AUSTAL

LIMITED

Half-Year Report 2009

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Directors' Report

The Board of Directors of Austal Limited submit their report for the half-year ended 31 December 2008.

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 (appointed 22 August 2008)
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 $16.9 million after income tax.

Review of Operations
The Group profit before tax of $23.9 million has decreased by 43% over the corresponding prior half year period. In addition to the impact of the decreased revenue, profit was lower due to costs resulting from increasing capacity to administer military contract compliance, increased tendering costs and provisions for doubtful debts.

The impact of the global financial crisis has resulted in the delay of several sales prospects due to restrictive funding availability. Revenue from the Australian operations decreased by 16% and the US operations decreased by 3%, giving an overall decrease in revenue of 12% compared with the same period the previous year. Austal expects reduced revenue and decreased profits to continue in the second half of the financial year.

Progress payments received in advance on contracts have normalised over the first half of the financial year resulting in a decrease in cash and an increase in construction work in progress.

Balance Sheet movements include the recognition of a large derivative asset. This derivative is part of a risk mitigation strategy to hedge certain expected contractual obligations. The hedge instrument has a deferred premium element which has been recognised as an interest-bearing loan.

During the first half of the financial year Austal USA commenced construction on the first phase of the modular manufacturing facility. The first half of the 70,000m2 facility will be available for the fabrication of all JHSV modules. Construction work on the US Government's Joint High Speed Vessel (JHSV) is due to commence early in the financial year 2010. In addition, Austal expects to learn of the award of the next Littoral Combat Ship from the US Navy and the next two Joint High Speed Vessels within the coming months.

Significant Events After Half-Year End
There were no significant events occurring after period end.

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 22nd day of February 2009

R BROWNING
Director – Chief Executive Officer

AUDITOR'S INDEPENDENCE DECLARATION

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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 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin A Buckingham
Partner
Perth

22 February 2009

Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Note	*CONSOLIDATED* 31 December 2008 $'000	31 December 2007 $'000
Continuing operations			
Revenue	3	294,289	332,938
Other income	3	3,552	878
Expenses (excluding finance costs)	3	(272,894)	(290,432)
Finance costs	3	(1,068)	(1,227)
Profit before income tax		23,879	42,157
Income tax expense		(6,941)	(12,296)
Profit after income tax from continuing operations		16,938	29,861
Attributable to:			
Minority interest		-	-
Members of the Parent		16,938	29,861
		16,938	29,861
Earnings per share (cents per share)			
- basic for profit for the half-year attributable to ordinary equity holders of the parent		9.17	15.96
- diluted for profit for the half-year attributable to ordinary equity holders of the parent		9.11	15.79

Balance Sheet

AS AT 31 DECEMBER 2008

	Note	*CONSOLIDATED* As at 31 December 2008 $'000	As at 30 June 2008 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		135,672	258,878
Trade and other receivables		14,305	12,440
Inventories		54,174	21,112
Prepayments		294	1,353
Derivatives		12,520	18,643
Total Current Assets		216,965	312,426
Non-Current Assets			
Cash and cash equivalents		8,761	5,421
Trade and other receivables		24,720	19,321
Property, plant and equipment		143,997	106,657
Derivatives		34,660	-
Intangible assets		2,778	1,601
Prepayments		784	646
Deferred tax asset		2,616	328
Total Non-Current Assets		218,316	133,974
TOTAL ASSETS		435,281	446,400
LIABILITIES			
Current Liabilities			
Trade and other payables		30,627	36,504
Interest bearing loans and borrowings		8,897	5,424
Income tax payable		18,497	11,990
Provisions		25,371	26,996
Government grants		535	258
Derivatives		14,735	307
Other – progress payments in advance		22,761	97,415
Total Current Liabilities		121,423	178,894
Non-Current Liabilities			
Interest-bearing loans and borrowings		41,399	17,138
Deferred tax liabilities		7,279	13,668
Provisions		3,652	3,365
Government grants		31,721	14,601
Derivatives		-	-
Total Non-Current Liabilities		84,051	48,772
TOTAL LIABILITIES		205,474	227,666
NET ASSETS		229,807	218,734
EQUITY			
Contributed equity		29,971	29,690
Retained earnings		193,858	201,757
Other reserves		5,978	(12,713)
TOTAL EQUITY		229,807	218,734

Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Note	*CONSOLIDATED* 31 December 2008 $'000	31 December 2007 $'000
Cash Flows from operating activities			
Receipts from customers		272,939	383,411
Payments to suppliers and employees		(374,008)	(291,175)
Receipt of government grants		12,020	138
Interest received		8,306	10,261
Borrowing costs paid		(591)	(1,227)
GST refunded/(paid)		10,605	7,245
Income tax refunded/(paid)		(4,978)	137
Net cash flows from operating activities		(75,707)	108,790
Cash Flows from investing activities			
Proceeds from sale of property, plant and equipment		166	379
Purchase of property, plant and equipment		(20,449)	(9,383)
Purchase of intangible assets		(1,049)	(340)
Net cash flows used in investing activities		(21,332)	(9,344)
Cash Flows from financing activities			
Share buy-back		-	(5,394)
Repayment of borrowings		(2,846)	(4,249)
Equity dividends paid		(24,839)	(23,039)
Loan advanced - others		(816)	(2,533)
Net cash flows from/(used in) financing activities		(28,501)	(35,215)
Net increase/(decrease) in cash and cash equivalents		(125,540)	64,231
Net foreign exchange difference		2,334	(517)
Cash and cash equivalents at beginning of period		258,878	240,531
Cash and cash equivalents at end of period	8	135,672	304,245

Statement of Changes in Equity (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

	Attributable to equity holders of the parent				*Total equity*
CONSOLIDATED	*Issued capital $'000*	*Reserved shares * $'000*	*Retained earnings $'000*	*Other Reserves $'000*	*$'000*
As at 1 July 2007	40,034	(2,725)	172,523	(298)	209,534
Currency translation differences	-	-	-	(749)	(749)
Net gains on cash flow hedges	-	-	-	17,978	17,978
Transfer from cash flow hedge reserve	-	-	-	(22,719)	(22,719)
Total income and expense for the period recognised directly in equity	-	-	-	(5,490)	(5,490)
Profit for the period	-	-	29,861	-	29,861
Total income and expense for the period	-	-	29,861	(5,490)	24,371
Equity Transactions:					
Shares issued	10,530	-	-	-	10,530
Options exercised	-	764	-	-	764
Options granted	-	(10,530)	-	-	(10,530)
Cost of share-based payment	-	-	-	339	339
Share buy-back	(5,394)	-	-	-	(5,394)
Equity dividends	-	-	(23,039)	-	(23,039)
As at 31 December 2007	45,170	(12,491)	179,345	(5,449)	206,575

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

	Attributable to equity holders of the parent				*Total equity*
CONSOLIDATED	*Issued capital $'000*	*Reserved shares * $'000*	*Retained earnings $'000*	*Other Reserves $'000*	*$'000*
As at 1 July 2008	41,075	(11,385)	201,757	(12,713)	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	-	-	-	17,941	17,941
Profit for the period	-	-	16,938	-	16,938
Total income and expense for the period	-	-	16,938	17,941	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	5,978	229,807

*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 2008

1 CORPORATE INFORMATION

The half-year financial report of Austal Limited (the Company) for the period ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on 20 February 2009.

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 2008.

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 2008 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 condensed 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 that 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 2008, except for the adoption of amending standards and UIG Interpretations effective for annual reporting periods beginning on or after 1 July 2008.

From 1 July 2008, the Group has adopted the following Standards and Interpretations, mandatory for annual periods beginning on or after 1 July 2008. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the Group.

- AASB 2008-10 Amendment to Australian Accounting Standards – Reclassification of Financial Assets (amendments to AASB 139 Financial Instruments: Recognition and Measurement and AASB 7 Financial Instruments Disclosures)
- Interpretation 12 and AASB 2007-2 Service Concession Arrangements and consequential amendments to other Australian Accounting Standards
- Interpretation 129 Service Concession Arrangements: Disclosures
- Interpretation 4 (revised) Determining whether an arrangement contains a lease
- Interpretation 13 Customer Loyalty Programmes.
- Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

(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 2008

	CONSOLIDATED	
	31 December 2008 *$'000*	*31 December 2007* *$'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:

	31 December 2008 $'000	31 December 2007 $'000
(i) Revenue		
Construction contract revenue	277,746	314,288
Charter revenue	7,086	7,152
Sale of scrap	1,151	1,237
Finance income	8,306	10,261
Total revenue	294,289	332,938
(ii) Other income		
Government grants	944	138
Other income	2,608	740
Total other income	3,552	878
(iii) Expenses		
Cost of sales – construction contract	241,112	269,853
Marketing expenses	5,089	3,787
Administrative expenses	13,436	8,665
Provision for Doubtful Debts	7,070	-
Chartering expenses	6,187	8,127
Total expenses (excluding finance costs)	272,894	290,432
(iv) Finance costs		
Interest paid to unrelated parties	1,068	1,227
The above expenses include:		
Depreciation of non-current assets	3,705	2,797
Amortisation of intangible assets	456	312
Net foreign exchange losses/(gains)	143	232

4. DIVIDENDS PAID AND PROPOSED

	31 December 2008 $'000	31 December 2007 $'000
Equity dividends on ordinary shares:		
Dividends paid during the half-year		
Final franked dividend for the financial year ended 30 June 2008: 13 cents [2007: 12 cents]	24,837	23,039

Notes to the Half-Year Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

5. SEGMENT REPORTING

The consolidated entity's primary basis of segment reporting is by business segment. The Group operates primarily in one business segment being the manufacture of high performance vessels.

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 2008	***30 June 2008***
	$'000	***$'000***
Cash at bank and in hand	144,433	264,299
Less: restricted cash held as a guarantee		
- non-current	(8,761)	(5,421)
	135,672	258,878

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 2008 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 22nd day of February 2009

INDEPENDENT REVIEW REPORT

ERNST & YOUNG

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To the members of Austal Limited

Report on the Condensed 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 2008, and the income statement, 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 2008 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.

ERNST & YOUNG

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 2008 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*.

Ernst & Young

Ernst & Young

Gavin Buckingham

G A Buckingham
Partner
Perth

22 February 2009