



Half-Year Report 2010

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Directors' Report

The Board of Directors of Austal Limited submit their report for the half-year ended 31 December 2009.

Directors

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

J Rothwell (Chairman)

R Browning

M J Atkinson

C J Norman

J H Poynton

D Amara

I Campbell

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

Principal Activities

The principal activities of the consolidated entity during the financial half-year are 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 half-year was \$15.5 million after income tax.

Review of Operations

The Group profit before tax of \$20.3 million has decreased by 15% over the corresponding prior half year period.

Revenue decreased by 25.5% mainly due to reduced sales orders for the Australian operations. Work continued on the 102m stock trimaran, which is expected to be completed by March 2010. The funding of construction work in progress has reduced the amount of cash, resulting in lower finance income.

Australian research and development tax concession allowances reduced the income tax expense for the period.

The first phase of the modular manufacturing facility in the USA was completed in October 2009, in time for the commencement of construction of the first Joint High Speed Vessel (JHSV). This expansion has been funded largely by the issuance of USD 60 million municipal Go Zone Bonds.

Options for the second and third JHSV's were exercised in January 2010 and work on these vessels is expected to commence in the 2011 financial year. During the period the first Littoral Combat Ship (LCS) was completed and work started on the second LCS vessel.

Significant Events After Half-Year End

At the end of January 2010 the USA Navy sent out a proposal for ten LCS vessels. Currently there are two types of LCS vessels being built – a monohull, built by a competitor, and the Austal trimaran. The US Navy will use this proposal to down select to one type of vessel for the purpose of completing its proposed fifty-five strong LCS fleet. The proposal is to be submitted at the end of March 2010. A successful outcome of the proposal will require an expansion of the USA production facilities. Once the type of vessel is selected the Navy intends to have more than one entity build LCS vessels. A proposal for a further five vessels is planned to be issued in 2012. This will be open to builders other than the successful builder of the first ten vessels.

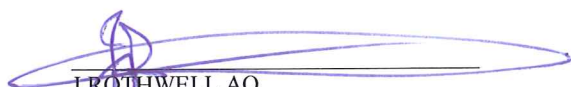
Rounding of Amounts

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

Auditor's Independence Declaration

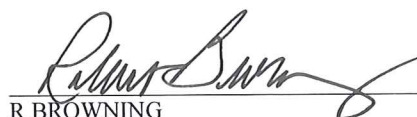
We have obtained an independence declaration from our auditors, Ernst & Young which is on page 3 and forms part of the Directors' Report.

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



J ROTHWELL AO
Director – Chairman

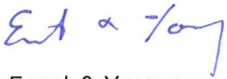
Dated at Henderson this 18th day of February 2010



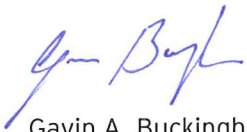
R BROWNING
Director – Chief Executive Officer

Auditor's Independence Declaration to the Directors of Austal Limited

In relation to our review of the financial report of Austal Limited for the half-year ended 31 December 2009, 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.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'Gavin A. Buckingham'.

Gavin A. Buckingham
Partner
Perth
18 February 2010

Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Note	CONSOLIDATED	
		31 December 2009 \$'000	31 December 2008 \$'000
Continuing operations			
Revenue	3	219,187	294,289
Other income	3	1,816	3,552
Expenses (excluding finance costs)	3	(197,930)	(272,083)
Unrealised loss on deferred premium options	3	(1,135)	(811)
Finance costs	3	(1,655)	(1,068)
Profit before income tax		20,283	23,879
Income tax expense		(4,785)	(6,941)
Profit after income tax from continuing operations		15,498	16,938
Attributable to Members of the Parent		15,498	16,938
 Earnings per share (cents per share)			
- basic for profit for the half-year attributable to ordinary equity holders of the parent		8.46	9.17
- diluted for profit for the half-year attributable to ordinary equity holders of the parent		8.42	9.11

Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Note	CONSOLIDATED	
		31 December 2009 \$'000	31 December 2008 \$'000
Profit after income tax from continuing operations		15,498	16,938
Other comprehensive income			
Cash flow hedges			
Gain taken to equity		20,228	20,600
Transferred to income statement		(4,283)	(9,157)
Foreign currency translation		(2,985)	9,931
Income tax expense on items of other comprehensive income		(4,783)	(3,433)
Other comprehensive income for the period, net of tax		8,177	17,941
Total comprehensive income for the period		23,675	34,879
Attributable to Members of the Parent		23,675	34,879

Balance Sheet

AS AT 31 DECEMBER 2009

	CONSOLIDATED	
	As at 31 December 2009 \$'000	As at 30 June 2009 \$'000
ASSETS		
Current Assets		
Cash and cash equivalents	72,408	93,028
Trade and other receivables	26,322	36,242
Inventories	143,877	104,799
Prepayments	962	1,522
Derivatives	34,887	16,165
Total Current Assets	278,456	251,756
Non-Current Assets		
Cash and cash equivalents	1,529	995
Property, plant and equipment	202,027	187,164
Derivatives	45,550	48,820
Intangible assets	4,057	3,452
Prepayments	408	582
Deferred tax asset	9,295	10,969
Total Non-Current Assets	262,866	251,982
TOTAL ASSETS	541,322	503,738
LIABILITIES		
Current Liabilities		
Trade and other payables	38,077	68,206
Interest bearing loans and borrowings	5,017	8,657
Income tax payable	16,719	19,994
Provisions	24,510	27,108
Government grants	4,760	461
Derivatives	928	1,189
Other – progress payments in advance	33,486	39,098
Total Current Liabilities	123,497	164,713
Non-Current Liabilities		
Interest-bearing loans and borrowings	79,692	29,330
Deferred tax liabilities	33,398	17,628
Provisions	2,323	2,356
Government grants	53,289	53,974
Derivatives	50	2
Total Non-Current Liabilities	168,752	103,290
TOTAL LIABILITIES	292,249	268,003
NET ASSETS	249,073	235,735
EQUITY		
Contributed equity	30,664	30,096
Retained earnings	190,688	186,474
Other reserves	27,721	19,165
TOTAL EQUITY	249,073	235,735

Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	<i>Note</i>	CONSOLIDATED	
		31 December	31 December
		2009	2008
		\$'000	\$'000
Cash Flows from operating activities			
Receipts from customers		253,630	272,939
Payments to suppliers and employees		(296,190)	(374,289)
Receipt of government grants		9,973	12,020
Interest received		861	8,306
Borrowing costs paid		(3,008)	(591)
GST refunded/(paid)		5,899	10,605
Income tax refunded/(paid)		3,002	(4,978)
Net cash flows from operating activities		(25,833)	(75,988)
Cash Flows from investing activities			
Proceeds from sale of property, plant and equipment		86	166
Purchase of property, plant and equipment		(32,293)	(20,449)
Purchase of intangible assets		(1,645)	(1,049)
Net cash flows used in investing activities		(33,852)	(21,332)
Cash Flows from financing activities			
Repayment of loan – in substance options		568	281
Repayment of borrowings		(16,246)	(3,662)
Proceeds from borrowings		67,616	-
Equity dividends paid		(11,284)	(24,839)
Net cash flows from/(used in) financing activities		40,654	(28,220)
Net increase/(decrease) in cash and cash equivalents		(19,031)	(125,540)
Net foreign exchange difference		(1,589)	2,334
Cash and cash equivalents at beginning of period		93,028	258,878
Cash and cash equivalents at end of period	8	72,408	135,672

Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

	Issued capital \$'000	Reserved shares * \$'000	Retained earnings \$'000	Foreign currency translation reserve \$'000	Employee benefit reserve \$'000	Cash flow hedge reserve \$'000	Equity Reserve \$'000	Total equity \$'000
CONSOLIDATED								
As at 1 July 2008	41,075	(11,385)	201,757	(5,937)	1,497	7,652	(15,925)	218,734
Currency translation differences	-	-	-	9,931	-	-	-	9,931
Net gains on cash flow hedges	-	-	-	-	-	14,420	-	14,420
Transfer from cash flow hedge reserve	-	-	-	-	-	(6,410)	-	(6,410)
Total income and expense for the period recognised directly in equity	-	-	-	9,931	-	8,010	-	17,941
Profit for the period	-	-	16,938	-	-	-	-	16,938
Total comprehensive income for the period	-	-	16,938	9,931	-	8,010	-	34,879
Equity Transactions:								
Options exercised	-	281	-	-	-	-	-	281
Cost of share-based payment	-	-	-	-	750	-	-	750
Equity dividends	-	-	(24,837)	-	-	-	-	(24,837)
As at 31 December 2008	41,075	(11,104)	193,858	3,994	2,247	15,662	(15,925)	229,807
As at 1 July 2009	41,075	(10,979)	186,474	(269)	2,438	32,921	(15,925)	235,735
Currency translation differences	-	-	-	(2,985)	-	-	-	(2,985)
Net gains on cash flow hedges	-	-	-	-	-	14,160	-	14,160
Transfer from cash flow hedge reserve	-	-	-	-	-	(2,998)	-	(2,998)
Total income and expense for the period recognised directly in equity	-	-	-	(2,985)	-	11,162	-	8,177
Profit for the period	-	-	15,498	-	-	-	-	15,498
Total comprehensive income for the period	-	-	15,498	(2,985)	-	11,162	-	23,675
Equity Transactions:								
Options exercised	-	568	-	-	-	-	-	568
Cost of share-based payment	-	-	-	-	379	-	-	379
Equity dividends	-	-	(11,284)	-	-	-	-	(11,284)
As at 31 December 2009	41,075	(10,411)	190,688	(3,254)	2,817	44,083	(15,925)	249,073

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

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

1 CORPORATE INFORMATION

The half-year financial report of Austal Limited (the Company) for the period ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 18 February 2010.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The half-year financial report should be read in conjunction with the annual Financial Report of Austal Limited as at 30 June 2009.

It is also recommended that the half-year financial report be considered together with any public announcements made by Austal Limited and its controlled entities during the half-year ended 31 December 2009 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and Australian Stock Exchange Listing Rules.

(a) Basis of preparation

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

The half-year financial report has been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2009, except for the adoption of amending accounting standards and interpretations effective for annual reporting periods beginning on or after 1 July 2009.

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:

- AASB 8 and AASB 2007-3 Operating Segments and consequential amendments to other 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.
- 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 introduces a statement of comprehensive income.

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

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

(b) Significant accounting policies (continued)

The Group applies the following new accounting policy in relation to Service Revenue:

Service 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.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Austal Limited and its subsidiaries ('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 intercompany 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.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

		CONSOLIDATED	
		31 December 2009	31 December 2008
		\$'000	\$'000
3.	REVENUE AND EXPENSES		
	Specific Items		
	Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
	(i) Revenue		
	Construction contract revenue	192,191	277,746
	Charter revenue	5,814	7,086
	Service revenue	19,544	-
	Sale of scrap	777	1,151
	Finance income	861	8,306
	Total revenue	219,187	294,289
	(ii) Other income		
	Government grants	1,605	944
	Other income	211	2,608
	Total other income	1,816	3,552
	(iii) Expenses		
	Cost of sales – construction contracts	156,058	240,301
	Cost of sales – service	15,650	-
	Marketing expenses	3,876	5,089
	Administrative expenses	15,257	13,293
	Net foreign exchange losses	1,076	143
	Allowance for Doubtful Debts	-	7,070
	Charter expenses	6,013	6,187
	Total expenses (excluding finance costs)	197,930	272,083
	(iv) Unrealised loss on deferred premium options		
	Unrealised loss on forward currency options	2,989	3,609
	Unrealised foreign exchange gain on deferred premium	(1,854)	(2,798)
		1,135	811
	(v) Finance costs		
	Interest paid to unrelated parties	1,655	1,068
	The above expenses include:		
	Depreciation of non-current assets	4,267	3,705
	Amortisation of intangible assets	681	456
4.	DIVIDENDS PAID AND PROPOSED		
	Equity dividends on ordinary shares:		
	Dividends paid during the half-year		
	Final franked dividend for the financial year ended 30 June 2009: 6 cents [2008: 13 cents]	11,284	24,837

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

5. SEGMENT REPORTING

Identification of reportable segments

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

The 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:

USA

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

Australia

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

Service

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

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 and in the prior period.

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

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

Half Year Ended 31 December 2009	USA \$'000	Australia \$'000	Service \$'000	Other/ Unallocated \$'000	Eliminations and Adjustments \$'000	Total \$'000
Revenues						
External customers	94,865	99,920	25,358	-	-	220,143
Inter-segment	-	6,828	1,269	1,349	(9,446)	-
Total revenues	94,865	106,748	26,627	1,349	(9,446)	220,143
Profit before tax	7,629	12,656	2,053	(1,788)	527	21,077
Segment assets	217,593	313,257	20,484	100,160	(110,172)	541,322
Half Year Ended 31 December 2008	USA \$'000	Australia \$'000	Service \$'000	Other/ Unallocated \$'000	Eliminations and Adjustments \$'000	Total \$'000
Revenues						
External customers	97,860	182,306	7,086	-	-	287,252
Inter-segment	-	1,996	-	1,363	(3,359)	-
Total revenues	97,860	184,302	7,086	1,363	(3,359)	287,252
Profit before tax	(2,688)	19,262	1,963	(2,417)	521	16,641
Segment assets	220,004	260,982	9,696	115,718	(102,662)	503,738

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2009

5. SEGMENT REPORTING (continued)

- i) The profit before tax for each reportable segment does not include finance revenue of \$0.861 million (31 December 2008: \$8.306 million) and finance costs of \$1.655 million (31 December 2008: \$1.068 million).
- ii) The assets of the Australian segment at 31 December 2009 amount to \$313.257 million, compared with \$260.982 million at 30 June 2009 due to changes in work in progress at 31 December 2009. The assets of the Service segment at 31 December 2009 amount to \$20.484 million, compared with \$9.696 million at 30 June 2009. There has been no material change in the assets of other segments.

6. CONTINGENT ASSETS AND LIABILITIES

There were no material changes in contingent liabilities or contingent assets since the last annual reporting date.

7. EVENTS AFTER THE BALANCE SHEET DATE

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

8. ADDITIONAL INFORMATION

Reconciliation of Cash

For the purposes of the Cash Flow Statement, cash and cash equivalents, net of cash held as a guarantee, comprise the following at 31 December:

	CONSOLIDATED	
	31 December 2009	30 June 2009
	\$'000	\$'000
Cash at bank and in hand	<u>73,937</u>	<u>94,023</u>
Less: restricted cash held as a guarantee		
- non-current	<u>(1,529)</u>	<u>(995)</u>
	<u>72,408*</u>	<u>93,028</u>

* Includes \$5.9 million restricted cash applied to capital projects.

Director's Declaration

The directors declare that in their opinion:

- (a) the financial statements and notes of the consolidated entity:
 - (i) give a true and fair view of the financial position as at 31 December 2009 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board.



J ROTHWELL AO
Director



R BROWNING
Director

Dated at Henderson this 18th day of February 2010

To the members of Austal Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Austal Limited, which comprises the balance sheet as at 31 December 2009, and the income statement and statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Austal Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

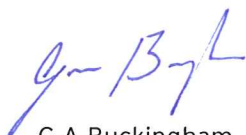
Conclusion

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

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year period ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink that reads 'G A Buckingham'.

G A Buckingham

Partner

Perth

18 February 2010