APPENDIX 4E
PRELIMINARY FINAL REPORT

AUSTAL LIMITED
FOR THE YEAR ENDED 30 JUNE 2008

1. The reporting period is from 1 July 2007 to 30 June 2008. The previous corresponding period is 1 July 2006 to 30 June 2007.

2. Results for announcement to the market.

			$A'000
2.1	Revenue	up 15.2%	to 626,141
2.2	Profit (loss) from continuing operations after tax	up 14.2%	to 52,273
2.3	Net profit (loss) for the period	up 14.2%	to 52,273

2.4 Dividend distributions

A fully franked final dividend of 13 cents per share is payable with respect to the year ended 30 June 2008 on 9 October 2008.

2.5 Record date for determining entitlements to the dividends — 25 September 2008

2.6 Explanation of figures in 2.1 to 2.4 that may be required

Refer to attached Annual Report pages 3 - 5.

3. Income statement with notes.

Refer to attached Annual Report pages 16 and 21 - 67

4. Balance sheet with notes.

Refer to attached Annual Report pages 17 and 21 - 67

5. Cash flow statement with notes.

Refer to attached Annual Report pages 18 and 21 - 67

6. Details of dividends or distributions. N/A

7. Details of dividend or distribution reinvestment plans. N/A

8. Statement of changes in equity.

Refer to attached Annual Report pages 19-20 and 49 - 50.

9. Net tangible assets per ordinary security

Current period (cents/share)	115.4
Previous corresponding period (cents/share)	110.6

10. Control gained or lost over entities during the period N/A

11. Details of associates and joint venture entities. N/A

12. Other significant information

    Refer to Operating and Financial Overview pages 3 - 5 of attached Annual Report.

13. Accounting standards used by foreign entities.

    The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The foreign entity, Austal USA, prepares its accounts under International Financial Reporting Standards and adjustments are made to bring into line any dissimilar accounting policies that may exist.

14. Commentary on the result

    14.1 Earnings per share (basic)

Current period	28.3 cents
Previous corresponding period	24.4 cents

    14.2 Returns to shareholders including distributions and buy backs

    A fully franked final dividend of 13 cents per share is payable with respect to the year ended 30 June 2008 on 9 October 2008.

    14.3 Significant features of operating performance

    Refer to Operating and Financial Overview pages 3 - 5 of attached Annual Report.

    14.4 Segment results

    Refer to attached Annual Report page 37.

14.5 Trends in performance

Refer to Operating and Financial Overview pages 3 - 5 of attached Annual Report.

14.6 Other factors affecting the results in period or future N/A

15. Audit/review of accounts upon which this is based.

This report has been based on audited accounts.

16. Accounts not audited or subject to review N/A

17. Qualifications of audit/review No qualifications

AUSTAL

LIMITED

Full-Year Report 2008

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Chairman's Report

I am pleased to report a record result for the 2008 financial year. Ongoing improvements were made to the production processes in our Australian operations which are progressively being introduced to the US. With the worsening outlook for the global economy and a steep increase in the price of fuel-oil, the commercial market is slowing, creating challenging business conditions for the 2009 fiscal year. Our company is therefore focussing its sales efforts on the military market and investing in the development of "state of the art" production facilities in the USA in order to maximise our defence related opportunities.

Effective from 22 August 2008, I stepped down from executive duties to become the Non Executive Chairman. Bob Browning assumed day to day control as the Managing Director / Chief Executive Officer. With the growth of the USA operation critical to Austal's future success, we are fortunate to have a person of Bob's calibre on the team and I will continue to assist in the strategic direction and marketing of the business going forward.

During the year, our Australian yards received orders for the construction of four additional fast ferries and nine police and patrol boats. The Defence related orders highlight Austal's growing status in this important sector, which is more resilient to rising fuel and finance costs.

In the USA, we celebrated the launch in April of the Littoral Combat Ship (LCS) trimaran that provides a spectacular sight in front of the shipyard. Following the installation of combat systems, the new ship will be sea trialled and tested in the latter part of this year and early next year. New orders for LCSs are budgeted in the 2008 / 2009 financial year, notwithstanding the cancellation of the second LCS due to current program difficulties. The future for the LCS program remains bright with a continued prospect of up to 55 LCSs to be ordered.

In addition to the ongoing construction of the second Hawaii Superferry and the completion of our first LCS, Austal USA is one of three shipyards to receive a Navy contract for the preliminary design of the Joint High Speed Vessel (JHSV). With a final design and construction contract for up to ten ships expected to be awarded in the last quarter of calendar 2008, Austal USA, as the only established large aluminium shipbuilder in the US, is a strong candidate for success with this contract.

I thank our staff and shareholders for the ongoing support of the company and look forward to my continuing albeit changing role in assisting with the next phase of growth for the group.

JOHN ROTHWELL AO
EXECUTIVE CHAIRMAN

Operating and Financial Overview

The Group operating profit after tax for the year was $52.273 million compared with the previous year of $45.791 million.

Revenue has increased by 15% over the previous year whilst net operating profit before tax has increased by 11%. Lower margins on the Littoral Combat Ship in the USA resulted in a lower group margin. Overhead costs in the USA were higher as a result of bidding for major Navy contracts. Progress payments paid in advance on a significant contract has resulted in higher interest income during the period.

Tax credits in the USA for Hurricane Katrina reduced the tax charge for the year by $2.284 million.

FINANCIAL SUMMARY

Year ended 30 June	**2008 $'000**	**2007 $'000**
Revenue	626,141	543,608
EBITDA	59,212	63,935
Depreciation & Amortisation	(6,604)	(5,398)
EBIT	52,608	58,537
Net Interest Received	18,149	5,219
Operating Profit Before Tax	70,757	63,756
Tax Expense	(18,484)	(17,965)
Operating Profit After Tax	52,273	45,791
% EBIT/Revenue	8.4	10.8
Basic Earnings Per Share (cps)	28.3	24.4
Net Assets	218,734	209,534
Return on Equity (%)	23.9	21.5

A dividend of 13 cents per share fully franked is to be paid on 9 October 2008. A dividend of 12 cents per share fully franked was paid on 11 October 2007.

Operating and Financial Overview (continued)

AUSTRALIAN OPERATIONS

New orders were received for an additional four Venetian 48 metre ferries, three 22 metre catamaran police boats for Queensland and six 30 metre patrol boats for the Trinidad and Tobago Coast Guard that includes a five-year maintenance and support contract.

During the year, Austal completed a 65 metre vehicle-passenger ferry for the Sultanate of Oman, the final three 57 metre Armidale Class Patrol Boats for the Royal Australian Navy, the second 88 metre vehicle-passenger ferry for the Istanbul Metropolitan Municipality and seven 48 metre fast ferries for delivery to the Venetian Resort in Macau.

Under construction are two 69 metre and two 88 metre vehicle-passenger ferries for a single customer, two 48 metre passenger ferries for Hong Kong, a 36 metre private vessel, a 65 metre vehicle-passenger ferry for Oman and three 48 metre passenger ferries from the original ten boat Venetian order.

The Henderson operations are now fully converted to a modular manufacturing process which facilitates improved efficiencies and allows lower skill levels to be employed. Some of the production processes have been mechanised and further upgrades will be introduced during the following year. The full benefits of these developments will be realised in future years and will be introduced into the Group's other operations, particularly the USA.

USA OPERATIONS

The first 127 metre LCS was launched in April and following final fitout and installation of combat systems is expected to commence sea trials in early 2009. During the year work also continued on the second 107 metre Hawaii Superferry.

In November, the US Navy cancelled the second General Dynamics Littoral Combat Ship (LCS) contract pending a review of its acquisition strategy for this program. Austal is the builder of the LCS sea frame in the General Dynamics Team. In May, General Dynamics submitted a new bid for up to three new LCSs being offered on a fixed-price incentive basis in the 2008 and 2009 US fiscal defence budgets, the outcome of which is expected to be known by the end of calendar year 2008.

A US $3 million Preliminary Design Contract from the US Navy was awarded to Austal USA as the prime contractor in January to complete a Phase I proposal for the Joint High Speed Vessel (JHSV) Program. The proposal was submitted in July 2008 with a single Phase II contract to be awarded later this calendar year for detail design and construction of the lead JHSV with options to build up to ten ships.

Austal USA was able to bid as prime contractor for the JHSV Program due to receiving a facility clearance by the US Department of Defence during the year.

In December, Austal USA was awarded a US Navy $33 million grant (Infrastructure Improvements at Gulf Coast Shipyards – Katrina Infrastructure Improvements) in which a portion of the costs will be reimbursed for the planned Modular Manufacturing Facility (MMF) expansion programme due to start in July 2008. As at 30 June 2008, no proceeds from this funding had been received.

ENVIRONMENTAL PERFORMANCE

Continued improvements to construction efficiency and equipment upgrades have resulted in a reduction in energy consumption.

Austal plays a leading role in achieving energy efficient solutions both at its shipyards and in the vessels it designs. Commercial and defence operators continue to recognise the multiple roles for Austal's lightweight vessel designs and the role they can play in reducing energy consumption and improving transport efficiency.

Operating and Financial Overview (continued)

PEOPLE

Austal continues to strive to improve the risk awareness and working environment for its employees. This has resulted in a continuation of the previously achieved safety performance far in excess of industry standards.

Employment levels in Australia have stabilised with a total workforce of 1,518.

Austal USA is currently operating with 1,022 people subject to the announcement of new contracts that will require further employee recruitment.

OUTLOOK

Successful contract awards for additional LCS vessels and the JHSV Program will provide substantial growth in the US from 2010 onwards.

High fuel prices and the credit crisis in the banking sector have slowed demand for commercial ferries. Opportunities remain for sales in the defence and leisure sectors.

As of 30 June 2008, contracts on hand to be completed across the 2009 to 2010 financial years amounted to $320 million.

JOHN ROTHWELL AO
CHIEF EXECUTIVE OFFICER

Directors' Report

The Board of Directors of Austal Limited submit their report for the year ended 30 June 2008.

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 Rothwell 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 Rothwell 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 Rothwell was named the Ernst & Young "Australian Entrepreneur of the Year".

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

Michael Atkinson CA (ZIM), CA (SA) (Executive Director, Finance & Company Secretary)
Michael Atkinson 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 Norman 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. Mr Norman has been a driving force in the technical and marketing success of the company and, with extensive experience in international marketing and sales, held the position of Sales Director between 1993 and 2002.

In May 2000, Chris was awarded the prestigious A.G.M. Michell Award in recognition of outstanding service in the profession of Mechanical Engineering. He is a member of both the Royal Institution of Naval Architects and the Germanischer Lloyd Asean Committee.

John Poynton AM CitWA, B.Com, SF Fin, FAIM, FAICD (Independent Director)
John is a co-founder and executive Chairman of Azure Capital.

John is a Non-Executive Director of Burswood Ltd, Multiplex Ltd and is a member of the Payments System Board of the Reserve Bank of Australia. He is Chairman of the West Australian Museum Foundation and 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. He has previously served as a Chairman of the ASX and Alinta. He is a Member in the General Division of the Order of Australia.

In June 2006 he was awarded with Citizen of the Year in the Industry and Commerce category.

Directors' Report (continued)

Directors (continued)

Robert Browning, MSc, MBA, FAIM (Executive Director)
Robert Browning was Chief Executive Officer of Alinta Limited from March 2001 to 8 April 2007.

Mr Browning 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.

Mr Browning 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, Mr Browning rejoined the Board and was appointed to the position of Managing Director & Chief Executive Officer.

Dario Amara, BEng (Distn), FIEAust, CPEng (Independent Director)
Appointed director on 16 August 2005

Dario Amara is co founder, Managing Director and Chief Executive of Emerson Stewart Group Limited, an advisory, project implementation and development group based in Perth (ASX: ESW).

He has 29 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 accomplishment in rejuvenating and growing businesses in new markets. He is a graduate from the Curtin University of Technology.

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

Ian Campbell (Independent Director)
Appointed director on 1 August 2007

Mr Campbell 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, Mr Campbell initiated the Corporate Law Economic Reform Program including legislating to move Australia to International Financial Reporting Standards and reform of Accounting and Audit oversight institutional arrangements.

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

Ian is a Non-Executive Director of Solco Ltd, ASG Group Ltd and Proto Resources and Investments Ltd. He is also a board member of Princess Margaret Hospital Foundation and Chairman of WA 2011 Pty Ltd, 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	33,724,685	-	-
Michael Atkinson	1,415,737	-	285,062
Christopher Norman	26,595,621	6,600	-
John Poynton	300,000	-	-
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 date to 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 $52.273 million after income tax (2007: $45.791 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 $24.449m (13 cents per share) (2007: $23.039m being 12 cents per share) has been declared for the year ended 30 June 2008 to be paid on 9 October 2008.

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 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 2008.

TOTAL NUMBER OF EMPLOYEES
As at 30 June 2008, the consolidated entity employed a total of 2,540 full-time equivalents (2007: 2,353 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 of the Company.

To encourage the retention of employees, non-director employees 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.

Similarly, non-director employees of Austal USA participate in an annual bonus program. Bonuses to participants are tied to achievement of the financial objectives of Austal USA, specific growth initiatives, productivity improvement initiatives, customer satisfaction measures and employee satisfaction measures. 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.

Ex gratia bonuses are paid to executives in certain circumstances for exceptional performance as determined by the CEO. These bonuses vest immediately.

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

Share Option Plan

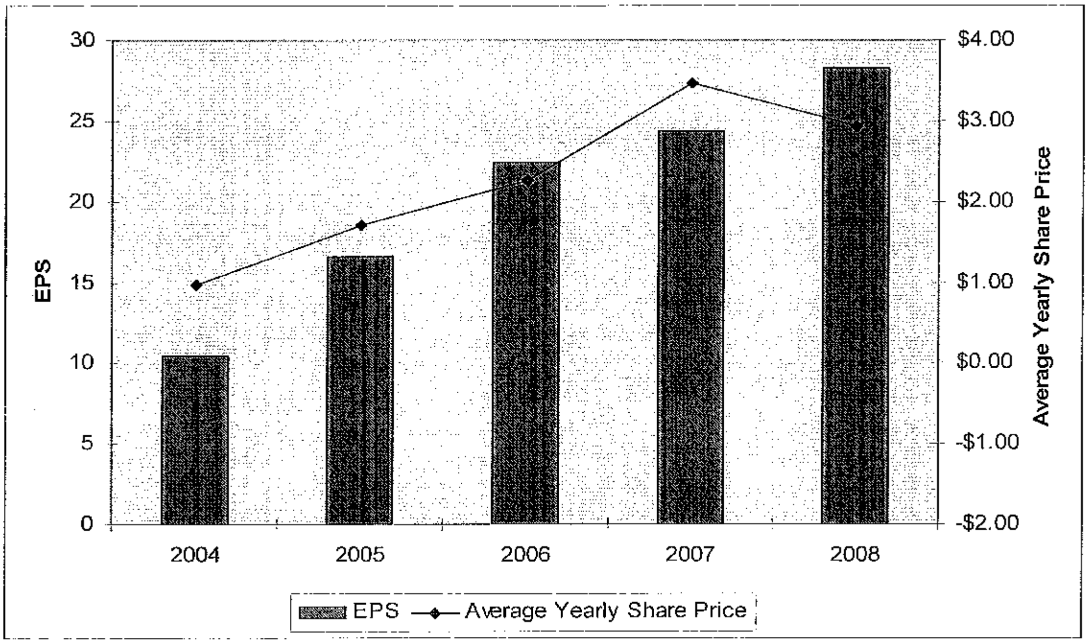
Objective

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.



Note: all the financial years except 2004 are based on the Australian Equivalents to International Financial Reporting Standards ('AIFRS').

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.

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

Directors for the year ended 30 June 2008

Mr John Rothwell	Chairman & Chief Executive Officer – resigned 22 August 2008 Chairman (Non Executive) – appointed 22 August 2008
Mr Michael Atkinson	Executive Director, Finance & Company Secretary
Mr Christopher Norman	Director (Non Executive)
Mr John Poynton	Independent Director
Mr Robert Browning	Director (Non Executive) – resigned 31 July 2007 Executive Director & Chief Executive Officer – appointed 22 August 2008
Mr Dario Amara	Independent Director
Mr Ian Campbell	Independent Director – appointed 1 August 2007

Table 1: Directors' remuneration for the year ended 30 June 2008

		Short-Term	Post Employment	Share-based Payment	Total		Contract Terms Note
		Salary & Fees	Superannuation	Options		% performance related	
		$	$	$	$		
John Rothwell	2008	600,000	-	-	600,000	-	2
	2007	485,577	-	-	485,577	-	
Michael Atkinson	2008	319,824	-	10,218**	330,042	-	2
	2007	309,000	-	-	309,000	-	
Christopher Norman	2008	85,000	-	-	85,000	-	1
	2007	85,000	-	-	85,000	-	
John Poynton	2008	90,000	-	-	90,000	-	1
	2007	90,000	-	-	90,000	-	
Robert Browning *	2008	7,500	-	-	7,500	-	1
	2007	90,000	-	-	90,000	-	
Dario Amara	2008	93,000	-	-	93,000	-	1
	2007	93,000	-	-	93,000	-	
Ian Campbell	2008	82,500	-	-	82,500	-	1
	2007	-	-	-	-	-	
Total	2008	1,277,824	-	10,218	1,288,042		
	2007	1,152,577	-	-	1,152,577		

* Director for part of year of 2008

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

Key management personnel including Group and Company Executives for the year ended 30 June 2008

Mr Robert Browning	Chief Executive Officer Austal USA – appointed 1 August 2007 Executive Director & Chief Executive Officer – appointed 22 August 2008
Mr Joseph Rella	Chief Operating Officer Austal USA – appointed 9 October 2007
Mr Greg Metcalf	Chief Financial Officer – appointed 1 February 2008.
Mr William Rotteveel	General Manager
Mr Mark Dummett	Executive Manager – Operations
Mr Stephen Murdoch	Chief Operating Officer – resigned 4 February 2008
Mr Dan Spiegel	Chief Operating Officer Austal USA – resigned 15 April 2008

Table 2: Remuneration of the key management personnel including Group and Company Executives who received the highest remuneration for the year ended 30 June 2008

		Short-Term			Post Employment	Share-based Payment	Total		Contract Terms Note
		Salary & Fees	Cash Bonus	Non-Monetary Benefits	Superannuation	Options		% performance related	
		$	$	$	$	$	$		
Robert Browning	2008	354,943	-	30,367	-	1,297,621**	1,682,931	-	5
	2007	-	-	-	-	-	-	-	
Joseph Rella *	2008	201,149	-	245,812	-	-	446,961	-	5
	2007	-	-	-	-	-	-	-	
Greg Metcalf *	2008	249,202	10,651	-	23,177	5,163	288,193	-	3
	2007	243,717	126,598	44,232	52,983	-	467,530	-	
William Rotteveel	2008	208,219	17,082	8,950	20,385	3,657	258,293	-	3
	2007	230,029	-	-	20,703	-	250,732	-	
Mark Dummett	2008	198,115	13,443	-	18,804	6,970	237,332	-	3
	2007	175,600	8,802		16,443	-	200,845	-	
Stephen Murdoch *	2008	311,754	91,743	-	26,314	(23,100)***	406,711	22.56	3
	2007	331,948	59,633	-	34,885	23,100	449,566	18.40	
Dan Spiegel *	2008	384,075	-	26,233	-	-	410,308	-	4
	2007	308,161	-	21,162	-	-	329,323	-	
Total	2008	1,907,457	132,919	311,362	88,680	1,290,311	3,730,729		
	2007	1,289,455	195,033	65,394	125,014	23,100	1,697,996		

* Key management personnel for part of year of 2008

** Share-based payment in relation to shares (in substance options) held in AGMSP (refer to note 28 to the financial statements).

*** S Murdoch options (280,000 options) were forfeited on 4 February 2008.

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 2008	Granted No.	Grant Date	Fair Value per option at grant date ($)	Exercise price per option ($)	Expiry Date	First Exercise Date	Last Exercise Date	Vested No.
Directors								
Michael Atkinson	140,000	24 Oct 2007	0.43	3.60	13 Sep 2014	13 Sep 2010	13 Sep 2014	-
Executives								
Greg Metcalf *	50,000	13 Sep 2007	0.52	3.60	13 Sep 2014	13 Sep 2010	13 Sep 2014	-
William Rotteveel	35,416	13 Sep 2007	0.52	3.60	13 Sep 2014	13 Sep 2010	13 Sep 2014	-
Mark Dummett @	67,500	13 Sep 2007	0.52	3.60	13 Sep 2014	13 Sep 2010	13 Sep 2014	-
Stephen Murdoch *	140,000	13 Sep 2007	0.52	3.60	13 Sep 2014	Forfeited#	Forfeited#	-
Total	432,916							-

30 June 2007	Granted No.	Grant Date	Fair Value per option at grant date ($)	Exercise price per option ($)	Expiry Date	First Exercise Date	Last Exercise Date	Vested No.
Executives								
Stephen Murdoch	140,000	17 July 2006	0.66	2.85	17 July 2013	Forfeited#	Forfeited#	-

* Key management personnel for part of year of 2008

\# S Murdoch options (280,000 options) were forfeited on 4 February 2008.

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

Table 4: Compensation in substance options: Granted and vested during the year (Consolidated)^

30 June 2008	Granted No.	Grant Date	Fair Value per option at grant date ($)	Exercise price per option ($)	Expiry Date	First Exercise Date	Last Exercise Date	Vested No.
Executives								
Robert Browning	3,000,000	22 Oct 2007	0.96	3.51	-	22 Oct 2008	-	-

Table 5: Options granted as part of remuneration ^

	Value of options granted during the year $	Value of options exercised during the year $	Value of options forfeited during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
Michael Atkinson	60,200	-	-	-	3.1
Greg Metcalf *	26,000	-	-	-	1.8
William Rotteveel	18,416	-	-	-	1.4
Mark Dummett	35,100	-	-	-	2.9
Stephen Murdoch *	72,800	-	(165,200)	-	-

* Key management personnel for part of year of 2008

Directors' Report (continued)

REMUNERATION REPORT (Audited) (continued)

Table 6: 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 $
Robert Browning	2,871,300	-	2,871,300

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

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. The maximum grant, which will be payable assuming that all service and performance are met, is equal to the number of options or rights granted multiplied by the fair value at the grant date. The minimum grant payable assuming that service and performance criteria are not met is zero.

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 were as follows:

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

* Director for part of year of 2008

Committee membership

As at the date of this report, the Company had an Audit Committee and a Nomination and Remuneration Committee of the Board of Directors.

Members acting on the committees of the Board during the year were:

Audit	**Nomination and Remuneration**
D Amara *	I Campbell * (***)
C Norman	J Rothwell
D Parkin	J Poynton
I Campbell ***	R Browning **

Notes

* Designates the Chairman of the committee.

** Resigned 31 July 2007 *** Appointed 1 August 2007

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 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 A. Buckingham
Partner
Perth
22 August 2008

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
Director

M J ATKINSON
Director

Dated at Henderson this 22 day of AUGUST 2008

Income Statement

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $000	Consolidated 2007 $000	Parent 2008 $000	Parent 2007 $000
Continuing operations					
Revenue	3(a)	626,141	543,608	35,605	154,285
Other income	3(b)	3,458	2,343	179	6,086
Expenses (excluding finance costs)	3(c)	(556,723)	(479,519)	(2,563)	(1,545)
Finance costs	3(d)	(2,119)	(2,676)	-	-
Profit before income tax		70,757	63,756	33,221	158,826
Income tax expense	5	(18,484)	(17,965)	(966)	(275)
Profit after tax from continuing operations		52,273	45,791	32,255	158,551
Attributable to:					
Minority interest		-	692	-	-
Members of the Parent		52,273	45,099	32,255	158,551
		52,273	45,791	32,255	158,551
Earnings per share (cents per share)					
- basic for profit for the year attributable to ordinary equity holders of the parent	6	28.3	24.4	-	-
- diluted for profit for the year attributable to ordinary equity holders of the parent	6	28.1	24.1	-	-
Dividends per share (cents per share)	7	13.0	12.0	-	-

Balance Sheet

AS AT 30 JUNE 2008

	Note	Consolidated 2008 $000	Consolidated 2007 $000	Parent 2008 $000	Parent 2007 $000
ASSETS					
Current Assets					
Cash and cash equivalents	8	258,878	240,531	167,544	347
Trade and other receivables	9	12,440	24,424	131,276	225,348
Inventories	10	21,112	88,680	-	-
Prepayments	11	1,353	2,171	-	-
Derivatives	15	18,643	26,421	4,775	674
Total Current Assets		312,426	382,227	303,595	226,369
Non-current Assets					
Cash and cash equivalents	8	5,421	6,169	-	-
Trade and other receivables	9	19,321	14,838	-	-
Prepayments	11	646	965	-	-
Derivatives	15	-	687	-	-
Property, plant and equipment	12	106,657	99,014	39,714	33,009
Intangible assets	13	1,601	476	-	-
Other financial assets	14	-	-	1,402	1,402
Deferred tax assets	5	328	77	-	-
Total Non-current Assets		133,974	122,226	41,116	34,411
TOTAL ASSETS		446,400	504,453	344,711	260,780
LIABILITIES					
Current Liabilities					
Trade and other payables	16	36,504	37,434	107,981	36,783
Derivatives	15	307	172	-	-
Interest-bearing loans and borrowings	17	5,424	8,478	-	-
Provisions	19	26,996	22,901	-	-
Government grants	18	258	-	-	-
Income tax payable		11,990	-	11,990	245
Other	20	97,415	164,193	-	-
Total Current Liabilities		178,894	233,178	119,971	37,028
Non-current Liabilities					
Derivatives	15	-	10	-	-
Interest-bearing loans and borrowings	17	17,138	24,478	-	-
Provisions	19	3,365	3,318	-	-
Government grants	18	14,601	11,322	-	-
Deferred tax liabilities	5	13,668	22,613	-	202
Total Non-current Liabilities		48,772	61,741	-	202
TOTAL LIABILITIES		227,666	294,919	119,971	37,230
NET ASSETS		218,734	209,534	224,740	223,550
EQUITY					
Contributed equity	21	29,690	37,309	29,014	36,633
Reserves	21	(12,713)	(298)	285	692
Retained earnings	21	201,757	172,523	195,441	186,225
TOTAL EQUITY		218,734	209,534	224,740	223,550

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated 2008 $000	Consolidated 2007 $000	Parent 2008 $000	Parent 2007 $000
Cash flows from operating activities					
Receipts from customers		612,884	515,055	5,784	2,445
Payments (to)/from suppliers and employees		(558,496)	(283,378)	22,891	10,846
Interest received		20,268	7,895	3,050	211
Borrowing costs paid		(2,119)	(2,676)	-	-
Income tax paid		(8,555)	(9,078)	(8,555)	(8,918)
GST refunded		16,894	315	915	39
Dividends received		-	-	-	6
Receipts of government grants		6,494	1,170	-	-
Net cash from operating activities	8	87,370	229,303	24,085	4,629
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		565	681	-	-
Purchase of property, plant and equipment		(20,940)	(23,634)	(7,929)	(830)
Purchase of intangible assets		(1,688)	(326)	-	-
Purchase of minority interest in controlled entity		-	(20,627)	-	-
Loan from/(to) controlled entities		-	-	181,692	12,345
Net cash (used in)/from investing activities		(22,063)	(43,906)	173,763	11,515
Cash flows from financing activities					
Payment for share buy-back		(9,489)	-	(9,489)	-
Repayment of loan – in substance options		1,870	3,451	1,869	3,451
Loan advanced – others		(6,721)	(2,245)	-	-
Repayment of borrowings		(8,120)	(14,187)	-	-
Option incentive plan fee received		8	-	8	-
Equity dividends paid		(23,039)	(20,789)	(23,039)	(20,789)
Net cash used in financing activities		(45,491)	(33,770)	(30,651)	(17,338)
Net increase/(decrease) in cash and cash equivalents		19,816	151,627	167,197	(1,194)
Net foreign exchange differences		(1,469)	(2,838)	-	-
Cash and cash equivalents at beginning of period		240,531	91,742	347	1,541
Cash and cash equivalents at end of period	8	258,878	240,531	167,544	347

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2008

	Attributable to equity holders of the parent					*Minority interest*	*Total equity*
CONSOLIDATED	*Issued capital $'000*	*Reserved shares * $'000*	*Retained earnings $'000*	*Other Reserves** $'000*	*Total $'000*	*$'000*	*$'000*
As at 1 July 2006	40,034	(6,176)	148,213	2,376	184,447	3,784	188,231
Currency translation differences	-	-	-	(3,085)	(3,085)	(75)	(3,160)
Net gains/(losses) on cash flow hedges	-	-	-	38,849	38,849	301	39,150
Transfer from cash flow hedge reserve	-	-	-	(22,556)	(22,556)	-	(22,556)
Total income and expense for the period recognised directly in equity	-	-	-	13,208	13,208	226	13,434
Profit for the period	-	-	45,099	-	45,099	692	45,791
Total income and expense for the period	-	-	45,099	13,208	58,307	918	59,225
Equity Transactions:							
Premium on acquisition of minority interest in controlled entity	-	-	-	(15,925)	(15,925)	(4,702)	(20,627)
Options exercised	-	3,451	-	-	3,451	-	3,451
Cost of share-based payment	-	-	-	43	43	-	43
Equity dividends	-	-	(20,789)	-	(20,789)	-	(20,789)
As at 30 June 2007	40,034	(2,725)	172,523	(298)	209,534	-	209,534
As at 1 July 2007	40,034	(2,725)	172,523	(298)	209,534	-	209,534
Currency translation differences	-	-	-	(3,186)	(3,186)	-	(3,186)
Net gains/(losses) on cash flow hedges	-	-	-	34,220	34,220	-	34,220
Transfer from cash flow hedge reserve	-	-	-	(44,726)	(44,726)	-	(44,726)
Total income and expense for the period recognised directly in equity	-	-	-	(13,692)	(13,692)	-	(13,692)
Profit for the period	-	-	52,273	-	52,273	-	52,273
Total income and expense for the period	-	-	52,273	(13,692)	38,581	-	38,581
Equity Transactions:							
Shares issued	10,530	-	-	-	10,530	-	10,530
Share buy-back	(9,489)	-	-	-	(9,489)	-	(9,489)
Options granted	-	(10,530)	-	-	(10,530)	-	(10,530)
Options exercised	-	1,870	-	-	1,870	-	1,870
Cost of share-based payment	-	-	-	1,277	1,277	-	1,277
Equity dividends	-	-	(23,039)	-	(23,039)	-	(23,039)
As at 30 June 2008	41,075	(11,385)	201,757	(12,713)	218,734	-	218,734

*Reserved shares are in relation to the Austal Group Management Share Plan. ** Refer to note 21 for details of movements in other reserves.

Statement of Changes in Equity (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Attributable to equity holders of the parent				
PARENT	*Issued capital* *$'000*	*Reserved shares ** *$'000*	*Retained earnings* *$'000*	*Other Reserves*** *$'000*	*Total equity* *$'000*
As at 1 July 2006	39,358	(6,176)	48,463	177	81,822
Net gains/(losses) on cash flow hedges	-	-	-	587	587
Transfer from cash flow hedge reserve	-	-	-	(115)	(115)
Total income and expense for the period recognised directly in equity	-	-	-	472	472
Profit for the period	-	-	158,551	-	158,551
Total income and expense for the period	-	-	158,551	472	159,023
Equity Transactions:					
Options exercised	-	3,451	-	-	3,451
Cost of share-based payment	-	-	-	43	43
Equity dividends	-	-	(20,789)	-	(20,789)
As at 30 June 2007	39,358	(2,725)	186,225	692	223,550
As at 1 July 2007	39,358	(2,725)	186,225	692	223,550
Net gains/(losses) on cash flow hedges	-	-	-	(264)	(264)
Transfer from cash flow hedge reserve	-	-	-	(208)	(208)
Total income and expense for the period recognised directly in equity	-	-	-	(472)	(472)
Profit for the period	-	-	32,255	-	32,255
Total income and expense for the period			32,255	(472)	31,783
Equity Transactions:					
Shares issued	10,530	-	-	-	10,530
Share buy-back	(9,489)	-	-	-	(9,489)
Options granted	-	(10,530)	-	-	(10,530)
Options exercised	-	1,870	-	-	1,870
Cost of share-based payment	-	-	-	65	65
Equity dividends	-	-	(23,039)	-	(23,039)
As at 30 June 2008	40,399	(11,385)	195,441	285	224,740

*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 2008

1 CORPORATE INFORMATION

The financial report of Austal Limited (the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 22 August 2008.

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.

Since 1 July 2007 the Group has adopted the Australian Accounting Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

A number of Australian Accounting Standards and Interpretations have been issued or amended but are not yet effective. The impact of these new or amended Accounting Standards is not expected to give rise to material changes in the Group's financial statements, other than additional disclosures.

Adoption of new accounting standard

The Group has adopted AASB 7 *Financial Instruments: Disclosures* and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

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 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.

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, 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 2008

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

(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 and 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 the Directors using a binomial 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.

(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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Revenue recognition (continued)

(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) 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.

(v) 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.

(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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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. Cost of stock is determined on the weighted average cost basis.

(m) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts 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; 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.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Derivative financial instruments and hedging (continued)

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.

(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 2008

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 2008

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 2008

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

Impairment losses on plant and equipment are recognised in the 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) Derecognition 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 derecognition 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 2008

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 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 is 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 2008

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 2008

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 discounting using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(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 the Directors using a binomial model.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

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 2008

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Earnings per share (continued)

Diluted earnings per share is 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
3. REVENUE AND EXPENSES				
Revenue and Expenses from Continuing Operations				
(a) Revenue				
Construction contract revenue	588,648	514,651	-	-
Charter revenue	14,669	17,645	-	-
Rental revenue	26	24	2,555	2,068
Sale of scrap	2,530	2,604	-	-
Dividends:				
Related parties	-	-	30,000	152,006
Finance revenue:				
Interest from other unrelated parties	20,268	7,895	3,050	211
Discount adjustment on loans and receivables	-	789	-	-
	626,141	543,608	35,605	154,285
(b) Other income				
Government grants	962	1,170	-	-
Profit on sale of investment of controlled entity	-	-	-	5,909
Other income	2,496	1,173	179	177
	3,458	2,343	179	6,086
(c) Expenses				
Cost of sales – construction contract	513,035	440,594	1,224	818
Marketing expenses	7,233	5,813	-	-
Administration expenses	20,348	15,474	1,339	727
Chartering expenses	16,107	17,638	-	-
	556,723	479,519	2,563	1,545
(d) Finance costs				
Interest paid to unrelated parties	2,119	2,676	-	-
(e) Depreciation, amortisation, impairment and foreign exchange differences included in the income statement				
Depreciation	6,169	4,907	1,224	818
Amortisation	435	491	-	-
Net (profit)/loss on disposal of property, plant and equipment	8	(58)	-	-
(Reversal)/Impairment of property, plant and equipment	-	(108)	-	-
Net foreign exchange losses/(gains)	(1,088)	(46)	(179)	(42)
Loss on onerous contract	1,323	-	-	-
(f) Lease payments included in income statement				
Included in administrative expenses:				
Rental expenses on operating leases	598	608	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
3. REVENUE AND EXPENSES (continued)				
(g) Employee benefits expense				
Wages and salaries	149,842	120,610	418	358
Superannuation	9,405	7,460	-	-
Share based payments	1,355	43	57	43
Workers' compensation costs	3,707	3,808	-	-
Annual leave provision	1,321	886	-	-
Long service leave provision	295	2,381	-	-
	165,925	135,188	475	401

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

4 SEGMENT INFORMATION

The consolidated entity's primary business and primary segment is the manufacture of high performance vessels.

Geographically, the group operates in Australia and the United States of America.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2008 and 30 June 2007.

Geographic segments	**Australia**		**USA**		**Eliminations**		**Consolidated**	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Segment revenue	440,768	363,663	188,579	188,444	(3,206)	(8,499)	626,141	543,608
Segment assets	380,095	426,478	66,305	77,975	-	-	446,400	504,453
Other segment information:								
Acquisition of property, plant and equipment, intangible assets and other non-current assets	12,301	6,351	8,526	17,609	-	-	20,827	23,960

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
5. INCOME TAX				
The major components of income tax expense are:				
Income Statement				
Current income tax				
Current income tax charge	23,165	2,640	966	275
Deferred income tax				
Relating to origination and reversal of temporary differences	(4,681)	15,325	-	-
Income tax expense reported in the income statement	18,484	17,965	966	275
Statement of changes in equity				
Deferred income tax related to items charged or credited directly to equity				
Deferred gains and losses on foreign exchange contracts	(3,714)	7,156	-	202
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	70,757	63,756	33,221	158,826
At the Group's statutory income tax rate of 30% (2006: 30%)	21,227	19,127	9,966	47,648
Adjustment for Austal USA statutory income tax rate of 36.9% (2007: 36.9%)	63	711	-	-
Current year research & development allowances	(977)	(1,382)	-	-
Income not assessable for income tax purposes	-	-	(9,000)	(45,600)
Share based payments (equity settled)	480	-	-	-
Hurricane Katrina tax credits	(2,284)	-	-	-
Other	(25)	(491)	-	(1,773)
	18,484	17,965	966	275

	Balance sheet		Income statement	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred tax assets - Australia				
Provisions	5,497	4,197	(1,300)	(1,236)
Payables	-	2,045	2,045	(2,045)
Losses available for offset against future taxable income	1,375	2,108	733	513
	6,872	8,350		
Deferred tax liabilities - Australia				
Inventories	13,388	17,818	(4,430)	8,219
Other – progress payments in advance	-	-	-	-
Deferred gains and losses on foreign exchange contracts	3,318	7,790	-	-
Research & Development	3,834	5,355	(1,521)	5,355
	20,540	30,963		
Net deferred tax liabilities - Australia	13,668	22,613		

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2008

5. INCOME TAX (continued)

	Balance sheet		Income statement	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
CONSOLIDATED				
Deferred tax assets - USA				
Provisions	296	618	322	(192)
Payables	155	-	(155)	
Losses available for offset against future taxable income	-	116	116	4,220
	451	734		
Deferred tax liabilities - USA				
Receivables	-	491	(491)	491
Deferred gains and losses on foreign exchange contracts	123	166	-	
	123	657		
Net deferred tax assets - USA	328	77		
Deferred tax income/(expense)			(4,681)	15,325

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 or 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 2008

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	
	2008 $'000	2007 $'000	2008 Number	2007 Number
Net profit attributable to ordinary equity holders of the parent from continuing operations	52,273	45,099	-	-
Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share			184,644,828	184,861,885
Effect of dilution – share options			1,374,627	2,381,474
Weighted average number of ordinary shares (excluding reserved shares) adjusted for the effect of dilution			186,019,455	187,243,359
Earnings per share (cents per share)	28.3	24.4		
Diluted earnings per share (cents per share)	28.1	24.1		

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. 3,672,417 potential ordinary shares have been excluded from the earnings per share calculation as they were not considered dilutive.

7. DIVIDENDS PAID AND PROPOSED

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Declared and paid during the year				
Dividends on ordinary shares:				
Final franked dividend for 2007: 12 cents (2006: 11 cents)	23,039	20,789	23,039	20,789
Approved by Directors on 22 August 2008 (not recognised as a liability as at 30 June):				
Dividends on ordinary shares:				
Final franked dividend for 2008: 13 cents (2007: 12 cents)	24,449	22,679	24,449	22,679
Franking credit balance				
The amount of franking credits available for the subsequent financial year are:				
- franking account balance as at the end of the financial year at 30% (2007: 30%)			1,507	1,498
- franking credits that will arise from the payment of income tax payable as at the end of the financial year			8,554	8,918
- franking debits that will arise from the payment of dividends as at the end of the financial year			(9,874)	(8,909)
			187	1,507

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
7. DIVIDENDS PAID AND PROPOSED (continued)	**2008 $'000**	**2007 $'000**	**2008 $'000**	**2007 $'000**
The amount of franking credits available for future reporting periods:				
- impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period			(10,478)	(9,719)
			(10,291)	(8,212)

The tax rate at which paid dividends have been franked is 30% (2007: 30%). Dividends proposed will be franked at the rate of 30% (2007: 30%).

As at 30 June 2008, franking credits available to the parent company were $0.2m (2007: $1.5m). It is anticipated that income tax will be payable during the year ending 30 June 2009, which will be sufficient to cover the franking credits applicable to the dividend declared.

8 CASH AND CASH EQUIVALENTS				
Current				
Cash at bank and in hand	258,878	240,531	167,544	347
Non-current				
Restricted cash	5,421	6,169	-	-

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	264,299	246,700	167,544	347
Less restricted cash held as a guarantee - non current	(5,421)	(6,169)	-	-
	258,878	240,531	167,544	347

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				
Net profit	52,273	45,791	32,255	158,551
Adjustments for:				
Depreciation	6,169	4,907	1,224	818
Amortisation	435	491	-	-
(Reversal)/Impairment of non-current assets	-	(108)	-	-
Net (profit)/loss on disposal of property, plant and equipment	8	(58)	-	-
Dividends from controlled entities	-	-	(30,000)	(152,000)
Share based payment	1,355	-	57	-
Unrealised gain on derivatives	325	982	-	472
Changes in assets and liabilities				
(Decrease)/increase in provisions for:				
Income tax	5,461	15,751	25,123	(3,208)
Workers' compensation insurance	(377)	(247)	-	-
Warranty	2,082	(836)	-	-

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
8. CASH AND CASH EQUIVALENTS (continued)				
Changes in assets and liabilities (continued)				
(Decrease)/increase in provisions for:				
Employee benefits	2,877	5,093	-	-
Diminution	-	48	-	-
(Increase)/decrease in debtors	7,903	28,838	-	40
(Increase)/decrease in work in progress	66,487	(23,859)	-	-
(Increase)/decrease in other inventories	(82)	179	-	-
(Increase)/decrease in other assets	810	3,361	-	-
(Increase)/decrease in other financial assets	(2,527)	(4,085)	(4,573)	4
(Decrease)/increase in trade creditors	4,489	21,651	(1)	(48)
(Decrease)/increase in progress payments in advance	(65,701)	133,295	-	-
(Decrease)/increase in government grants	5,255	(475)	-	-
(Decrease)/increase in other financial liabilities	128	(1,416)	-	-
Net cash from operating activities	87,370	229,303	24,085	4,629

Disclosure of financing facilities
Refer to note 17

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
9. TRADE AND OTHER RECEIVABLES				
Current				
Trade amounts owing by unrelated entities - construction contracts (a)(i) (b)(i)	12,440	21,803	-	-
Non trade amounts owing by controlled entities (b)(ii)	-	-	131,276	225,348
Income tax refund	-	2,621	-	-
	12,440	24,424	131,276	225,348
Non-current				
Trade amounts owing by unrelated entities - construction contracts (a)(ii)	19,321	14,838	-	-
	19,321	14,838	-	-

(a) (i) Receivables include A$nil (2007: A$1.235m) receivable in US dollars from an unrelated company, domiciled in Venezuela. The receivable is interest bearing and is due to be repaid by instalments. The receivable was fully paid in the 2008 financial year. The receivable relates to the amounts owing from the sale of a vessel in the 2003 financial year.

(ii) Receivables include A$19.321m (2007:A$14.838m) receivable in US dollars from an American customer. The receivable is interest bearing and when due will be repaid by instalments. At 30 June 2008, the receivable is not past due. Details of the terms and conditions of these receivables are set out in note 22.

(b) Other terms and conditions:
(i) Current trade amounts owing by unrelated entities are generally on 7 day terms.
(ii) Details of the terms and conditions of non trade amounts owing by controlled entities are set out in note 25.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
10. INVENTORIES				
Construction work in progress	683,558	367,928	-	-
Less: progress payments received and receivable	(662,650)	(279,370)	-	-
	20,908	88,558	-	-
Materials	204	122	-	-
Total inventories	21,112	88,680	-	-
11. PREPAYMENTS				
Current				
Prepayments	1,353	2,171	-	-
Non-current				
Prepayments	646	-	-	-
Deferred operating lease costs	-	965	-	-
	646	965	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

12. PROPERTY, PLANT AND EQUIPMENT	Consolidated				Parent			
	Freehold land & buildings $'000	Plant & equipment $'000	Capital WIP $'000	Total $'000	Freehold land & buildings $'000	Plant & equipment $'000	Capital WIP $'000	Total $'000
Year ended 30 June 2008								
At 1 July 2007								
Carrying amount net of accumulated depreciation and impairment	73,115	22,509	3,390	99,014	32,469	540	-	33,009
Additions	8,592	6,510	5,726	20,828	7,817	-	-	7,817
Transfer in/(out)	5,553	2,235	(7,788)	-	-	-	-	-
Disposals	-	(573)	-	(573)	112	-	-	112
Depreciation charge for the year	(2,200)	(3,969)	-	(6,169)	(1,184)	(40)	-	(1,224)
Exchange adjustment	(5,270)	(1,021)	(152)	(6,443)	-	-	-	-
At 30 June 2008, carrying amount net of accumulated depreciation and impairment	79,790	25,691	1,176	106,657	39,214	500	-	39,714
At 1 July 2007								
Cost	85,371	42,125	3,390	130,886	42,378	1,401	-	43,779
Accumulated depreciation and impairment	(12,256)	(19,616)	-	(31,872)	(9,909)	(861)	-	(10,770)
Net carrying amount	73,115	22,509	3,390	99,014	32,469	540	-	33,009
At 30 June 2008								
Cost	93,895	46,648	1,176	141,719	50,307	1,401	-	51,708
Accumulated depreciation and impairment	(14,105)	(20,957)	-	(35,062)	(11,093)	(901)	-	(11,.994)
Net carrying amount	79,790	25,691	1,176	106,657	39,214	500	-	39,714

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

12. PROPERTY, PLANT AND EQUIPMENT (continued)	Consolidated Freehold land & buildings $'000	Consolidated Plant & equipment $'000	Consolidated Capital WIP $'000	Consolidated Total $'000	Parent Freehold land & buildings $'000	Parent Plant & equipment $'000	Parent Capital WIP $'000	Parent Total $'000
Year ended 30 June 2007								
At 1 July 2006								
Carrying amount net of accumulated depreciation and impairment	69,907	17,024	208	87,139	16,105	584	-	16,689
Additions	7,432	9,635	6,567	23,634	830	-	-	830
Transfer in/(out)	3,208	-	(3,208)	-	16,308	-	-	16,308
Disposals	-	(622)	-	(622)	-	-	-	-
Reversal of impairment	-	108	-	108	-	-	-	-
Depreciation charge for the year	(2,068)	(2,839)	-	(4,907)	(774)	(44)	-	(818)
Exchange adjustment	(5,364)	(797)	(177)	(6,338)	-	-	-	-
At 30 June 2007, carrying amount net of accumulated depreciation and impairment	73,115	22,509	3,390	99,014	32,469	540	-	33,009
At 1 July 2006								
Cost	80,378	34,141	208	114,727	20,860	1,401	-	22,261
Accumulated depreciation and impairment	(10,471)	(17,117)	-	(27,588)	(4,755)	(817)	-	(5,572)
Net carrying amount	69,907	17,024	208	87,139	16,105	584	-	16,689
At 30 June 2007								
Cost	85,371	42,125	3,390	130,886	42,378	1,401	-	43,779
Accumulated depreciation and impairment	(12,256)	(19,616)	-	(31,872)	(9,909)	(861)	-	(10,770)
Net carrying amount	73,115	22,509	3,390	99,014	32,469	540	-	33,009

(i) The useful life of the assets was estimated as follows both for 2007 and 2008:

Building	40 years
Plant and equipment	2 to 10 years

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
13. INTANGIBLE ASSETS				
Computer Software				
Year ended 30 June				
At 1 July, net of accumulated amortisation	476	671	-	-
Additions	1,688	326	-	-
Amortisation for the year	(435)	(491)	-	-
Exchange adjustment	(128)	(30)		
At 30 June, net of accumulated amortisation and impairment	1,601	476	-	-
At 1 July				
Cost	1,455	1,167	-	-
Accumulated amortisation	(979)	(496)	-	-
Net carrying amount	476	671	-	-
At 30 June				
Cost	2,988	1,455	-	-
Accumulated amortisation	(1,387)	(979)	-	-
Net carrying amount	1,601	476	-	-
14. OTHER FINANCIAL ASSETS (NON CURRENT)				
Shares in controlled entities (unlisted) – at cost	-	-	1,402	1,402
	-	-	1,402	1,402

Details of the subsidiaries are set out in note 25.

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
15. DERIVATIVES				
Financial assets				
Current				
Forward currency contracts	18,643	26,421	4,775	674
Non-current				
Forward currency contracts	-	687	-	-
Financial liabilities				
Current				
Forward currency contracts	307	172	-	-
Non-current				
Forward currency contracts	-	10	-	-

For terms and conditions attached to the forward currency contracts, refer to note 23.

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
16. TRADE AND OTHER PAYABLES				
Current				
Trade & other payables owed by unrelated entities (i)	36,504	37,434	52	53
Other payables owed by related entities (ii)	-	-	107,929	36,730
	36,504	37,434	107,981	36,783

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

16. TRADE AND OTHER PAYABLES (continued)

(i) Trade payables are unsecured, non-interest bearing and are normally settled on 45 day terms.
(ii) Details of the terms and conditions of non trade amounts owing by controlled entities are set out in note 25.

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
17. INTEREST BEARING LOANS AND BORROWINGS				
Current				
Bank loan (secured) (i)	2,033	2,314	-	-
Bank loan (unsecured) (ii)	3,391	6,164	-	-
	5,424	8,478	-	-
Non current				
Bank loan (secured) (i)	13,438	17,612	-	-
Bank loan (unsecured) (ii)	3,700	6,866	-	-
	17,138	24,478	-	-

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

(i) The bank loan is secured by a mortgage over the property, plant and equipment of a subsidiary. The total carrying value of assets used as security is $39.6m. The loan is payable by instalments until June 2014 at an interest rate of LIBOR + 3.25%.
(ii) The unsecured bank loan is payable by instalments until January 2011 at an interest rate of BBSY Bid rate + 0.75%.

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Financing facilities available				
At reporting date, the following financing facilities had been negotiated and were available:				
Total facilities:				
- bank guarantee/letter of credit (a)	484,746	546,606	83,729	277,106
- bank loan (unsecured) (b)	40,000	40,000	-	-
- bank loan (secured)	20,867	23,746	-	-
Total	545,613	610,352	83,729	277,106
Facilities used at reporting date				
- bank guarantee/letter of credit (a)	433,866	341,863	71,196	145,196
- bank loan (unsecured) (b)	7,092	13,030	-	-
- bank loan (secured)	15,471	19,926	-	-
Total	456,429	374,819	71,196	145,196
Facilities unused at reporting date:				
- bank guarantee/letter of credit (a)	50,880	204,743	12,533	131,910
- bank loan (unsecured) (b)	32,908	26,970	-	-
- bank loan (secured)	5,396	3,820	-	-
Total	89,184	235,533	12,533	131,910

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) Various expiry dates up to April 2010.
(b) Bank loan is guaranteed by a third party.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
18. GOVERNMENT GRANTS				
Current				
Infrastructure development (a)(i)(ii)	258	-	-	-
Non-current				
Infrastructure development (a)(i)(ii)	14,601	11,322	-	-

(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. In the event that 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 2008, 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 were amortised based on the effective life of the building of 40 years.

19. PROVISIONS	Employee benefits $'000	Workers' compensation $'000	Warranty $'000	Other $'000	Total $'000
CONSOLIDATED					
At 1 July 2007	13,744	5,819	6,590	66	26,219
Arising during the year	39,037	3,427	4,841	-	47,305
Utilised	(34,683)	(3,102)	(2,715)	-	(40,500)
Unused amounts reversed	(1,858)	(702)	(103)	-	(2,663)
At 30 June 2008	16,240	5,442	8,613	66	30,361
Current 2008	12,941	5,442	8,613	-	26,996
Non-current 2008	3,299	-	-	66	3,365
	16,240	5,442	8,613	66	30,361
Current 2007	10,492	5,819	6,590	-	22,901
Non-current 2007	3,252	-	-	66	3,318
	13,744	5,819	6,590	66	26,219

Warranties

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

Workers' compensation insurance

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

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
20. OTHER LIABILITIES (CURRENT)				
Progress payments received and receivable	392,510	312,858	-	-
Less: construction work in progress	(295,095)	(148,665)	-	-
Progress payments received in advance	97,415	164,193	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
21. CONTRIBUTED EQUITY AND RESERVES				
Ordinary shares (i)	41,075	40,034	40,399	39,358
Reserved shares (ii)	(11,385)	(2,725)	(11,385)	(2,725)
	29,690	37,309	29,014	36,633
(i) Ordinary shares				
Issued and fully paid	41,075	40,034	40,399	39,358

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.

Movement in ordinary shares on issue	No. of shares	$'000	No. of shares	$'000
At 1 July 2007	188,990,953	40,034	188,990,953	39,358
Shares issued	3,000,000	10,530	3,000,000	10,530
Share buy back	(3,921,315)	(9,489)	(3,921,315)	(9,489)
At 30 June 2008	188,069,638	41,075	188,069,638	40,399
(ii) Reserved shares				
At 30 June 2007	(3,740,581)	(2,725)	(3,740,581)	(2,725)
Options granted	(3,000,000)	(10,530)	(3,000,000)	(10,530)
Options exercised	1,239,090	1,870	1,239,090	1,870
At 30 June 2008	(5,501,491)	(11,385)	(5,501,491)	(11,385)

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

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Retained earnings				
Movement in retained earnings were as follows:				
Balance 1 July	172,523	148,213	186,225	48,463
Net profit for the year	52,273	45,099	32,255	158,551
Dividends	(23,039)	(20,789)	(23,039)	(20,789)
	201,757	172,523	195,441	186,225

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

21. CONTRIBUTED EQUITY AND RESERVES (continued)

Reserves	Consolidated					Parent		
	Foreign currency translation reserve $'000	Employee benefit reserve $'000	Cash flow hedge reserve $'000	Equity reserve $'000	Total $'000	Employee benefit reserve $'000	Cash flow hedge reserve $'000	Total $'000
At 1 July 2006	334	177	1,865	-	2,376	177	-	177
Currency translation differences	(3,085)	-	-	-	(3,085)	-	-	-
Share based payment	-	43	-		43	43	-	43
Net gains on cash flow hedges	-	-	38,849	-	38,849	-	587	587
Transfer to balance sheet/income s/ment	-	-	(22,556)	-	(22,556)	-	(115)	(115)
Premium on acquisition of minority interest in controlled entity	-	-	-	(15,925)	(15,925)	-	-	-
At 30 June 2007	(2,751)	220	18,158	(15,925)	(298)	220	472	692
Currency translation differences	(3,186)	-	-	-	(3,186)	-	-	-
Share based payment	-	1,277	-	-	1,277	65	-	65
Net gains/(loss) on cash flow hedges	-	-	34,220	-	34,220	-	(264)	(264)
Transfer to balance sheet/income s/ment	-	-	(44,726)	-	(44,726)	-	(208)	(208)
Premium on acquisition of minority interest in controlled entity	-	-	-	-	-	-	-	-
At 30 June 2008	(5,937)	1,497	7,652	(15,925)	(12,713)	285	-	285

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 2008

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. 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.

Primary 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.

The Group has participated in a share buy-back as part of the Board's focus on generating shareholder returns and growth opportunities. During the year, a total of 3,921,315 shares have been bought back on-market by the company for $9.5 million at an average price of $2.48 per share.

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 2008

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 risk that were not designated as cash flow hedges:

	Consolidated		Parent	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Financial assets				
Australian variable interest rate				
Cash and cash equivalents	237,861	246,700	125,672	347
US variable interest rate				
Cash and cash equivalents	26,438	-	41,872	-
	264,299	246,700	167,544	347
Financial liabilities				
Australian variable interest rate				
Interest-bearing loans and borrowings	(7,091)	(13,030)	-	-
US variable interest rate				
Interest-bearing loans and borrowings	(15,471)	(19,926)	-	-
	(22,562)	(32,956)	-	-
Net exposure	241,737	213,744	167,544	347

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 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Impact on profit/Equity			
Judgement of reasonable possible	Consolidated		Parent	
movements:	**2008 $'000**	**2007 $'000**	**2008 $'000**	**2007 $'000**
Post-tax gain/(loss)				
+ 100 basis points	1,772	494	252	12
– 100 basis points	(1,772)	(494)	(252)	(12)

Foreign currency risk

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, SEK and HKD.

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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

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

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

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

Management believes that no significant unhedged exposure exists at the balance date or at the comparative year end.

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, does not expect any 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:

				Past Due But Not Impaired		
		Total $'000	**0-30 days $'000**	**31-60 days $'000**	**61-90 days $'000**	**90+ days $'000**
2008	Consolidated	12,440	11,850	134	72	384
	Parent	131,276	-	-	-	131,276
2007	Consolidated	21,803	17,156	22	675	3,950
	Parent	225,348	-	-	-	225,348

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Receivable balances are monitored on an ongoing basis. Credit risk has arisen from non current receivables owing from an American customer, which results from providing finance for the construction of two 105 metre high speed passenger/car vessels. Interest is charged at the rate of 10% and the carrying amount of the receivable is $19.3 million (2007: $14.8 million). These receivables are not past due and management expects that these receivables will be fully recoverable.

The Group has a history of very low default rates. No non current receivables and progress payments receivable are past due.

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 2008	Carrying amount $'000	Contractual cash flows $'000	0-1 year $'000	1-2 years $'000	2-5 years $'000	>5 years $'000
CONSOLIDATED						
Non-derivative financial liabilites						
Trade & other payables	36,504	(36,504)	(36,504)	-	-	-
Bank loan (secured)	15,471	(19,436)	(3,018)	(2,871)	(6,617)	(6,930)
Bank loan (unsecured)	7,091	(7,738)	(3,693)	(2,541)	(1,504)	-
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	307	(61,456)	(61,456)	-	-	-
Inflow	(18,643)	138,204	138,204	-	-	-
Total	40,730	13,070	33,533	(5,412)	(8,121)	(6,930)
PARENT						
Non-derivative financial liabilites						
Trade & other payables	107,981	(107,.981)	(107,981)	-	-	-
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	-	-	-	-	-	-
Inflow	(4,775)	29,264	29,264	-	-	-
Total	103,206	(78,717)	(78,717)	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Year ended 30 June 2007	Carrying amount $'000	Contractual cash flows $'000	0-1 year $'000	1-2 years $'000	2-5 years $'000	>5 years $'000
CONSOLIDATED						
Non-derivative financial liabilites						
Trade & other payables	37,434	(37,434)	(37,434)	-	-	-
Bank loan (secured)	19,926	(25,947)	(3,829)	(3,435)	(8,816)	(9,867)
Bank loan (unsecured)	13,030	(14,251)	(6,651)	(3,609)	(3,991)	-
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	182	(91,586)	(66,668)	(24,918)	-	-
Inflow	(27,108)	352,156	329,496	22,660	-	-
Total	43,464	182,938	214,914	(9,302)	(12,807)	(9,867)
PARENT						
Non-derivative financial liabilites						
Trade & other payables	36,783	(36,783)	(36,783)	-	-	-
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow	-	-	-	-	-	-
Inflow	(674)	21,585	21,585	-	-	-
Total	36,109	(15,198)	(15,198)	-	-	-

At balance date, the Group has approximately $89.2 million of unused credit facilities available for its immediate use (please refer to note 17). At balance date, the Group also has a total of $264 million in cash and cash equivalents, of which $177 million are held in the term deposits, which it can use to meet 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 derivatives and borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of loan notes and other financial assets have been calculated using discounted cash flows and market interest rates.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

23. FINANCIAL INSTRUMENTS (continued)

	Carrying amount		Fair value	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
CONSOLIDATED				
Financial assets				
Cash	264,299	246,700	264,299	246,700
Trade receivables (current)	6,357	13,278	6,357	13,278
Other receivables (current)	6,083	11,146	6,083	11,146
Trade receivables (non current)	19,321	14,838	19,804	15,209
Forward currency contracts	18,643	27,108	18,643	27,108
Financial liabilities				
Trade payables	(10,327)	(17,836)	(10,327)	(17,836)
Other payables & accruals	(26,177)	(19,598)	(26,177)	(19.598)
Forward currency contracts	(307)	(182)	(307)	(182)
Bank loan (secured)	(15,471)	(19,926)	(15,471)	(19,926)
Bank loan (unsecured)	(7,091)	(13,030)	(7,091)	(13,030)

	Carrying amount		Fair value	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
PARENT				
Financial assets				
Cash	167,544	347	167,544	347
Other receivables (current)	131,276	225,348	131,276	225,348
Forward currency contracts	4,775	674	4,775	674
Financial liabilities				
Trade payables	(23)	-	(23)	-
Other payables	(107,958)	(36,783)	(107,958)	(36,783)

Contingencies

The Company and certain controlled 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 consolidated entity 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 consolidated entity 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 and HKD arising from receipts from export sales and the purchase of components for construction. Derivative financial instruments such as forward currency contracts are purchased to eliminate the currency exposures so as to maintain a properly hedged position. These contracts are hedging committed 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 2008

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. 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.

	2008				2007			
	Average Forward Rate	Buy $000	Average Forward Rate	Sell $000	Average Forward Rate	Buy $000	Average Forward Rate	Sell $000
United States Dollars								
less than 3 months		-	0.8448	84,069	0.7839	926	0.7650	165,898
3 - 12 months		-	0.8023	50,871	0.8241	180	0.8009	154,580
13 months or greater		-		-		-	0.8405	22,660
		-		134,940		1,106		343,138
Great British Pounds								
less than 3 months	0.4766	45		-		-	0.37941	51
3 - 12 months		-		-		-		-
13 months or greater		-		-		-		-
		45		-		-		51
Norwegian Kroner								
less than 3 months	4.9520	173		-		-		-
3 - 12 months		-		-		-		-
13 months or greater		-		-		-		-
		173		-		-		-
Euro								
less than 3 months	0.6424	20,757		-	0.6463	20,840	0.5892	2,917
3 - 12 months	0.6272	24,876		-	0.6414	41,409		-
13 months or greater		-		-	0.6337	24,043		-
		45,633		-		86,292		2,917
Swedish Kronor								
less than 3 months	6.6638	4,370		-	5.9043	760	5.8661	50
3 - 12 months	6.4350	6,958		-	5.9045	4,188	5.8429	33
13 months or greater		-		-	5.8610	875		-
		11,328		-		5,823		83
Canadian Dollars								
less than 3 months	1.1050	19		-	0.9794	505		-
3 - 12 months	0.9814	469		-	0.9750	521		-
13 months or greater		-		-		-		-
		488		-		1,026		-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

23. FINANCIAL INSTRUMENTS (continued)

	Average Forward Rate	Buy $000	Average Forward Rate	Sell $000	Average Forward Rate	Buy $000	Average Forward Rate	Sell $000
HongKong Dollars								
less than 3 months		-	6.5150	3,264		-		-
3 - 12 months		-		-	6.4084	45	6.1097	9,018
13 months or greater		-		-		-		-
		-		3,264		45		9,018
Singapore Dollars								
less than 3 months	1.3315	169		-	1.1728	345		-
3 - 12 months	1.2356	243		-		-		-
13 months or greater		-		-		-		-
		412		-		345		-
Switzerland Francs								
less than 3 months		-		-		-		-
3 - 12 months	0.9430	3,377		-		-		-
13 months or greater		-		-		-		-
		3,377		-		-		-

Movement in forward currency contract cash flow hedge reserve

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Opening balance	18,158	1,865	472	-
Transferred to sales	(34,633)	(14,466)	-	-
Transferred to cost of sales	(9,885)	(8,026)	-	(51)
Transferred to other income	(208)	(64)	(208)	(64)
Charged to equity	34,220	38,849	(264)	587
Closing balance	7,652	18,158	-	472
Cash flow hedge ineffectiveness recognised immediately in profit and loss	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

24. COMMITMENTS & CONTINGENCIES

Operating lease commitments

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

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Within one year	340	823	-	-
After one year but not more than five years	60	262	-	-
	400	1,085	-	-
Capital commitments				
Buildings – USA	624	3,185	-	-
Land and buildings – Tasmania	-	8,000	-	8,000
	624	11,185	-	8,000
Commitments contracted for at reporting date but not recognised as liabilities are as follows:				
Within one year	624	11,185	-	8,000
Contingent liabilities				
Bank performance guarantees (i)	433,866	341,863	71,196	130,032
Loan guarantee (ii)	53	470	-	-
	433,919	342,333	71,196	130,032

(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.

(ii) A subsidiary company has guaranteed the repayment of a loan to a customer domiciled in Venezuela (see Note 9(a)) by a financier for US$50,915. The guarantee provided by Austal is secured by the customer via a mortgage over two properties in Venezuela.

Other contingent liabilities excluded from the above include:

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

b) The parent company has guaranteed the bank facilities of its subsidiary companies for $71.2m.

c) A customer has taken legal action for an unspecified amount over the construction and warranty of a vessel delivered in 2006. The Board is of the opinion that the company has met its obligations under the contract and will be successful in defending any action brought against the company.

d) 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 company 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 2008	% Equity Interest 2007
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 Properties Pty Ltd	Australia	100	100
Austal Holdings Inc	USA	100	100
Austal USA LLC	USA	100	100
Austal Ships AWD Pty Ltd	Australia	100	100
Austal Ships Sales Pty Ltd	Australia	100	100
Austal Hull 130 Chartering LLC	USA	100	100

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

25. RELATED PARTY DISCLOSURE (continued)

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

The parent entity conducts various transactions with other entities within the group. These transactions are summarised as follows:

Property Rental	Certain entities rent property from the parent on a commercial basis.
Loans	The parent entity has made loans to other entities within the group. No interest was charged on these loans, except the loans made to Austal USA LLC, which are charged at LIBOR + 3.25%. This loan represents a mid-term funding and repayable at call.
Tax liability	The parent entity has assumed current tax payable from wholly-owned tax consolidated entities. Details of the tax consolidation are set out in note 5.

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

Other transactions with related parties

In prior year, 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 $8.6 million is on normal commercial terms.

26. EVENTS AFTER THE BALANCE SHEET DATE

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

27. AUDITORS' REMUNERATION

The auditor of Austal Limited is Ernst & Young.

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Amounts received or due and receivable by Ernst & Young (Australia) for:				
- an audit or review of the financial report of the entity and any other entity in the consolidated group	244	196	189	140
Amounts received or due and receivable by non Ernst & Young audit firms for:				
- Internal audit services	54	-	44	-

28. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Compensation of Key Management Personnel

	Consolidated		Parent	
	2008 $	2007 $	2008 $	2007 $
Short-term employee benefits	3,629,562	3,091,966	-	-
Post-employment benefits	88,680	158,016	-	-
Share-based payment	1,300,529	23,100	-	-
Total compensation	5,018,771	3,273,082	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

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

30 June 2008	Balance at beginning of period 1 July 2007	Granted as Remuneration	Options Exercised	Net Change Other #	Balance at end of period 30 June 2008	Vested at 30 June 2008 Total	Exercisable	Not Exercisable
Directors								
M Atkinson	-	140,000	-	-	140,000	-	-	-
Executives								
G Metcalf *	-	50,000	-	-	50,000	-	-	-
W Rotteveel	-	35,416	-	-	35,416	-	-	-
M Dummett		67,500	-	-	67,500	-	-	-
S Murdoch *	140,000	140,000	-	(280,000)^	-			
Total	**140,000**	**432,916**	**-**	**(280,000)**	**292,916**	**-**	**-**	**-**

30 June 2007								
Executives								
S. Murdoch	-	140,000	-	-	140,000	-	-	-

 # includes forfeitures
@ refer to note 29
** Key management personnel for part of the year of 2008*
^ S Murdoch options forfeited on 4 February 2008

(c) Shareholdings of Key Management Personnel (Consolidated)

30 June 2008	Balance 1 July 2007	Net change other	Balance 30 June 2008
Directors			
J. Rothwell	33,724,685	-	33,724,685
M. Atkinson	1,415,737	-	1,415,737
C. Norman	26,602,221	-	26,602,221
J Poynton	200,000	100,000	300,000
D. Amara	50,000	-	50,000
Executives			
R Browning	20,000	-	20,000
G. Metcalf *	150,000	-	150,000
W. Rotteveel	22,806	-	22,806
M. Dummett	2,649	346	2,995
S Murdoch *	87,341	(87,341)	-
Total	62,275,439	13,005	62,288,444

* Key management personnel for part of the year of 2008

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

30 June 2007	Balance 1 July 2006	Net change other	Balance 30 June 2007
Directors			
J. Rothwell	33,724,685	-	33,724,685
M. Atkinson	1,415,737	-	1,415,737
C. Norman	26,602,221	-	26,602,221
J Poynton	200,000	-	200,000
R. Browning	20,000	-	20,000
D. Amara	50,000	-	50,000
Executives			
S. Murdoch	-	87,341	87,341
G. Metcalf **	150,000	-	150,000
W. Rotteveel	22,806	-	22,806
M. Dummett	-	2,649	2,649
J. Van Meekeren	-	4,055	4,055
Total	62,185,449	94,045	62,279,494

** Key management personnel for part of the year of 2007

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

30 June 2008	Balance at beginning of period 1 July 2007	Granted as Remuneration	Options Exercised	Net Change Other #	Balance at end of period 30 June 2008	Vested at 30 June 2008 Total	Exercisable	Not Exercisable
Directors								
M Atkinson	285,062	-	-	-	285,062	285,062	285,062	-
Executives								
R Browning	-	3,000,000	-	3,000,000	3,000,000	3,000,000	-	3,000,000
G Metcalf *	285,000	-	-	-	285,000	285,000	285,000	-
W Rotteveel	80,934	-	-	-	80,934	80,934	80,934	-
M Dummett	41,490	-	(16,596)	(16,596)	24,894	24,894	24,894	-
Total	**692,486**	**3,000,000**	**(16,596)**	**2,983,404**	**3,675,890**	**3,675,890**	**675,890**	**3,000,000**

* Key management personnel for part of the year of 2008

30 June 2007	Balance at beginning of period 1 July 2006	Granted as Remuneration	Options Exercised	Net Change Other #	Balance at end of period 30 June 2007	Vested at 30 June 2007 Total	Exercisable	Not Exercisable
Directors								
M Atkinson	285,062	-	-	-	285,062	285,062	285,062	-
Executives								
G Metcalf **	285,000	-	-	-	285,000	285,000	285,000	-
W Rotteveel	80,934	-	-	-	80,934	80,934	80,934	-
M Dummett	41,490	-	-	-	41,490	41,490	41,490	-
JV Meekeren	201,097	-	(32,500)	(32,500)	168,597	168,597	168,597	-
Total	**893,583**	-	**(32,500)**	**(32,500)**	**861,083**	**861,083**	**861,083**	-

** Key management personnel for part of the year of 2007

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

30 June 2007	Balance 1 July 2006	Net change other	Balance 30 June 2007
Directors			
J. Rothwell	-	-	-
M. Atkinson	285,062	-	285,062
C. Norman	-	-	-
J Poynton	-	-	-
R. Browning	-	-	-
D. Amara **	-	-	-
Executives			
S. Murdoch	-	-	-
D. Spiegel **	-	-	-
G. Metcalf **	285,000	-	285,000
W. Rotteveel	80,934	-	80,934
M. Dummett	41,490	-	41,490
J. Van Meekeren	201,097	(32,500)	168,597
S Lupi **	-	-	-
Total	893,583	(32,500)	861,083

** Key management personnel for part of the year of 2007

(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.

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		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Expense arising from equity-settled share-based payment transactions	1,355	43	57	43

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2008 and 2007. Any options granted in the period have no rights to dividends and no voting rights.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

29. SHARE BASED PAYMENT PLANS

(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:

	2008 No.	2008 WAEP	2007 No.	2007 WAEP
Outstanding at the beginning of the year	140,000	2.85	-	-
Granted during the year	812,417	3.60	140,000	2.85
Forfeited during the year	(305,000)	3.26	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	647,417	3.60	140,000	2.85
Exercisable at the end of the year	-		-	

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 2007 and 30 June 2008:

	Tranche 1 2007	Tranche 2 2008	Tranche 3 2008
Grant date	17 July 2006	13 September 2007	24 October 2007
Spot price (closing share price at valuation date ($)	2.70	3.49	3.16
Option exercise price ($)	2.85	3.60	3.60
Fair value of option $/option	0.66	0.52	0.43
Expected volatility (%)	38.0	35.0	35.0
Annual risk free interest rate (%)	5.66	6.11	6.51
Dividend yield (%)	3.30	5.70	5.70
Expected life of option (years)	6.5	5.0	4.9
Model used	Binomial	Monte Carlo	Monte Carlo

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

29. SHARE BASED PAYMENT PLANS

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

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 there 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 2008

29. SHARE BASED PAYMENT PLANS

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

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

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

Date	Number of shares
25 September 2000	1,710,000
28 September 2000	570,000
29 September 2000	285,000
9 October 2000	285,000
13 October 2000	830,000
11 December 2000	285,000
9 March 2001	285,000
4 July 2001	285,000
20 June 2002	570,000
25 July 2002	285,000
12 July 2002	285,000
Total	5,675,000

(b) Austal will offer to loan eligible managers up to 90% of the purchase consideration for their shares on a limited recourse basis. However, this amount may be varied at the discretion of the Board.

(c) The shares are made available to the managers at market value.

(d) The Board at its discretion will determine the number of shares that will be made available to each eligible manager.

(e) The shares are required to be held by a trustee on behalf of the manager. Shares may not be transferred to a manager for at least 12 months. After this period, 20% of a manager's shares will become eligible to be transferred provided any loan in respect of these shares has been repaid. An additional 20% will become eligible to be transferred to the manager at the end of each 12-month period thereafter on the same terms, so that a manager may hold 100% of his shares at the end of 5 years.

(f) Dividends on shares held under the Plan must be applied to pay interest on the loans. Managers with an interest in shares under the Plan have full voting rights.

(g) Interest on the loans will be charged at a fixed rate of 60% of any dividends paid, or such other rate as determined by the Board.

(h) Upon termination of employment or contract arrangements the shares must be sold and the loan (if any) repaid. The trustee may arrange a sale of shares to eligible managers.

At balance date the trustee on behalf of the plans holds a total of 5,501,491 shares.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2008

29. SHARE BASED PAYMENT PLANS

(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 executives.

(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 must be applied to the loans. Managers 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 5,501,491 shares.

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

	2008	2007
Total shares (in substance options) granted to employees during the year (000's)	3,000	-
Total shares (in substance options) granted to employees at balance date (000's)	5,501	3,741
Total shares (in substance options) exercised during the year (000's)	1,240	2,621
Total fair value of shares (in substance options) exercised during the year ($'000)	3,842	7,952
Total shares (in substance options) held by trustee on behalf of plan at balance date (000's)	5,501	3,741
Total shares (in substance options) vested at balance date (000's)	347	3,113
Total number of employees eligible to participate in the plan	31	30

The balance of shares (in substance options) as at 30 June 2008 is represented by:

- 2,501,491 shares (in substance options) under Plan #1 and Plan #2 with a weighted average exercise price of $1.20 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.

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 company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

      (ii) complying with Accounting Standards and Corporations Regulations 2001; and

2. 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 2008.

3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board.

J ROTHWELL AO
Director

Dated at Henderson this 22 day of AUGUST 2008

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 6-15.

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.	Encourage enhanced performance
Principle 9.	Remunerate fairly and responsibly
Principle 10.	Recognise the legitimate interests of stakeholders

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

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 Chairperson to be independent.

During the financial year, the Board consisted of an Executive Chairman, one Executive Director, a Non Executive Director (who is a retired Executive Director and substantial shareholder) and three Independent Non Executive Directors.

The Board believed that its main role was to add value for all shareholders and that this was best served by having a balanced Board. The Executive Directors had a substantial investment in the Company, were dedicated to the Company, and had expertise in the Company's business. The Non Executive Directors provided an external perspective to review and challenged the performance of management. The integrity and nature of the Board members was considered more important than having a majority of Independent Directors to ensure that management act in the best interests of the Company.

The Board preferred to have Mr Rothwell as both Chairman and Chief Executive officer because:

- he has been Chairman and CEO 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.
- 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 chairman had been appointed to chair meetings involving any potential conflicts of interest and as an alternate point of contact for shareholders.

The Board now consists of a Non Executive Chairman, two Executive Directors, a Non Executive Director (who is a retired Executive Director and substantial shareholder) and two Independent Non Executive Directors. Effective from 22 August 2008, Mr Rothwell stepped down from executive duties to become the Non Executive Chairman. Bob Browning assumed day to day control as the Managing Director / Chief Executive Officer.

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 Chairman
R. Browning	Non-executive Director – resigned 31 July 2007
D. Amara	Non-executive Director
I. Campbell	Non-executive Director – appointed 1 August 2007

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 Chairman 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 Chairman of the Audit and Risk Management Committee.

The Council's Recommendation 4.3 requires an audit committee to consist only of Non Executive Directors.

Mr Derek Parkin FCA, FAICD is a member of the Audit and Risk Management Committee, although he is not a Director of the Company. Mr Parkin is a Board member of the Institute of Chartered Accountants in Australia, Coogee Resources Limited, where he chairs the Risk and Audit Committee, and is Chairman of the Novetec Building Products Pty Ltd. He is a Professor of Accounting at the University of Notre Dame Australia. He provides financial expertise to the Audit and Risk Management Committee and it is not considered necessary for him to be a Director in order to be effective as a member of the Audit and Risk Management Committee.

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 program 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.

ENCOURAGE ENHANCED PERFORMANCE

The performance of the Board and key executives 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 and executives are assessed is aligned with the financial and non-financial objectives of Austal Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

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 is aligned with increased returns to shareholders.

There is no scheme to provide retirement benefits to any director, other than statutory superannuation contributions.

RECOGNISE THE LEGITIMATE INTEREST OF SHAREHOLDERS

The Code of Conduct for both Directors and senior management is aimed at maintaining the highest ethical standards, corporate behaviour and accountability across the Group. Directors and senior management are expected to:

- Act honestly and in good faith
- Comply with the law
- Act in the best interests of the company as a whole
- Avoid conflicts of interest with the company
- Treat other employees, customers, suppliers, contractors and members of the public with respect and courtesy in a fair, honest and open manner
- Respect confidentiality and privacy
- Adopt safe working practices
- Comply with share trading rules
- Encourage the reporting and investigation of unlawful or unethical behaviour
- Ensure that employees under their control comply with the Code of Conduct

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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 2008, and the income statement, 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(b), 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.

ERNST & YOUNG

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 financial position of Austal Limited and the consolidated entity at 30 June 2008 and of their 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 9 to 14 of the directors' report for the year ended 30 June 2008. 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 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Gavin A. Buckingham
Partner
Perth
22 August 2008

Shareholder Information

The following information was extracted from the Company's register as at 22 August 2008.

DISTRIBUTION OF SHARES

	Number of Holders	*Number of Units*	*% of Total Issued Capital*
1 – 1,000	1,632	975,894	0.52
1,001 – 5,000	2,897	8,379,485	4.45
5,001 – 10,000	950	7,340,655	3.90
10,001 – 100,000	660	15,477,965	8.23
100,001 and over	53	155,911,422	82.90
TOTAL	6,192	188,085,421	100.00

TWENTY LARGEST SHAREHOLDERS

Rank	*Shareholder*	*Total Units*	*% Issued Capital*
1	Austro Pty Ltd	31,950,745	16.989
2	Longreach (WA) Pty Ltd	26,595,621	14.141
3	HSBC Custody Nominees	20,436,017	10.866
4	J P Morgan Nominees Australia Limited	14,139,216	7.518
5	Onyx (WA) Pty Ltd	10,108,212	5.375
6	National Nominees Limited	7,655,720	4.071
7	Mr Vincent Michael O'Sullivan	7,344,627	3.905
8	Austal Group Management Share Plan Pty Ltd	5,501,759	2.925
9	ANZ Nominees Limited	4,487,650	2.386
10	Bond Street Custodians Limited	3,808,734	2.025
11	Garry Heys & Dorothy Heys	2,844,670	1.513
12	Citicorp Nominees Pty Limited	2,240,007	1.191
13	Lavinia Shipping Ltd	1,999,887	1.063
14	Zilon Pty Ltd	1,773,940	0.943
15	Merrill Lynch (Australia) Nominees Pty Limited	1,630,943	0.867
16	Mossisberg Pty Ltd	1,534,945	0.816
17	Pepperwood Holdings Pty Ltd	1,415,737	0.753
18	Cogent Nominees Pty Limited	1,219,142	0.648
19	Argo Investments Limited	1,200,000	0.638
20	Australian Reward Investment Alliance	1,086,037	0.577
		148,973,609	79.210

SUBSTANTIAL SHAREHOLDERS

		No. of Ordinary Shares
1	Austro Pty Ltd (J Rothwell)	31,950,745
2	Longreach (WA) Pty Ltd (C Norman)	26,595,621
3	HSBC Custody Nominees	20,436,017
4	J P Morgan Nominees Australia Limited	14,139,216
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

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Company Secretary

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Share Registry

Advanced Share Registry Services

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Nedlands 6009

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