>1,900</u>		<u>150,005</u>
United States Dollars – forward currency options								
less than 3 months	-	-	-	-	-	-	-	-
3 - 12 months	-	-	0.6600	20,177	-	-	0.6600	19,434
13 months or greater	-	-	0.6600	31,751	-	-	0.6600	51,927
		-		<u>51,928</u>		-		<u>71,361</u>
Euro – forward exchange contracts								
less than 3 months	0.6395	6,267	0.6420	77,806	0.5122	78	-	-
3 - 12 months	0.6097	415	0.5821	105,638	0.5569	920	0.6784	7,447
13 months or greater	0.5606	2,108	0.6483	14,601	-	-	0.7089	221,315
		<u>8,790</u>		<u>198,045</u>		<u>998</u>		<u>228,762</u>
US/Euro – forward currency options								
less than 3 months	-	-	-	-	-	-	-	-
3 - 12 months	-	-	0.721	36,094	-	-	0.5189	42,093
13 months or greater	-	-	0.721	56,798	-	-	0.5189	112,471
		-		<u>92,892</u>		-		<u>154,564</u>
Switzerland Francs*								
less than 3 months	-	-	-	-	-	-	-	-
3 - 12 months	-	-	-	-	0.9172	3,472	-	-
13 months or greater	-	-	-	-	-	-	-	-
		-		-		<u>3,472</u>		<u>-</u>

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

23. FINANCIAL INSTRUMENTS (continued)

	2010				2009			
	Average Forward Rate	Buy \$000	Average Forward Rate	Sell \$000	Average Forward Rate	Buy \$000	Average Forward Rate	Sell \$000
Norwegian Kroner*								
less than 3 months	-	-	-	-	4.2176	21	-	-
3 - 12 months	-	-	-	-	-	-	-	-
13 months or greater	-	-	-	-	-	-	-	-
		<u>-</u>		<u>-</u>		<u>21</u>		<u>-</u>
Swedish Kronor*								
less than 3 months	-	-	-	-	5.6713	705	-	-
3 - 12 months	7.1274	4,371	-	-	5.5845	3,721	-	-
13 months or greater	-	-	-	-	6.2614	3,737	-	-
		<u>4,371</u>		<u>-</u>		<u>8,163</u>		<u>-</u>

* Relates to forward exchange contracts.

Movement in forward currency contract cash flow hedge reserve

	Consolidated	
	2010 \$'000	2009 \$'000
Opening balance	32,921	7,652
Transferred to sales	(451)	(8,636)
Transferred to cost of sales	615	(570)
Transferred to other income	(1,353)	(100)
Charged to equity	8,791	34,575
Closing balance	<u>40,523</u>	<u>32,921</u>
Cash flow hedge ineffectiveness recognised in profit and loss	-	-

24. COMMITMENTS & CONTINGENCIES

Operating lease commitments

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

Within one year	448	172
After one year but not more than five years	109	44
	<u>557</u>	<u>216</u>

Capital commitments

Buildings – USA	-	23,613
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Commitments contracted for at reporting date but not recognised as liabilities are as follows:

Within one year	-	23,613
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Contingent liabilities

Bank performance guarantees (i)	246,495	172,951
	<u>246,495</u>	<u>172,951</u>

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

24. COMMITMENTS & CONTINGENCIES (continued)

- (i) The bank performance guarantees on contractual obligations are secured by a mortgage over the land and buildings and floating charges over cash, receivables, work in progress and plant and equipment.

Other contingent liabilities excluded from the above include:

- a) The parent company has guaranteed the performance of certain contract obligations of a subsidiary.
- b) A customer has taken legal action for an unspecified amount over the construction and warranty of a vessel delivered in 2004. The Board is of the opinion that the Group has met its obligations under the contract and will be successful in defending any action brought against the company.

25. RELATED PARTY DISCLOSURE

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

Name	Country of incorporation	% Equity Interest	
		2010	2009
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 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	-

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

Transactions with related parties

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

In 2007, a contract was entered into with a company owned by Mr. J Rothwell for the construction of a 36 metre charter vessel. The contract for \$8.6m was on normal commercial terms. The vessel was completed during the 2009 financial year. There were no such contracts in 2010.

Mr C Norman provided consultancy services in relation to legal issues, amounting to \$nil (2009: \$4,950). There were no amounts outstanding at 30 June 2010 or 30 June 2009.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

26. EVENTS AFTER THE BALANCE SHEET DATE

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

27. AUDITORS' REMUNERATION

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

	Consolidated	
	2010	2009
	\$'000	\$'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	353	347

28. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Compensation of Key Management Personnel

	Consolidated	
	2010	2009
	\$	\$
Short-term employee benefits	3,878,215	3,557,395
Post-employment benefits	109,577	96,475
Share-based payment	596,813	839,647
Total compensation	4,584,605	4,493,517

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

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

	Balance at beginning of period	Granted as Remuneration	Options Exercised	Net Change Other **	Balance at end of period	Vested		
						Total	Exercisable	Not Exercisable
30 June 2010								
Directors								
M Atkinson	140,000	-	-	-	140,000	-	-	-
Executives								
G Metcalf *	100,000	-	-	-	100,000	-	-	-
J Rella	95,000	140,000	-	-	235,000	-	-	-
W Rotteveel*	85,416	70,000	-	-	155,416	-	-	-
M Dummett	136,500	70,000	-	-	206,500	-	-	-
P Hogan*	-	240,000	-	(140,000)	100,000	-	-	-
R Simons *	-	140,000	-	-	140,000	-	-	-
A Bellamy	-	140,000	-	-	140,000	-	-	-
Total	556,916	800,000	-	(140,000)	1,216,219	-	-	-

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

** Includes forfeitures.

30 June 2009

Directors

M Atkinson	140,000	-	-	-	140,000	-	-	-
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Executives

G Metcalf	50,000	50,000	-	-	100,000	-	-	-
J Rella	-	95,000	-	-	95,000	-	-	-
W Rotteveel	35,416	50,000	-	-	85,416	-	-	-
M Dummett	67,500	69,000	-	-	136,500	-	-	-
Total	292,916	264,000	-	-	556,916	-	-	-

(c) Shareholdings of Key Management Personnel (Consolidated)

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

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

30 June 2009	Balance 1 July 2008	Net change other	Balance 30 June 2009
Directors			
J Rothwell	33,724,685	250,000	33,974,685
M Atkinson	1,415,737	-	1,415,737
C Norman	26,602,221	-	26,602,221
J Poynton	300,000	(290,000)	10,000
D Amara	50,000	-	50,000
R Browning	20,000	-	20,000
Executives			
G Metcalf	150,000	-	150,000
W Rotteveel	22,806	-	22,806
M Dummett	2,995	-	2,995
A Bellamy	-	80,000	80,000
Total	62,288,444	40,000	62,328,444

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

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

30 June 2010	Balance at beginning of period 1 July 2009	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30 June 2010	Vested		
						Total	Exercisable	Not Exercisable
Directors								
M Atkinson	285,062	-	-	-	285,062	285,062	285,062	-
R Browning	3,000,000	-	-	-	3,000,000	1,200,000	1,200,000	-
Executives								
G Metcalf *	285,000	-	(285,000)	-	-	-	-	-
W Rotteveel*	80,934	-	-	-	80,934	80,934	80,934	-
Total	3,650,996	-	(285,000)	-	3,365,996	1,565,996	1,565,996	-

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

30 June 2009	Balance at beginning of period 1 July 2008	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30 June 2009	Vested		
						Total	Exercisable	Not Exercisable
Directors								
M Atkinson	285,062	-	-	-	285,062	285,062	285,062	-
R Browning	3,000,000	-	-	-	3,000,000	600,000	600,000	-
Executives								
G Metcalf	285,000	-	-	-	285,000	285,000	285,000	-
W Rotteveel	80,934	-	-	-	80,934	80,934	80,934	-
M Dummett	24,894	-	(24,894)	-	-	-	-	-
Total	3,675,890	-	(24,894)	-	3,650,996	1,250,996	1,250,996	-

(f) Other transactions and balances with Key Management Personnel

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

29. SHARE BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Expense arising from equity-settled share-based payment transactions	822	941

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2010 and 2009. 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;
- 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:

	2010	2010	2009	2009
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	1,455,741	2.87	647,417	3.60
Granted during the year	2,935,000	2.89	1,010,500	2.40
Forfeited during the year	(516,339)	2.99	(202,176)	2.89
Outstanding at the end of the year	3,874,402	2.87	1,455,741	2.87

Exercisable at the end of the year

-

-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

29. SHARE BASED PAYMENT PLANS (continued)

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

Option pricing model: ESOP

Equity-settled transactions

The following table lists the inputs to the models used, applicable for both the years ended 30 June 2010 and 30 June 2009:

	Tranche 2 2008	Tranche 3 2008	Tranche 4 2009	Tranche 5 2010	Tranche 6 2010	Tranche 7 2010
Grant date	13 Sept 2007	24 Oct 2007	10 Sept 2008	3 Nov 2009	16 Feb 2010	25 Feb 2010
Spot price (closing share price at valuation date (\$))	3.49	3.16	2.35	2.41	2.44	2.43
Option exercise price (\$)	3.60	3.60	2.40	2.95	1.81	2.45
Fair value of option \$/option	0.52	0.43	0.36	0.52	0.69	0.561
Expected volatility (%)	35.0	35.0	40.0	44%	44%	44%
Annual risk free interest rate (%)	6.11	6.51	5.54	5.35	5.28	5.37
Dividend yield (%)	5.70	5.70	5.67	4.5	4.5	4.5
Expected life of option (years)	5.0	4.9	5.00	5.00	4.00	4.00

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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

29. SHARE BASED PAYMENT PLANS (continued)

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

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

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

<u>Date</u>	<u>Number of shares</u>
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	<u>5,675,000</u>

- (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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

29. SHARE BASED PAYMENT PLANS (continued)

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

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

- (a) The initial 3 million shares under the plan were acquired at market value on the Australian Stock Exchange on 22 October 2007. These are issued to Mr Robert Browning.
- (b) Austal will offer to loan eligible executives up to 100% of the purchase consideration for their shares on a limited recourse basis. However, this amount may be varied at the discretion of the Board.
- (c) The shares are made available to the executives at market value.
- (d) The Board at its discretion will determine the number of shares that will be made available to each eligible executive.
- (e) The shares are required to be held by a trustee on behalf of the executives. Shares may not be transferred to a manager for at least 12 months. After this period, 20% of the executive's shares will become eligible to be transferred provided any loan in respect of these shares has been repaid. An additional 20% will become eligible to be transferred to the executive at the end of each 12-month period thereafter on the same terms, so that the executive may hold 100% of his shares at the end of 5 years.
- (f) Dividends on shares held under the Plan are paid to the eligible executive. Eligible executives with an interest in shares under the Plan have full voting rights.
- (g) No interest will be charged on the loans.
- (h) Upon termination of employment or contract arrangements the shares must be sold and the loan (if any) repaid.

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

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

At balance date the trustee on behalf of the plans holds a total of 4,606,532 shares.

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

	2010	2009
Total shares (in substance options) granted to employees during the year (000's)	-	-
Total shares (in substance options) granted to employees at balance date (000's)	4,607	5,082
Total shares (in substance options) exercised during the year (000's)	475	420
Total fair value of shares (in substance options) exercised during the year (\$'000)	1,209	502
Total shares (in substance options) held by trustee on behalf of plan at balance date (000's)	4,607	5,082
Total shares (in substance options) vested at balance date (000's)	2,807	2,682
Total number of employees eligible to participate in the plan	31	31

The balance of shares (in substance options) as at 30 June 2010 is represented by:

- 1,606,532 shares (in substance options) under Plan #1 and Plan #2 with a weighted average exercise price of \$1.25 each, with no contractual life.
- 3,000,000 shares (in substance options) under Plan #3 with a weighted average exercise price of \$3.51 each, with no contractual life.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

30. PARENT ENTITY

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

	2010 \$'000	2009 \$'000
Current Assets	217,963	206,360
Total Assets	338,421	303,376
Current Liabilities	59,608	73,790
Total Liabilities	108,528	77,158
Equity		
Contributed equity	30,196	29,420
Employee benefit reserve	1,439	618
Retained earnings	198,258	196,540
Total equity	229,893	226,578
Profit after tax	13,002	25,548
Total comprehensive income	13,002	25,548

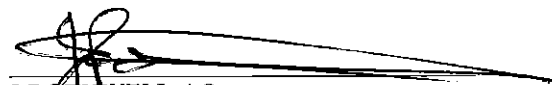
For details of guarantees and contingent liabilities relating to Austal Limited refer to note 24.

Director's Declaration

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

1. In the opinion of the directors:
 - (a) The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 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 parent 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 2010.

On behalf of the Board.



J ROTHWELL AO
Chairman

Dated at Henderson this 19th day of August 2010

Corporate Governance Statement

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 12-17.

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
- 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.

Corporate Governance Statement (continued)

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 have a substantial investment in the Company, 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.

Corporate Governance Statement (continued)

Independence (continued)

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

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

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

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

Outside Directorships

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

Nomination and Remuneration Committee

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

PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Ethical Standards and Performance

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

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

Corporate Governance Statement (continued)

Ethical Standards and Performance (continued)

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

SAFEGUARD INTEGRITY OF FINANCIAL REPORTING

Audit and Risk Management Committee

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

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

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

- a. ensure compliance with statutory reporting responsibilities
- b. liaise with, assess the quality and review the scope of work of the external auditors
- c. enable the auditors to communicate any concerns to the Board
- d. advise the Board on the appointment of the external auditors and the results of their work
- e. assess the adequacy of accounting, financial and operating controls
- 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
- 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.

Corporate Governance Statement (continued)

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
- 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
- quarterly 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
- monitoring the performance, and continuously improving the effectiveness, or risk management systems and internal compliance and controls.

Corporate Governance Statement (continued)

Risk Management and Internal Compliance and Control (continued)

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.

Independent auditor's report to the members of Austal Limited

Report on the Financial Report

We have audited the accompanying financial report of Austal Limited, which comprises the balance sheet as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider 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 met 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.

Auditor's Opinion

In our opinion:


1. 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 at 30 June 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

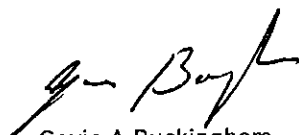
We have audited the Remuneration Report included in pages 10 to 16 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Austal Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Gavin A Buckingham
Partner
Perth
19 August 2010

Shareholder Information

The following information was extracted from the Company's register as at 17 August 2010.

DISTRIBUTION OF SHARES

	<i>Number of Holders</i>	<i>Number of Units</i>	<i>% of Total Issued Capital</i>
1 – 1,000	1,758	1,002,890	0.53
1,001 – 5,000	2,738	7,722,608	4.11
5,001 – 10,000	867	6,769,431	3.60
10,001 – 100,000	588	13,566,821	7.21
100,001 and over	36	159,007,888	84.55
TOTAL	5,987	188,069,638	100

TWENTY LARGEST SHAREHOLDERS

<i>Rank</i>	<i>Shareholder</i>	<i>Total Units</i>	<i>% Issued Capital</i>
1	Austro Pty Ltd	32,200,745	17.12
2	HSBC Custody Nominees	30,799,071	16.38
3	Longreach (WA) Pty Ltd	26,595,621	14.14
4	J P Morgan Nominees Australia Limited	18,902,159	10.05
5	Onyx (WA) Pty Ltd	10,108,212	5.38
6	National Nominees Limited	7,388,866	3.93
7	Mr Vincent Michael O'Sullivan	7,320,000	3.89
8	Citicorp Nominees Pty Ltd	5,326,137	2.83
9	Austal Group Management Share Plan Pty Ltd	4,611,400	2.45
10	Garry Heys & Dorothy Heys	2,844,670	1.51
11	Lavinia Shipping Ltd	2,342,625	1.25
12	Zilon Pty Ltd	1,773,940	0.94
13	Mossisberg Pty Ltd	1,556,945	0.83
14	Pepperwood Holdings Pty Ltd	1,415,737	0.75
15	Cogent Nominees Pty Limited	1,190,254	0.63
16	Bond Street Custodians Limited	1,130,816	0.60
17	ANZ Nominees	787,094	0.42
18	RBC Dexia Investor Services	661,628	0.35
19	UBS Nominees Pty Ltd	438,890	0.23
20	Mr James Nicholas Bennett	417,569	0.22
		157,812,379	83.912

SUBSTANTIAL SHAREHOLDERS

	<i>No. of Ordinary Shares</i>
1 Austro Pty Ltd (J Rothwell)	32,200,745
2 Longreach (WA) Pty Ltd (C Norman)	30,799,071
3 HSBC Custody Nominees	26,595,621
4 J P Morgan Nominees Australia Limited	18,902,159
5 Onyx (WA) Pty Ltd (G Heys)	10,108,212

Voting Rights

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

Corporate Directory

Directors

Executive Directors

Robert Browning

Michael Atkinson

Non Executive Directors

John Rothwell

John Poynton

Christopher Norman

Dario Amara

Ian Campbell

Auditors

Ernst & Young

The Ernst & Young Building

11 Mounts Bay Road

Perth 6000

Western Australia

Company Secretary

Michael Atkinson

Registered Office

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Facsimile: +61 8 9410 2564

Share Registry

Advanced Share Registry Services

110 Stirling Highway

Nedlands 6009

Western Australia

Telephone: +61 8 9389 8033

Facsimile: +61 8 9389 7871