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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
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 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

Gavin A Buckingham
Partner
Perth

22 February 2009

Liability limited by a scheme approved under Professional Standards Legislation
## Income Statement
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2008**

<table>
<thead>
<tr>
<th>Note</th>
<th>CONSOLIDATED</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December</td>
<td>31 December</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td></td>
</tr>
</tbody>
</table>

**Continuing operations**
- Revenue 
  Note 3: 294,289  332,938
- Other income 
  Note 3: 3,552  878

**Expenses (excluding finance costs)**
- Expenses (excluding finance costs) 
  Note 3: (272,894)  (290,432)
- Finance costs 
  Note 3: (1,068)  (1,227)

**Profit before income tax**
- Profit before income tax: 23,879  42,157
- Income tax expense 
  Note 6: (6,941)  (12,296)

**Profit after income tax from continuing operations**
- Profit after income tax from continuing operations: 16,938  29,861

**Attributable to:**
- Minority interest: -  -
- Members of the Parent: 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**

<table>
<thead>
<tr>
<th>Note</th>
<th>CONсолIDATED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As at 31 December 2008</td>
</tr>
<tr>
<td></td>
<td>$'000</td>
</tr>
</tbody>
</table>

### 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 | 36,594
- 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**

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

<table>
<thead>
<tr>
<th>CONSOLIDATED</th>
<th>Attributable to equity holders of the parent</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Issued capital $’000</td>
<td>Reserved shares * $’000</td>
</tr>
<tr>
<td>As at 1 July 2007</td>
<td>40,034</td>
<td>(2,725)</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net gains on cash flow hedges</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfer from cash flow hedge reserve</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total income and expense for the period recognised directly in equity</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>-</td>
<td>29,861</td>
</tr>
<tr>
<td><strong>Total income and expense for the period</strong></td>
<td>-</td>
<td>29,861</td>
</tr>
<tr>
<td><strong>Equity Transactions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares issued</td>
<td>10,530</td>
<td>-</td>
</tr>
<tr>
<td>Options exercised</td>
<td>-</td>
<td>764</td>
</tr>
<tr>
<td>Options granted</td>
<td>-</td>
<td>(10,530)</td>
</tr>
<tr>
<td>Cost of share-based payment</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Share buy-back</td>
<td>(5,394)</td>
<td>-</td>
</tr>
<tr>
<td>Equity dividends</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>As at 31 December 2007</td>
<td>45,170</td>
<td>(12,491)</td>
</tr>
</tbody>
</table>

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

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<table>
<thead>
<tr>
<th>CONSOLIDATED</th>
<th>Attributable to equity holders of the parent</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Issued capital $’000</td>
<td>Reserved shares * $’000</td>
</tr>
<tr>
<td>As at 1 July 2008</td>
<td>41,075</td>
<td>(11,385)</td>
</tr>
<tr>
<td>Currency translation differences</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net gains on cash flow hedges</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfer from cash flow hedge reserve</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total income and expense for the period recognised directly in equity</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>-</td>
<td>16,938</td>
</tr>
<tr>
<td><strong>Total income and expense for the period</strong></td>
<td>-</td>
<td>16,938</td>
</tr>
<tr>
<td><strong>Equity Transactions:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Options exercised</td>
<td>-</td>
<td>281</td>
</tr>
<tr>
<td>Cost of share-based payment</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Equity dividends</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>As at 31 December 2008</td>
<td>41,075</td>
<td>(11,104)</td>
</tr>
</tbody>
</table>

*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.

- 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

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  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

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]
   Total  24,837  23,039
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:

<table>
<thead>
<tr>
<th></th>
<th>CONSOLIDATED</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2008</td>
</tr>
<tr>
<td></td>
<td>$'000</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>144,433</td>
</tr>
<tr>
<td>Less: restricted cash held as a guarantee - non-current</td>
<td>(8,761)</td>
</tr>
<tr>
<td></td>
<td>135,672</td>
</tr>
</tbody>
</table>
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
To the members of Austal Limited


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 Regulation 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 2008 and of its performance for the half-year period ended on that date; and


Ernst & Young

G A Buckingham
Partner
Perth

22 February 2009